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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)**

## **CONTINUING CONNECTED TRANSACTIONS RENEWAL OF NETEASE GROUP FRAMEWORK AGREEMENT**

On 28 November 2023, the Company and NetEase entered into the NetEase Group Framework Agreement, pursuant to which, the Continuing Transactions are renewed for a term of three years, commencing 1 January 2024.

NetEase is a substantial shareholder of the Company, which constitutes a connected person of the Company. Accordingly, the transactions contemplated under the NetEase Group Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio (calculated with reference to Rule 14.07 of the Listing Rules) in respect of the Continuing Transactions exceeds 0.1%, but all of the applicable percentage ratios of all the transactions under the NetEase Group Framework Agreement are less than 5%, each of the Continuing Transactions is subject to reporting, announcement and annual review requirements, but is exempt from Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reference is made to the Existing NetEase Group Framework Agreement detailed in the "Connected Transactions" section of the Prospectus and the announcement of the Company dated 16 November 2022 in relation to the revision of annual cap for the Shared Services under the Existing NetEase Group Framework Agreement.

Under the Existing NetEase Group Framework Agreement, the term of the Continuing Transactions shall expire on 31 December 2023. Accordingly, on 28 November 2023, the Company and NetEase entered into the NetEase Group Framework Agreement, pursuant to which, the Continuing Transactions are renewed for a term of three years, commencing 1 January 2024.

## NETEASE GROUP FRAMEWORK AGREEMENT

A summary of the principal terms of the NetEase Group Framework Agreement with respect to the Continuing Transactions is set out below:

**Date:** 28 November 2023

**Parties:** (i) Company (for itself and on behalf of the Group)  
(ii) NetEase (for itself and on behalf of NetEase Group)

**Term:** 1 January 2024 to 31 December 2026

### Continuing Transactions and Pricing Policy

#### 1. *Advertising Services*

##### Transaction

The Group provides advertising services to end-advertising clients (being primarily third parties) in exchange for advertising service fees. These advertising services include: embedding advertisements across the Group's platforms or through the Group's services, coordinating advertising campaigns using music or products available on the Group's platforms, and facilitating collaborations between the end-advertising client and the Group's users, artists or stakeholders in the music industry. Certain of these end-advertising clients or advertising services are referred to the Group through NetEase Group, and accordingly, part of the service fees generated from this portion of advertising services will be recorded by the Group as connected transactions with NetEase Group.

##### Pricing Policy

Transaction fees charged under this transaction will be based on: the quality of advertising units concerned, a base rate for each advertising unit, a discount rate, and a rebate ratio. The base rate of each advertising unit adopts the "effective cost-per-mille" (or eCPM) pricing model, which is calculated based on the resources/support required and the cost of advertising space per one thousand units of advertisement impressions. The rebate ratio and the discount rate are percentage multiples determined with reference to the average market rate and is based on the specific contract terms; this allows for greater flexibility and depends on various factors, including advertising volume, advertising duration and any bundling services subscribed for by the end-advertising client.

##### Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts and the expected growth in advertising revenue during the annual cap period. This expected growth is based on the continued widening scope of users, and the gradual increase in selling price of each advertising item, quantity and audience exposure over time, as the Group's advertising services yield better results based on greater experience and enhanced technology. Nevertheless, the annual caps also take into account the prevalence of referrals of advertising services or end-advertising clients from non-connected persons of the Company, which would off-set the increase in the expected annual transaction amounts under this transaction going forward.

## **2. *Other Services***

### Transaction

The Group will provide to NetEase Group services such as the products/services from us or from our users/partners posted on our platforms/websites (including music streaming, certain rights to use or sub-license intellectual property relating to music and brands associated with the products developed on our platforms/websites). The Group will also provide traffic direction services under this transaction through a portal on its mobile application that directs to NetEase Group's platforms/websites or products/services.

### Pricing Policy

Transaction fees for music streaming and membership services will be charged at a discount (at a rate comparable to, and no less better than, those provided to third-party businesses that we also cooperate with) and bundled with NetEase Group's products/services or enjoyed by NetEase Group's members and staff. The licensing of intellectual property and other products/services the Group provides to NetEase Group will be negotiated separately on a project basis, with reference to market prices and the same products/services offered to third-parties outside of NetEase Group.

Transaction fees for traffic direction services will be based on market prices and volume of use and apportioned with NetEase Group according to a fee split. The fee split depends on the actual traffic volume directed through the portal, the type of products/services generating the revenue (or distribution channel), and a fee split ratio that depends on the popularity of the product/service.

### Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts, the expected growth of business of NetEase Group and the Group over the annual cap period, the estimated growth of users interested in the products/services of the Group's platforms, and changes in prevailing market rates of products and services over these periods.

## **3. *Bandwidth, Server Custody and Rack Services***

### Transaction

NetEase Group will provide the Group with bandwidth, server custody and rack services, which includes content delivery network (or CDN) and Internet Data Centre (or IDC) services, that NetEase Group has or will procure from third-parties for relevant hardware and services, data storage services, hard disks, storage and central processing units (or CPUs), as well as such services and solutions developed by NetEase Group and tailored to the Group's needs.

## Pricing Policy

Transaction fees will vary depending on the type of services offered. Server custody fees, sharing of bandwidth equipment and costs associated with engaging operating and maintenance personnel services will be 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/hosting, incurred by NetEase Group in sharing the service).

Transcoding services will be priced based on market prices applying a discount. The market prices are based on comparisons of charged or quoted prices by comparable providers for comparable services, such as speed of responding, and reviewed and renegotiated periodically with the provider.

## Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts, the expected growth of business of the Group over the annual cap period, and changes in prevailing market rates of the products and services offered by NetEase Group and third-parties over these periods. In particular, with the market’s growth, the Group’s user base (including new and retained user numbers), user engagement time, the quality and breadth of products/services offered on the Group’s platforms/websites, among other things, are all expected to grow. This growth will require increased demand for services under this transaction, particularly in areas of data storage services, storage and CPUs, as the amount of data passed through and processed on our systems increase.

## **4. *Information Technology Services***

### Transaction

NetEase Group will provide the Group with information technology services, including cloud hosting and data storage services, big data services (including extraction and analysis services), algorithm training, and security analysis services.

### Pricing Policy

Transaction fees for security analysis services will be priced based on the lowest market price with a discount, while other information technology services will be based on a “cost-plus” pricing policy.

## Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts, the expected growth of business of the Group over the annual cap period (and therefore, corresponding growth in the Group's need for information technology services, particularly in data processing, storage and analysis services), and changes in prevailing market rates offered by NetEase Group and third-parties over the same periods. Similar to the basis of the annual caps for the transaction above, with the market's growth, the Company anticipates a corresponding increase demand for services under this transaction, particularly in the demand for greater information technology maintenance and support services, as well as adjustments in benchmark market prices for comparable services in response to market changes and inflation.

## **5. *Shared Services***

### Transaction

NetEase Group will 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.

### Pricing Policy

Transaction fees for shared services will be 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).

## Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts, the expected growth of business of the Group over the annual cap period (and corresponding growth in staff demand and costs), and changes in prevailing market rates of the shared services offered by NetEase Group and third-parties or for comparable services procurable directly from third-parties over the same periods. With the growth of online music entertainment market, the Company anticipates increased staff and office needs, which in-turn would lead to increased demand for shared services under this transaction, particularly in areas of premises sharing and administrative resources sharing, as well as adjustments in benchmark market prices for comparable costs in response to market changes and inflation.

## **6. *Product Procurement***

### Transaction

NetEase Group will procure for the Group fixed assets such as laptops, hardware and other products for the use of our employees or for our Group to provide as employee benefits to incentivise our staff and enhance our working environment.

## Pricing Policy

The procured products will be provided either at-cost or based on market prices applying a discount. The market prices are based on comparisons of charged or quoted prices by providers for comparable products/items, and reviewed and renegotiated periodically with the provider. For those products that have no market price against which to compare (given that the Group is not able to identify an appropriate comparable provider that is able to offer comparable items within comparable conditions), the Group will refer to the “at cost” pricing basis.

## Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts, the expected growth of business of the Group over the annual cap period, and changes in prevailing market rates of the products procured by NetEase Group over these periods. With an increase in growth and staff numbers, the Company anticipates a corresponding increase in costs associated with staff and working environment, which in-turn would lead to an increased demand for the products procured under this transaction, as well as adjustments in benchmark market prices for comparable costs in response to market changes and inflation.

## **HISTORICAL FIGURES**

The total transaction amounts of the respective services under the Existing NetEase Group Framework Agreement for the two years ended 31 December 2022 and the nine months ended 30 September 2023 were as follows.

<i>RMB 'million</i>	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2022</b>	<b>For the nine months ended 30 September 2023</b>
Advertising Services	473.2	411.6	157.7
Other Services	18.0	19.7	16.6
Bandwidth, Server Custody and Rack Services	104.5	96.5	31.5
Information Technology Services	281.5	337.4	234.6
Shared Services	77.0	47.5	30.3
Product Procurement	11.7	10.4	5.1

## **ANNUAL CAPS**

<i>RMB 'million</i>	<b>Year ending 31 December</b>		
	<b>2024</b>	<b>2025</b>	<b>2026</b>
Advertising Services	278.6	348.2	435.3
Other Services	39.7	59.5	89.3
Bandwidth, Server Custody and Rack Services	48.0	50.6	53.2
Information Technology Services	365.7	396.8	434.7
Shared Services	55.8	61.4	67.8
Product Procurement	12.4	18.6	27.9

## **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 largescale, robust and rapidly growing business to provide community-centric online music services and social entertainment services to our users. The Group monetises its platform primarily through the sales of membership subscriptions for online music services and sales of virtual items for our social entertainment services. To diversify revenue streams, the Group has 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 American depositary shares 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 NETEASE GROUP FRAMEWORK AGREEMENT**

NetEase is the parent of the Company, and NetEase Group and the Group are part of the wider NetEase group structure. The NetEase Group Framework Agreement is on market comparable terms, or better for the Group, and encourages intra-group synergy, cooperation, sharing of resources and expertise, and is more economical for both the Group and NetEase Group due to inherent cost-savings from combining purchasing power and demand with respect to sourcing from third-party suppliers/providers. These transactions foster a mutually beneficial relationship between the Group and NetEase Group that further enhances the "NetEase" brand. For more information on the background to, and further reasons and benefits of, these transaction, see the "Connected Transactions" section of the Prospectus.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that NetEase Group Framework Agreement (and the transactions contemplated thereunder, including the Continuing Transactions) will be conducted on normal commercial terms (or better for the Company), has been entered into in the ordinary and usual course of business, is fair and reasonable and in the interests of the Company and its shareholders as a whole, and that the annual caps set out in this announcement are fair and reasonable.

## **LISTING RULES IMPLICATIONS**

NetEase is a substantial shareholder of the Company, which constitutes a connected person of the Company. Accordingly, the transactions contemplated under the NetEase Group Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio (calculated with reference to Rule 14.07 of the Listing Rules) in respect of the Continuing Transactions exceeds 0.1%, but all of the applicable percentage ratios of all the transactions under the NetEase Group Framework Agreement are less than 5%, each of the Continuing Transactions is subject to reporting, announcement and annual review requirements, but is exempt from Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. William Lei Ding is a director of both the Company and NetEase, as well as a controlling shareholder of NetEase. Accordingly, Mr. Ding has abstained from voting on the relevant board resolutions in relation to the NetEase Group Framework Agreement and matters contemplated therein.

Save as disclosed above, no other Director has any material interest in the matters contemplated therein nor is any of them required to abstain from voting on the relevant board resolutions approving the NetEase Group Framework Agreement and the transactions contemplated thereunder.

## **DEFINITIONS**

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

<b>“Company”</b>	Cloud Music Inc., an exempted company with limited liability incorporated in the Cayman Islands on 2 February 2016
<b>“Continuing Transactions”</b>	the transactions contemplated under the NetEase Group Framework Agreement with annual caps that are 0.1% or higher under the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules, being those transactions set out in this announcement
<b>“Directors”</b>	directors of the Company
<b>“Existing NetEase Group Framework Agreement”</b>	the framework agreement entered into between NetEase and the Company on 5 August 2021, details of which are set out in the Prospectus
<b>“Group”</b>	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 the controlling shareholder of the Company under the Listing Rules
<b>“NetEase Group”</b>	NetEase and its subsidiaries and consolidated affiliated entities, but excluding the Group
<b>“NetEase Group Framework Agreement”</b>	the framework agreement entered into between NetEase and the Company, the material details of which are described in this announcement



“Prospectus”	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>
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“%”	per cent

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

Hong Kong, 28 November 2023

*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. Ran Wang as non-executive directors, and Mr. Ying Kit Caleb Lo, Mr. Xianfeng Gu and Mr. Zhong Xu as independent non-executive directors.*