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**CLOUD MUSIC INC.**

**雲音樂股份有限公司**

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

**(Stock Code: 9899)**

## **REVISION OF ANNUAL CAP OF EXISTING CONTINUING CONNECTED TRANSACTION**

Based on the reasons mentioned in this announcement, it is expected that the maximum total transaction amount of the Shared Services will increase for the current financial year and will exceed the Original Annual Cap. Accordingly, the Original Annual Cap will be increased from RMB36.7 million to RMB50.0 million (i.e. the Revised Annual Cap).

### **LISTING RULES IMPLICATIONS**

NetEase is a substantial shareholder and therefore a connected person of the Company. Accordingly, the Shared Services CCTs constitute continuing connected transactions of the Company under the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will have to re-comply with provisions of Chapter 14A of the Listing Rules applicable to the relevant continuing connected transaction. As the highest applicable percentage ratio calculated with reference to Rule 14.07 of the Listing Rules in respect of the Shared Services CCTs contemplated under the NetEase Group Framework Agreement as captured under the Revised Annual Cap exceeds 0.1% but all of the applicable percentage ratios are less than 5%, such Shared Services CCTs are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reference is made to the Prospectus in respect of the NetEase Group Framework Agreement and the Shared Services CCTs. On 5 August 2021, the Company entered into the NetEase Group Framework Agreement, pursuant to which NetEase Group would, among others, share various services with the Group, including the sharing of premises and use of administrative resources, facilities, furniture, administrative purchases and various support services, some of which may be procured from third-parties should the Company desire or consider it more beneficial (the "Shared Services").

## **REVISION OF ORIGINAL ANNUAL CAP**

The Company considers there to be a need to revise the Original Annual Cap for the following reasons:

- (i) the expected rate of decrease in personnel expenses for the year ending 31 December 2022 is slower than initially anticipated. It was disclosed in the Prospectus that the Original Annual Cap of RMB36.7 million was estimated based on, among others, an expected decrease in personnel expenses (and associated working environment costs) relating to certain administrative staff shared with NetEase Group which the Group intends to decrease as it engaged its own staff for these roles. During the year ending 31 December 2022, there has been delays in transferring certain administrative staff from NetEase Group to the Group due to related administrative difficulties and time required for discussions with such personnel. The Group still intends to decrease such shared personnel expense to NetEase Group in the foreseeable future.
- (ii) in addition, in the past year, the Group continued to bring innovative products and content to its followers, improving its differentiated community ecosystem and user engagement levels, and the Group also successfully strengthened its commercialisation capabilities and further optimised its content cost structure. As a result of such business expansion, the Group was required to hire more personnel as well as administrative resources and various support services related to those personnel.

Therefore, it is expected that the total amount of Shared Services CCTs between NetEase Group and the Group for the year ending 31 December 2022 will exceed the Original Annual Cap and hence revision of the Original Annual Cap is required and the Original Annual Cap will be increased from RMB36.7 million to RMB50.0 million (i.e. the Revised Annual Cap).

As at the date of this announcement, the aggregate of the total transaction amount has not exceeded the Original Annual Cap.

## **BASIS OF THE REVISED ANNUAL CAP**

The Revised Annual Cap was determined principally with reference to the factors set out on page 250 of the Prospectus, as well as the expected personnel expenses (and associated working environment costs) of approximately RMB18.5 million relating to certain administrative staff shared with NetEase Group which the Group intends to but has not yet decreased due to the reasons mentioned above.

## **HISTORICAL FIGURES**

The total transaction amounts of Shared Services CCTs by NetEase Group to the Company for the three years ended 31 December 2019, 2020 and 2021 and the ten months ended 31 October 2022 were approximately RMB62.6 million, RMB73.5 million, RMB77.0 million and RMB35.8 million, respectively.

## **INFORMATION ON THE PARTIES**

The Company is one of the leading online music platforms, featuring an interactive content community for music enthusiasts in terms of user scale and engagement, and building a large-scale, robust and rapidly growing business to provide community-centric online music services and social entertainment services to our users. We monetize our platform primarily through the sales of membership subscriptions for our online music services and sales of virtual items for our social entertainment services. To diversify revenue streams, we have been actively developing other monetisation channels, such as the provisioning of advertising services, sales of digital albums and music-inspired services.

NetEase is a company incorporated in the Cayman Islands on 6 July 1999. NetEase's shares are listed on the Main Board of the Stock Exchange (SEHK: 9999) and its ADSs are listed on the Nasdaq (Nasdaq: NTES). NetEase is a leading internet and online game services provider in China.

## **REASONS FOR AND BENEFITS OF THE SHARED SERVICES CCTS**

The Shared Services are apportioned on a “cost-plus” pricing basis (being a portion of the total costs incurred by NetEase Group to the provider, plus a percentage to cover additional costs and expenses, such as personnel/maintenance/instalment, incurred by NetEase Group in sharing the service). The Company considers this pricing policy appropriate given that it was of the view that the “cost-plus” basis, which would allow the Company to apportion the costs/expenses incurred by NetEase Group, would be more beneficial from both a financial and synergistic perspective, than compared with the Company directly acquiring similar products/services from third-parties, which would likely factor in a premium or charge on a profit-making basis. Furthermore, the Company does not consider there to be an appropriate or desirable provider outside of NetEase Group that would share comparable services on a comparable basis.

These Shared Services relate to peripheral aspects of our business that can also be provided or sourced by the Group directly from third-parties. However, sharing these resources would enhance their utilization, and thereby create less per-unit or per-usage cost for both parties. Accessing these resources through NetEase Group, which undertakes the procurement role from third-parties, allows both parties to benefit from the economy of scale achieved by procuring these resources in bulk, allows the parties to access a greater number of suppliers and third-party providers, and allows the Group to benefit from negotiations with third-parties from a more advantageous position. The Shared Services also allow the Group to leverage the brand association, reputation and user reach already established by NetEase Group and promote a better level of administrative and systematic cohesion between the two groups.

Having taken into account the above reasons and benefits, the Company's directors (including all of the independent non-executive directors) are of the view that the Shared Services CCTs have been conducted on normal commercial terms, were entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and its shareholders as a whole, and that the Revised Annual Cap is fair and reasonable.

## **LISTING RULES IMPLICATIONS**

NetEase is a substantial shareholder and therefore a connected person of the Company. Accordingly, the Shared Services CCTs constitute continuing connected transactions of the Company under the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will have to re-comply with provisions of Chapter 14A of the Listing Rules applicable to the relevant continuing connected transaction. As the highest applicable percentage ratio calculated with reference to Rule 14.07 of the Listing Rules in respect of the Shared Services CCTs contemplated under the NetEase Group Framework Agreement as captured under the Revised Annual Cap exceeds 0.1% but all of the applicable percentage ratios are less than 5%, such Shared Services CCTs are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. William Lei Ding, being the founder of NetEase, abstained from voting on the relevant board resolutions in relation to the Revised Annual Cap and the transactions contemplated thereunder.

Save as disclosed above, none of the Company's directors has any material interest in the Revised Annual Cap and the transactions contemplated thereunder nor was any of them required to abstain from voting on the relevant board resolutions.

## **DEFINITIONS**

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

- “Company”** Cloud Music Inc., an exempted company with limited liability incorporated in the Cayman Islands on 2 February 2016
- “Group”** the Company and its subsidiaries, including consolidated affiliated entities, the financials of which are consolidated into the Company's accounts

“ <b>Listing Rules</b> ”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“ <b>NetEase</b> ”	NetEase, Inc., an exempted company incorporated in the Cayman Islands with limited liability on 6 July 1999 (Nasdaq: NTES; SEHK: 9999) and considered our controlling shareholder under the Listing Rules
“ <b>NetEase Group</b> ”	NetEase and its subsidiaries and consolidated affiliated entities, and unless the context otherwise requires, excluding the Group
“ <b>NetEase Group Framework Agreement</b> ”	the framework agreement entered into between the NetEase Group and us on 5 August 2021, pursuant to which, among others, NetEase Group would provide Shared Services to the Group
“ <b>Original Annual Cap</b> ”	the original annual cap for the Shared Services CCTs for the year ending 31 December 2022 as disclosed in the Prospectus
“ <b>Prospectus</b> ”	the Company’s prospectus dated 23 November 2021, a copy of which is available on the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and the website of the Company at <a href="http://ir.music.163.com">http://ir.music.163.com</a>
“ <b>Revised Annual Cap</b> ”	the revised annual cap for the Shared Services CCTs for the year ending 31 December 2022
“ <b>Shared Services CCTs</b> ”	the continuing connected transactions in relation to the Shared Services
“ <b>Stock Exchange</b> ”	The Stock Exchange of Hong Kong Limited
“ <b>%</b> ”	per cent

By order of the Board of Directors of  
**Cloud Music Inc.**  
**Mr. William Lei Ding**  
*Chairman of the Board*

Hong Kong, 16 November 2022

*As at the date of this announcement, the Company’s board of directors comprises Mr. William Lei Ding, Mr. Yong Li and Ms. Yanfeng Wang as executive directors, Mr. Yat Keung Li, Mr. Dewei Zheng and Mr. Feng Yu as non-executive directors, and Mr. Ying Kit Caleb Lo, Mr. Xianfeng Gu and Mr. Zhong Xu as independent non-executive directors.*