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明源雲

Ming Yuan Cloud Group Holdings Limited

明源雲集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 909)

DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE ACQUISITION OF THE REMAINING 29.906541% EQUITY INTEREST OF TARGET COMPANY

THE ACQUISITION

On August 3, 2021 (after trading hours), the Purchaser (a wholly-owned subsidiary of the Company) entered into the Agreement with the Vendors. Pursuant to the Agreement, the Vendors have agreed to sell, and the Purchaser has agreed to acquire a total of 29.906541% equity interests in the Target Company at the total amount of the Considerations of RMB598,130,841.17, which shall be settled by cash.

As of the date of this announcement, the Target Company is a non wholly-owned subsidiary of the Company and is owned as to 70.093457% by the Purchaser, 16.35514% by Mr. Yao, 6.542056% by Mingyuan Cooperative Partnership, 5.607476% by Mr. Wang and 1.401869% by Mr. Zeng.

Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will continue to be consolidated into the consolidated financial statements of the Group.

IMPLICATIONS UNDER THE LISTING RULES

As (i) Mr. Yao is a former director of the Target Company in the last 12 months and substantial shareholder of the Target Company, (ii) Mr. Wang is a former director of the Target Company in the last 12 months, and (iii) Mr. Yao is the general partner of Mingyuan Cooperative Partnership, each of Mr. Yao, Mr. Wang and Mingyuan Cooperative Partnership is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. Accordingly, the Agreement and transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios of the transaction contemplated under the Agreement exceed 5%, such transactions are subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. However, by virtue of Rule 14A.101 of the Listing Rules, since (1) each of Mr. Yao, Mr. Wang and Mingyuan Cooperative Partnership is a connected person at the subsidiary level; (2) the Board has approved the Acquisition; and (3) the independent non-executive Directors have confirmed that the terms of the Acquisition are fair and reasonable and the Acquisition is on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Acquisition is subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the Agreement are more than 5% but all less than 25%, the Agreement and transactions contemplated thereunder constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules and are subject to the announcement and reporting requirements under the Listing Rules.

As of the date of this announcement, Mr. Gao Yu, Mr. Jiang Haiyang and Mr. Chen Xiaohui are both directors of the Company and Target Company. In view of good corporate governance, all of them abstained from voting on the relevant resolutions approving the Agreement and the transactions contemplated thereunder. Save for the disclosure above, none of the Directors has any material interest in the Agreement and transactions contemplated thereunder or is required to abstain from voting on the Board resolutions approving the Agreement and the transactions contemplated thereunder.

INTRODUCTION

On August 3, 2021 (after trading hours), the Purchaser (a wholly-owned subsidiary of the Company) entered into the Agreement with the Vendors. Pursuant to the Agreement, the Vendors have agreed to sell, and the Purchaser has agreed to acquire a total of 29.906541% equity interests in the Target Company at the total amount of the Considerations of RMB598,130,841.17, which shall be settled by cash.

THE AGREEMENT

Date: August 3, 2021 (after trading hours)

Parties: (1) the Vendors, being Mr. Yao, Mr. Zeng, Mr. Wang and Mingyuan Cooperative Partnership; and
(2) the Purchaser.

SUBJECT MATTER TO BE ACQUIRED

Pursuant to the Agreement, the Vendors have agreed to sell, and the Purchaser has agreed to acquire a total of 29.906541% equity interests in the Target Company, subject to the terms and conditions of the Agreement.

As of the date of this announcement, the Target Company is a non wholly-owned subsidiary of the Company and is owned as to 70.093457% by the Purchaser, 16.35514% by Mr. Yao, 6.542056% by Mingyuan Cooperative Partnership, 5.607476% by Mr. Wang and 1.401869% by Mr. Zeng.

As of the date of this announcement, Mingyuan Cooperative Partnership is a limited partnership and a shareholding platform owned as to 27.142857% by Mr. Yao, 5.714285% by Mr. Zeng and 67.142845% by other 23 employees of the Group in aggregate. Such 23 employees are all third parties independent of the Group and its connected persons and among them only one limited partner, Mr. Yang Jianpei (楊建培), holds over 10% of the interest of Mingyuan Cooperative Partnership.

Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will continue to be consolidated into the consolidated financial statements of the Group.

CONSIDERATION

The Considerations payable to each of the Vendors are set out as below:

Vendor	Amount of Consideration (RMB)
Mr. Yao	327,102,803.74
Mr. Wang	112,149,532.71
Mingyuan Cooperative Partnership	130,841,121.54
Mr. Zeng	<u>28,037,383.18</u>
Total	<u><u>598,130,841.17</u></u>

The original investment cost paid by the Vendors for such 29.906541% equity interests in the Target Company was approximately RMB3,200,000, representing the accumulative capital contributions to the Target Company made by the Vendors, the details of which are as set out below:

Vendor	Amount of paid-in capital contribution (RMB)	Payment date
Mr. Yao	1,200,000	March 10, 2015
	400,000	July 20, 2015
	150,000	April 25, 2017
Mr. Wang	400,000	March 24, 2015
	200,000	July 9, 2015
Mingyuan Cooperative Partnership	700,000	July 18, 2017
Mr. Zeng	150,000	July 10, 2015

The Considerations were determined after arm's length negotiation between the Purchaser and the Vendors with reference to, among others,

- (1) the recent financial performance and earnings of the Target Company, in particular, the significant increase in revenue and profit before taxation of the Target Company over the years from 2018 to 2020 at the CAGR of approximately 83.47% and 121.45%, respectively. For the year ended December 31, 2020, the Target Company recorded a revenue of RMB321,625,346 and profit before taxation of RMB137,142,885, respectively;
- (2) the capital contribution made by the Vendors;
- (3) around 14.6 times the price to earning ratio ("**P/E ratio**") of the audited net profit after taxation of the Target Company of RMB136,742,464 for the year ended December 31, 2020 and around 10.1 times the price to net book value (the "**P/B ratio**") of the audited net asset value of the Target Company of RMB197,339,608 as of December 31, 2020. In selecting the samples for comparison purpose, the Company has, based on the information available from the Stock Exchange's website, identified an exhaustive list of two comparable companies listed on the Stock Exchange (excluding the Company) (the "**HK Comparables**") for comparison purpose which are (i) listed on the Main Board of the Stock Exchange; (ii) in similar business in nature of the Target Company; and (iii) with market capitalization of more than HK\$10 billion. The Directors consider that the HK Comparables are fair and representative. Set out below is the summary of the HK Comparables:

Company name	Stock code	Principal activities	P/E ratio¹ times	P/B ratio¹ times
Kingdee International Software Group Company Limited	268	Principally engaged in the cloud services and enterprise resource planning business	N/A ³	9.0
Weimob Inc.	2013	Principally engaged in providing leading digital commerce and media services for merchants	N/A ⁴	21.6
Maximum				21.6
Minimum				9.0
Average				15.3

Source: website of the Stock Exchange

	P/E ratio² <i>times</i>	P/B ratio² <i>times</i>
Target Company	14.6	10.1

Given the limited number of HK Comparables being identified, to better serve the purpose in forming a meaningful comparison for assessment with sufficient number of comparable companies, the Company has extended the sample size to include companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. To the best of the Directors' knowledge, a list of three comparable companies (the "PRC Comparables") has been identified. The Directors consider that HK Comparables and PRC Comparables together form a meaningful comparison in evaluating the Consideration. Set out below is the summary of the PRC Comparables:

Company name	Stock code	Principal activities	P/E ratio¹ <i>times</i>	P/B ratio¹ <i>times</i>
Yonyou Network Technology Co., Ltd.	600588.SH	Principally engaged in software and service business, corporate internet services and internet financial services	118.4	15.5
Glodon Company Limited	002410.SZ	Principally engaged in digital software and hardware products, applicable solutions and related services	226.3	11.7
Shanghai Weaver Network Co., Ltd.	603039.SH	Principally engaged in collaborative management software development, sales and services	80.3	13.7
Maximum			226.3	15.5
Minimum			80.3	11.7
Average			141.7	13.6

Source: websites of Shanghai Stock Exchange and Shenzhen Stock Exchange

	P/E ratio² <i>times</i>	P/B ratio² <i>times</i>
Target Company	14.6	10.1

Notes:

1. The P/E ratio and P/B ratio are calculated based on (i) the market capitalization on the closing price of the HK Comparables and PRC Comparables as stated in the website of Stock Exchange (www.hkex.com.hk) or Shanghai Stock Exchange (www.sse.com.cn) or Shenzhen Stock Exchange (www.szse.cn) on July 30, 2021; and (ii) the profit attributable to shareholders and the equity attributable to shareholders of the HK Comparables and PRC Comparables for the financial year ended December 31, 2020 extracted from the respective annual reports or prospectus. If applicable, the exchange rate between RMB and HK\$ is RMB1:HK\$1.2 for illustrative purpose.
2. The P/E ratio and P/B ratio are calculated based on that (i) given the total amount of the Considerations is RMB598,130,841.17 in exchange for approximately 29.906541% of shareholding of the Target Company, the entire Target Company is therefore valued at approximately RMB2,000 million for the purpose of calculation of P/E ratio and P/B ratio; and (ii) the profit attributable to shareholders and the equity attributable to shareholders of the Target Company for the financial year ended December 31, 2020 is extracted from its PRC audit report.
3. Kingdee International Software Group Company Limited recorded a loss for the year attributable to shareholders of approximately RMB335.5 million for the year ended December 31, 2020.
4. Weimob Inc. recorded a loss for the year attributable to shareholders of approximately RMB1,156.6 million for the year ended December 31, 2020.

As demonstrated in the above tables, (i) the P/E ratio of the Target Company of approximately 14.6 times is significantly lower than the average P/E ratio of the PRC Comparables; and (ii) the P/B ratio of the Target Company of approximately 10.1 times is lower than the average P/B ratio of the HK Comparables and PRC Comparables; and

- (4) the reasons for the Acquisition as discussed in the section headed “Reasons for and Benefits of the Acquisition” in this announcement.

Based on the above, the Directors are of the view that the Considerations are fair and reasonable.

The Considerations will be funded by the Group's internal resources, which is not sourced from the net proceeds received from the initial public offering of the Company.

Payment Terms

The Purchaser shall settle the payment of the Considerations by bank transfer to the bank accounts designated by each of the Vendors within 30 business days upon completion of the relevant industrial and commercial registration of change.

Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will continue to be consolidated into the consolidated financial statements of the Group.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established in the PRC with limited liability on July 30, 2014, which is principally engaged in the provision of CRM Cloud (雲客), the Group's key SaaS products, providing property developers with innovative digital marketing and site management tools to generate sales leads, identify prospective property purchasers, facilitate contract execution and deposit payment, and manage the overall operation of their property sales offices.

As of the date of this announcement, the Target Company is a non wholly-owned subsidiary of the Company and is owned as to 70.093457% by the Purchaser, 16.35514% by Mr. Yao, 6.542056% by Mingyuan Cooperative Partnership, 5.607476% by Mr. Wang and 1.401869% by Mr. Zeng.

Set below is the audited financial information of the Target Company for the three years ended December 31, 2018, 2019 and 2020 as prepared in accordance with generally accepted accounting principles in the PRC:

	For the year ended December 31,		
	2018	2019	2020
	(audited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	95,551.92	147,221.10	321,625.35
Profit before taxation	27,964.99	56,223.54	137,142.88
Profit after taxation	27,888.73	56,559.94	136,742.46

The increase in the profit before taxation of the Target Company is mainly due to rapid growing of the CRM Cloud business. CRM Cloud, which is for the marketing market, is the key SaaS product and the most mature SaaS product of the Group which has continued to grow strongly. In 2018, 2019 and 2020, a total number of approximately 1,700, 2,400 and 4,200 paying end group customers subscribed for CRM Cloud, respectively. The number of property sales offices across China equipped with CRM Cloud was approximately 5,900, 8,700 and 15,000 in 2018, 2019 and 2020, respectively. The annual customer account retention rate for CRM Cloud was approximately 93%, 96% and 90% in 2018, 2019 and 2020, respectively.

The audited net asset value of the Target Company as of December 31, 2020 was approximately RMB197,339,608.

INFORMATION ON THE PURCHASER AND THE GROUP

The Purchaser is a limited liability company established in Shenzhen, the PRC on November 27, 2003 and a wholly-owned subsidiary of the Company. It is principally engaged in the provision of smart business solutions and management systems for property developers and other industry participants along the real estate value chain.

The Group provides enterprise-grade ERP solutions and SaaS products to property developers and other industry participants along the real estate value chain in the PRC.

INFORMATION ON THE VENDORS

Mr. Yao is the vice president of the Group and a former director of the Target Company who resigned in May 2021. Since Mr. Yao is a director of the Target Company in the last 12 months and substantial shareholder of the Target Company, a non wholly-owned subsidiary of the Company, Mr. Yao is a connected person of the Company at the subsidiary level pursuant to Rule 14A.07(1) of the Listing Rules.

Mr. Wang is an employee of the Group, a former director of the Target Company who resigned in May 2021 and shareholder of the Target Company. Therefore Mr. Wang is a connected person of the Company at the subsidiary level pursuant to Rule 14A.07(1) of the Listing Rules.

Mr. Zeng is an employee of the Group, a shareholder of the Target Company and a third party independent of the Group and its connected persons.

Mingyuan Cooperative Partnership is a limited partnership established in the PRC and principally engaged in investment holding. Mingyuan Cooperative Partnership is a shareholding platform held by 25 employees of our Group (including Mr. Yao and Mr. Zeng). As of the date of this announcement, Mingyuan Cooperative Partnership is held as to 27.142857% by Mr. Yao (as the general partner), 5.714285% by Mr. Zeng and 67.142845% by other 23 employees of the Group in aggregate. Such 23 employees are all third parties independent of the Group and its connected persons and among them only one limited partner, Mr. Yang Jianpei (楊建培), holds over 10% of the interest of Mingyuan Cooperative Partnership. Since the general partner of Mingyuan Cooperative Partnership is Mr. Yao, Mingyuan Cooperative Partnership is an associate of Mr. Yao and therefore a connected person of the Company at the subsidiary level pursuant to Rule 14A.07(4) of the Listing Rules.

Except as disclosed above, to the best of the Directors' knowledge, information and belief and Directors having made all reasonable enquiries, the Vendors and their respective associates and ultimate beneficial owners are third parties independent of the Group and its connected persons.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition is proposed for the reasons below:

- (i) whilst the Company, through the Purchaser, as the majority shareholder of the Target Company, has control over the Target Company, the Company still has to pay respect to the Vendors. By realizing the Company's 100% control over the Target Company, the operation efficiency of the Target Company can be improved as it would eliminate communication cost with minority shareholders;

- (ii) the Target Company recorded a considerable increase in profit before taxation for the year from approximately RMB28.0 million for the year ended December 31, 2018 to RMB56.2 million for the year ended December 31, 2019, and further to RMB137.1 million for the year ended December 31, 2020, respectively, which accounted for approximately 23.8% and 35.8% of the adjusted net income of the Group for the years ended December 31, 2019 and 2020. Hence, the Directors are of the view that the performance of Target Company accounted for a significant part of the Group's overall financial performance and the Acquisition is expected to improve the results attributable to the Group and the overall Shareholders' return; and
- (iii) the Group is optimizing the structure of its business divisions and product layout. The Group used to set up separate companies for each product line. In order to better position itself in the changing SaaS industry, the Group began to adjust its product layout in 2021. As a result, the Group's employees and business segments that are currently dispersed among different product companies (including the Target Company) will need to be reallocated and adjusted accordingly. Through the Acquisition, the Company will realize 100% control over the Target Company to more efficiently carry out this plan.

Taking into consideration the reasons for and benefit of the Acquisition to the Group, the Directors (including the independent non-executive Directors) are of the view that (i) the Acquisition is in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Agreement, including the Considerations which have been reached after arm's length negotiations among the parties, are fair and reasonable; and (iii) the Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Group.

IMPLICATIONS UNDER THE LISTING RULES

As (i) Mr. Yao is a former director of the Target Company in the last 12 months and substantial shareholder of the Target Company, (ii) Mr. Wang is a former director of the Target Company in the last 12 months, and (iii) Mr. Yao is the general partner of Mingyuan Cooperative Partnership, each of Mr. Yao, Mr. Wang and Mingyuan Cooperative Partnership is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. Accordingly, the Agreement and transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios of the transaction contemplated under the Agreement exceed 5%, such transactions are subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. However, by virtue of Rule 14A.101 of the Listing Rules, since (1) each of Mr. Yao, Mr. Wang and Mingyuan Cooperative Partnership is a connected person at the subsidiary level; (2) the Board has approved the Acquisition; and (3) the independent non-executive Directors have confirmed that the terms of the Acquisition are fair and reasonable and the Acquisition is on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Acquisition is subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the Agreement are more than 5% but all less than 25%, the Agreement and transactions contemplated thereunder constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules and are subject to the announcement and reporting requirements under the Listing Rules.

As of the date of this announcement, Mr. Gao Yu, Mr. Jiang Haiyang and Mr. Chen Xiaohui are both directors of the Company and Target Company. In view of good corporate governance, all of them abstained from voting on the relevant resolutions approving the Agreement and the transactions contemplated thereunder. Save for the disclosure above, none of the Directors has any material interest in the Agreement and transactions contemplated thereunder or is required to abstain from voting on the Board resolutions approving the Agreement and the transactions contemplated thereunder.

DEFINITIONS

In this announcement, the following expressions shall (unless the context otherwise requires) have the following meanings:

“Acquisition”	the acquisition of a total of 29.906541% equity interests in the Target Company under the Agreement
“Agreement”	the equity transfer agreement dated August 3, 2021 and entered into among the Vendors and the Purchaser in relation to the sale and purchase of a total of 29.906541% equity interests in the Target Company
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“CAGR”	compound annual growth rate
“Company”	Ming Yuan Cloud Group Holdings Limited (明源雲集團控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands on July 3, 2019, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto in the Listing Rules
“Consideration(s)”	the consideration payable to each of the Vendors for the Acquisition pursuant to the Agreement
“Consolidated Affiliated Entity”	the entity that the Group controls through contractual arrangements
“Director(s)”	director(s) of the Company
“ERP”	enterprise resource planning, a business process management software that allows an organization to use a system of integrated applications to manage the business and digitalize back-office functions relating to technology, services, and human resources

“Group”	the Company and its subsidiaries and Consolidated Affiliated Entity from time to time or, where the context so requires, in respect of the period prior to the Company becoming the holding company of its present subsidiaries and Consolidated Affiliated Entity, such subsidiaries and Consolidated Affiliated Entity as if they were subsidiaries and Consolidated Affiliated Entity of the Company at the relevant time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Mingyuan Cooperative Partnership”	Chengmai Mingyuan Cooperative Investment Partnership (Limited Partnership)* (澄邁明源共創投資合夥企業(有限合夥)) (formerly known as “Shenzhen Mingyuan Cooperative Investment Partnership (Limited Partnership)* (深圳市明源共創投資合夥企業(有限合夥)), a limited partnership established in the PRC and a shareholding platform held by 25 employees of our Group (including Mr. Yao and Mr. Zeng) with Mr. Yao acting as the general partner
“Mr. Wang”	Mr. Wang Jianfeng (王劍峰), a shareholder and former director of the Target Company and an employee of the Group
“Mr. Yao”	Mr. Yao Wu (姚武), a shareholder and former director of the Target Company and an employee of the Group
“Mr. Zeng”	Mr. Zeng Weixiong (曾偉雄), a shareholder of the Target Company and an employee of the Group
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	Shenzhen Mingyuan Cloud Technology Co., Ltd.* (深圳市明源雲科技有限公司), a limited liability company established in Shenzhen, the PRC on November 27, 2003, one of our wholly-owned subsidiaries
“RMB”	Renminbi, the lawful currency of the PRC
“SaaS”	software as a service, a cloud-based software licensing and delivery model in which software and associated data are centrally hosted
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of HK\$0.0001 each

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Target Company”	Shenzhen Mingyuan Yunke Electronic Commerce Co., Ltd.* (深圳市明源雲客電子商務有限公司), a limited liability company established in Shenzhen, the PRC on July 30, 2014, one of our non wholly-owned subsidiaries
“Vendors”	collectively, Mr. Yao, Mr. Wang, Mr. Zeng and Mingyuan Cooperative Partnership
“%”	per cent

By order of the Board
Ming Yuan Cloud Group Holdings Limited
Gao Yu
Chairman

Shenzhen, The People’s Republic of China, August 3, 2021

As of the date of this announcement, the Board comprises Mr. GAO Yu, Mr. JIANG Haiyang, Mr. CHEN Xiaohui, and Mr. JIANG Keyang as executive Directors, Mr. LIANG Guozhi and Mr. YI Feifan as non-executive Directors, and Mr. LI Hanhui, Mr. ZHAO Liang and Ms. ZENG Jing as independent non-executive Directors.

* *For identification purposes only*