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民商創科

Minshang Creative Technology Holdings Limited

民商創科控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1632)

**SUPPLEMENTAL ANNOUNCEMENT
RELATING TO DISCLOSEABLE TRANSACTION
IN RELATION TO THE ACQUISITION OF THE ENTIRE
ISSUED SHARE CAPITAL OF THE TARGET COMPANY
INVOLVING ISSUE OF CONSIDERATION SHARES
UNDER GENERAL MANDATE**

References are made to the announcements of Minshang Creative Technology Holdings Limited (the “**Company**”) dated 24 December 2021 (the “**Announcement**”) and 31 March 2022 in relation to the acquisition of the entire issued share capital of Context Image Holdings Limited (the “**Acquisition**”) and the extension of the long stop date relating to the Acquisition, respectively. Unless otherwise stated, terms used herein 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 further information in relation to the Acquisition. This announcement is supplemental to and should be read in conjunction with the Announcement.

DUE DILIGENCE WORK

The Company had commenced negotiations to acquire the Target Company since mid-April 2021. After arm’s length negotiations among the Vendors and the Company, the Sale and Purchase Agreement was executed on 24 December 2021.

The Company engaged an independent Hong Kong auditor and a PRC legal adviser to perform financial due diligence and legal due diligence on Changjing Wanxiang, respectively. The financial due diligence work covered the background and operations of Changjing Wanxiang, its historical trading performance, financial position and taxation while the legal due diligence

work covered, among others, the incorporation and existence, shareholding structure, material contracts, properties, intellectual property rights, labour and social security contributions, litigation, arbitration and administrative penalties of Changjing Wanxiang. The results of the financial due diligence and the legal due diligence are considered to be satisfactory.

Furthermore, in order to better understand the operations of Changjing Wanxiang, the Company conducted business due diligence and had various discussions with the senior management of Changjing Wanxiang. The Company had an in-depth understanding of the business of Changjing Wanxiang, including but not limited to its products and services, business model and customer mix. Representatives of the Company also conducted a site visit to Changjing Wanxiang. In addition, the Company conducted due diligence on the management team of Changjing Wanxiang.

Mr. Wu Jiangtao, the Chairman of the Board, an executive Director and the Chief Executive Officer of the Company and Mr. Lu Sheng Hong, an executive Director of the Company, are experienced in the e-commerce and SaaS industry through several years of experience in managing daily operations of PRC e-commerce companies. As such, the Company has the relevant expertise to evaluate the business and future prospect of Changjing Wanxiang as well as oversee the future development of Changjing Wanxiang following Completion.

INFORMATION OF CHANGJING WANXIANG

Business

As disclosed in the Announcement, Changjing Wanxiang has been principally engaged in the provision and design of SaaS systems and IT solution services to its customers including financial institutions and merchants ranging from the retail, food and beverage, travel, lifestyle sectors, to build and improve their direct operation capabilities with their digital users through membership services.

Changjing Wanxiang mainly provides services including (i) design of membership rights such as membership management, membership mall, membership rights, membership points, community operation tools, membership merchandise promotion, marketing activities, mini-games for members and community marketing tools; and (ii) procurement and distribution of goods and products sold in the membership mall and checkout and settlement service. Changjing Wanxiang also directly sells products such as food items and brand vouchers to end users through online platforms. Changjing Wanxiang brings together quality digital consumer rights in relation to goods and services such as brand vouchers and actual products from different brands. Through the consumption scenes in multiple industries and by acting as the smart hub in the distribution chain, Changjing Wanxiang provides comprehensive and quality consumption service experience for C-end customers while serving its B-end customers.

Changjing Wanxiang has a customer base with well-established companies such as Jiangsu Suning E-commerce Technology Co. Ltd. and Guangzhou Yang Cheng Tong Co. Ltd., as well as others including two major international credit card issuers, a large commercial bank in the PRC and a real estate developer in the PRC whose shares are listed on the Shanghai Stock Exchange. The effective periods of the cooperation or procurement agreements and/or confirmation letter entered into with the abovementioned customers range from around nine months to five years. The fees charged by Changjing Wanxiang in each project may be determined based on the actual services and products procured according to the agreed price list, a fixed contract sum or a proportion of the revenue generated by the customer.

Implementation plans

Changjing Wanxiang has the following implementation plans:

- (1) to develop a travel scenario solution featuring “commuter travel” as a special service in the financial service industry, covering business travels, car owner services and family travels. Changjing Wanxiang aims to deepen its cooperation with large customers and complete its cooperation with major customers in the financial industry by developing its technological system and its overall output. Changjing Wanxiang also plans to implant travel membership systems for C-end members into key cooperation projects;
- (2) to combine live broadcast and content marketing and through a membership direct-to-consumer (DTC) supply chain, deepen the business cooperation related to membership rights and marketing in the financial industry and commercial real estate industry, and broaden the depth and breadth of membership DTC rights; and
- (3) in the area of private membership operations, Changjing Wanxiang aims to engage in membership solutions service projects through consultation services; and to carry out membership marketing services.

BASIS OF CONSIDERATION

The Company has determined the structure and value of the Consideration after due and careful consideration. The minimum Consideration is HK\$22,847,224 (assuming that both the 2022 Financial Guarantee and the 2023 Financial Guarantee are not met) and the maximum Consideration is HK\$114,236,118 (assuming that both the 2022 Financial Guarantee and the 2023 Financial Guarantee are met). The final Consideration depends on whether the 2022 Financial Guarantee and/or the 2023 Financial Guarantee can be met, please refer to the table set out in the sub-section headed “Value of the Consideration” below for details.

Structure of the Consideration

As the future business development and, thus, financial results of Changjing Wanxiang will rely heavily on the commitment and performance of its core senior management, the issuance of the Consideration Shares instead of cash consideration is considered to be an effective way to incentivise the core senior management of Changjing Wanxiang (i.e. Ms. Zhong, Ms. Li and Mr. Sun) and align their interests with the Company and the Shareholders as a whole.

In addition, the structure of the Consideration has taken into account the possibility of not achieving the expected future performance of the Target Group as the Vendors cannot receive the Second Stage Consideration Shares and the Third Stage Consideration Shares unless the Target Group meets the 2022 Financial Guarantee and the 2023 Financial Guarantee, respectively.

Value of the Consideration

As disclosed in the Announcement, the Consideration was arrived at after arm's length negotiation between the Vendors and the Company with reference to, among others, (i) the historical operating performance of Changjing Wanxiang; (ii) the future prospect of the business of the Target Group; (iii) the valuation of the 100% equity interest in Changjing Wanxiang of RMB106,534,000 as at 31 October 2021 (the “**Valuation**”) appraised by an independent valuer (the “**Valuer**”) based on market approach; and (iv) the 2022 Financial Guarantee and the 2023 Financial Guarantee.

The Company would like to clarify that the historical operating performance of Changjing Wanxiang stated above refers to the operating performance of Changjing Wanxiang's current principal activities carried on since January 2021 and the capability of its senior management to enter into agreements or business negotiations with well-established companies in different sectors as disclosed in the section headed “Information of Changjing Wanxiang” above as well as the effectiveness of its solutions to its clients including the results of certain promotional activities such as gross merchandise value and the increment in number of new paid membership. As a start-up company with limited operating history, the endorsement by well-established companies can demonstrate that the senior management of Changjing Wanxiang has extensive business network, strong experience in the industry and is able to deliver solutions to different types of clients.

As regards to the future prospect of Changjing Wanxiang, the Company has made reference to “Promoting “Going to the Cloud” Action and Cultivating New Economic Development Proposal” 《關於推進“上雲用數賦智”行動培育新經濟發展實施方案》 formulated by the National Development and Reform Commission and Office of the Central Cyberspace Affairs Commission of China in April 2020, whereby the PRC government encourages the exploration of big data, new-generation digital technology applications and integrated innovations such as artificial intelligence, cloud computing, 5G, Internet of Things, and block chain for the digital transformation of enterprises.

Against the backdrop of the supportive policies of the PRC government, coupled with the rapid development of the online retail market and the strong demand for digitalisation by merchants, the Company considers that Changjing Wanxiang has the business network, technology and expertise to capitalise the growth of the SaaS business in the PRC and the Acquisition represents a good opportunity for the Group to tap into the e-commerce business, especially the Target Group's technology and experience for scene consumption in the age of mobile Internet.

As regards to the Valuation, the Company has taken into consideration of the Valuation as appraised by AVISTA Valuation Advisory Limited in determining the maximum Consideration. Details of the Valuation are set out in the section headed "Information of the Valuation" below.

In assessing the Valuation, the Company has:

- examined the key assumptions and discussed with the Valuer, and understood that they are commonly adopted assumptions in valuations and are in line with market practice;
- reviewed the selection criteria of the comparable companies and discussed with the Valuer, and considered they are relevant for comparative analysis purpose;
- reviewed the valuation methodology and concurred with the Valuer's approach to the Valuation; and
- considered the pre-money valuation of Changjing Wanxiang in a private fundraising conducted with a wholly owned subsidiary of Vendor 4, a professional financial investor, in January 2021, which is comparable to the appraised value under the Valuation.

Having taken into account the above, the Company considers that the Valuation is reasonable.

The maximum Consideration of HK\$114,236,118 represented a discount of approximately 12.4% to the appraised value of 100% equity value of Changjing Wanxiang of RMB106,534,000 (equivalent to approximately HK\$130,440,230).

Regarding the 2022 Financial Guarantee and the 2023 Financial Guarantee, they were determined based on, *inter alia*, (i) the operating performance of Changjing Wanxiang as disclosed above; (ii) the growth of SaaS business in the PRC; (iii) the extensive experience and business network of the senior management in the industry; and (iv) the Company's in-depth knowledge of cloud-based commerce and marketing solution business and its growth potential through its investment in an associate.

Taking into consideration of the above and the implementation plans as stated in the sub-section headed “Implementation plans” above, the Company considers that the 2022 Financial Guarantee and the 2023 Financial Guarantee are achievable. Changjing Wanxiang is required to meet the targets of both the Audited Consolidated Revenue and the Audited Consolidated Net Profit in the respective years for each of the 2022 Financial Guarantee and the 2023 Financial Guarantee in order to qualify for the issuance of the Second Stage Consideration Shares and the Third Stage Consideration Shares, respectively, to the Vendors. Failing which, the Vendors will not get any of the Second Stage Consideration Shares or the Third Stage Consideration Shares.

Given the Second Stage Consideration Shares and the Third Stage Consideration Shares will only be issued if the financial guarantees on both the Audited Consolidated Revenue and Audited Consolidated Net Profit are met for the financial years ending 31 December 2022 and 2023, respectively, the implied acquisition multiples of the Target Company under different scenarios are illustrated below solely for comparative analysis purposes:

	If both the 2022 Financial Guarantee and the 2023 Financial Guarantee are not met	If the 2022 Financial Guarantee is met but the 2023 Financial Guarantee is not met	If the 2022 Financial Guarantee is not met but the 2023 Financial Guarantee is met	If both the 2022 Financial Guarantee and the 2023 Financial Guarantee are met
Value of the total Consideration	HK\$22,847,224	HK\$57,118,059	HK\$79,965,283	HK\$114,236,118
Price-to-sales ratio (“P/S”) ^{Note 1}	Not more than 3.28x	Not more than 0.93x	Not more than 0.54x	Not more than 0.77x
Price-to-earning ratio (“P/E”) ^{Note 2}	N/A	Not more than 9.3x	Not more than 2.7x	Not more than 3.9x

Note 1: P/S is calculated based on the value of total Consideration divided by the actual revenue for the year ended 31 December 2021 or the minimum Audited Consolidated Revenue under the 2022 Financial Guarantee or the 2023 Financial Guarantee, where applicable.

Note 2: P/E is calculated based on the value of total Consideration divided by the actual net profit for the year ended 31 December 2021 or the minimum Audited Consolidated Net Profit under the 2022 Financial Guarantee or the 2023 Financial Guarantee, where applicable.

The maximum implied P/S for the Acquisition is of 3.28 times, which is within the range of 2.5 times to 11.7 times and is lower than the average of 5.8 times of the comparable companies, which were identified by the Valuer, as at the date of the Sale and Purchase Agreement. Furthermore, the maximum implied P/E of the Acquisition of 9.3 times is substantially lower than the Forward P/E Multiples (as defined below) of the comparable companies as shown in the table in the subsection headed “Comparable Companies” below.

Taking into consideration of the above factors, the Company considers that the Consideration is fair and reasonable.

INFORMATION OF THE VALUATION

Set out below is the key information of the Valuation:

Valuation methodology

In assessing the Valuation, the Valuer adopted the market approach based on the forecast price-to-earnings multiples (“**Forward P/E Multiple(s)**”) of comparable companies engaged in similar business with Changjing Wanxiang after the lack of marketability discount (“**LOMD**”) and the Audited Consolidated Net Profit guarantee for the year ending 31 December 2022 (“**FY2022 Profit Guarantee**”) to derive the equity value of Changjing Wanxiang.

Comparable companies

Under the market approach, the comparable companies were selected with reference to the following selection criteria:

- the primary industry of the companies is application software;
- the companies are principally engaged in the provision of e-commerce solution related business;
- the companies are listed in major exchange markets of Hong Kong, Japan, the United States and the United Kingdom; and
- the financial information of the companies is available to the public.

Based on the above selection criteria, an exhaustive list of eight comparable companies that engaged in similar business with Changjing Wanxiang were identified and details of the market data of such comparable companies that were available in Bloomberg database as at 31 October 2021, being the date of the Valuation (the “**Valuation Date**”), are set out as follows:

Name of comparable company	Stock Code	Currency (in mm)	Market	Last Twelve Months	Net Asset Value as of 31 October 2021	FY2022 Forecast Net Income	Forward P/E Multiple Before LOMD	Forward P/E Multiple After 15.8% LOMD
			Capitalization as of 31 October 2021	Net Income as of 31 October 2021				
Weimob Inc. China Youzan Limited	SEHK:2013	HKD	25,660	25	3,605	(135)	N/A	N/A ⁽¹⁾
Shopify Inc.	SEHK:8083	HKD	14,070	(577)	4,824	(296)	N/A	N/A ⁽¹⁾
BigCommerce Holdings, Inc.	NYSE:SHOP	USD	183,056	499	11,370	916	199.9x	168.3x
Wix.com Ltd.	NasdaqGM:BIGC	USD	3,286	(29)	161	(28)	N/A	N/A ⁽¹⁾
ChannelAdvisor Corporation	NasdaqGS:WIX	USD	10,591	(257)	196	(72)	N/A	N/A ⁽¹⁾
salesforce.com, inc.	NYSE:ECOM	USD	761	20	151	30	25.3x	21.3x
Commerce One Holdings Inc.	NYSE:CRM	USD	293,397	1,890	57,054	4,796	61.2x	51.5x
	TSE:4496	JPY	11,247	4,258	1,982	N/A	N/A	N/A ⁽²⁾

Notes:

- (1) Since the FY2022 forecast net income of these comparable companies is negative as of the Valuation Date, no meaningful multiples can be generated for any reference in the Valuation.
- (2) Since the FY2022 forecast net income of this comparable company is not available as of the Valuation Date, no multiples can be generated in the Valuation.

As the principal business of the above comparable companies is the provision of e-commerce solution related business, these comparable companies, together with Changjing Wanxiang, are considered to be similarly subject to fluctuations in the economy and performance of the e-commerce solution industry, among other factors. Thus, they are considered to be confronted with similar industry risks and rewards.

Valuation multiples and results

In performing the Valuation analysis of Changjing Wanxiang, the Valuer adopted FY2022 Profit Guarantee and obtained and applied the forecasted data of the comparable companies (where available in Bloomberg database) to derive the FY2022 Forward P/E Multiples of the comparable companies after the LOMD. The LOMD of 15.8% has been adopted and considered appropriate after making reference to “Stout Restricted Stock Study Companion Guide (2020 Edition)” published by Stout Risius Ross, LLC, Inc.

The Forward P/E Multiples of the above comparable companies ranged from 21.3x to 168.3x and the median of the Forward P/E Multiples was 51.5x. Since Changjing Wanxiang was loss-making and still at its early stage of businesses as of the Valuation Date, the low-end of the range of the Forward P/E Multiples of the comparable companies was used for the Valuation. The result of the Valuation is set out below:

	<i>RMB'000</i>
FY2022 Profit Guarantee	5,000
Adopted Forward P/E Multiple	21.3x
Estimated 100% equity value of Changjing Wanxiang	106,534

Key assumptions

The key assumptions adopted in the Valuation include the following:

- there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of Changjing Wanxiang;
- the availability of finance will not be a constraint for Changjing Wanxiang to achieve the amount of the FY2022 Profit Guarantee;
- Changjing Wanxiang will be able to achieve the FY2022 Profit Guarantee as agreed between the Company and Changjing Wanxiang;
- Changjing Wanxiang will retain and have competent management, key personnel, and technical staff to support their ongoing operation; and
- there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported values.

By Order of the Board
Minshang Creative Technology Holdings Limited
WU Jiangtao
Chairman

Hong Kong, 17 May 2022

As at the date of this announcement, the executive Directors are Mr. Wu Jiangtao, Mr. Lu Sheng Hong, Ms. Li Jia and Mr. Tao Jingyuan; and the independent non-executive Directors are Mr. Choi Tze Kit, Sammy, Mr. Cheung Miu and Mr. Cheung Pak To, Patrick.