
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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)

**PROPOSALS FOR
GENERAL MANDATES TO ISSUE SHARES AND PURCHASE SHARES
RE-ELECTION OF RETIRING DIRECTORS
PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF
ASSOCIATION AND THE ADOPTION OF THE NINTH AMENDED
AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION
SCHEME MANDATE TO ISSUE SHARES UNDER
THE SHARE SCHEMES
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF ANNUAL GENERAL MEETING**

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



The notice convening the Annual General Meeting to be held at Niccolo Room, Level 25, The Murray, Hong Kong, a Niccolo Hotel, 22 Cotton Tree Drive, Central, Hong Kong at 2:30 p.m. on Monday, June 3, 2024 is set out on pages 76 to 83 of this circular.

A proxy form for use at the Annual General Meeting is enclosed with this circular. The proxy form can also be downloaded from websites of the Company and Hong Kong Exchanges and Clearing Limited. Shareholders are encouraged to exercise their rights to appoint the chairman of the Annual General Meeting as their proxy to vote on their behalf by returning the completed proxy form in accordance with the instructions printed thereon to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event no less than 48 hours before the time appointed for the holding of the Annual General Meeting (or any adjournment or postponement thereof).

May 8, 2024

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Note: In the event of any discrepancy between the English and Chinese versions of this circular, the English version shall prevail.

DEFINITIONS

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

“2020 Restricted Share Unit Scheme”	a restricted share unit scheme of the Company adopted on May 15, 2020 and amended by the Shareholders’ resolution passed on May 22, 2023 as amended from time to time
“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
“2025 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, 2024 in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group
“Administrative Committee”	in the case of the 2020 Restricted Share Unit Scheme, the committee comprising of any two executive Directors from time to time, and in the case of the Share Option Plan, the committee comprising of one executive Director from time to time
“Adoption Date”	the day when the Share Option Plan was approved and adopted by the Shareholders
“Advertisement Cooperation CCTs”	the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group
“Annual General Meeting” or “AGM”	the annual general meeting of the Company to be held at Niccolo Room, Level 25, The Murray, Hong Kong, a Niccolo Hotel, 22 Cotton Tree Drive, Central, Hong Kong at 2:30 p.m. on Monday, June 3, 2024, or any adjournment thereof and notice of which is set out on pages 76 to 83 of this circular
“Articles of Association”	the articles of association of the Company adopted on October 18, 2017 and effective on November 8, 2017, and as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rule
“associated company(ies)”	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

DEFINITIONS

“Award”	an award of RSUs granted to a Participant pursuant to the 2020 Restricted Share Unit Scheme
“Board”	the board of Directors
“Business Day”	means a day on which the Stock Exchange is open for the business of dealing in securities
“Business Development Team”	designated business development team of the Company comprising certain personnel responsible for overseeing its continuing connected transactions
“Buy-back Mandate”	a general mandate proposed to be granted to the Directors at the Annual General Meeting to purchase Shares not exceeding 10% of the number of the issued Shares as at the date of passing of the relevant Shareholders’ resolution granting the Buy-back Mandate
“Chairman”	the chairman of the Board
“Company”	China Literature Limited (阅文集团), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013, whose shares are listed on the main board of the Stock Exchange with stock code 772
“Companies Act”	the Companies Act Chapter 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Eligible Participant(s)”	individual(s) or entity(ies) who may be eligible to participate under the Share Option Plan
“Employee”	an employee of any subsidiary of the Group or any Related Entity under the 2020 Restricted Share Unit Scheme

DEFINITIONS

“Excluded Person”	(i) at the time of the proposed grant of an award, any connected person of the Company other than directors or substantial shareholders of any subsidiary of the Group, or (ii) any Participant who is resident in a place where the award of the RSUs and/or the vesting and transfer of the Shares underlying the vested RSUs pursuant to the terms of the 2020 Restricted Share Unit Scheme is not permitted under the laws and regulations of such place such that in the view of the Board or the Chairman, compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such Participant under the 2020 Restricted Share Unit Scheme
“General Mandate”	a general mandate proposed to be granted to the Directors at the Annual General Meeting to allot, issue and/or deal with Shares not exceeding 20% of the number of issued Shares as at the date of passing of the relevant Shareholders’ resolution granting the General Mandate
“Grant Date”	in the case of the 2020 Restricted Share Unit Scheme, the date of the grant letter in writing for each grant of RSUs to a Participant; and in the case of the Share Option Plan, the date of the grant letter in writing for each grant of Options to an Eligible Participant
“Grantee”	in the case of the 2020 Restricted Share Unit Scheme, any Participant who accepts a grant in accordance with the terms of the 2020 Restricted Share Unit Scheme, or (where the context so permits) any person who is entitled to any Award in consequence of the death of the original Grantee; and in the case of the Share Option Plan, the Eligible Participant who accepts or is deemed to have accepted the offer of any Options in accordance with the terms of the Share Option Plan or (where the context so permits) a person entitled to any such Options in consequence of the death of the original Grantee
“Group”	the Company and its subsidiaries and consolidated affiliated entities from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“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 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027) and the transactions contemplated thereunder
“Independent Financial Adviser” or “Somerley ”	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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027)
“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
“Junior Grantee(s)”	any Grantee(s) other than a Senior Grantee. For the avoidance of doubt, in the case of the Share Option Plan, the Junior Grantees (i) include any employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any subsidiary of the Group, other than the Director or the member of the senior management of the Company as included in the latest annual report of the Company published on the website of the Stock Exchange immediately before the Grant Date; and (ii) do not include non-employees
“Latest Practicable Date”	May 3, 2024, being the latest practicable date prior to the printing of this circular for 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
“Memorandum” or “Memorandum of Association”	the memorandum of association of the Company as amended from time to time

DEFINITIONS

“Option”	the right to subscribe for a specified number of Shares in issue at the Subscription Price
“Ninth Amended and Restated Memorandum and Articles of Association”	the ninth amended and restated memorandum of association and articles of association of the Company incorporating and consolidating all the Proposed Amendments
“Participants”	<p>in the case of the 2020 Restricted Share Unit Scheme, includes the following:</p> <ul style="list-style-type: none">(i) any Employee (whether full time or part time) or directors (including executive, non-executive and independent non-executive directors) of any subsidiary of the Group or any Related Entity; and(ii) any Service Provider <p>who, in the sole opinion of the Board, has contributed or will contribute to the growth and development of the Group and qualifies by in the interests of the long term growth of the Group</p>
“Platforms of the Group”	the self-owned platforms and self-operated channels on Tencent products
“Proposed Amendments”	the proposed amendments to the Memorandum of Association and the Articles of Association, the details of which are set out in Appendix V to this circular
“Related Entity”	the holding companies, fellow subsidiaries or associated companies of the Company
“Retained Tencent Group”	Tencent and its subsidiaries, excluding the Group
“RMB”	the lawful currency of the People’s Republic of China
“RSU(s)”	restricted share unit(s) conferring the grantee a conditional right upon vesting of the Award to obtain, as determined by the Board or the Chairman, either a Share or an equivalent value in cash with reference to the market value of a Share on the date on which such Share is sold as determined by the trustee in its absolute discretion, less any tax, fees, levies, stamp duty and other charges applicable

DEFINITIONS

“Scheme Mandate”	the total number of Shares to be issued underlying all options and awards to be granted under the Share Schemes, which shall not in aggregate exceed 101,523,841 Shares, representing approximately 10% of the number of issued Shares as at the date of passing of the Shareholders’ resolutions in relation to the amendments to the 2020 Restricted Share Unit Scheme and the Share Option Plan, being May 22, 2023
“Senior Grantee(s)”	in the case of the 2020 Restricted Share Unit Scheme, the Grantee(s) who is either (i) a Director, or (ii) a member of the senior management of the Company as included in the latest annual report of the Company published on the website of the Stock Exchange immediately before the date of grant; and in the case of the Share Option Plan, the Grantee(s) who is either (i) a Director, (ii) a Service Provider, or (iii) an individual that is an Employee (whether full time or part time), executives, officers, or directors (including executive, non-executive and independent non-executive directors) of any Related Entity
“Service Provider”	any person who provides services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long term growth of the Group. For the avoidance of doubt, Service Providers should exclude placing agents or financial advisers providing advisory services for fundraising, mergers or acquisitions. They should also exclude professional service providers such as auditors or valuers who provide assurance, or are required to perform their services with impartiality and objectivity
“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)

DEFINITIONS

“Share Option Plan”	the share option plan for Eligible Participants which was adopted by the Shareholders on May 24, 2021 as amended from time to time
“Share Scheme(s)”	share award scheme(s) and/or share option scheme(s) involving issuance of new Shares adopted and to be adopted by the Company from time to time, including the 2020 Restricted Share Unit Scheme and the Share Option Plan
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the price per Share at which a Grantee may subscribe for Shares on the exercise of Options calculated in accordance with the Share Option Plan
“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission of Hong Kong, as amended from time to time
“Tencent”	Tencent Holdings Limited, the controlling Shareholder, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the main board of the Stock Exchange with stock code 700
“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
“%”	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. Hou Xiaonan
Mr. Huang Yan

Non-Executive Directors:

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

Independent Non-Executive Directors:

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

Registered office:

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

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

N3 Lujiazui Binjiang Center,
No. 5169 Binjiang Avenue,
Pudong New Area,
Shanghai
People's Republic of China

*Principal place of business in
Hong Kong:*

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

May 8, 2024

To the Shareholders

Dear Sir or Madam

**PROPOSALS FOR
GENERAL MANDATES TO ISSUE SHARES AND PURCHASE SHARES
RE-ELECTION OF RETIRING DIRECTORS
PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES
OF ASSOCIATION AND THE ADOPTION OF THE NINTH AMENDED
AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION
SCHEME MANDATE TO ISSUE SHARES UNDER
THE SHARE SCHEMES
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF ANNUAL GENERAL MEETING**

LETTER FROM THE BOARD

INTRODUCTION

The purpose of this circular is to give you the notice of the Annual General Meeting and the following proposals to be put forward at the Annual General Meeting: (a) granting of the General Mandate to issue Shares and the Buy-back Mandate to purchase Shares; (b) the re-election of the retiring Directors; (c) the proposed amendments to the Memorandum of Association and Articles of Association and the adoption of the Ninth Amended and Restated Memorandum and Articles of Association; (d) grant of Scheme Mandate to issue Shares under the Share Schemes; and (e) the renewal of the continuing connected transactions contemplated under the 2025 Advertisement Cooperation Framework Agreement.

GENERAL MANDATE TO ISSUE SHARES

In order to ensure flexibility and discretion are given to the Directors to issue any new Shares when the Directors consider desirable for the Company to do so, approval is sought from the Shareholders at the Annual General Meeting, pursuant to the Listing Rules, for the grant of the General Mandate to the Directors to issue Shares. At the Annual General Meeting, an ordinary resolution numbered 4(A) will be proposed to grant the General Mandate to the Directors to exercise the powers of the Company to allot, issue and deal with the additional Shares not exceeding 20% of the number of issued Shares as at the date of passing of the Shareholders' resolution in relation to the General Mandate for the period until the conclusion of the next annual general meeting of the Company (or such earlier period as stated in the resolution).

As at the Latest Practicable Date, 1,023,393,477 Shares have been fully paid and issued. Subject to the passing of the ordinary resolution numbered 4(A) and on the basis that no further Shares are issued or purchased after the Latest Practicable Date and up to the date of the Annual General Meeting, the Company will be allowed to issue a maximum of 204,678,695 Shares.

In addition, subject to a separate approval of the ordinary resolution numbered 4(C), the number of Shares purchased by the Company under ordinary resolution numbered 4(B) will also be added to extend the General Mandate as mentioned in ordinary resolution numbered 4(A) provided that such additional number of Shares shall represent up to 10% of the number of issued Shares as at the date of passing the Shareholders' resolutions in relation to the General Mandate and Buy-back Mandate. The Directors wish to state that they have no immediate plans to issue any new Shares pursuant to the General Mandate for the period until the conclusion of the next annual general meeting of the Company (or such earlier period as stated in the resolution).

As at the Latest Practicable Date, the Company has no plan to issue any Shares under the General Mandate.

BUY-BACK MANDATE TO PURCHASE SHARES

In addition, an ordinary resolution numbered 4(B) will be proposed at the Annual General Meeting to approve the granting of the Buy-back Mandate to the Directors to exercise the powers of the Company to purchase Shares representing up to 10% of the number of issued Shares as at the date of passing of the Shareholders' resolution in relation to the Buy-back Mandate for the period until the conclusion of the next annual general meeting of the Company (or such earlier period as stated in the resolution).

LETTER FROM THE BOARD

As at the Latest Practicable Date, there were 1,023,393,477 Shares in issue. Subject to the passing of the ordinary resolution numbered 4(B) and on the basis that no further Shares are issued or purchased after the Latest Practicable Date and up to the date of the Annual General Meeting, the Company will be allowed to buy back a maximum of 102,339,347 Shares pursuant to the Buy-back Mandate.

An explanatory statement required by the Listing Rules to be sent to the Shareholders in connection with the proposed Buy-back Mandate is set out in Appendix II to this circular. This explanatory statement contains all information reasonably necessary to enable the Shareholders to make an informed decision on whether to vote for or against the relevant resolution at the Annual General Meeting.

Reference is made to the announcement of the Company dated December 11, 2023, the Board has approved a plan to exercise the general mandate to buy back no more than 101,523,841 Shares for no more than 12 months commencing from December 11, 2023, concrete details of which are not available as the future buy-back will be subject to the market conditions and the Board's further discretion. Save for the aforementioned plan and as at the Latest Practicable Date, the Company has no plan to repurchase any Shares under the Buy-back Mandate.

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 shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at that meeting. Accordingly, Mr. Huang Yan will retire at the Annual General Meeting and, being eligible, and will offer himself for re-election as Director at the Annual General Meeting.

In accordance with article 16.19 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years. Accordingly, Mr. Hou Xiaonan, Ms. Yu Chor Woon Carol and Mr. Liu Junmin will retire at the Annual General Meeting and, being eligible, and will offer themselves for re-election as Directors at the Annual General Meeting.

Ms. Yu Chor Woon Carol and Mr. Liu Junmin have respectively confirmed that (i) she/he meets the independence criteria as set out in Rule 3.13 of the Listing Rules; (ii) she/he has no past or present financial or other interest in the business of the Company or its subsidiaries or any connection with any core connected person (as defined under the Listing Rules) of the Company; and (iii) there are no other factors that may affect her/his independence at the time of her/his appointment. The Company considers that they meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Details of Mr. Hou Xiaonan, Mr. Huang Yan, Ms. Yu Chor Woon Carol and Mr. Liu Junmin who are subject to re-election at the Annual General Meeting are set out in Appendix I to this circular in accordance with the relevant requirements of the Listing Rules.

LETTER FROM THE BOARD

PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION AND THE ADOPTION OF THE NINTH AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION

Reference is made to the announcement of the Company dated March 18, 2024. The Board proposes to (i) make certain amendments to the Memorandum and Articles of Association, for the purpose of, among others, incorporating housekeeping amendments in relation to the electronic dissemination of corporate communication of the Company; and (ii) adopt the Ninth Amended and Restated Memorandum and Articles of Association incorporating and consolidating the Proposed Amendments.

Details of the Proposed Amendments are set out in Appendix V to this circular.

The Company has received a written confirmation from its Hong Kong legal advisers, confirming that the Proposed Amendments conform with the Listing Rules (including the requirements of Appendix A1 to the Listing Rules). The Company has also received a written confirmation from its Cayman Islands legal advisers, confirming that the Proposed Amendments conform with the laws of the Cayman Islands.

The Company confirms that there is nothing unusual in the Proposed Amendments from the perspective of a Cayman Islands company listed on the Stock Exchange.

The Proposed Amendments as well as the adoption of the Ninth Amended and Restated Memorandum and Articles of Association are subject to the Shareholders' approval by way of special resolution at the Annual General Meeting, and a special resolution numbered 7 will be proposed at the Annual General Meeting accordingly.

SCHEME MANDATE

The 2020 Restricted Share Unit Scheme was adopted by the Company on May 15, 2020 and amended by the Shareholders' resolutions passed on May 22, 2023. The 2020 Restricted Share Unit Scheme funded by issuance of new Shares is subject to the provisions of Chapter 17 of the Listing Rules. The grant of RSUs to a Director and other connected persons of the Company will be subject to compliance with Chapter 14A and Rule 17.04 of the Listing Rules, including the applicable reporting, announcement, the independent non-executive Directors' approval and/or independent Shareholders' approval requirements under Chapter 14A and Rule 17.04 of the Listing Rules. The Board and the Chairman are of the view that the discretion in determining the eligibility of Participants and vesting schedule gives the Company more flexibility to provide higher incentives to the Participants, which is in line with the purpose of the 2020 Restricted Share Unit Scheme. For further details of the 2020 Restricted Share Unit Scheme, please refer to Appendix III to this circular.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the movements in the number of RSUs under the 2020 Restricted Share Unit Scheme since its adoption are as follows:

	Number of RSUs
Granted	13,387,227
Lapsed	(2,965,362)
Vested	<u>(3,968,023)</u>
Outstanding balance as at the Latest Practicable Date ^{Note}	<u><u>6,453,842</u></u>

Note: The outstanding balance as at the Latest Practicable Date is the total number of RSUs granted deducted by the total number of RSUs lapsed or vested under the 2020 Restricted Share Unit Scheme, representing approximately 0.63% of the number of issued Shares as at the Latest Practicable Date. As of the Latest Practicable Date, the Company has not granted any RSUs to non-employees.

As at the Latest Practicable Date, none of the Directors is a trustee of the 2020 Restricted Share Unit Scheme or has any direct or indirect interest in the trustees of the 2020 Restricted Share Unit Scheme, if any.

The Share Option Plan was adopted by the Company on May 24, 2021 and amended by the Shareholders' resolutions passed on May 22, 2023. The Share Option Plan funded by issuance of new Shares is subject to the provisions of Chapter 17 of the Listing Rules. The grant of Options to a Director and other connected persons of the Company will be subject to compliance with Chapter 14A and Rule 17.04 of the Listing Rules, including the applicable reporting, announcement, the independent non-executive Directors' approval and/or independent Shareholders' approval requirements under Chapter 14A and Rule 17.04 of the Listing Rules. The Board and the Chairman are of the view that the discretion in determining the eligibility of Eligible Participants, the vesting schedule and the exercise price gives the Company more flexibility to provide higher incentives to the Eligible Participants, which is in line with the purpose of the Share Option Plan. For further details of the Share Option Plan, please refer to Appendix IV to this circular.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the movements in the number of Options under the Share Option Plan since its adoption are as follows:

	Number of Options
Granted	14,730,207
Lapsed	(1,040,747)
Cancelled	(3,806,250)
Exercised	Nil
	<hr/>
Outstanding balance as at the Latest Practicable Date^{Note}	9,883,210
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Note: The outstanding balance as at the Latest Practicable Date is the total number of Options granted deducted by the total number of Options lapsed, cancelled or exercised under the Share Option Plan, representing approximately 0.97% of the number of issued Shares as at the Latest Practicable Date. As of the Latest Practicable Date, the Company has not granted any Options to non-employees.

As of the Latest Practicable Date, the Company currently has not identified any proposed Grantees for the coming 12 months.

The terms of the 2020 Restricted Share Unit Scheme and the Share Option Plan comply with the requirements under Chapter 17 of the Listing Rules.

The total number of Shares to be issued underlying all options and awards to be granted under the Share Schemes (including the 2020 Restricted Share Unit Scheme and Share Option Plan) shall not in aggregate exceed 101,523,841 Shares, representing approximately 10% of the number of issued Shares as at the date of passing of the Shareholders' resolutions in relation to the amendments to the 2020 Restricted Share Unit Scheme and the Share Option Plan, being May 22, 2023.

An ordinary resolution numbered 5 will be proposed at the Annual General Meeting to grant to the Directors the Scheme Mandate specifying that the Board has the power to allot, issue and deal with such new Shares pursuant to the vesting of any awards and exercise of any options granted under the Share Schemes and to delegate such power in accordance with the terms of the Share Schemes.

LETTER FROM THE BOARD

Application will be made to Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the new Shares which may be issued and allotted under all Share Schemes pursuant to the Scheme Mandate.

RENEWAL OF CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated August 16, 2021 and the circular of the Company dated November 5, 2021 in relation to, among other things, the entering into the 2022 Advertisement Cooperation Framework Agreement, which will expire on December 31, 2024. Reference is also made to the announcement of the Company dated March 19, 2024 in respect of, among others, the renewal of the 2022 Advertisement Cooperation Framework Agreement. As the Group intends to continue carrying out the transactions under the 2022 Advertisement Cooperation Framework Agreement in the ordinary and usual course of business of the Group, on March 18, 2024, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to enter into the 2025 Advertisement Cooperation Framework Agreement for a term of three years commencing from January 1, 2025 to December 31, 2027 (both days inclusive), subject to the Shareholders' approval.

The principal terms of the 2025 Advertisement Cooperation Framework Agreement are set out as below:

Date:	March 18, 2024
Parties:	(1) Shanghai Yueting (on behalf of the Group), and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Term:	From January 1, 2025 to December 31, 2027
Subject matter:	The Group agreed to place advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group.

LETTER FROM THE BOARD

Fee arrangements: The parties shall determine the fee arrangement under the 2025 Advertisement Cooperation Framework Agreement based on one of the following methods:

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

Payment and settlement terms: Payment and settlement terms under the 2025 Advertisement Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the 2025 Advertisement Cooperation Framework Agreement.

Pricing Policy

The fee arrangement of fixed fees was newly adopted as compared to the 2022 Advertisement Cooperation Framework Agreement with reference to the similar fee arrangement of fixed fees adopted by other advertisers in the market, which is expected to allow more flexibility of cooperation for the Group in the next three years. The fixed fees shall be applied and determined taking into account several factors, including the type of the advertisement, the quotation of the advertisement provided by Independent Third Parties to the Group which is a fixed fee (for example, when the quotation of a fixed fee is expected to be higher than the revenue expected to be shared, the fixed fee will be applied as the fee arrangement of such advertisement), the historical contemporaneous price or contemporaneous revenue of the advertisement and the Retained Tencent Group's demands.

The commission fee payable and/or revenue/profit to be shared by the Retained Tencent Group to the 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. The fixed commission fee and/or the prescribed percentage for the revenue generated from the advertisement which are solicited by the Retained Tencent Group being placed on the Platforms of the Group to be received 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. Generally, when determining the fixed commission fee and/or prescribed percentage for specific advertisement cooperation, the Group will take into account factors such as the coverage of advertisements 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 advertisements to be placed on the Platforms of the Group, having regard to the prevailing business and revenue generation model in relation to free-to-read business.

LETTER FROM THE BOARD

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 Company considers the fee arrangement of the 2025 Advertisement Cooperation Framework Agreement, including the fixed fees, to be on normal commercial terms. The pricing terms under the 2025 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 commissions paid by the Retained Tencent Group to the Group under the Advertisement Cooperation CCTs for the three years ended December 31, 2023 and three months ended March 31, 2024 are set out as follows:

	For the year ended December 31,			For the three months ended March 31, 2024
	2021	2022	2023	(unaudited)
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Aggregate amounts of commissions paid by the Retained Tencent Group to the Group	701,300	498,000	334,213	61,074

As disclosed in the circular of the Company dated November 5, 2021, the annual cap for the 2022 Advertisement Cooperation Framework Agreement for the year ending December 31, 2024 is RMB2,690,060,000.

Proposed Annual Caps and Basis of Determination

The proposed annual caps for the aggregate amounts of commissions payable by the Retained Tencent Group to the Group under the Advertisement Cooperation CCTs for the three years ending December 31, 2027 are set out as follows:

	For the year ending December 31,		
	2025	2026	2027
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Aggregate amounts of commissions payable by the Retained Tencent Group to the Group	400,000	470,000	550,000

LETTER FROM THE BOARD

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 2025 Advertisement Cooperation Framework Agreement shall be split between the relevant parties and shall be determined in accordance with the following formula:

$$\text{Net Proceeds of the Advertisement} \times \text{prescribed revenue sharing percentage}$$

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 received by the Group for each of the underlying cooperation under the 2025 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%. To determine the aforementioned revenue sharing percentage, the Company has taken into consideration similar advertisement cooperation arrangements between the Group and Independent Third Parties, which were less than 70%. Therefore, the Directors believe that the revenue sharing percentage under the 2025 Advertisement Cooperation Framework Agreement will be no less favorable to the Company than terms of cooperation offered by Independent Third Parties, 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.

(b) Advertising fee rate charged

The advertising fee rate for the advertisement placed on the Platforms of the 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 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-Download: charged on the basis of actual download volumes of the products or services offered by the advertisers;
- 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.

LETTER FROM THE BOARD

(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 on each works offered on the Platforms of the Group.

In determining the annual caps under the 2025 Advertisement Cooperation Framework Agreement, the Company has further taken into account (i) the historical amounts of commissions paid by the Retained Tencent Group to the Group for the year ended December 31, 2023, being RMB334 million; (ii) the estimated annual growth of over 10% for the three years ending December 31, 2027, with the reference to the scale of China's Internet advertising market with the year-to-year growth rate of 12.9% for the year ended December 31, 2023 according to the statistics published by iResearch, the leading provider of online audience measurement and consumer insights in China (<https://report.iresearch.cn/report/202401/4300.shtml>); (iii) 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; (iv) the estimated growth of the overall advertising fee rate for the advertisement to be placed on the Platforms of the Group, having regard to the existing and continuous cooperation (i.e. offering literature works and earning revenue through advertisements) under the prevailing revenue generation model and the potential new cooperation under current negotiation to expand the types of works beyond literature (such as audio works and/or mini drama works), which is expected to attract more advertisement cooperation; (v) the business plan under current negotiation to optimize the marketing strategy (including but not limited to the optimization of traffic exposure allocation) and plan to provide the estimated additional traffic exposure to the Retained Tencent Group, aiming to increase the user scale for free reading and therefore increase the total revenue to be generated from advertisement; and (vi) the ability of the Group to leverage on 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.

Reasons and Benefits for Entering into the 2025 Advertisement Cooperation Framework Agreement

In recent years, the free-to-read business model is a useful addition to the content ecosystem and can earn revenue through advertisements. The Company considers it imperative to enter such market segment to capture the growth potential of the market. 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 business model. Accordingly, the Group intends to enter into the 2025 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.

LETTER FROM THE BOARD

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 agreements.

The Business Development Team will seek to solicit cooperation with at least two other Independent Third Parties to the extent practicable, and will compare the commercial terms 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. 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.

Our Company's external auditor will review the continuing connected transactions under the 2025 Advertisement Cooperation Framework Agreement annually to confirm, among other things, whether the pricing policies have been adhered to and whether each of the annual caps have been complied with; and the independent non-executive Directors will perform an annual review and confirm in the annual report of the Company that the transactions under the 2025 Advertisement Cooperation Framework Agreement have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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 price, the prospects of the intellectual property cooperation, with a view to maximizing the commercial value of the relevant intellectual properties. The Business Development Team is required to comply with the pricing policies for the continuing connected transactions with the Retained Tencent Group as set out above, and the internal control team of the Company will regularly monitor the compliance of such pricing policies.

Furthermore, regardless of the party the Group may cooperate with (whether it is the Retained Tencent Group or any Independent Third Party), the Company has established a standard procedure to examine cooperation and its underlying agreement by taking into account various commercial factors. Before entering into an agreement, the legal department of the Company (the "**Legal Department**") and the finance department of the Company (the "**Finance Department**") 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. 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 BOARD

The Legal Department and the Finance Department monitor the compliance of pricing policies and annual caps of the continuing connected transactions of the Company on a regular basis, in particular:

- (i) the entering into specific implementation agreements shall be subject to the appropriate approval of the general manager of the Business Development Team, the Finance Department, the Legal Department and management of our Group to ensure that the contracts are in line with the pricing policy and principal terms of the 2025 Advertisement Cooperation Framework Agreement;
- (ii) the Finance Department keeps monitoring the amount of each transaction on an aggregate basis to see if it exceeds relevant annual caps prescribed in the 2025 Advertisement Cooperation Framework Agreement as disclosed by the Company. In addition, the Finance Department logs, computes and checks connected transaction amount in its account on a monthly basis, and keeps communicating with the Business Development Team and provides immediate warnings to the Business Development Team and the Legal Department when the aggregate transaction amount attains or exceeds 80% of the prescribed annual caps; and
- (iii) in addition to the annual review, the Company also gives reports to the independent non-executive Directors on a quarterly basis to provide them with the essential information on the latest connection transactions including how the compliance of the pricing policies and annual caps is monitored as well as the utilisation of the prescribed annual caps for the 2025 Advertisement Cooperation Framework Agreement specifically.

INFORMATION ON THE PARTIES

The Group is principally engaged in online literature business and intellectual property (“IP”) operation business. It incubates original IPs from its online literature platform, which are subsequently adapted on a range of digital entertainment mediums, including comics, animation, film, TV series, web series and games. 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 the provision of communication, social networks, digital content, games, online advertising, fintech and business services primarily in the PRC. Tencent Computer is principally engaged in the provision of value-added services and online advertising in the PRC.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As of the Latest Practicable Date, Tencent is the controlling Shareholder, and Tencent Computer is a wholly-owned subsidiary of Tencent. Accordingly, Tencent Computer is a connected person of the Company and the transactions contemplated under the 2025 Advertisement Cooperation Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual caps for the 2025 Advertisement Cooperation Framework Agreement is more than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

GENERAL

Your attention is drawn to the letter from the Independent Board Committee set out on pages 24 of this circular, which contains its recommendation to the Independent Shareholders in relation to the 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027). Your attention is also drawn to the letter of advice from the Independent Financial Adviser set out on pages 25 to 37 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027), and the principal factors and reasons taken into account in arriving at its recommendation.

NOTICE OF ANNUAL GENERAL MEETING

Set out on pages 76 to 83 of this circular is the notice of the Annual General Meeting at which, inter alia, resolutions will be proposed to Shareholders to consider and approve the granting of the General Mandate to issue Shares and the Buy-back Mandate to purchase Shares, the re-election of the retiring Directors, the Proposed Amendments and the adoption of the Ninth Amended and Restated Memorandum and Articles of Association, the Scheme Mandate and the 2025 Advertisement Cooperation Framework Agreement.

FORM OF PROXY

A form of proxy is enclosed for use at the Annual 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>). Shareholders are encouraged to exercise their rights to appoint the chairman of the Annual General Meeting as their proxy to vote on your behalf by completing the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time fixed for holding the Annual 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 Annual General Meeting if they so wish and in such event the form of proxy shall be deemed to be revoked.

LETTER FROM THE BOARD

VOTING BY POLL

Tencent and its associates, namely THL A13 Limited (directly holding 268,600,500 Shares, representing 26.25% of the issued Shares as at the Latest Practicable Date), Qinghai Lake Investment Limited (directly holding 230,705,634 Shares, representing 22.54% of the issued Shares as at the Latest Practicable Date), and Tencent Mobility Limited (directly holding 78,337,470 Shares, representing 7.65% of the issued Shares as at the Latest Practicable Date) are required under the Listing Rules to abstain from voting on the resolution on approving the 2025 Advertisement Cooperation Framework Agreement at the Annual General Meeting. Save as disclosed above, the Board is not aware of any other Shareholder who has any material interest that is required under the Listing Rules to abstain from voting on the aforementioned resolution.

Pursuant to Rule 13.39(4) of the Listing Rules and article 13.6 of the Articles of Association, any resolution put to the vote of the Shareholders at a general meeting shall be decided on a poll except where the chairman of the Annual 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 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027) are conducted in the ordinary and usual business of the Company and are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The independent non-executive Directors have formed the Independent Board Committee for the purposes of advising the Independent Shareholders in respect of the 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027) 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. Hou Xiaonan and Mr. Xie Qinghua, all being Directors, have abstained from voting on the relevant Board resolutions approving the 2025 Advertisement Cooperation Framework Agreement and the transactions contemplated thereunder, due to their relationship with Tencent. Save as disclosed above, none of the other Directors has a material interest in the transactions contemplated under the 2025 Advertisement Cooperation Framework Agreement.

RECOMMENDATION

The Directors consider that the proposed resolutions for the granting of the General Mandate to issue Shares, the Buy-back Mandate to purchase Shares, the re-election of the retiring Directors, the Proposed Amendments and the adoption of the Ninth Amended and Restated Memorandum and Articles of Association, the Scheme Mandate and the 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027) are in the interests of the Group and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favour of all the resolutions to be proposed at the Annual General Meeting.

The Independent Board Committee, having taken into account the advice of Somerley, consider that 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of the business of the Group, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the ordinary resolution in respect of the 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027) and the transactions contemplated thereunder at the Annual 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 2025 Advertisement Cooperation Framework Agreement.



CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

May 8, 2024

To the Independent Shareholders

Dear Sirs or Madams,

THE 2025 ADVERTISEMENT COOPERATION FRAMEWORK AGREEMENT

We refer to the circular dated May 8, 2024 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Terms defined in this circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the 2025 Advertisement 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 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027) is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027) is in the ordinary and usual course of the business of the Group, and in the interests of the Company and the Shareholder as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Annual General Meeting to approve the 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027) and the transactions contemplated thereunder.

Yours faithfully,

The Independent Board Committee

Ms. YU Chor Woon Carol Ms. LEUNG Sau Ting Miranda

Independent non-executive Directors

Mr. LIU Junmin

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



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

May 8, 2024

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

Dear Sirs,

PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER THE 2025 ADVERTISEMENT COOPERATION FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group, pursuant to the 2025 Advertisement Cooperation Framework Agreement (the “**Advertisement Cooperation CCTs**”) and the proposed annual caps (the “**Annual Caps**”) for the three years ending December 31, 2027. Details of the Advertisement Cooperation CCTs and the Annual Caps are contained in the circular of the Company to the Shareholders dated May 8, 2024 (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, holding 577,643,604 Shares or approximately 56.4% of the issued Shares. 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 the 2025 Advertisement Cooperation Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Annual Caps is more than 5%, the transactions contemplated under the 2025 Advertisement Cooperation Framework Agreement are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of Tencent's interests in the 2025 Advertisement Cooperation Framework Agreement, Tencent and its associates are required under the Listing Rules to abstain from voting on the resolution approving the 2025 Advertisement Cooperation Framework Agreement at the Annual General Meeting.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin, being all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the 2025 Advertisement Cooperation Framework Agreement (including the Annual Caps) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group, 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 the proposed renewal of continuing connected transactions, details of which were set out in the circular of the Company dated November 20, 2023. The past engagement was 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 engagement, 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 Annual General Meeting. We have reviewed, among others, (i) the 2025 Advertisement Cooperation Framework Agreement, (ii) the annual report of the Company for the year ended December 31, 2022, (iii) the annual report of the Company for the year ended December 31, 2023 (the “**2023 Annual Report**”), and (iv) other relevant information contained in the Circular. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been omitted or withheld from us, or to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have, however, not conducted any independent investigation into the business, affairs and financial position of the Group, the Retained Tencent Group and their respective subsidiaries or associates, nor have we carried out any independent verification of the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the 2025 Advertisement Cooperation Framework Agreement (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 business and intellectual property (“IP”) operation business. It incubates original IPs from its online literature platform, which are subsequently adapted on a range of digital entertainment mediums, including comics, animation, film, TV series, web series and games. The flagship product of the Group, QQ Reading, is a unified mobile content aggregation and distribution platform, while other individually branded mobile apps and websites, such as Qidian.com, provide customised literature experiences for the Group’s readers. In recent years, the Group has continued to expand into overseas markets. By the end of 2023, the Group’s foreign language online reading platform, WebNovel, offered around 3,800 works translated from Chinese and about 620,000 original works created locally. The Shares are listed on the Stock Exchange, with a market capitalisation of approximately HK\$30.8 billion as at the Latest Practicable Date.

Revenues of the Group are generated from two segments: (i) online business segment refers to revenues from online paid reading, online advertising and distribution of third-party online games on the Platforms of the Group; and (ii) intellectual property operations and others segment refers to revenues from production and distribution of TV, web and animated series, films, licensing of copyrights, operation of self-operated online games and sales of physical books. For the year ended December 31, 2023, revenues from online business segment and intellectual property operations and others segment amounted to approximately RMB3.9 billion and RMB3.1 billion respectively, representing approximately 56.3% and 43.7% of the Group’s revenue respectively.

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

Tencent

Tencent and its subsidiaries (excluding the Group) are principally engaged in communication, social networks, digital content, games, online advertising, fintech and business services in the PRC. According to Tencent’s 2023 annual report, revenues from online advertising increased to approximately RMB101.5 billion in 2023, representing a growth of approximately 23% as compared to 2022, mainly attributable to the new advertisement inventories in a short videos and images platform and a search engine in a mobile application, and ongoing upgrade of the advertising platforms of Tencent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

2. Background to and reasons for the Advertisement Cooperation CCTs

In recent years, the Group has continued to strengthen the content ecosystem of its online reading business. According to the 2023 Annual Report, the Group's online reading platform added approximately 380,000 writers, 670,000 literary works and over 39 billion Chinese characters in 2023, and the average monthly active users for the Group's self-owned platform products and self-operated channels on Tencent products reached approximately 205.6 million users.

We are given to understand that in recent years, free-to-read business model has been a useful addition to the Group's content ecosystem. The Company considers it imperative to enter such market segment to capture the growth potential of the market. Given the Retained Tencent Group is one of the leading integrated service providers for online advertisement, the Group has been cooperating with the Retained Tencent Group, especially in respect of the Group's free-to-read business model.

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 users, to be displayed on the Platforms of the Group.

As confirmed by the management of the Group, 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 creation and visualisation of its original content with popular titles. As such, the Group does not currently have, and does not intend to develop, any advertisement production capability. It relies solely on external advertising agencies to recommend online advertisements.

The current advertisement solicitation by the Retained Tencent Group on the Platforms of the Group is governed by the 2022 Advertisement Cooperation Framework Agreement, which was approved at shareholders' meeting of the Company on November 5, 2021. The 2022 Advertisement Cooperation Framework Agreement will expire on December 31, 2024. In view of the above, on March 18, 2024, Shanghai Yueting and Tencent Computer entered into the 2025 Advertisement Cooperation Framework Agreement to continue and govern the abovementioned.

As advised by the management of the Group, the transactions under the 2025 Advertisement 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 solicit advertisements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Principal terms of the 2025 Advertisement Cooperation Framework Agreement

The principal terms of the 2025 Advertisement Cooperation Framework Agreement are summarised below. For further details, please refer to the section headed “RENEWAL OF CONTINUING CONNECTED TRANSACTION” in the letter from the Board.

General

On March 18, 2024, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the 2025 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 parties shall determine the fee arrangement under the 2025 Advertisement Cooperation Framework Agreement based on one of the following methods:

- (a) fixed fees;
- (b) revenue sharing/profit sharing; or
- (c) mixture of the above two.

We have discussed with the management of the Group on the above fee arrangements, and learnt that the fixed fee arrangement was not adopted in the past, and that the above fee arrangements is to provide the Group a flexibility to formulate the optimal pricing terms, considering among others the potential changes in the competitive landscape in the industry, business environment and market conditions, and the rationale for allowing a “**fixed**” element in the fee arrangements with the Retained Tencent Group is to potentially allow the Group to maximise the commission receivable if it is considered more beneficial to the Group when compared to a profit sharing model.

As set out in the letter from the Board and based on our discussion with the management of the Group, any fixed fees arrangement will be adopted and determined taking into account several factors, including the type of the advertisement, any fixed-fee quotation of the advertisement provided by Independent Third Parties, the historical average revenue generated from the relevant time slot at the relevant Platforms of the Group, and the Retained Tencent Group’s demands.

In our opinion, although there was no such “fixed” fee arrangement in the past, the terms of the implementation agreements are subject to internal control measures, including the solicitation of cooperation and comparison with terms from Independent Third Parties, as further described in below section below headed “4. Internal control measures”, we concur with the Company’s view as set out above, and we ourselves consider the fee arrangement of the Advertisement Cooperation CCTs, including the fixed fee arrangement, to be on normal commercial terms. Please also refer to our independent work performed in below sub-section headed “Our assessment”.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pricing Policy

The fee payable to the Group shall be determined after arm's length negotiation between the parties taking into account various commercial factors. The fixed commission fee and/or the prescribed percentage for the revenue/profit generated from the advertisements which are solicited by the Retained Tencent Group being placed on the Platforms of the Group to be received 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. Generally, when determining the fixed commission fee and/or the prescribed percentage for specific advertisement cooperation, the Group will take into account factors such as the coverage of advertisements 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 advertisements to be placed on the Platforms of the Group, having regard to the prevailing business and revenue generation model in relation to free-to-read business.

For revenue sharing/profit sharing arrangement, revenue to be generated from the 2025 Advertisement Cooperation Framework Agreement shall be split between the relevant parties, determined in accordance with the following formula, which is the same as that under the 2022 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. The prescribed revenue sharing percentage shall be determined between the relevant parties on an arms-length basis from time to time, and the revenue sharing percentage to be shared by the Group will in any event be 70% or more.

Term

Subject to the approval from the Independent Shareholders at the Annual General Meeting, the 2025 Advertisement Cooperation Framework Agreement has a term from January 1, 2025 to December 31, 2027.

Payment and settlement terms

Payment and settlement terms shall be specified in each of the implementation agreements to be entered into under the 2025 Advertisement Cooperation Framework Agreement.

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Our assessment

We have discussed with the management of the Group the terms of the 2025 Advertisement Cooperation Framework Agreement. We have also reviewed lists of transactions under the 2022 Advertisement Cooperation Framework Agreement and four sample contracts, which were selected on a random basis from all contracts executed during the period from January 1, 2023 to December 31, 2023 (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. On the basis of the Sample Contracts, we note that: (i) the Advertisement Cooperation CCTs followed the revenue sharing arrangement, and the relevant revenue sharing percentages shared by the Group were all more than 70%; and (ii) the fee payments of the Advertisement Cooperation CCTs were settled on a monthly basis.

In order to substantiate the above pricing and payment terms of the Advertisement Cooperation CCTs being no less favourable to the Group than those offered by Independent Third Parties, we have reviewed four similar advertisement cooperation arrangements between the Group and Independent Third Parties (the “**Comparable Transactions**”), selected on a random basis from the transaction lists covering the period from January 1, 2023 to December 31, 2023. We note that (i) the Comparable Transactions followed the revenue sharing arrangement, and the relevant revenue shared by the Group were less than 70%. The revenue sharing percentages of at least 70% under the Sample Contracts were higher than those of the Comparable Transactions; and (ii) the fee payments under the Comparable Transactions were settled on a monthly basis, which is in line with those under the Sample Contracts.

We understand that the exact terms will only be agreed upon the entering into the implementation agreements. As confirmed by the management of the Group, the fee arrangements under the Advertisement Cooperation CCTs shall be consistent with the prevailing commercial practices between the Group and the Retained Tencent Group and/or Independent Third Parties.

4. Internal control measures

In order to protect the interest of the Independent Shareholders, the Company has implemented internal procedures to ensure that the Advertisement Cooperation CCTs are undertaken, and the underlying transaction agreements are entered into, pursuant to the relevant terms of the 2025 Advertisement Cooperation Framework Agreement.

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 Advertisement Cooperation CCTs. 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 2025 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.

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In making the decision as to whether the Group will cooperate with the Retained Tencent Group in relation to the Advertisement Cooperation CCTs, 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 entering into of specific implementation agreements shall be subject to approvals of the general manager of the Business Development Team, the finance department of the Company (the "**Finance Department**"), the legal department of the Company (the "**Legal Department**") and management of the Group, to ensure conformity with the 2025 Advertisement Cooperation Framework Agreement. The Group will only enter into the Advertisement Cooperation CCTs when, from its perspective, the commercial value can be maximised 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 Department and the Finance Department 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 2025 Advertisement Cooperation Framework Agreement or any potential deviations from the its terms). 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.

The Finance Department will monitor the utilisation of the Annual Caps, and will provide immediate warnings to the Business Development Team and the Legal Department when the utilisation reaches 80% of the Annual Caps. The Company will also provide quarterly reports on the Advertisement Cooperation CCTs to the independent non-executive Directors, including but not limited to compliance of the relevant pricing policies and utilisation of the Annual Caps.

We have reviewed the relevant internal control policies relating to the Advertisement Cooperation CCTs, 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 Advertisement Cooperation CCTs, since exact terms will only be agreed upon the entering into the specific implementation 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 ensure that the Advertisement Cooperation CCTs pursuant to the 2025 Advertisement Cooperation Framework Agreement are on no less favourable terms to the Group. Also, the internal controls performed by the Legal Department and Finance Department on a regular basis will help ensuring compliance of pricing policies of Advertisement Cooperation CCTs and the Annual Caps. In addition, the independent non-executive Directors and auditors of the Company will review the 2025 Advertisement Cooperation Framework Agreement each year, details of which are set out in the section below headed "6. Reporting requirements and conditions of the Advertisement Cooperation CCTs".

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. The Annual Caps

(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 three years ended December 31, 2023, and for the three months ended March 31, 2024:

	For the year ended			For the three
	December 31,			months ended
	2021	2022	2023	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aggregate amount of commissions paid by the Retained Tencent Group to the Group	701,300	498,000	334,213	61,074
Relevant annual caps	905,486	1,476,664	2,026,729	2,690,060
Utilisation rates	77.5%	33.7%	16.5%	9.1%
				<i>(Note)</i>

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

Commissions paid by the Retained Tencent Group to the Group decreased by approximately 29.0% to approximately RMB498.0 million in 2022, and further dropped by approximately 32.9% to approximately RMB334.2 million in 2023. For the first three months of 2024, commissions paid by the Retained Tencent Group to the Group amounted to approximately RMB61.1 million. Utilisation rates of the relevant annual caps continued to drop during the above periods under review, from approximately 77.5% in 2021 to approximately 16.5% in 2023, and approximately 9.1% in the first three months of 2024 based on pro rata annual cap amount, due to the above decrease in transaction values against increasing annual caps based on previous expectation formed in 2021. As advised by the management of the Group, the decrease was mainly attributable to (i) the decrease in demand for advertising which caused by adverse market factors, including macroeconomic challenges brought by COVID-19 pandemic, which led to weak advertising sentiment and reduced advertisers' spending; and (ii) the optimisation of the content distribution practices of the Group to distribute more content through core pay-to-read products of the Group with higher return on investment, which in turn reduced revenues from the Advertisement Cooperation CCTs which focus on free-to-read business.

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(b) Assessment of the Annual Caps

Set out below are the Annual Caps for the three years ending December 31, 2027:

	For the year ending December 31,		
	2025	2026	2027
	RMB'000	RMB'000	RMB'000
Aggregate amounts of commissions payable by the Retained Tencent Group to the Group	400,000	470,000	550,000

As set out in the letter from the Board, the Annual Caps were determined after taking into account: (i) the revenue sharing arrangement with the Retained Tencent Group, under which the amount to be shared by the Group for each of the underlying Advertisement Cooperation CCTs shall not be less than 70% of the net proceeds generated from the relevant advertisement, (ii) the advertising fee rate charged by the existing industry players operating the business model of monetisation of free works through advertisement, and (iii) the expected online traffic generated by the Platforms of the Group. In assessing the reasonableness of the Annual Caps, we have obtained the underlying calculations relating to the projections in the coming years, and have discussed with the management of the Group the bases and assumptions underlying such projections.

Expected growth based on existing types of works

Based on our review and discussions with the management of the Group, approximately 90% of each of the Annual Caps for the three years ending December 31, 2027 is calculated based on the amount of historical commissions on advertisements relating to existing types of work on the Platforms of the Group, with estimated annual growth rates of up to 14% in the next three years. We understand that the above annual growth rates were estimated having taken into account the cooperation between the Group and the Retained Tencent Group on online reading in the coming years, which the Group expects to focus on exploring new commercial models on certain Platforms of the Group, for instance, incentivising users' clicks by providing rewards to users after watching online advertisements to increase online advertising revenue, and with reference to the scale of China's internet advertising market with the year-to-year growth rate of 12.9% for the year ended December 31, 2023 according to the statistics published by iResearch, one of the leading providers of online audience measurement and consumer insights in China. The above market growth rate is close to the expected compound annual growth rate of approximately 13.3% based on the Group's actual transaction amount in 2023 of approximately RMB334.2 million and the 2027 Annual Cap of RMB550 million. Based on our research, China's internet advertising market is expected to maintain a stable growth trend with an average compound annual growth rate of 9% between 2022 and 2027, according to an independent market research report titled "Global Entertainment and Media Outlook 2023–2027: Mainland China summary" published in June 2023 by PricewaterhouseCoopers, an international accounting and advisory firm (as retrieved from its website at <https://www.pwccn.com/zh/tmt/gemo-china-media-2023-2027.pdf> as at the Latest Practicable Date).

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Despite the historical transaction amounts under the Advertisement Cooperation CCTs showed a downward trend from 2021 to 2023, the Group is currently considering business plans to optimise the marketing strategies, including but not limited to (i) strengthening the cooperation on different platforms to increase the traffic exposures of the Platforms of the Group, and (ii) optimising the data analytics regarding users' preferences in order to encourage users' clicks on advertisements, aiming to increase the user scale for the Group's free-to-read business. The Group is also considering expanding the advertising space on the Platforms of the Group, and therefore increase the total revenue to be generated from advertisement. Taking into account the ability of the Group to leverage on 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, the Group expects that the revenue generated from online advertising business will gradually recover in upcoming years. As advised by the management of the Group, on top of the expected market growth which will benefit the industry as a whole, the new commercial models and marketing strategies to be adopted by the Group have also been taken into account in arriving at the Annual Caps.

Expected growth based on new types of works

As advised by the management of the Group, in view of the recent development of the online advertisement market in China, the Group intends to expand the types of works being offered on the Platforms of the Group, such as audio works and/or mini drama works, in addition to the literary contents that the Group currently offers. As such, when determining the Annual Caps, the Group has assumed additional advertising revenue to be generated from this potential new development, accounting for approximately 10% of total in each of the coming three years. We note from the 2023 Annual Report that the Group entered the high-quality short drama segment with the rollout of initiatives to support more than 100 short drama series by establishing a fund with over RMB100 million, and several short drama series of the Group have surpassed RMB10 million in gross revenue, which indicates that the Group has the ability to develop such new types of works under the Advertisement Cooperation CCTs in the future. Based on the above, we concur with the management of the Group that it is reasonable for the Annual Caps to take into account the potential opportunity to expand the types of works being offered on the Platforms of the Group, such as audio works and/or mini drama works, with the Retained Tencent Group.

Our general view

Generally speaking, in our opinion, it is in the interests of the Company and the Shareholders to determine the Annual Caps in a way that can accommodate the potential growth of the Group's business. In particular, a number of factors that are beyond the Group and the Retained Tencent Group's control, such as the number of the users on the Platforms of the Group and the number of advertisements viewed by the users, may affect the revenue generated from the advertisement placed. Accordingly, these factors make it difficult for the management of the Group to accurately estimate the future transaction value with a high level of certainty. Although the historical transaction amounts under the Advertisement Cooperation CCTs decreased between 2021 and 2023, management of the Group is considering new commercial models and marketing strategies as elaborated above, with the aim to boost revenue from the Group's free-to-read business, which is expected to return to a growth in coming years. Provided that the Advertisement Cooperation CCTs are subject to annual review by the independent non-executive Directors and

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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 "4. 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 Advertisement Cooperation CCTs

Pursuant to Rules 14A.55, 14A.56, 14A.58 and 14A.59 of the Listing Rules, the Advertisement Cooperation CCTs are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Advertisement Cooperation CCTs every year and confirm in the annual report and accounts that the Advertisement Cooperation CCTs 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 Advertisement Cooperation CCTs every year. The Company's auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Advertisement Cooperation CCTs:
 - (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 Advertisement Cooperation CCTs involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Advertisement Cooperation CCTs; and
 - (iv) have exceeded the Annual Caps;
- (c) the Company must allow, and ensure that the counterparties to the Advertisement Cooperation CCTs allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Advertisement Cooperation CCTs as set out in paragraph (b); and

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- (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 Advertisement Cooperation CCTs, in particular, (i) the restriction of the value of the Advertisement Cooperation CCTs 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 Advertisement Cooperation CCTs (including the Annual Caps), 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 Advertisement Cooperation CCTs 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 terms of the 2025 Advertisement Cooperation Framework Agreement (including the Annual Caps) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of 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 resolution to be proposed at the Annual General Meeting to approve the 2025 Advertisement Cooperation Framework Agreement (including the Annual Caps) and the transactions contemplated thereunder.

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

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

The following are the particulars of the Director (as required by the Listing Rules) proposed to be re-elected at the Annual General Meeting.

EXECUTIVE DIRECTORS**Mr. Hou Xiaonan**

Aged 44, is currently an Executive Director, Chief Executive Officer, the President of the Company and the chairman of the Strategy and Investment Committee of the Board. Mr. Hou joined the Company on April 27, 2020 and currently holds positions within certain subsidiaries of the Company. He is responsible for the overall strategic planning and business operation of the Company. Mr. Hou Xiaonan joined Tencent, a controlling Shareholder (as defined in the Listing Rules) in 2003 and has held various management positions for Tencent businesses including Mobile QQ, Qzone, Tencent Open Platform, YingYongBao, Qingteng and Penguin Media Content Platform, acting as a core figure in Tencent's open ecosystem strategy. He has extensive and in-depth management experience in product operation, business model innovation, and ecosystem cooperation. Mr. Hou graduated from Beijing University of Aeronautics and Astronautics in 2003, majoring in computer science, and holds an EMBA degree.

Mr. Hou currently holds positions in the following members of the Group:

- Cloudary as a director;
- Cloudary HK as a director;
- China Reading HK as a director;
- China Reading Co., Ltd. as a director;
- Cloudary Singapore Private Limited as a director;
- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited as a director;
- Transread Technology Limited, a company incorporated under laws of Cayman Islands, as a director;
- Transread Technology Limited, a company incorporated under laws of Hong Kong, as a director;
- Webnovel Private Limited as a director;
- Yuewen Group Private Limited as a director;

- Beijing Hongwenguan Publishing Planning Co., Ltd. as the chairman of the board of directors;
- Hainan Yuewen Information Technology Co., Ltd. as a manager;
- New Classics Media Corporation as a director;
- New Classics (Tianjin) Media Technology Co., Ltd. as a director;
- Qisheng Culture Communication (Tianjin) Co., Ltd. as a manager;
- Shanghai Hongwen as the chairman of the board of directors and a manager;
- Shanghai Xuanting as an executive director and a manager;
- Shanghai Yueting as the chairman of the board of directors and a manager;
- Shanghai Yuechao as the chairman of the board of directors and a manager;
- Shanghai Yuewen as the chairman of the board of directors and a manager;
- Shanghai Yuehuo Information Technology Co., Ltd. as an executive director and a manager;
- Shanghai Yuejian Information Technology Co., Ltd. as the chairman of the board of directors;
- Shengyun Information Technology as the chairman of the board of directors and a manager;
- Shenzhen Yuerong Information Technology Co., Ltd. as an executive director;
- Tianjin Huawen Tianxia Book Co., Ltd. as the chairman of the board of directors;
- Tianjin Xuanting Information Technology Co., Ltd. as a manager;
- Yueting Information Technology (Hainan) Co., Ltd. as an executive director;
- Yueting Information Technology (Shanghai) Co., Ltd. Beijing Branch as a principal;
- Yueting Information Technology (Tianjin) Co., Ltd. as an executive director and a manager; and
- Yuewen Film as a manager.

As at the Latest Practicable Date, Mr. Hou Xiaonan was interested in 2,289,756 Shares, representing approximately 0.22% of the issued share capital of the Company.

Mr. Hou has served as a Director for four years. Pursuant to the service contract entered into between the Company and Mr. Hou with a term of three years commencing from May 10, 2023, Mr. Hou is entitled to RMB2,226,000 per year, as his salaries and wages, which is determined with reference to his duties and responsibilities with the Company.

Mr. Huang Yan

Aged 40, is currently an Executive Director and the vice president of the Company. He joined the Company in November 2021 and he has extensive and in-depth management experience in product planning and operation. Prior to joining the Company, Mr. Huang served as the director of Platform Research and Development Line of Tencent, a controlling Shareholder (as defined in the Listing Rules) from May 2008 to October 2012, served as chief research and development architect of Baidu, Inc. (a company listed on Nasdaq with stock symbol of BIDU with its secondary listing on the Stock Exchange with stock code of 9888) from October 2012 to March 2015, and served as chief technology officer and the president of the Smart Education Platform Group of TAL Education Group (a company listed on the New York Stock Exchange with stock code of TAL) from April 2015 to August 2021. Mr. Huang obtained a bachelor's degree and a master's degree, both in computer science and technology, from University of Science and Technology of China in 2003 and 2006, respectively.

Mr. Huang currently holds positions in the following members of the Group:

- Transread Technology Limited, a company incorporated under laws of Cayman Islands, as a director;
- Transread Technology Limited, a company incorporated under laws of Hong Kong, as a director;
- Shengyun Information Technology as a director;
- Shanghai Hongwen as a director;
- Shanghai Yueting as a director;
- Shanghai Yuechao as a director; and
- Shanghai Yuewen as a director.

As at the Latest Practicable Date, Mr. Huang Yan was interested in 3,127,231 Shares, representing approximately 0.31% of the issued share capital of the Company.

Mr. Huang has served as a Director for ten months. Pursuant to the service contract entered into between the Company and Mr. Huang with a term of three years commencing from June 30, 2023, Mr. Huang is entitled to RMB1,356,000 per year, as his salaries and wages, which is determined with reference to his duties and responsibilities with the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Yu Chor Woon Carol

Aged 61, is an Independent Non-executive Director appointed on October 26, 2017. She is the chairman of the Audit Committee, and a member of the Remuneration Committee and Nomination Committee of the Company. She held positions including director, company secretary and vice president for finance at Hisense Kelon Electrical Holdings Company Limited (formerly known as Guangdong Kelon Electrical Holdings Company Limited) from December 2000 to January 2002, was the president and chief financial officer of Sohu.com Inc. between March 2004 and July 2016, and has been the chief executive officer of Virtues Holding Limited since February 2017. Ms. Yu received her professional diploma in accountancy from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University).

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

Ms. Yu has served as a Director for six years. Pursuant to the letter of appointment entered into between the Company and Ms. Yu with a term of three years commencing from June 30, 2023, Ms. Yu is entitled to a director's fee of HKD700,000 per year, which is determined with reference to her duties and responsibilities with the Company.

Mr. Liu Junmin

Aged 74, is an Independent Non-executive Director appointed on October 26, 2017. He is a member of the Nomination Committee of the Company. Mr. Liu is responsible to provide independent opinion and judgment to the Board. He is also an independent non-executive director of Chinese People Holdings Company Limited (listed on the Stock Exchange under the stock code: 00681). He taught in Tianjin University of Finance and Economics, and served as a lecturer from September 1982 to December 1992. He has been teaching in the Department of Economics of Nankai University since December 1992, as an associate professor from December 1993 to December 1998, and as a professor since December 1998. Mr. Liu was an independent non-executive director of China Huarong Asset Management Co., Ltd. (listed on the Stock Exchange under the stock code: 02799) from June 2015 to October 2020 and retired as an independent non-executive director of China Railway Materials Company Limited. (formerly known as Tianjin Faw Xiali Automobile Co., Ltd., listed on Shenzhen Stock Exchange under the stock code: 000927) since December 2020. Mr. Liu graduated from Nankai University with a bachelor's degree in economics in July 1982, a master's degree in economics in July 1988, and a doctorate degree in economics in July 1994.

As at the Latest Practicable Date, Mr. Liu Junmin did not hold any Shares within the meaning of Part XV of the SFO.

Mr. Liu has served as a Director for six years. Pursuant to the letter of appointment entered into between the Company and Mr. Liu with a term of three years commencing from June 30, 2023, Mr. Liu is entitled to a director's fee of HKD700,000 per year, which is determined with reference to his duties and responsibilities with the Company.

Save as disclosed above, as at the Latest Practicable Date, the above Directors do not (i) hold any other position with the Company or any other member of the Group, or any directorships in any other 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 other relationship with any Director, senior management, substantial or controlling Shareholders; or (iii) have any other interest in Shares within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Hong Kong Law).

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

The following is an explanatory statement required to be sent to the Shareholders under the Listing Rules in connection with the proposed Buy-back Mandate.

SHARE CAPITAL

As at the Latest Practicable Date, the number of issued Shares was 1,023,393,477 Shares of nominal value of US\$0.0001 each which have been fully paid. Subject to the passing of the resolution granting the Buy-back Mandate and on the basis that no further Shares are issued or purchased before the Annual General Meeting, the Company will be allowed to purchase a maximum of 102,339,347 Shares which represent 10% of the issued Shares during the period ending on the earlier of (i) the conclusion of the next annual general meeting of the Company; or (ii) the expiry of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles of Association to be held; or (iii) the passing of an ordinary resolution by Shareholders in general meeting of the Company revoking or varying such mandate.

REASONS FOR AND FUNDING OF BUY-BACKS

The Directors believe that it is in the best interests of the Company and the Shareholders to have a general authority from the Shareholders to enable the Company to purchase its Shares in the market. Such buy-backs may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the Company's net asset value and/or its earnings per Share and will only be made when the Directors believe that such buy-backs will benefit the Company and the Shareholders as a whole.

Buy-back of the Shares must be funded out of funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. The Directors may not purchase the Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, the Directors may make buy-backs with profits of the Company or out of a new issuance of shares made for the purpose of the buy-back or, if authorized by the Articles of Association and subject to the Act, out of capital and, in the case of any premium payable on the buy-back, out of profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by the Articles of Association and subject to the Act, out of capital.

Save as disclosed in the announcement of the Company dated December 11, 2023 and as of the Latest Practicable Date, the Directors have no present intention to buy-back any Shares and they would only exercise the power to buy-back in circumstances where they consider that the buy-back would be in the best interests of the Company. The Directors believe that if the Buy-back Mandate is exercised in full, it may not have a material adverse impact on the working capital and gearing position of the Company, as compared with the positions disclosed in the audited consolidated financial statements of the Company as at December 31, 2023, being the date to which the latest published audited consolidated financial statements of the Company were made up. The Directors do not propose to exercise the Buy-back Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

GENERAL

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, their respective close associates (as defined in the Listing Rules), have any present intention to sell any Shares to the Company if the Buy-back Mandate is approved by the Shareholders.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buy-back Mandate in accordance with the Listing Rules, the Articles of Association and the applicable laws of the Cayman Islands.

No core connected person (as defined in the Listing Rules) has notified the Company that he or she has a present intention to sell any Shares to the Company, or has undertaken not to do so, if the Buy-back Mandate is approved by the Shareholders.

The Company and the Directors are of the view that neither the explanatory statement contained in this Appendix II nor the proposed Buy-back Mandate has any unusual features.

TAKEOVERS CODE

If as a result of a purchase of Shares pursuant to the Buy-back Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition of voting rights for the purposes of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the Shareholder's interest, could obtain or consolidate control of the Company and thereby become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a result of any purchase of Shares pursuant to the Buy-back Mandate.

As at the Latest Practicable Date, to the best knowledge and belief of the Directors, Tencent is deemed to be interested in 577,643,604 Shares through its controlled corporations under the SFO, representing approximately 56.44% of the issued Shares. 230,705,634 Shares, 268,600,500 Shares, and 78,337,470 Shares are held by Qinghai Lake Investment Limited, THL A13 Limited and Tencent Mobility, all being direct/indirect wholly-owned subsidiaries of Tencent Holdings Limited, respectively. In the event that the Directors should exercise in full the Buy-back Mandate, such interests will be increased to approximately 62.72% of the issued Shares.

To the best knowledge and belief of the Directors, such increase would not give rise to an obligation to make a mandatory offer under the Takeovers Code. The Directors have no present intention to buy-back the Shares to the extent that will trigger the obligations under the Takeovers Code for Tencent Holdings Limited to make a mandatory offer. The Directors are not aware of any other consequences which may arise under the Takeovers Code as a result of any purchase by the Company of its Shares.

The Listing Rules prohibit a company from making buy-back on the Stock Exchange if the result of the buy-back would be that less than 25% (or such other prescribed minimum percentage as determined by the Stock Exchange) of the total number of issued Shares would be in public hands. The Directors do not propose to buy-back Shares which would result in less than the prescribed minimum percentage of Shares in public hands.

As at the Latest Practicable Date, Tencent is deemed to be interested in 577,643,604 Shares through its controlled corporations under the SFO, representing approximately 56.44% of the issued Shares. Mr. James Gordon Mitchel is deemed to be interested in 367,352 Shares under the SFO, representing approximately 0.04% of the issued Shares. Mr. Hou Xiaonan is deemed to be interested in 2,289,756 Shares under the SFO, representing approximately 0.22% of the issued Shares. Mr. Huang Yan is deemed to be interested in 3,127,231 Shares under the SFO, representing approximately 0.31% of the issued Shares. Mr. Cao Huayi is deemed to be interested in 41,068,517 Shares through its controlled corporations under the SFO, representing approximately 4.01% of the issued Shares. On the basis that no further Shares are issued or purchased after the Latest Practicable Date, the Shares counted towards to the public represent 38.98% of the issued Shares as at the Latest Practicable Date, and 32.20% of the issued Shares assuming the Directors exercise in full the power to buy back Shares in accordance with the Buy-back Mandate.

SHARE BUY-BACK MADE BY THE COMPANY

On April 19, 2024, the Company purchased 200,000 Shares (which have not been cancelled yet) on the Stock Exchange for an aggregate consideration of HKD 4,860,980 before expenses pursuant to the share buy-back mandate approved by our shareholders at the annual general meeting held on May 22, 2023. The purchase was effected by the Board for the enhancement of shareholder value in the long term. Details of the Share purchases are as follows:

Date for purchase	Purchase consideration per Share		No. of Shares Purchased	Aggregate
	Highest price	Lowest price		consideration
	paid	paid		paid
	<i>HKD</i>	<i>HKD</i>		<i>HKD</i>
April 19, 2024	24.4	24.2	200,000	4,860,980.00

Save as disclosed above, no buy-backs of Shares have been made by the Company during the six months prior to the Latest Practicable Date (whether on the Stock Exchange or otherwise).

SHARE PRICES

The highest and lowest prices at which the Shares were traded on the Stock Exchange prior to the Latest Practicable Date were as follows:

Month	Highest prices <i>HK\$</i>	Lowest prices <i>HK\$</i>
2023		
April	44.05	34.60
May	36.85	28.75
June	39.20	28.90
July	36.85	30.15
August	36.10	29.80
September	32.80	27.25
October	30.20	25.60
November	32.50	25.35
December	31.35	25.20
2024		
January	30.85	22.50
February	26.35	20.40
March	28.95	22.95
April	28.75	24.05
May (up to the Latest Practicable Date)	30.75	27.70

PURPOSES AND OBJECTIVES

The purposes of the 2020 Restricted Share Unit Scheme are to (i) recognise the contributions by the Participants with an opportunity to acquire a proprietary interest in the Company; (ii) encourage and retain such individuals for the continual operation and development of the Group; (iii) provide additional incentives for them to achieve performance goals; (iv) attract suitable personnel for further development of the Group; and (v) motivate the Participants to maximise the value of the Company for the benefits of both the Participants and the Company, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the Participants directly to the Shareholders through ownership of Shares.

The Participants of the 2020 Restricted Share Unit Scheme include (i) any Employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any subsidiary of the Group or any Related Entity; and (ii) any Service Provider who, in the sole opinion of the Board, has contributed or will contribute to the growth and development of the Group and qualifies by in the interests of the long term growth of the Group. For the avoidance of doubt, the Participants shall exclude placing agents or financial advisers providing advisory services for fundraising, mergers or acquisitions, and professional service providers such as auditors or valuers who provide assurance, or are required to perform their services with impartiality and objectivity. The basis of eligibility of any Participant to be granted RSUs under the 2020 Restricted Share Unit Scheme shall be determined by the Board/Chairman (as the case may be) from time to time on the basis of the Participant's contribution or potential contribution to the development and growth of the Group, or such other factors as the Board may deem appropriate.

EFFECTIVENESS AND DURATION

Subject to the terms and conditions of the 2020 Restricted Share Unit Scheme, the 2020 Restricted Share Unit Scheme shall be valid and effective for a period of ten years commencing on May 15, 2020, after which no Awards will be granted, but the provisions of the 2020 Restricted Share Unit Scheme shall in all other respects remain in full force and effect and the Awards granted during the term of the 2020 Restricted Share Unit Scheme may continue to be valid in accordance with their respective terms of grant.

RSU SCHEME LIMIT

Subject to the terms and conditions of the 2020 Restricted Share Unit Scheme, the total number of Shares underlying the 2020 Restricted Share Unit Scheme shall not in aggregate exceed 4.5% of the issued share capital of the Company as of June 30, 2020 ("**RSU Scheme Limit**"). Without prejudice to the foregoing, the total number of Shares underlying the RSUs to be granted under the 2020 Restricted Share Unit Scheme in any financial year will not exceed three per cent. (3%) of the issued Shares as at the beginning of that financial year.

Without prejudice to the foregoing, the total number of Shares to be issued to the Service Providers underlying the 2020 Restricted Share Unit Scheme, the Share Option Plan and other Share Schemes shall not in aggregate exceed 5,076,192 Shares, representing approximately 0.5% of the total number of Shares as at the date of passing of the Shareholders' resolution in relation to the amendments to the 2020 Restricted Share Unit Scheme, being May 22, 2023 (the "**Service Provider Sublimit**").

Subject to the terms and conditions of the 2020 Restricted Share Unit Scheme,

- (a) and without prejudice to the terms and conditions of the 2020 Restricted Share Unit Scheme, the Company may seek approval of its shareholders at general meeting to refresh the RSU Scheme Limit or the Service Provider Sublimit after three years from the date of Shareholders' approval for the last refreshment (or the Amendment Date);
- (b) any refreshment within any three-year period under the above clause must be approved by Shareholders subject to the following provisions:
 - (i) any controlling Shareholders and their associates (or if there is no controlling Shareholder, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates) must abstain from voting in favour of the relevant resolution at the general meeting; and
 - (ii) the Company must comply with the requirements under Rules 13.39(6) and (7), 13.40, 13.41 and 13.42 of the Listing Rules;
- (c) the requirements under the above clause do not apply if the refreshment is made immediately after an issue of Shares by the Company to its shareholders on a pro rata basis as set out in Rule 13.36(2)(a) of the Listing Rules such that the unused part of the RSU Scheme Limit or the Service Provider Sublimit (as a percentage of the relevant class of Shares in issue) upon refreshment is the same as the unused part of the RSU Scheme Limit or the Service Provider Sublimit immediately before the issue of Shares, rounded to the nearest whole Share;
- (d) the total number of shares which may be issued in respect of all options and awards to be granted under all of the schemes of the Company under the scheme mandate as "refreshed" must not exceed 10% of the Shares in issue as at the date of approval of the refreshed scheme mandate.

The total number of Shares which may be issued in respect of all RSUs to be granted under the 2020 Restricted Share Unit Scheme, and all options and awards to be granted under any other schemes of the Group as refreshed must not exceed 10% of the total issued Shares as at the date of approval of the 2020 Restricted Share Unit Scheme being May 15, 2020, as at the date of passing of the Shareholders' resolution in relation to the amendments to the 2020 Restricted Share Unit Scheme being May 22, 2023 or the maximum number of Shares in accordance with the Share Option Scheme (whichever is lower).

Any Share covered by an Award (or any portion of an Award) which is forfeited, cancelled or expires (whether voluntarily or involuntarily) in accordance with the terms of the 2020 Restricted Share Unit Scheme shall be deemed not to have been issued for purposes of determining the RSU Scheme Limit or the Service Provider Sublimit. For the avoidance of doubt, where the Company cancels Awards granted to a Participant, and makes a new grant to the same Participant, such new grant may only be made under a scheme with available scheme mandate limit approved by Shareholders as referred to in Rule 17.03B or Rule 17.03C of the Listing Rules, such Awards cancelled will be regarded as utilized for the purpose of calculating the RSU Scheme Limit or the Service Provider Sublimit.

The Company may seek separate Shareholders' approval at general meeting for granting RSUs beyond the RSU Scheme Limit provided the RSUs in excess of the RSU Scheme Limit are granted only to Participants specifically identified by the Company before such approval is sought. In such event, the Company will send a circular to Shareholders containing the name of each specified Participant who may be granted such RSUs ("**RSU Selected Person**"), the number and terms of RSUs to be granted to each RSU Selected Person and the purpose of granting RSUs to the RSU Selected Person(s) with an explanation as to how the terms of the RSUs serve such purpose. The number and terms of RSUs to be granted to the RSU Selected Person(s) must be fixed before Shareholders' approval.

Without prejudice to the terms and conditions of the 2020 Restricted Share Unit Scheme, where any grant of RSUs under the 2020 Restricted Share Unit Scheme to a Director (other than an independent non-executive Director) or chief executive of the Company, or any of their respective associates would result in the Shares issued and to be issued in respect of all RSUs and Awards granted (excluding any RSUs lapsed in accordance with the terms of the 2020 Restricted Share Unit Scheme) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the Shares in issue, such grant of RSUs must be approved by Shareholders in general meeting (with such Participant, his/her associates and all core connected persons of the Company abstaining from voting in favour at such general meeting). In such event, the Company shall comply with the requirements under Rules 13.40, 13.41 and 13.42 of the Listing Rules.

Where any grant of RSUs to an independent non-executive Director or a substantial Shareholder, or any of their respective associates, would result in the Shares issued and to be issued in respect of all RSUs, options and awards granted (excluding any Awards lapsed in accordance with the terms of the 2020 Restricted Share Unit Scheme) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the Shares in issue, such further grant of RSUs must be approved by Shareholders in general meeting (with such Participant, his/her associates and all core connected persons of the Company abstaining from voting in favour at such general meeting). In such event, the Company shall comply with the requirements under Rules 13.40, 13.41 and 13.42 of the Listing Rules.

The maximum number of Shares which may be awarded to any one Participant under the 2020 Restricted Share Unit Scheme may not exceed one per cent. (1%) of the issued Shares in issue.

ADMINISTRATION

Subject to the terms and conditions of the 2020 Restricted Share Unit Scheme, the 2020 Restricted Share Unit Scheme shall be subject to the administration of the Board in accordance with the terms and conditions of the 2020 Restricted Share Unit Scheme, and the Company appointed a trustee to assist with the administration and vesting of RSUs granted pursuant to the 2020 Restricted Share Unit Scheme. The trustee holding unvested shares of a share scheme, whether directly or indirectly, shall abstain from voting on matters that require Shareholders' approval under the Listing Rules, unless otherwise required by law to vote in accordance with the beneficial owner's direction and such a direction is given.

Subject to the terms and conditions of the 2020 Restricted Share Unit Scheme, the Board shall have the sole and absolute right to, among others, determine the Senior Grantees who will be granted Awards under the 2020 Restricted Share Unit Scheme, the terms and conditions on which Awards are granted to Senior Grantees and when the Awards granted to Senior Grantees pursuant to the 2020 Restricted Share Unit Scheme may vest. The Chairman shall have the sole and absolute right to, among others, determine the Junior Grantees who will be granted Awards under the 2020 Restricted Share Unit Scheme, the terms and conditions on which Awards are granted to Junior Grantees and when the Awards granted to Junior Grantees pursuant to the 2020 Restricted Share Unit Scheme may vest.

The Administrative Committee may (i) exercise the mandate granted by the Shareholders at general meetings of the Company and direct the Company to allot and issue Shares to the trustee to be held by the trustee to satisfy the RSUs upon vesting; and/or (ii) direct and procure the trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the RSUs upon vesting.

Any change to the terms of Awards granted to a Participant must be approved by the Board, the remuneration committee, the independent non-executive Directors and/or the shareholders of the Company (as the case may be) if the initial grant of the Awards was approved by the Board, the remuneration committee, the independent non-executive Directors and/or the shareholders of the Company (as the case may be). This requirement does not apply where the alterations take effect automatically under the existing terms of the 2020 Restricted Share Unit Scheme.

GRANT AND VESTING

Subject to otherwise determined by the Board at its sole absolute discretion, the Senior Grantee is not required to pay any grant or purchase price or make any other payment to the Company to accept the RSUs granted; and subject to otherwise determined by the Chairman at his sole absolute discretion, the Junior Grantee is not required to pay any grant or purchase price or make any grant or purchase price or make any other payment to the Company to accept the RSUs granted.

Subject to the terms of the 2020 Restricted Share Unit Scheme and the specific terms and conditions applicable to each Award, the vesting period shall be determined by the Board or the Chairman (as the case may be), and in no case the vesting period of shall be less than twelve (12) months or such period as the Listing Rules may prescribe or permit.

The RSUs which have vested shall be satisfied within a reasonable period from the vesting date of such RSUs, either by: (a) the Administrative Committee directing and procuring the relevant trustee to transfer the Shares underlying the RSUs; and/or (b) the Administrative Committee directing and procuring the trustee to pay to the Grantee in cash an amount which is equivalent to the market value of the Shares.

The 2020 Restricted Share Unit Scheme does not provide for any performance target that must be achieved before the Award(s) can be vested.

In the event a general offer for Shares (whether by way of voluntary offer, takeover, scheme of arrangement or otherwise) is made to all holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror), the Board may, prior to or immediately upon the offer becoming or being declared unconditional, determine at its absolute discretion whether any RSU shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the Grantee and the Company that the RSU shall vest and the period within which such RSU shall vest. In the absence of such determination by the Board, the RSUs shall continue to vest in accordance with their respective vesting timetable.

SHARE CAPITAL

The RSUs do not carry any right to vote at general meetings of the Company. No Grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an Award pursuant to the 2020 Restricted Share Unit Scheme, unless and until such Shares underlying the RSUs are actually transferred to the Grantee upon the vesting of the RSUs. Unless otherwise specified by the Board in its sole and absolute discretion in the notice of grant, the Grantees do not have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying an Award or RSU. Shares allotted and issued on the delivery of any RSUs will be subject to all provisions of the Articles of Association of the Company and will rank equally in all respects with the Shares in issue on the date of allotment and issuance. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment and issuance.

RESTRICTIONS ON GRANT

No Award may be granted to any Participant:

- (a) where the Company has information that must be disclosed under Rule 13.09 of the Listing Rules or where the Company reasonably believes there is inside information which must be disclosed under Part XIVA of the SFO, until such inside information has been published on the websites of the Stock Exchange and the Company;
- (b) after any inside information has come to the Company's knowledge until (and including) the trading day after the Company has announced the information;
- (c) within the period commencing 60 days (in the case of annual results), or 30 days (in the case of results for half-year, quarterly or other interim period) immediately preceding the earlier of (i) the date of a meeting of the Board (as such date is first notified to the Stock Exchange) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the Company to publish its quarterly, interim or annual results announcement for any such period, and ending on the date of such announcement. In the event that the Company publishes any results announcement subsequent to the deadline for such results announcement under the Listing Rules (where applicable), such period shall end on the delayed publication date of the results announcement;
- (d) in any other circumstances where dealings by selected Participant (including Directors) are prohibited under the Listing Rules, the SFO or any other applicable law or regulation or where the requisite approval from any applicable regulatory authorities has not been granted;

- (e) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant or in respect of the 2020 Restricted Share Unit Scheme, unless the Board determines otherwise;
- (f) where the grant would result in a breach of any applicable securities laws, rules or regulations by any member of the Group or any of its directors; or
- (g) the grant would result in breach of the RSU Scheme Limit or other rules of the 2020 Restricted Share Unit Scheme.

TRANSFERABILITY

Any RSU granted pursuant to the 2020 Restricted Share Unit Scheme shall be personal to the Grantee and shall not be assignable or transferable, except the assignment or transfer in compliance with Listing Rules and with prior written consent from the Board/Chairman as the case may be.

Notwithstanding the above, no Grantee shall in any way sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favour of any other person over or in relation to any RSU or any property held by the trustee on trust for the grantees, Awards, Shares underlying any Awards or RSUs or any interest or benefits therein.

CANCELLATION

The Board may at any time at their absolute discretion cancel any Award granted but not vested. Where the Company cancels awards and new awards are to be issued to the same Grantee, the issue of such new Awards may only be made under the 2020 Restricted Share Unit Scheme with available scheme limit.

LAPSE

The unvested RSUs shall automatically lapse upon the earliest of:

- (a) the date on which the Participant ceases to be an eligible Participant in accordance with the terms of the Restricted Share Unit Scheme (including but not limited to, in the case that the Grantee has been guilty of misconduct or a material misstatement in the Company's financial statements; or
- (b) an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company; or
- (c) the date on which the Grantee commits a breach of the restrictions as set out in the paragraph headed "Transferability" above; or

- (d) the date on which the Participants are found to be an Excluded Person; or
- (e) the date on which it is no longer possible to satisfy any outstanding conditions to vesting; or
- (f) the Board has decided that the unvested RSUs shall not be vested for the Grantee in accordance with the rules of the 2020 Restricted Share Unit Scheme and the terms and conditions as set out in the notice of grant.

CLAWBACK

Without prejudice to the forgoing terms of the 2020 Restricted Share Unit Scheme, in the case that a Participant commits a misconduct or is involved in a material misstatement in the Company's financial statements, all unvested RSUs of such Participant shall automatically lapse. The Board may, at its absolute discretion, determine whether a Participant commits a misconduct or is involved in a material misstatement in the Company's financial statements. If the Board exercises its discretion under this provision, it will give the relevant Grantee written notice of such determination and the Board's interpretation of and determination pursuant to this provision shall be final, conclusive and binding.

REORGANIZATION OF CAPITAL STRUCTURE

Subject to the terms and conditions in the 2020 Restricted Share Unit Scheme, in the event of a capitalization issue, rights issue, sub-division or consolidation of shares or reduction of capital of the Company, such corresponding alterations (if any) shall be made to:

- (a) the purchase price of the RSUs (if any); and/or
- (b) the number of Shares subject to the RSUs so far as unvested (without fractional entitlements).

Except alterations made on a capitalization issue, any alteration to the number of Shares which is the subject of the RSUs and/or the purchase price shall be conditional on the auditors or the independent financial adviser appointed by the Company confirming by the issue of certificate to the Board that the alteration is in their opinion fair and reasonable, is made on the basis that the proportion of the issued share capital of the Company to which a Grantee is entitled after such alteration shall remain the same as that to which he was entitled before such alteration. No such alteration shall be made to the effect which would be to enable any Share to be issued at less than its nominal value (where applicable) or which would result in the aggregate amount payable of any RSU in full being increased.

ALTERATION

The terms of the 2020 Restricted Share Unit Scheme may be altered, amended or waived in any respect by the Board provided that (i) such alteration, amendment or waiver shall not affect any subsisting rights of any Grantee thereunder; and (ii) any alterations to the terms and conditions of the 2020 Restricted Share Unit Scheme which are of a material nature or any alterations to the provisions of the 2020 Restricted Share Unit Scheme relating to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the Participants must be approved by Shareholders in general meeting.

The amended terms of the 2020 Restricted Share Unit Scheme or the RSUs shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

Any change to the authority of the Directors, the trustee or Administrative Committee to alter the terms of the 2020 Restricted Share Unit Scheme must be approved by the shareholders of the Company at general meeting.

The Company must provide to all Participants details relating to amendments in the terms of the 2020 Restricted Share Unit Scheme during the life of the 2020 Restricted Share Unit Scheme immediately upon such amendments taking effect.

TERMINATION OF THE 2020 RESTRICTED SHARE UNIT SCHEME

The 2020 Restricted Share Unit Scheme may be terminated at any time prior to the expiry of its term by the Board provided that such termination shall not affect any subsisting rights of any Grantee. For the avoidance of doubt, no further Awards shall be granted after the 2020 Restricted Share Unit Scheme is terminated but in all other respects the provisions of the 2020 Restricted Share Unit Scheme shall remain in full force and effect. All RSUs granted prior to such termination and not vested on the date of termination shall remain valid.

I. PURPOSE OF THE SHARE OPTION PLAN

The purpose of the Share Option Plan is to provide incentives and rewards to the Directors and employees of the Group for their contributions to, and continuing efforts to promote the interest of, the Company.

II. EFFECTIVENESS AND DURATION

The Share Option Plan shall take effect on the date of the passing of the necessary resolution to adopt the Share Option Plan by the Board and the Shareholders.

The Share Option Plan shall be valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further Options will be granted under the Share Option Plan, but the provisions of the Share Option Plan shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Plan.

III. ADMINISTRATION

Subject to the terms and conditions of the Share Option Plan, the Board shall have the sole and absolute right to, among others, interpret and construe the provisions of the Share Option Plan, determine the Senior Grantees who are Eligible Participants that will be offered Options under the Share Option Plan and the Subscription Price in relation to such Options in accordance with the provisions of the Share Option Plan. The Chairman shall have the sole and absolute right to, among other things, determine the Junior Grantees who are Eligible Participants that will be offered Options under the Share Option Plan and the Subscription Price in relation to such Options in accordance with the provisions of the Share Option Plan.

The Administrative Committee shall be responsible for, among other things, applying to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of Options under the Share Option Plan on the Stock Exchange and approving the draft announcement to be published by the Company in connection with the grant of Options.

IV. ELIGIBILITY AND GRANT OF OPTIONS**(A) Eligibility and making and acceptance of an offer**

The Eligible Participants for the Share Option Plan include (i) any employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any subsidiary of the Group or any Related Entity, and (ii) any Service Provider who, in the sole opinion of the Board, have contributed or will contribute to the growth and development of the Group and qualifies by in the interests of the long term growth of the Group. For the avoidance of doubt, the Eligible Participants shall exclude placing agents or financial advisers providing advisory services for fundraising, mergers or acquisitions, and professional service providers such as auditors or valuers who provide assurance, or are required to perform their services with impartiality and objectivity.

Subject to compliance with the Listing Rules and subject to the terms of the Share Option Plan, the Board (in the case of Senior Grantees) or the Chairman (in the case of Junior Grantees) shall be entitled at any time during the operation of the Share Option Plan, at its/his/her sole and absolute discretion, to make an offer of Options to an Eligible Participant by letter in such form as the Board or the Chairman (as the case may be) may from time to time determine. An amount of RMB1.00 is payable by the Grantee to the Company upon acceptance of the offer of Options within three (3) days after such acceptance or other time as prescribed by the Company, and such remittance shall not be refundable and shall not be deemed to be a part payment of the Subscription Price.

(B) Grant of Options

Any grant of Options to a Director, chief executive of the Company or substantial Shareholder, or any of their respective associates, must be approved by the independent non-executive Directors (excluding any independent non-executive director who is the Grantee of the Options).

For as long as the Shares are listed on the Stock Exchange, an Option must not be granted after inside information has come to the knowledge of the Company until (and including the trading day after) such inside information has been announced in accordance with the requirements of the Listing Rules. In particular, an Option must not be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement.

In the event that the Company publishes any results announcement subsequent to the deadline for such results announcement under the Listing Rules (where applicable), such period shall end on the delayed publication date of the results announcement.

For as long as the Shares are listed on the Stock Exchange, where any Option is proposed to be granted to a Director, it shall not be granted on any day on which the financial results of the Company are published and during the period of:

- (i) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

- (ii) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

V. MAXIMUM NUMBER OF SHARES AVAILABLE FOR SUBSCRIPTION

(A) Option Scheme Limit and Service Provider Sublimit

Subject to the terms and conditions of the Share Option Plan, the total number of Shares which may be issued upon exercise of all Options that may be granted under the Share Option Plan and any other option scheme involving the issue or grant of options over Shares or other securities by the Company or any of its subsidiaries shall not in aggregate exceed 2.5% of the issued share capital of the Company as of the date of general meeting of the Company approving the adoption of the Share Option Plan (the “**Option Scheme Limit**”) unless otherwise permitted by the Listing Rules or the Company obtains the approval of the Shareholders to refresh the Option Scheme Limit.

Without prejudice to the foregoing, the total number of Shares to be issued to the Service Providers underlying the Share Option Plan, the 2020 Restricted Share Unit Scheme and other Share Schemes shall not in aggregate exceed 5,076,192 Shares, representing approximately 0.5% of the total number of Shares as at the date of passing of the Shareholders’ resolution in relation to the amendments to the Share Option Plan, being May 22, 2023 (the “**Service Provider Sublimit**”).

Any Share covered by any Option which is lapse, cancelled or expires (whether voluntarily or involuntarily) in accordance with the terms of the Share Option Plan shall be deemed not to have been issued for purposes of determining the Option Scheme Limit or the Service Provider Sublimit. For the avoidance of doubt, where the Company cancels Options granted to an Eligible Participant, and makes a new grant to the same Eligible Participant, such new grant may only be made under a scheme with available scheme mandate limit approved by shareholders as referred to in Rule 17.03B or Rule 17.03C of the Listing Rules, such Options cancelled will be regarded as utilized for the purpose of calculating the Option Scheme Limit or the Service Provider Sublimit.

The Company may seek separate Shareholders’ approval at general meeting for granting Options beyond the Scheme Limit provided the Options in excess of the Scheme Limit are granted only to Eligible Participants specifically identified by the Company before such approval is sought. In such event, the Company will send a circular to Shareholders containing the name of each specified Eligible Participant who may be granted such Options (“**Option Selected Person**”), the number and terms of Options to be granted to each Option Selected Person and the purpose of granting Options to the Option Selected Person(s) with an explanation as to how the terms of the Options serve such purpose. The number and terms of Options to be granted to the Option Selected Person(s) must be fixed before Shareholders’ approval. In respect of any options to be granted, the date of the board meeting for proposing such grant should be taken as the date of grant for the purpose of calculating the exercise price under the Share Option Plan.

(B) Refreshment

Subject to the terms and conditions of the Share Option Plan,

- (a) and without prejudice to the terms and conditions of the Share Option Plan, the Company may seek approval of its shareholders at general meeting to refresh the Option Scheme Limit or the Service Provider Sublimit after three years from the date of Shareholders' approval for the last refreshment (or the Amendment Date);
- (b) any refreshment within any three-year period under the terms and conditions of the Share Option Plan must be approved by Shareholders subject to the following provisions:
 - (i) any controlling Shareholders and their associates (or if there is no controlling Shareholder, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates) must abstain from voting in favour of the relevant resolution at the general meeting; and
 - (ii) the Company must comply with the requirements under Rules 13.39(6) and (7), 13.40, 13.41 and 13.42 of the Listing Rules;
- (c) the requirements under the terms and conditions of the Share Option Plan do not apply if the refreshment is made immediately after an issue of Shares by the Company to its shareholders on a pro rata basis as set out in Rule 13.36(2) (a) of the Listing Rules such that the unused part of the Option Scheme Limit or the Service Provider Sublimit (as a percentage of the relevant class of Shares in issue) upon refreshment is the same as the unused part of the Option Scheme Limit or the Service Provider Sublimit immediately before the issue of Shares, rounded to the nearest whole Share;
- (d) The total number of shares which may be issued in respect of all options and awards to be granted under all of the schemes of the Company under the scheme mandate as "refreshed" must not exceed 10% of the Shares in issue as at the date of approval of the refreshed scheme mandate.

(C) Maximum number of Shares issued pursuant to Options

The maximum number of Shares which may be issued in respect of all Options to be granted under the Share Option Plan, and all options and awards to be granted under any other schemes of the Group as refreshed must not exceed 10% of the total issued Shares as at the date of approval of the Share Option Plan, being May 24, 2021, as at the date of passing of the Shareholders' resolution in relation to the amendments to the Share Option Plan being May 22, 2023 or the maximum number of Shares in accordance with the 2020 Restricted Share Unit Scheme (whichever is lower).

(D) Maximum entitlement of each Eligible Participant

No Option may be granted to any Eligible Participant which, if exercised in full, would result in the total number of Shares issued and to be issued in respect of all Options, options and awards already granted or to be granted to such Eligible Participant under the Share Option Plan (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the Grant Date of such new grant representing in aggregate over 1% of the issued share capital of the Company in issue. Any grant of further Options above this limit shall be subject to the requirements provided under the Listing Rules.

Where any grant of Options to an independent non-executive Director or a substantial Shareholder, or any of their respective associates, would result in the Shares issued and to be issued in respect of all Options, options and awards granted (excluding any Options lapsed in accordance with the terms of the Share Option Plan) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the Shares in issue, such further grant of Options must be approved by Shareholders in general meeting (with such Eligible Participant, his/her associates and all core connected persons of the Company abstaining from voting in favour at such general meeting). In such event, the Company shall comply with the requirements under Rules 13.40, 13.41 and 13.42 of the Listing Rules.

VI. OPTION TERMS AND EXERCISE OF OPTIONS**(A) Subscription Price**

The Subscription Price shall be a price determined by the Board or the Chairman (as the case may be) and notified to any Grantee and will be the highest of:

- (a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the Grant Date of the relevant Options, which must be a Business Day;
- (b) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five (5) Business Days immediately preceding the Grant Date of the relevant Options; and
- (c) the nominal value per Share on the Grant Date.

(B) Vesting Schedule and Exercise Period

The Board or the Chairman (as the case may be) may specify the exercise period and the vesting schedule of the Options in the grant letter, and in all circumstances all Options shall automatically lapse and expire not later than the last day of the 10-year period after the Grant Date. Unless the Options have been withdrawn and cancelled or been forfeited in whole or in part, the Grantee may exercise his rights under the Share Option Plan according to the vesting schedule set out in the relevant Grant Letter.

The vesting period shall be determined by the Board or the Chairman (as the case may be) and in no case the vesting period of shall be less than twelve (12) months or such period as the Listing Rules may prescribe or permit.

(C) Performance Target

The Share Option Plan does not provide for any performance target that must be achieved before the Option(s) can be vested or exercised.

VII. TRANSFERABILITY

Any Options shall be personal to the Grantee and shall not be assignable or transferable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest whether legal or beneficial in favour of any third party over or in relation to any Options. Any breach of the foregoing by the Grantee shall entitle the Company to cancel any Options or part thereof granted to such Grantee (to the extent not already exercised) without incurring any liability on the part of the Company.

VIII. LAPSE

Any Options shall lapse forthwith and not exercisable (to the extent not already exercised), with immediate effect or after such period the Board or the Chairman (as the case may be) may determine, on the earliest of:

- (a) the expiry of the exercise period of the Options;
- (b) subject to the compromise or arrangement (for the purpose of or in connection with reconstruction or amalgamation) becoming effective, the expiry of the exercise period relating to termination of employment of the Grantee or the listing of the Company's subsidiary which employs the Grantee;
- (c) the date on which the Grantee ceases to be an Eligible Participant by reason of the termination of his or her employment on the grounds that he or she has been guilty of serious misconduct or a material misstatement in the Company's financial statements, or appears either to be unable to pay or to have no reasonable prospect of being able to pay debts or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty;

- (d) the date of the commencement of the voluntary winding-up of the Company;
- (e) the date on which the Board or the Chairman (as the case may be) exercises the Company's right to cancel or forfeit the Options if the Grantee commits any breach of the provisions of paragraph VII above or the confidentiality clause of the Share Option Plan; and
- (f) the date on which the Options are cancelled in accordance with the Share Option Plan.

IX. CLAWBACK

Without prejudice to the forgoing terms of the Share Option Plan, in the case that an Eligible Participant commits a misconduct or is involved in a material misstatement in the Company's financial statements, all Options of such Participant shall automatically lapse. The Board may, at its absolute discretion, determine whether an Eligible Participant commits a misconduct or is involved in a material misstatement in the Company's financial statements. If the Board exercises its discretion under this provision, it will give the relevant Grantee written notice of such determination and the Board's interpretation of and determination pursuant to this provision shall be final, conclusive and binding.

X. RANKING OF THE SHARES

No dividends (including distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to any Options that have not been exercised. Shares allotted and issued on the exercise of any Options will be subject to all provisions of the Articles of Association and will rank equally in all respects with the Shares in issue on the date of allotment and issuance. Such Shares will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment and issuance.

XI. CHANGES IN CAPITAL STRUCTURE

If there is any alteration in the capital structure of the Company while any Options remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party), such corresponding alterations (if any) shall be made to:

- (a) the number of Shares (without fractional entitlements) subject to the Options so far as unexercised; and/or
- (b) the Subscription Price; and/or
- (c) the maximum number of Shares for which further Options may be granted under the Share Option Plan.

Except alterations made on a capitalization issue, any alteration to the number of Shares which is the subject of the Options and/or the Subscription Price shall be conditional on the auditors or the independent financial adviser appointed by the Company confirming by the issue of certificate to the Board that the alteration is in their opinion fair and reasonable, is made on the basis that the proportion of the issued share capital of the Company to which a Grantee is entitled after such alteration shall remain the same as that to which he was entitled before such alteration. No such alteration shall be made to the effect which would be to enable any Share to be issued at less than its nominal value (where applicable) or which would result in the aggregate amount payable on the exercise of any Options in full being increased.

XII. ALTERATION

The Share Option Plan may be altered in any respect by resolution of the Board provided that any alterations to the terms and conditions of the Share Option Plan which are of a material nature or any alterations to the provisions of the Share Option Plan relating to the matters set out in Rule 17.03 of the Listing Rules to the advantage of Eligible Participants must be approved by the Shareholders in general meeting.

Any change to the terms of Options granted to an Eligible Participant must be approved by the Board, the remuneration committee, the independent non-executive Directors and/or the Shareholders of the Company (as the case may be) if the initial grant of the Options was approved by the Board, the remuneration committee, the independent non-executive Directors and/or the Shareholders of the Company (as the case may be). This requirement does not apply where the alterations take effect automatically under the existing terms of the Share Option Plan.

The amended terms of the Share Option Plan or the Options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

Notwithstanding the foregoing, the Share Option Plan may be amended or altered in any aspect by resolution of the Board without the approval of the Shareholders or the Grantees to the extent such amendment or alteration is required by the Listing Rules and/or any applicable legal or regulatory requirements from time to time.

The Company must provide to all Eligible Participants details relating to amendments in the terms of the Share Option Plan during the life of the Share Option Plan immediately upon such amendments taking effect.

XIII. TERMINATION

The Board may at any time terminate the operation of the Share Option Plan before the end of its life and in such event no further Options will be offered but (save in the case of termination pursuant to paragraph II above) the provisions of the Share Option Plan shall remain in all other respects in full force and effect in respect of Options granted prior thereto but not yet exercised at the time of termination, which shall continue to be exercisable in accordance with their terms of grant.

APPENDIX IV **SUMMARY OF THE SHARE OPTION PLAN**

Details of the Options granted, including Options exercised or outstanding, under the Share Option Plan, and (if applicable) Options that become void or non-exercisable as a result of termination must be disclosed in the circular to the Shareholders seeking approval for the first new scheme to be established after such termination.

XIV. CANCELLATION

Unless otherwise provided for in the Share Option Plan, any cancellation of Options granted in accordance with the Share Option Plan but not exercised must be approved by the Grantee concerned in writing. In the event that the Board or the Chairman (as the case may be) elects to cancel any Options and issue new ones to the same Grantee, the issue of such new Options may only be made with the available unissued Options (excluding the cancelled Options) within the limit set out in paragraph V above.

**APPENDIX V PROPOSED AMENDMENTS TO THE MEMORANDUM
AND ARTICLES OF ASSOCIATION**

Currently in force		Proposed to be amended as	
No.	Articles of Association	No.	Articles of Association
3.7	<p>Subject to the Companies Act, or any other law or so far as not prohibited by any law or the Listing Rules and subject to any rights conferred on the holders of any class of shares, the Company shall have the power to purchase or otherwise acquire any of its own shares (which expression as used in this Article includes redeemable shares) provided that the manner of purchase has first been authorised by a resolution of the members, and to purchase or otherwise acquire warrants for the subscription or purchase of its own shares, and shares and warrants for the subscription or purchase of any shares in any company which is its holding company and may make payment therefor in any manner authorised or not prohibited by law, including out of capital, or to give, directly or indirectly, by means of a loan, a guarantee, a gift, an indemnity, the provision of security or otherwise howsoever, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any shares or warrants in the Company or any company which is a holding company of the Company and should the Company purchase or otherwise acquire its own shares or warrants neither the Company nor the Board shall be required to select the shares or warrants to be purchased or <u>otherwise acquired rateably or in any other manner as between the holders of shares or warrants of</u> the same class or as between them and the holders of shares or warrants of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares provided always that any such purchase or other acquisition or financial assistance shall only be made in accordance with any relevant code, rules or regulations issued by the Exchange or the Securities and Futures Commission of Hong Kong from time to time in force.</p>	3.7	<p>Subject to the Companies Act, or any other law or so far as not prohibited by any law or the Listing Rules and subject to any rights conferred on the holders of any class of shares, the Company shall have the power to purchase or otherwise acquire any of its own shares (which expression as used in this Article includes redeemable shares) provided that the manner of purchase has first been authorised by a resolution of the members, and to purchase or otherwise acquire warrants for the subscription or purchase of its own shares, and shares and warrants for the subscription or purchase of any shares in any company which is its holding company and may make payment therefor in any manner authorised or not prohibited by law, including out of capital, or to give, directly or indirectly, by means of a loan, a guarantee, a gift, an indemnity, the provision of security or otherwise howsoever, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any shares or warrants in the Company or any company which is a holding company of the Company and should the Company purchase or otherwise acquire its own shares or warrants neither the Company nor the Board shall be required to select the shares or warrants to be purchased or otherwise of the same class or as between them and the holders of shares or warrants of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares provided always that any such purchase or other acquisition or financial assistance shall only be made in accordance with any relevant code, rules or regulations issued by the Exchange or the Securities and Futures Commission of Hong Kong from time to time in force.</p>

**APPENDIX V PROPOSED AMENDMENTS TO THE MEMORANDUM
AND ARTICLES OF ASSOCIATION**

Currently in force		Proposed to be amended as	
No.	Articles of Association	No.	Articles of Association
4.8	The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as herein provided or by advertisement published in the newspapers, be closed at such times and for such periods as the Board may from time to time determine, either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year). The Company shall, on demand, furnish any person seeking to inspect the register or part thereof which is closed by virtue of these Articles with a certificate under the hand of the Secretary stating the period for which, and by whose authority, it is closed. In the event that there is an alteration of book closure dates, the Company shall give at least 5 business days' notice in accordance with the procedures set out in this Article.	4.8	The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as herein provided or by advertisement published in the newspapers, be closed at such times and for such periods as the Board may from time to time determine, either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year). The Company shall, on demand, furnish any person seeking to inspect the register or part thereof which is closed by virtue of these Articles with a certificate under the hand of the Secretary stating the period for which, and by whose authority, it is closed. In the event that there is an alteration of book closure dates, the Company shall give at least 5 business days' notice in accordance with the procedures set out in this Article <u>and the Listing Rules.</u>
6.3	A copy of the notice referred to in Article 6.2 shall be sent in the manner in which notices may be sent to members by the Company as <u>herein</u> provided.	6.3	A copy of the notice referred to in Article 6.2 shall be sent in the manner in which notices may be sent to members by the Company as provided <u>in Article 30.1.</u>
6.5	In addition to the giving of notice in accordance with Article 6.3, notice of the person appointed to receive payment of every call and of the times and places appointed for payment may be given to the members affected by notice published on the Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as herein provided or by advertisement published in the newspapers.		<i>(proposed to be removed)</i>

**APPENDIX V PROPOSED AMENDMENTS TO THE MEMORANDUM
AND ARTICLES OF ASSOCIATION**

Currently in force		Proposed to be amended as	
No.	Articles of Association	No.	Articles of Association
30.1	<p>Except as otherwise provided in these Articles, any notice or document, may be served by the Company and any notices may be served by the Board on any member <u>either personally or by sending it through the post in a prepaid letter addressed to such member at his registered address as appearing in the register or, to the extent permitted by the Listing Rules and all applicable laws and regulations, by electronic means by transmitting it to any electronic number or address or website supplied by the member to the Company or by placing it on the Company's Website provided that the Company has obtained either (a) the member's prior express positive confirmation in writing or (b) the member's deemed consent, in the manner specified in the Listing Rules to receive or otherwise have made available to him notices and documents to be given or issued to him by the Company by such electronic means, or</u> (in the case of notice) by advertisement published in the manner prescribed under the Listing Rules.</p> <p>In the case of joint holders of a share, all notices shall be given to that holder for the time being whose name stands first in the register and notice so given shall be sufficient notice to all the joint holders.</p>	30.1	<p>Except as otherwise provided in these Articles, any notice or document, <u>including any Corporate Communication,</u> may be served by the Company and any notices may be served by the Board on any member <u>in any of the following manner to the extent permitted by, and in compliance with the requirements of, the Listing Rules or the applicable laws and regulations:</u></p> <p>(a) <u>personally by leaving it at the registered address of such member as appearing in the register;</u></p> <p>(b) <u>by sending it through the post in a prepaid letter addressed to such member at his registered address as appearing in the register (which shall be sent by airmail where the notice or document is posted from one country to another);</u></p> <p>(c) by electronic means by transmitting it to any electronic number or address or website supplied by the member to the Company;</p> <p>(d) <u>by placing it on the Company's Website and the Exchange's website;</u> <u>or</u></p> <p>(e) (in the case of notice) by advertisement published in the manner prescribed under the Listing Rules.</p> <p>In the case of joint holders of a share, all notices shall be given to that holder for the time being whose name stands first in the register and notice so given shall be sufficient notice to all the joint holders.</p>

**APPENDIX V PROPOSED AMENDMENTS TO THE MEMORANDUM
AND ARTICLES OF ASSOCIATION**

Currently in force		Proposed to be amended as	
No.	Articles of Association	No.	Articles of Association
30.4	A member shall be entitled to have notice served on him at any address within Hong Kong. Any member who has not given an express positive confirmation in writing to the Company in the manner specified in the Listing Rules to receive or otherwise have made available to him notices and documents to be given or issued to him by the Company by electronic means and whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. A member who has no registered address in Hong Kong shall be deemed to have received any notice which shall have been displayed at the transfer office and shall have remained there for a period of 24 hours and such notice shall be deemed to have been received by such member on the day following that on which it shall have been first so displayed, provided that, without prejudice to the other provisions of these Articles, nothing in this Article shall be construed as prohibiting the Company from sending, or entitling the Company not to send, notices or other documents of the Company to any member whose registered address is outside Hong Kong.		<i>(proposed to be removed)</i>

**APPENDIX V PROPOSED AMENDMENTS TO THE MEMORANDUM
AND ARTICLES OF ASSOCIATION**

Currently in force		Proposed to be amended as	
No.	Articles of Association	No.	Articles of Association
30.5	<p>Any notice or document sent by post shall be deemed to have been served on the day following that on which it is put into a post office situated within Hong Kong and in proving such service it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly prepaid, addressed and put into such post office and a certificate in writing signed by the Secretary or other person appointed by the Board that the envelope or wrapper containing the notice or document was so addressed and put into such post office shall be conclusive evidence thereof.</p>	30.4	<p>Any notice or document, including any Corporate Communication:</p> <p>(a) <u>delivered or left at a registered address otherwise than by post shall be deemed to have been served or delivered on the day it was so delivered or left;</u></p> <p>(b) sent by post shall be deemed to have been served on the day following that on which it is put into a post office situated within Hong Kong and in proving such service it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly prepaid, addressed and put into such post office and a certificate in writing signed by the Secretary or other person appointed by the Board that the envelope or wrapper containing the notice or document was so addressed and put into such post office shall be conclusive evidence thereof;</p> <p>(c) <u>given by electronic means as provided herein shall be deemed to have been served and delivered on the day following that on which it is successfully transmitted or at such later time as may be prescribed by the Listing Rules or any applicable laws or regulations, and it shall not be necessary for the receipt of the electronic transmission to be acknowledged by the recipient;</u></p> <p>(d) <u>served by being placed on the Company's Website and the Exchange's website shall be deemed to be served at such time as may be prescribed by the Listing Rules; and</u></p> <p>(e) <u>served by advertisement shall be deemed to have been served on the day of issue of the official publication and/or newspaper(s) in which the advertisement is published (or on the last day of issue if the publication and/or newspaper(s) are published on different dates).</u></p>

**APPENDIX V PROPOSED AMENDMENTS TO THE MEMORANDUM
AND ARTICLES OF ASSOCIATION**

Currently in force		Proposed to be amended as	
No.	Articles of Association	No.	Articles of Association
30.6	Any notice or other document delivered or left at a registered address otherwise than by post shall be deemed to have been served or delivered on the day it was so delivered or left.		<i>(proposed to be removed but have incorporated into the revised Article 30.4(a))</i>
30.7	Any notice served by advertisement shall be deemed to have been served on the day of issue of the official publication and/or newspaper(s) in which the advertisement is published (or on the last day of issue if the publication and/or newspaper(s) are published on different dates).		<i>(proposed to be removed but have incorporated into the revised Article 30.4(e))</i>
30.8	Any notice given by electronic means as provided herein shall be deemed to have been served and delivered on the day following that on which it is successfully transmitted or at such later time as may be prescribed by the Listing Rules or any applicable laws or regulations.		<i>(proposed to be removed but have incorporated into the revised Article 30.4(c))</i>
34	<u>The financial year of the Company shall be prescribed by the Board and may, from time to time, be changed by it.</u>	34	<u>Unless the Directors otherwise prescribe, the financial year of the Company shall end on 31 December in each year and shall begin on 1 January in each year.</u>

Note 1: The adjustments to the numbering and references to the numbering of articles above due to provisions added into or removed from the amended Articles of Association are not separately reflected in the tables above.

Note 2: The Ninth Amended and Restated Memorandum and Articles of Association is prepared in English with no official Chinese version. Chinese translation is for reference only. In the event of any inconsistency, the English version shall prevail.

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 Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the number of issued Shares was 1,023,393,477 Shares of nominal value of US\$0.0001 each which have been fully paid.

3. EXPERT AND CONSENTS

The following are the qualification of the expert who has given opinions and advice contained in this circular:

Name	Qualification
Somerley	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, Somerley:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated May 8, 2024 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, 2023, 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, 2023, 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, Mr. Hou Xiaonan and Mr. Huang Yan, has entered into a service contract with the Company for a term of three years commencing from May 10, 2023 and June 30, 2023, respectively, subject to retirement by rotation and re-election in accordance with the Articles of Association and is subject to termination as provided in the service contract.

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

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

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

6. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 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	367,352	Long position	0.04
Mr. Hou Xiaonan	Beneficial owner	2,289,756 ⁽²⁾	Long position	0.22
Mr. Huang Yan	Beneficial owner	3,127,231 ⁽³⁾	Long position	0.31
Mr. Cao Huayi	Interest in controlled corporations	41,068,517 ⁽⁴⁾	Long position	4.01

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 ⁽⁹⁾ (%)
Mr. James Gordon Mitchell	Tencent Holdings Limited	Beneficial owner	19,079,445 ⁽⁵⁾	0.20
	Tencent Music Entertainment Group	Beneficial owner	29,000 shares and 456 ADS ⁽⁶⁾	0.00
Mr. Hou Xiaonan	Tencent Holdings Limited	Beneficial owner	158,550	0.00
Mr. Huang Yan	Tencent Holdings Limited	Beneficial owner	22,500	0.00
Mr. Xie Qinghua	Tencent Holdings Limited	Beneficial owner	114,874 ⁽⁷⁾	0.00
Mr. Cao Huayi	Tencent Holdings Limited	Interest in controlled corporations	270,000 ⁽⁸⁾	0.00

Notes:

- (1) The calculation is based on the total number of 1,023,393,477 Shares in issue as of the Latest Practicable Date.
- (2) As at the Latest Practicable Date, these interests comprised (i) 67,988 Shares, (ii) 28,018 underlying Shares in respect of the RSUs granted to Mr. Hou Xiaonan under 2020 Restricted Share Unit Scheme of the Company, and (iii) 2,193,750 underlying Shares in respect of the Options granted to Mr. Hou Xiaonan under the 2021 Share Option Plan.
- (3) As at the Latest Practicable Date, these interests comprised (i) 200,240 Shares, (ii) 276,360 underlying Shares in respect of the RSUs granted to Mr. Huang Yan under 2014 Restricted Share Unit Scheme of the Company, and (iii) 2,650,631 underlying Shares in respect of the Options granted to Mr. Huang Yan under the 2021 Share Option Plan.
- (4) As at the Latest Practicable Date, Mr. Cao Huayi was interested in 100% and 43.63% of C-Hero Limited and X-Poem Limited respectively and was therefore deemed to be interested in the 35,117,461 Shares and 5,951,056 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the share purchase agreement, respectively.
- (5) As at the Latest Practicable Date, these interests of Mr. James Gordon Mitchell (being an employee of Tencent) comprised (i) 7,396,587 shares of Tencent, (ii) 636,367 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 11,046,491 shares underlying Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.
- (6) As at the Latest Practicable Date, these interests comprised (i) 29,000 ordinary shares and (ii) 456 American depository shares (“ADS”) of Tencent Music Entertainment Group each representing two ordinary shares of Tencent Music Entertainment Group.

- (7) As at the Latest Practicable Date, these interests of Mr. Xie Qinghua (being an employee of Tencent) comprised (i) 21,073 shares of Tencent, (ii) 93,731 shares underlying Tencent in respect of the awarded shares granted to Mr. Xie Qinghua under share award schemes of Tencent, and (iii) 70 shares underlying Tencent in respect of the options granted to Mr. Xie Qinghua under share option schemes of Tencent. Tencent is the controlling Shareholder and thus is an associated corporation of the Company.
- (8) As at the Latest Practicable Date, Mr. Cao Huayi was interested in 100% of C-Hero Limited and was therefore deemed to be interested in the 270,000 shares of Tencent interested in by C-Hero Limited.
- (9) The calculation is based on the total number of 9,445,351,969 Shares of Tencent in issue and the total number of 3,432,154,260 ordinary shares of Tencent Music Entertainment Group in issue (where applicable), respectively, as of the Latest Practicable Date.

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

Save as disclosed herein, none of the Directors, directly or indirectly, has had any interest in any assets which had since December 31, 2023 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed in this circular, there was no contract or arrangement subsisting as at the Latest Practicable Date, in which any of the Directors or proposed directors was materially interested and which was significant in relation to the businesses of the Group.

7. COMPETING INTERESTS

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

8. DOCUMENTS ON DISPLAY

Copy of 2025 Advertisement Cooperation Framework Agreement will be published at the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://ir.yuewen.com/>) for 14 days from the date of this circular.

NOTICE OF ANNUAL GENERAL MEETING



CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting (the “**Annual General Meeting**”) of China Literature Limited (the “**Company**”) will be held at Niccolo Room, Level 25, The Murray, Hong Kong, a Niccolo Hotel, 22 Cotton Tree Drive, Central, Hong Kong at 2:30 p.m. on Monday, June 3, 2024 (or due to any reduced gathering restrictions imposed by law, the Directors may, in their absolute discretion in accordance with the Company’s articles of association, change the place of the Annual General Meeting at the same time and on the same date by way of an announcement without the need to give a new notice of Annual General Meeting) for the purposes of considering and, if thought fit, passing with or without modifications, the following 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 May 8, 2024 (the “**Circular**”).

Ordinary Resolutions

1. To receive and consider the audited consolidated financial statements of the Company and the reports of the Directors and the auditors of the Company for the year ended December 31, 2023.
2. To re-elect Directors and authorise the Board to fix the Directors’ remuneration:
 - (A) To re-elect Mr. Hou Xiaonan as an executive Director;
 - (B) To re-elect Mr. Huang Yan as an executive Director;
 - (C) To re-elect Ms. Yu Chor Woon Carol as an independent non-executive Director;
 - (D) To re-elect Mr. Liu Junmin as an independent non-executive Director;
 - (E) To authorise the Board to fix the remuneration of the Directors.

NOTICE OF ANNUAL GENERAL MEETING

3. To re-appoint PricewaterhouseCoopers as auditors of the Company to hold office until the conclusion of the next annual general meeting of the Company and to authorise the Board to fix their remuneration for the year ending December 31, 2024.
4. To consider and, if thought fit, pass with or without modification the following resolutions as ordinary resolutions:
 - (A) **“That:**
 - (i) subject to paragraph (iii) below, the exercise by the directors of the Company during the Relevant Period (as defined hereinafter) of all the powers of the Company to allot, issue and/or otherwise deal with additional shares of the Company or securities convertible into shares, or options, warrants or similar rights to subscribe for shares or such convertible securities of the Company and to make or grant offers, agreements and/or options (including bonds, warrants and debentures convertible into shares of the Company) which may require the exercise of such powers, be and is hereby generally and unconditionally approved;
 - (ii) the approval in paragraph (i) above shall be in addition to any other authorization given to the directors of the Company and shall authorise the directors of the Company during the Relevant Period (as defined hereinafter) to make or grant offers, agreements and/or options which may require the exercise of such power after the end of the Relevant Period;
 - (iii) the aggregate number of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the directors of the Company during the Relevant Period (as defined hereinafter) pursuant to paragraph (i) above, otherwise than pursuant to paragraph (i) of this resolution, otherwise than pursuant to:
 - (1) any Rights Issue (as defined hereinafter);
 - (2) the grant or exercise of any option under any share option scheme of the Company (if applicable) or any other option, scheme or similar arrangements for the time being adopted for the grant or issue to the directors of the Company, officers and/or employees of the Company and/or any of its subsidiaries and/or other eligible participants specified thereunder of options to subscribe for Shares or rights to acquire Shares;

NOTICE OF ANNUAL GENERAL MEETING

- (3) any scrip dividend or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company; or
- (4) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any existing convertible notes issued by the Company or any existing securities of the Company which carry rights to subscribe for or are convertible into Shares, shall not exceed the aggregate of:
 - (a) 20% of the number of issued shares of the Company as at the date of passing this resolution; and
 - (b) (if the Board is so authorised by resolution numbered 4(C)) the aggregate number of shares of the Company purchased by the Company subsequent to the passing of resolution numbered 4(B) (up to a maximum equivalent to 10% of the number of issued shares of the Company as at the date of passing resolution numbered 4(B)),

and the approval shall be limited accordingly; and

- (iv) for the purpose of this resolution:
 - (1) “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiry of the period within which the next annual general meeting of the Company is required by any applicable laws or the articles of association of the Company to be held; or
 - (c) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution; and

NOTICE OF ANNUAL GENERAL MEETING

(2) “Rights Issue” means an offer of shares of the Company or an issue of warrants, options or other securities giving rights to subscribe for shares of the Company, open for a period fixed by the directors of the Company to holders of shares of the Company on the register of members on a fixed record date in proportion to their then holdings of such shares of the Company (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or, having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the exercise or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, any recognised regulatory body or any stock exchange applicable to the Company).”

(B) “That:

- (i) subject to paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as defined hereinafter) of all the powers of the Company to buy-back shares of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or on any other stock exchange on which the shares of the Company may be listed and which is recognised for this purpose by the Securities and Futures Commission and the Stock Exchange under the Code on Share Buy-backs and, subject to and in accordance with all applicable laws and the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), be and is hereby generally and unconditionally approved;
- (ii) the aggregate number of the shares to be bought-back pursuant to the approval in paragraph (i) of this resolution shall not exceed 10% of the number of issued shares of the Company as at the date of passing of this resolution, and the said approval shall be limited accordingly;
- (iii) subject to the passing of each of the paragraphs (i) and (ii) of this resolution, any prior approvals of the kind referred to in paragraphs (i) and (ii) of this resolution which had been granted to the directors of the Company and which are still in effect be and are hereby revoked; and

NOTICE OF ANNUAL GENERAL MEETING

(iv) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of the Company;
- (2) the expiry of the period within which the next annual general meeting of the Company is required by any applicable laws or the articles of association of the Company to be held; or
- (3) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.”

(C) “**That** conditional upon the resolutions numbered 4(A) and 4(B) set out in this notice being passed, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and/or otherwise deal with new shares of the Company and to make or grant offers, agreements and options which might require the exercise of such powers pursuant to the resolution numbered 4(A) set out in this notice be and is hereby extended by the addition to the number of the issued shares of the Company which may be allotted or agreed conditional or unconditionally to be allotted by the directors of the Company pursuant to such general mandate of an amount representing the number of the issued shares of the Company bought-back by the Company under the authority granted pursuant to resolution numbered 4(B) set out in this notice, provided that such extended amount shall represent up to 10% of the number of issued shares of the Company as at the date of passing of the said resolutions.”

5. To consider and, if thought fit, pass, with or without amendments, the following resolutions as ordinary resolutions:

“**That** to (i) approve and adopt the Scheme Mandate of the Share Schemes, being 101,523,841 Shares, representing approximately 10% of the number of issued Shares as at the date of passing of the Shareholders’ resolutions in relation to the amendments to the current Share Schemes, and (ii) any director or the company secretary of the Company be and are hereby authorized to execute such documents and take such actions as they deem appropriate to implement and give effect to such Share Schemes and the directors of the Company be and are hereby authorized to grant awards and options and to allot, issue and deal with the shares of the Company pursuant to the vesting of any awards and exercise of any options granted thereunder.”

NOTICE OF ANNUAL GENERAL MEETING

6. To consider and, if thought fit, pass with or without modification the following resolutions as ordinary resolutions:

“**That:**

- (A) the 2025 Advertisement Cooperation Framework Agreement and the transactions contemplated thereunder, details of which are more particularly described in the circular of the Company dated May 8, 2024, be and are hereby approved, ratified and confirmed;
- (B) the proposed annual caps for the continuing connected transactions contemplated under the 2025 Advertisement Cooperation Framework Agreement as set out in the circular of the Company dated May 8, 2024 be and are hereby approved, ratified and confirmed; and
- (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 under the 2025 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2027).”

Special Resolution

7. “**That:**

- (a) the proposed amendments to the existing amended and restated memorandum of association and articles of association of the Company (the “**Proposed Amendments**”), the details of which are set out in Appendix V to the circular of the Company dated May 8, 2024 be and are hereby approved;
- (b) the ninth amended and restated memorandum of association and articles of association of the Company (the “**Ninth Amended and Restated Memorandum and Articles of Association**”), which contains all the Proposed Amendments and a copy of which has been produced to this meeting and marked “A” and initialled by the chairman of the meeting, be and is hereby approved and adopted in substitution for and to the exclusion of the existing amended and restated memorandum of association and articles of association of the Company with immediate effect; and

NOTICE OF ANNUAL GENERAL MEETING

- (c) any director or company secretary of the Company be and is hereby authorized to do all such acts, deeds and things and execute all such documents and make all such arrangements that he/she shall, in his/her absolute discretion, deem necessary or expedient to give effect to the Proposed Amendments and the adoption of the Ninth Amended and Restated Memorandum and Articles of Association, including without limitation, attending to the necessary filings with the Registrar of Companies in Hong Kong and the Cayman Islands.”

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

Chairman of the Board and Non-executive Director

Hong Kong, May 8, 2024

Registered office:

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

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

N3 Lujiazui Binjiang Center,
No. 5169 Binjiang Avenue,
Pudong New Area,
Shanghai
People's Republic of China

Principal place of business in Hong Kong:

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

Notes:

- (i) A shareholder entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. The proxy does not need to be a shareholder of the Company.
- (ii) Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting (or at any adjournment of it), either personally or by proxy, in respect of such shares as if he/she were solely entitled thereto but the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
- (iii) In order to be valid, the completed form of proxy must be deposited at the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority (such certification to be made by either a notary public or a solicitor qualified to practice in Hong Kong), at least 48 hours before the time appointed for holding the above meeting or any adjournment thereof (as the case may be).
- (iv) The register of members of the Company will be closed from Wednesday, May 29, 2024 to Monday, June 3, 2024, both days inclusive, in order to determine the eligibility of shareholders to vote at the above meeting, during which period no share transfers will be registered. To be eligible to attend the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Tuesday, May 28, 2024.

NOTICE OF ANNUAL GENERAL MEETING

- (v) In respect of resolutions numbered 2 above, details of the directors of the Company proposed for re-election are set out in Appendix I to the Circular.
- (vi) In respect of the resolution numbered 4(A) above, the directors of the Company wish to state that they have no immediate plans to issue any new shares of the Company referred therein. Approval is being sought from the shareholders of the Company as a general mandate for the purposes of the Listing Rules.
- (vii) In respect of resolution numbered 4(B) above, the directors of the Company wish to state that they will exercise the powers conferred by the general mandate to purchase shares of the Company in circumstances which they deem appropriate and for the benefits of shareholders of the Company. The explanatory statement containing the information necessary to enable shareholders to make an informed decision on whether to vote for or against the resolution to approve the buy-back by the Company of its own shares, as required by the Listing Rules, is set out in Appendix II to the Circular.
- (viii) 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.