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Inke Limited
映客互娛有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 3700)

SUPPLEMENTAL ANNOUNCEMENT
DISCLOSABLE TRANSACTION IN RELATION
TO THE SHARE PURCHASE AGREEMENT AND
CONTINUING CONNECTED TRANSACTION
IN RELATION TO THE VIE AGREEMENTS

Reference is made to the announcement of Inke Limited (the “**Company**”) dated 15 July 2019 (the “**Announcement**”) in relation to (among others) the Share Purchase Agreement, pursuant to which, among other matters, (i) the Investor Shareholders conditionally agree to transfer to the Buyer, severally but not jointly, and the Buyer conditionally agrees to purchase from the Investor Shareholders in aggregate, 63.17% shareholding in the Cayman Co at the relevant Offshore Purchase Price of US\$47,585,200; (ii) the Founder Holdco agrees to transfer to the Buyer, and the Buyer agrees to purchase from the Founder Holdco 36.83% shareholding in the Cayman Co at the relevant Offshore Purchase Price of US\$27,794,499; and (iii) save for the Investor Shareholder A and the Investor Shareholder F, other Selling Shareholders conditionally agree to procure their respective onshore affiliates (i.e. the Founder, the PRC Affiliate A, the PRC Affiliate B, the PRC Affiliate C and the PRC Affiliate D) to transfer to the Buyer’s Affiliate, severally but not jointly, in aggregate 84.33% equity interest in the Domestic Company at the Onshore Purchase Price of RMB66,069,340. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

In addition to the information disclosed in the Announcement, the Company wishes to provide its shareholders and investors with additional information regarding detailed basis and background in determining the Purchase Price.

DETAILED BASIS AND BACKGROUND IN DETERMINING THE PURCHASE PRICE

The Purchase Price of in aggregate US\$85,000,000 as the total consideration to the Selling Shareholders is determined mainly based on the following considerations.

The Valuation Report

The Company has engaged an independent and professional valuer (the “**Valuer**”) to estimate the valuation of the Target Group and issue an independent valuation report.

Given the unique characteristics of the Target Group, the Valuer considered that there are substantial limitations to adopt income approach and cost approach in evaluating the Interest in the Target Group due to the following reasons:

- (i) income approach requires subjective assumptions with the support of the detailed operational information and long-term financial projections. However, as Jimu APP has yet to be commercialised, the relevant information of the Target Group was not available as at the date of valuation on 30 June 2019 (the “**Valuation Date**”); and
- (ii) cost approach does not directly incorporate information about the economic benefits contributed by the Target Group.

In view of the above, the Valuer has adopted market approach with guideline public company method and guideline transaction method.

Jimu APP is considered a social networking platform providing not only stranger matching/dating functions but also a contemporary culture interest community for the users who are interested in clubbing, electronic game, pets, movies, travel, body building or sneakers to expand their social network, build up friendship or develop romantic relationship.

The Valuer has identified the comparable companies with sufficient data by adopting the following criteria (the “**Valuer’s Selection Criteria**”):

- (i) the comparable companies which engaged in social networking platform or application operators and whose revenues are mainly sourced from the advertising and marketing services and/or value-added services; and
- (ii) relevant information about the comparables companies are publicly disclosed, and with sufficient and reliable data, including prices, the number of daily active user (“**DAU**”) and / or the number of monthly active user (“**MAU**”), can be obtained from publicly reliable sources including, amongst others, information disclosed by third party information providers such as Capital IQ and Quest-Mobile, financial reports of comparable companies, news and announcements disclosed at the website of different stock exchanges (including without limitation the Stock Exchange of Hong Kong Limited, the Shenzhen Stock Exchange, the Shanghai Stock Exchange, the New York Stock Exchange, the Nasdaq Stock Market).

The selection process for the comparables by the Valuer is set out below:

- (i) the Valuer has initially searched for the comparable companies that are operating similar activities and having the similar size and same geographical location compare to Jimu APP. However, no direct comparables based on such search criteria with reliable data were identified;

- (ii) the Valuer has therefore expanded the range of selection with comparable companies operating similar activities in the PRC regardless of their respective size of DAU/MAU, and on this basis, only one comparable (also being the guideline transaction) has been identified by the Valuer with reliable and verifiable market data; and
- (iii) in order to avoid partial/unreliable assessment results due to insufficient comparables, the Valuer has further expanded the range of selection and as a result, identified relevant comparable companies engaging in social networking platforms or application operators with global presence whose revenues are mainly sourced from advertising and marketing services, and/or value-added services driven by users, the revenue driven model of which is expected to be adopted by Jimu APP upon its commercialisation.

Based on the abovementioned, the Valuer has therefore identified five comparable listed companies as well as a guideline transaction. The Valuer also explained to the Company that although there are other social networking platforms with similar business model as that of the Target Group, their unreliable market data could not fulfil the Valuer's Selection Criteria (the “**Unsuitable Comparables**”). The Valuer considered that each of these comparable companies and guideline transaction is fair and representative for the purpose of valuing the Interest in the Target Group. The executive Directors have also reviewed and assessed the suitability of the above comparable companies selected by the Valuer and therefore agreed with the Valuer's view on the comparable companies selected. In addition, the management team of the Company also reviewed, challenged and verified the list of the Unsuitable Comparables. As such, the Company is satisfied that the Valuer has used its best effort to conduct a global and exhaustive search to select the most relevant and representative comparable companies with reliable and verifiable market data (the “**Suitable Comparables**”).

The principal assumptions adopted in the valuation are set out below:

- all relevant legal approvals and business certificates or licenses to operate the business in which the Target Group operates or intends to operate have been or would be officially obtained and renewable upon expiry;
- there will be no major change in the political, legal, economic and social environment in which the Target Group operates or intends to operate;
- interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially from those presently prevailing;
- the Target Group will retain competent management and key personnel to support the ongoing business operations;
- the financial and operational information about the Target Group provided by the Company is accurate and it is relied to a considerable extent on such information in arriving at the opinion of value; and
- there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value.

Under the guideline public company method and guideline transaction method, the market value depends on the comparables, market multiples (i.e. price per DAU and/or price per MAU) as mentioned above. As at the Valuation Date, the Valuer has also taken into account the control premium and discount for lack of marketability in the calculation of the value of the Interest in the Target Group. According to the valuation report issued by the Valuer on 10 July 2019, the market value of 100% equity interest in the Target Group as at the Valuation Date is US\$ 88,000,000. The Directors considered the valuation report as a prevailing basis in assessing and determining the consideration for the Interest in the Target Group.

Apart from the valuation report, the Directors and the Company have conducted internal due diligence and their own analyses on the valuation of the Target Group, and has also engaged (i) an independent market consultancy (the “**Market Consultancy**”) to conduct due diligence on Jimu APP’s operation and IT system and (ii) a financial adviser (the “**FA**”) to populate the market comparable data and propose a valuation conclusion which is considered an ancillary reference in assessing and determining the consideration for the Interest in the Target Group.

Directors’ Work Performed

Based on various discussions between the executive Directors and the Valuer (including but not limited to discussions on the comparables and data selected) and their independent due diligence works and analyses as set out in details below (including but not limited to the qualitative analysis and the quantitative analysis, the assessment of the reliability of the report prepared by the Valuer and the analysis of the finance, operation and IT system of Jimu APP as mentioned below), the Directors were satisfied that the conclusion of the valuation report is reliable and the terms of the Share Purchase Agreement are fair and reasonable and in the interest of the Company and its shareholders as a whole. Details of the additional due diligence works conducted by the Directors are set out as follows:

- a. assessed the background and qualification of the Valuer;
- b. discussed with the Valuer about the reasons for adopting market approach and for selecting those companies/transactions as the comparables, and reviewed and verified the list of the Unsuitable Comparables. Through the discussions, it is noted that:
 - (i) based on the unique characteristics of the Target Group, the Valuer considered that market approach would be the most suitable valuation method because there are substantial limitations to adopt income approach and cost approach in evaluating the Interest in the Target Group;
 - (ii) based on the Valuer’s Selection Criteria, the Valuer has already conducted a global and exhausted search to select the Suitable Comparables; and
 - (iii) the selection of the Suitable Comparables is fair and reasonable;
- c. engaged the Market Consultancy to conduct due diligence on Jimu APP and assessed its background and scope of work;

- d. reviewed the FA's experience and its report as an ancillary reference to assess the consideration of US\$85 million from a different angle;
- e. reviewed the findings of the due diligence conducted by the management of the Company and members from the Company's finance department, product and operation department and IT department, and discussed with them constantly during the interval of the negotiation with the Selling Shareholders;
- f. conducted independent study and analysis, for the purpose of prudence, on the comparable cases/listed companies in the social networking platform industry ("**Other Comparables**") which have not been selected by the Valuer as their market data are obtainable from unverifiable sources (such as news or unofficial website) or cannot meet the standard of the Valuer, and took the results of such comparisons as one of the ancillary factors to determine the consideration of the Interest in the Target Group based on that all information of the Other Comparables are either public information (such as news and internet information) or information obtainable from a data service provider;
- g. conducted quantitative analysis on the valuation of the Interest in the Target Group independently including, amongst others:
 - (i) analysed Jimu APP's key performance indicators ("**KPIs**") including, among others, (a) DAU, (b) MAU and (c) DAU/MAU for the period from June 2018 to June 2019 (the "**Corresponding Period**");
 - (ii) reviewed the continuing growth trend of DAU and MAU of Jimu APP for the Corresponding Period;
 - (iii) compared Jimu APP's KPIs and ranking in the APP Store in 2019 with those of other social networking platforms which are the most popular social networking platforms with similar business as Jimu APP;
 - (iv) considered the feasibility and reliability of the expected commercialization timetable of Jimu APP based on the discussion with the management of the Target Group and internal researches;
- h. conducted qualitative analysis on the valuation of the Interest in the Target Group independently including, amongst others:
 - (i) according to the report of the Market Consultancy, users on Jimu APP represent a group of energetic youngsters who are willing to try new things and pay for high-quality services;
 - (ii) the users of Jimu APP are generally post-90s, which are younger than the current target users of the Company's products, therefore the acquisition of Jimu APP would create a synergy effect for the Company to enter into a new market with different targeted users. For details, please refer to paragraph i below. The Directors are of the view that the commercial value of the said synergy effects do exist and would bring financial benefits to the Group upon Closing; and

- (iii) Jimu APP has an innovative business model which offers online social networking service as well as face-to-face offline social networking events for users;
- i. analyzed the synergy effects between Jimu App and the Company's current business and concluded as:
 - (i) Jimu APP would strengthen the social networking feature of the interactive entertainment ecological system of the Company and establish an organic traffic system for the Company to build a closed ecological loop of "social networking + entertainment" for young users;
 - (ii) the Company's existing research and development capabilities and marketing resources can assist a rapid development and expansion of Jimu APP;
 - (iii) the Company could apply its experience in Inke APP's development to provide support to Jimu APP so as to accelerate its commercialisation;
 - (iv) the acquisition would create a synergy effect for the Company to enter into a new market with different targeted users especially younger users; and
 - (v) the Company would also be beneficial from gaining knowledge in the rapid development of a successful social networking platform so as to apply such experience in expanding the Company's own business;
 - j. analyzed the risk of the acquisition of the Interest in the Target Group and discussed the strategies with the management of the Company;
 - k. conducted a conflict check on the background of the Selling Shareholders, their respective PRC Affiliates and the Target Group and its affiliate, and confirmed that no potential conflict of interest; and
 - l. carried out an in-depth discussion at the Board meeting on 14 July 2019 based on comprehensive and detailed report prepared by the management of the Company.

Fair and reasonable consideration

Based on the abovementioned discussion with the Valuer, the additional due diligence works conducted by the Directors and internal team of the Group, including but not limited to the independent study and analysis on Other Comparables, and the FA's report as an ancillary reference, the Company considered that the valuation report is reliable, fair and reasonable and therefore the result of valuation of the Interest in the Target Group evaluated by the Valuer is reliable and appropriate for the Directors to adopt as a prevailing basis to conclude that the consideration of the Interest in the Target Group is fair and reasonable.

Furthermore, taking into account of the potential commercial value of the synergy effects, the Directors wish to further emphasise that the consideration of US\$85 million is a commercial decision through a lengthy negotiation with the counterparties. The acceptance of US\$85 million by both Selling Shareholders and the Company as the consideration of the Interest in the Target Group could also be regarded as an indicator showing that the consideration is fair and reasonable with a justifiable commercial value based on an arm's length negotiation.

On the basis of the above, the Company considers that the Directors have already conducted sufficient due diligence on the valuation of the Interest in the Target Group and operation of Jimu APP, the Target Group and the Domestic Company and the Directors are satisfied that the aggregate consideration of US\$85 million and the terms of the Share Purchase Agreement are fair and reasonable and in the interest of the Company and its shareholders as a whole.

By order of the Board
Inke Limited
Feng Yousheng
Chairman and Executive Director

Hong Kong, 22 August 2019

As at the date of this announcement, the executive directors are Mr. FENG Yousheng, Ms. LIAO Jieming and Mr. HOU Guangling; the non-executive director is Mr. LIU Xiaosong; and the independent non-executive directors are Mr. David CUI, Mr. DU Yongbo and Dr. LI Hui.