网易云音乐

Cloud Village Inc.

(incorporated in the Cayman Islands with limited liability)

Stock Code: 9899

Annual Report 2021

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. William Lei Ding *(Chairman and Chief Executive Officer)*
Mr. Yong Li
Ms. Yanfeng Wang

Non-Executive Directors

Mr. Yat Keung Li
Mr. Dewei Zheng
Mr. Feng Yu

Independent Non-executive Directors

Mr. Ying Kit Caleb Lo
Mr. Xianfeng Gu
Mr. Zhong Xu

AUDIT COMMITTEE

Mr. Ying Kit Caleb Lo *(Chairman)*
Mr. Xianfeng Gu
Mr. Zhong Xu

REMUNERATION COMMITTEE

Mr. Zhong Xu *(Chairman)*
Mr. Xianfeng Gu
Mr. Ying Kit Caleb Lo

NOMINATION COMMITTEE

Mr. Xianfeng Gu *(Chairman)*
Mr. Ying Kit Caleb Lo
Mr. Zhong Xu

COMPANY SECRETARY

Ms. Wong Wai Yee Ella

AUTHORISED REPRESENTATIVES

Mr. Yong Li
Ms. Wong Wai Yee Ella

COMPLIANCE ADVISER

China International Capital Corporation Hong Kong Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and Registered Public Interest Entity Auditor
22/F, Prince's Building
Central, Hong Kong

REGISTERED OFFICE

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Grand Cayman KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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183 Queen's Road East
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Zhejiang, China

Corporate Information

LEGAL ADVISORS

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As to PRC law

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8 Jianguomenbei Avenue
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As to Cayman Islands law

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26th Floor, Central Plaza
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Wan Chai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cricket Square
Grand Cayman KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

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183 Queen's Road East
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PRINCIPAL BANK

Industrial and Commercial Bank of China Hangzhou Branch
No. 90, Qingchun Road
Gongshu District, Hangzhou
Zhejiang, China

STOCK CODE

9899

COMPANY WEBSITE

http://ir.music.163.com

Chairman's Statement

Dear Shareholders and all music enthusiasts,

There are two types of human expeditions: those towards the external depths of the universe, and those towards our internal heart and soul. Music falls into the latter.

I began this journey at the age of seven, when I first heard Teresa Teng (鄧麗君). Since then, I have listened to thousands of songs, and I think I can just about call myself a music enthusiast. Back then, my favourite hobby was collecting records, discovering new music, and sharing that joy with friends. Although we did not have the technology at the time to discover music as effortlessly as we could today, we still had a lot of fun.

When you have loved something for so long, you want to be part of it somehow – I think you could share that feeling. When NetEase went public in 2000, someone asked me what I wanted to pursue the most. My answer was that I wanted to build a music record label. As we entered the mobile internet era, I came to realise a lot can be re-imagined by combining the power of technology with music. With this belief, we launched NetEase Cloud Music in 2013, and since then embarked on this amazing odyssey to explore, experiment and grow, creating a leading music community in China.

Looking back, it may look like a matter of course for me to start a music business, and for NetEase Cloud Music to become what it is today. But as all voyagers know too well, no one can take success for granted when adventuring uncharted waters.

What we have learned along the way is that the "matter of course" theory could sometimes be a fallacy, or even a trap. You cannot come across new scenery by following trodden paths. New continents are only discovered by venturing into uncharted territories. At least in three ways, NetEase Cloud Music took an unprecedented approach in venturing into the business:

1. BUILDING ANOTHER MUSIC PLAYER IS STRAIGHTFORWARD. EXPANDING THE PLAYLIST IS NOT

There are more than a hundred million songs today. Sticking to a few favourite albums and several hundred songs would be akin to staying landbound during the Age of Discovery, or standing still on earth when space travel had been made possible – nothing right or wrong about it, but somehow a pity.

Since the inception, we at NetEase Cloud Music have been searching for new ways to help our users explore and discover new music. We have been solving this with features such as playlists, AI-powered rec-commendation, Personal FM, and the product innovation goes on.

If we describe music created throughout human history as a gigantic library, then perhaps we can say that NetEase Cloud Music animated this library's resources. If you truly love music, when you browse through NetEase Cloud Music's broader, more diverse, and more dynamic playlists, you will soak up joy and wonder, like a sponge.

Our experiences bound our perception. Through innovative technology, we believe we can help you see and hear further, and embark on a more fulfilling journey.

Chairman's Statement

2. SERVING PEOPLE'S EARS IS STRAIGHTFORWARD. TOUCHING OUR HEARTS IS NOT

All great things in the universe have the ability to connect beyond space and time. Just like stars in our universe, our hearts also long for that connection. The power of emotional resonance is precisely what music is all about. In the past, emotions evoked by that power could dissipate quickly like tears in the rain. But now, they are treasured like everlasting jewels in this community we built.

Thanks to our users' creativity, NetEase Cloud Music has transformed into a vibrant community where hundreds of millions of people share their feelings and tell their stories, those with joy and those with tears. It is an honour that our users have come up with an endearing nickname for our community – "Cloud Village."

In Cloud Village, a comment, a playlist or even just a simple "Like" or "Share" may have the power to echo with millions of other villagers. The moments of healing by music, and the feelings that are echoed by others, all instil into our "village" an unparalleled sense of belonging.

We live in an ever-changing world, where one platform could be easily replaced by another. However, we built our "village" with the faith that something that is bounded by emotional resonance will be here to stay, and would be difficult to be replicated or replaced.

3. STICKING TO EXISTING SONG BANK IS STRAIGHTFORWARD. NURTURING ORIGINAL MUSIC IS NOT

NetEase Cloud Music has been embracing independent artists since they met each other. People do not stand still, and music evolves. We have therefore made it our obligation to support original music and independent artists who are always at the forefront of expanding the boundaries of music's possibilities.

We are grounded in our belief that the success of only a few does not represent the true prosperity of an industry. Our philosophy and passion is, therefore, to provide a platform with mechanisms that more artists' work can be discovered, enjoyed, shared and spread.

In addition to distribution, promotion and royalty settlements and other instrumental forms of support that we provide, musicians living in Cloud Village can forge more meaningful connections with music enthusiasts. At NetEase Cloud Music, however niche your creation is, and no matter how little spotlight you have received in the past, you may still receive the now iconic "999+" comments for your work, and find the audience who truly appreciate what you create.

For music artists, every creation brings solace. But we believe, it is the resonance with their audience and the appreciation from them that give these artists the true sense of belonging and acknowledgement.

Chairman's Statement

In the past, we have an unwavering belief that if we want to bring wonders and surprises to our users, we should never play by the existing book. In the future, we will continue this way, sticking to what we have started, embarking on bolder explorations and trying to reach more intimate and special places in our users' hearts.

1. WE ASPIRE TO GO BEYOND MUSIC, AND THINK OF OURSELVES AS AN AUDIO BUSINESS

What will NetEase Cloud Music become in the future? It's going to be an audio-centric universe, in my view. Audio-based content is becoming ever more diverse: music, podcasts, live streaming, karaoke, audio theatre, radio -to name a few, creating multifaceted experiences and scenarios. Everyone can find a welcoming shelter of solace for his or her soul in this audio-centric universe.

2. WE ASPIRE TO CONNECT NOT JUST SOME PEOPLE, BUT THE MAJORITY OF PEOPLE

NetEase Cloud Music's mission is "empowering and connecting people through music." We care deeply about music. We care even more about people's emotions, creations, and inner worlds.

In the future, our Cloud Village will encompass more enticing content, functions and capabilities, converting more basic users into active participants and creators. In the past, you might have just used our platform to listen to music created by others. In the future, you will be leaving more creative footprints of your own. Each one of your creative inputs, small or big, will help us further enhance our community bond and strengthen that intimate connection between our villagers, making NetEase Cloud Music the most engaging, interactive community in music. Your participation will colour the future of our village with prosperity and possibility.

3. WE ASPIRE NOT JUST TO MONETISE THROUGH OUR DREAMS BUT TO BUILD A BIGGER STAGE TO DREAM AND ACHIEVE EVEN GREATER THINGS

NetEase Cloud Music is committed to investing in our support of independent artists. For those who pursue music as your dream, we hope that you no longer need to worry about the right stage for your talent and passion, and that your family and friends no longer need to worry about you financially. We hope you will see a music industry that is moving toward improving quality, rising standard and evolving tastes, where we will continue to be a driving force behind these positive changes.

In addition, we aspire to set our sights on the global stage, empowering independent artists to advance Chinese-pop, and let the world hear China's voices. We strive to give independent artists the tools and resources to improve the efficiency and depths of their creative endeavours. We understand these are challenging tasks for an uncharted territory. But we have never leant toward an easier path. We have al-ready proven ourselves when we first stepped into uncharted waters in China's original games and we will do it again for China's independent musicians and original music.

In 1977, Voyager 1 was launched to explore outer planets, commencing perhaps the longest and loneliest journey of human in history at that time. It carried a golden record called "Sounds of Earth," which contained, as the longest track on that record, a Guqin piece from ancient China called "Flowing Streams" (流水). The song had a beautiful origin from a Chinese proverb: two people became bosom friends because of music.

Chairman's Statement

I think about Voyager 1 often and, oddly, I feel some kind of bonding with the spacecraft, even though it has travelled beyond the solar system and crossed into interstellar space. I believe, subconsciously, we are striving for the same goal: to explore the time and universe via music, to reach deeper into people's heart and soul, and even to communicate with extraterrestrial civilisation.

Indeed, this may be the true power of music. If you are also a believer in this power of music, then I envision one day, our unconventional pursuit will be joined by more of you, and the numerous little efforts of ours will come together to form a majestic river that flows into the vast ocean.

At NetEase Cloud Music – we believe in the Power of Music.

William Lei Ding
Chairman, a music enthusiast

Hong Kong
24 March 2022

Financial and Business Highlights

	Year ended 31 December		
	2021	2020	Change (%)
	(RMB in thousands, except percentages)		
Revenue	**6,997,622**	4,895,731	+42.9%
Gross profit/(loss)	**142,674**	(595,335)	–124.0%
Loss before income tax	**(2,051,423)**	(2,949,887)	–30.5%
Loss for the year	**(2,056,092)**	(2,951,463)	–30.3%
Non-IFRS measure:			
Adjusted net loss	**(1,043,712)**	(1,567,989)	–33.4%

IFRS NUMBERS:

- Our revenue increased by 42.9% from RMB4.9 billion in 2020 to RMB7.0 billion in 2021.
- Our gross loss turned from RMB0.6 billion in 2020 to gross profit of RMB0.1 billion in 2021.
- Our loss for the year decreased by 30.3% from RMB3.0 billion in 2020 to RMB2.1 billion in 2021.

NON-IFRS NUMBERS:

- Our adjusted net loss decreased by 33.4% from RMB1.6 billion in 2020 to RMB1.0 billion in 2021. Adjusted net loss is a non-IFRS measure and is defined as loss for the year adjusted by adding back equity-settled share-based payments and changes in fair value of convertible redeemable preferred shares. The following table reconciles loss for the year to adjusted net loss for both years:

	For the year ended 31 December	
	2021	2020
	(in RMB thousands)	
Loss for the year attributable to the equity holders of our company	**(2,056,092)**	(2,951,463)
Add:		
Equity-settled share-based payments [1]	**257,142**	21,893
Changes in fair value of convertible redeemable preferred shares [2]	**755,238**	1,361,581
Adjusted net loss	**(1,043,712)**	(1,567,989)

Notes:

(1) Equity-settled share-based payments mainly represent share-based compensation expenses incurred in connection with our pre-IPO share incentive plan approved and adopted by our company in 2016. Share-based compensation expenses are not expected to result in future cash payments and are not indicative of our core operating results. The reconciling item is non-cash and does not result in cash outflow.

(2) Changes in fair value of the convertible redeemable preferred shares are not directly related to our group's ability to generate revenue from its daily operations, and we did not record any further changes in fair value of the convertible redeemable preferred shares as such convertible redeemable preferred shares were re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares in our initial public offering in December 2021. The reconciling item is non-cash and does not result in cash outflow.

Financial and Business Highlights

For the calculation and reconciliation of this non-IFRS measure, please refer to the page 18 of this annual report.

KEY OPERATING DATA

The following table sets forth our MAUs of online music services for the year indicated.

	Year ended 31 December	
	2021	2020
MAUs of online music services (in millions)	**182.6**	180.5

Our revenues depend on our ability to monetise, to convert more users into paying users and to increase the spending of our paying users. The following table sets forth our monthly paying users and monthly ARPPU in 2020 and 2021.

	Year ended 31 December	
	2021	2020
Monthly paying users (in thousands)		
Online music services	**28,940.4**	15,961.5
Social entertainment services	**683.3**	327.1
Monthly ARPPU (RMB)		
Online music services(1)	**6.7**	8.4
Social entertainment services(2)	**448.1**	573.8

Notes:

(1) The revenues used to calculate the monthly ARPPU of online music services include revenues from membership subscriptions only, which amounted to RMB1,603.9 million and RMB2,333.5 million in 2020 and 2021, respectively.

(2) The revenues used to calculate the monthly ARPPU of social entertainment services include revenues from social entertainment only, which amounted to RMB2,252.2 million and RMB3,674.2 million in 2020 and 2021, respectively.

Management Discussion and Analysis

MARKET OVERVIEW

The Online Music Entertainment Market in China

We operate in the online music entertainment space and our users are primarily located in the Mainland China. Compared with music offered in traditional formats, online music entertainment platforms allow users to access a broader range of musicians and artists, music and music-inspired content, and resonate and interact with fellow music enthusiasts. China's online music entertainment user base continues to grow, benefiting from the growing popularisation of mobile internet, rising demand in online entertainment, and enhancement of copyright awareness in users. According to China Internet Network Information Center (CNNIC), the number of users in China's online music entertainment market reached 658.3 million in 2020, and will reach 792.8 million in 2025 (according to the report published by China Insights Industry Consultancy Limited in 2021 which is referenced in the "Industry" section of our company's prospectus dated 23 November 2021, available on the Stock Exchange's website). Among them, users who were born in 1990 or later accounted for nearly 50% of all users in China's online music entertainment market in 2020. The scale of users who were born in 1990 or later is expected to grow faster than other age groups, and their proportion among all users will further increase to 57% in 2025. In addition to consuming high-quality music and music-inspired content, younger users have greater potential due to their greater demand for interacting with others and expressing themselves. As a result, the needs of younger users have stimulated the innovation and development of social networking features of online music entertainment services, leading to the next stage in the online music entertainment industry.

The online music entertainment market in China has diversified monetisation channels, including membership subscriptions, sales of digital albums, advertising services and music-inspired social entertainment services (e.g., online karaoke and audio live streaming services).

BUSINESS OVERVIEW

We operate a leading online music platform featuring a highly interactive content community for music enthusiasts in terms of user scale and engagement. We have built a large-scale, robust and rapidly growing business to provide community-centric online music services and social entertainment services to our users. Our brand appeals to and resonates with the spirit of young, highly engaged music enthusiasts. Through our online music platform, NetEase Cloud Music, and ancillary, social entertainment products, such as LOOK Live Streaming, Sheng Bo and Yin Jie, we empower music enthusiasts with a wide variety of technology-driven tools to discover, enjoy, share and create diverse music and music-inspired content and to interact with each other. Our revenue streams primarily consist of two key components, online music services and music-inspired social entertainment services. Our online music services comprise membership services to our paying users, advertising services to advertising customers in various formats including brand advertising and performance-based advertising, sales of digital albums and singles to purchasers, and copyright sublicensing. Our music-inspired social entertainment services include hosting live streaming services through which we generate revenue from virtual item purchases by our community and consumed on our platform.

Management Discussion and Analysis

We kicked off 2021 with a firm step forward in our evolution into an all-in-one online music and audio entertainment platform, home to music enthusiasts in China. Throughout the year, we successfully enriched our content ecosystem with growing independent artists and enlarged music labels library, elevated our differentiated community ecosystem and improved user engagement across our large and stable user scale. Meanwhile, we meaningfully improved our profitability, mainly attributable to strengthened commercialisation capability and optimised content cost structure. We are now better positioned to shift our superior offerings into full play amid a healthier industry environment.

Our MAUs of online music services increased from 180.5 million in 2020 to 182.6 million in 2021. Our users are highly engaged, with DAU/MAU ratio stayed well above 30% in 2021, driven by enhancements to our comprehensive and unique product and content offerings, including music tracks from both big labels and independent musicians, as well as our music-inspired user generated content ("UGC"). Each daily active user on average spent approximately 78.2 minutes per day on listening to music on our platform in 2021. Meanwhile, nearly half of users browsed the "comments section" while listening to music. At the end of 2021, 27% of our users generated content on the platform, and 32% of music streams were attributable to platform recommendations, up from 25% and 28%, respectively, as of the end of 2020.

These improvements, along with our continued monetisation efforts, are already showing meaningful gains in our operating leverage, and for the full year of 2021, our total revenues grew by 42.9% year-over-year to RMB6,997.6 million. We have also managed to improve profitability along with content enhancement, mainly attributable to cost optimisation of our copyright structure. As a result, we achieved a positive gross margin of 2.0% for the full year of 2021.

Looking ahead, we are strategically expanding our prospects by:

- cultivating our users' willingness to pay and pursuing commercialisation potential, via improved user experience, innovative product and content offerings, and deepened user engagement;
- exploring innovations in social networking, utilising user behaviour and music preference to connect users with each other, providing additional social networking options; and
- further diversifying our content offerings with better investment efficiency, via active negotiation with copyright holders, as well as progress in in-house music production.

We expect to generate incremental contribution from these initiatives going forward.

Management Discussion and Analysis

Product and Service Innovations

We continued our innovation efforts in 2021. Innovation and superior quality have been the core competitive advantages for our products and services. Innovative features on our platform enable users to express themselves and interact with others.

- We introduced a new function called "Sheet Music Library" in November. Through official copyright cooperation with world-famous digital music score providers, we have launched millions of authorised music scores, ranging from classical music to pop music. Through this function, our users can quickly and accurately check and use authorised music scores of their favourite music tracks. In addition to providing more professional and efficient content services for music lovers, we are further exploring more possibilities in the music education fields, including introducing music scores through audiovisual methods. At the same time, we are allowing our users to upload music scores to further diversify our user-generated content and music ecosystem.
- We launched our brand-new "Beat transaction platform" in mid-December, accommodating transactions between beat-makers and musicians or music lovers. We believe this innovation could not only allow beat-makers to realise commercial value, but also liberate content creativity by individual musician with better linkage with upstream content creators, enriching our content ecosystem.
- We launched an innovative function "Audio Artists Comments" in November, allowing music talents to publish audio-formatted messages in the comments section under their new music tracks. The new function provided artists with broadened scenario and formats to promote their new songs and better connect with audiences, through their unique voice texture and characteristics.
- Our new function "Music Gift Box" has been well received by our users, which allows individual users to send customised video content to friends. The new function not only fosters music content recreation and distribution, but also enhances the resonance between users.
- We actively expanded our footprint in the IoT market in 2021 with the growth of smart speakers at an accelerated pace beginning in November 2021 in conjunction with music copyright opening on smart devices. We believe broader IoT coverage can help us attract new users, as well as improve our users' overall activity and stickiness across multiple devices.

Content Enhancement

We offer a full spectrum of various content as our young users' demands are increasingly diverse and personalised. Our content library consisted of approximately 80 million music tracks by the end of 2021, including music from established labels as well as independent artists. Our robust library, together with UGC content, brings users broad and differentiated content.

Music labels. We continued to secure more high-quality content with better return on investment (ROI). In July 2021, regulators in the People's Republic of China (the "PRC") issued an order on anti-monopoly, which has the effect of preventing exclusivity in the music content of music labels going forward. We welcomed this favourable shift as it fosters healthier development of the overall online music industry in China.

- In August 2021, we completed a direct agreement with Warner Music Group, which means that we now have direct digital distribution contracts with all three of the world's largest recording labels.
- We are also actively completing our major Chinese music library, adding new copyrighted music from popular labels in the second half of 2021, including Modern Sky, Emperor Entertainment Group, China Record Group, Feng Hua Qiu Shi, and Yuehua Entertainment, among others. In addition to bringing on more music copyrights, we strive to deepen our collaboration with music labels, including customised music, ticketing and live shows.

Management Discussion and Analysis

More importantly, we are pleased to see favourable industry trends in more reasonable copyright fees and cost structures, providing us with the flexibility to optimise our investment in content using a more disciplined and predictable approach.

Independent artists. In addition to music labels, we became a natural incubator of music talents looking for an audience, empowered by our massive community and large cohort of young users with diverse and personalised tastes. By the end of 2021, we were serving more than 400,000 Registered Independent Artists on our platform. Despite our rapid scale expansion, the activity of our independent artists continued to steadily improve. Within our content library, around 1.9 million music tracks came from our Registered Independent Artists, representing an increase of approximately 80% from that at the end of 2020.

In 2021, our support projects for independent artists helped them create and promote music, as well as realise commercial value.

- In late November 2021, we launched "Project Cloud Ladder 2022", upgrading our independent artists' project with enriched traffic and commercial support. First, we extended our independent artist identification system to music arrangers and producers, and then to singers and composers/lyricists. Comprehensive support projects such as this one help nurture talent across the value chain of music development and production, further enriching our music ecosystem.

UGC content. In 2021, we continued fostering our UGC content ecosystem through constant innovation and product improvement across multiple content formats, including but not limited to, Moments (picture/text), Hot Topic, Podcasts (audio) and Mlogs (video/picture). We also developed multiple assistant tools to facilitate UGC creation on our platform, further enhancing our UGC ecosystem and users' engagement. Furthermore, we have accumulated 3.1 billion UGC playlists on our platform. Our unique user base and supportive community culture makes our UGC content unparalleled in the market.

In-house music. In 2021, we made progress with our in-house music production initiatives, which further diversify and differentiate our content offering. Some of our popular in-house music includes "Dislocation of Time and Space"《錯位時空》, "Take My Heart"《以愛為囚》, "Masquerade"《假面舞会》and "Delete it"《删了吧》, demonstrating our ability to produce hit songs in house.

Going forward, we plan to bring more quality content to our platform to bolster our music library, while working together with other industry players to benefit all music lovers.

Management Discussion and Analysis

Future Development

We seek to further expand the boundaries of our platform and focus on long-term growth. To that end, we plan to implement the following strategies over the next three years:

(a) *Relentlessly innovating our products and services.* We will continue to relentlessly innovate and refine our products and services while deepening our understanding of users' evolving needs and preferences. By creating a more intelligent, thoughtful user experience, we believe we will further strengthen our ability to attract and engage users and to increase their loyalty and commitment to our products and services. We will also continue to enrich and diversify our music and music-inspired content to deepen our connection with our users and strengthen our market position. At the same time, we will actively explore new business models to keep our finger on the pulse to ensure that we remain adaptive to trends in the online music entertainment industry.

(b) *Further developing our community.* We will focus on providing more personalised and diversified music and music-inspired content to our users, while continuing to encourage and empower them to create content. In particular, we will uphold our commitment to supporting independent artists, attracting and cultivating them by leveraging our unique, engaging community culture, organising various online and offline events, and inspiring them to continually create high-quality content on our platform. We are committed to improving user engagement and deepening users' connection with each other and with our platform. By further stimulating user participation and content creation, we believe we are able to organically grow our user base, increase user stickiness and improve paying user conversion.

(c) *Continuing to invest in technological capabilities*. We will continue to invest in improving our technological capabilities to better understand our users and improve user experience. In particular, we will invest in research and development for artificial intelligence, machine learning and data analytics to gain more insight into our users' needs and preferences and to refine our ability to make personalised content recommendations. At the same time, we will continue to invest in and upgrade our AI-enabled creative assistance technologies to empower independent artists and users in their creative pursuits. We may also explore virtual reality and augmented reality technologies to offer a more engaging experience of music and music-inspired content, especially in our music-inspired social entertainment services space.

(d) *Pursuing win-win collaboration with our partners*. Leveraging our brand, user base, community culture and technological capabilities, we will continue to deepen our collaboration with a variety of partners, such as content partners, brands and advertisers and technology companies, to strengthen our synergy with them and to achieve more win-win situations. For example, we are able to achieve further content enrichment and revenue diversification while empowering our partners with our valuable user and content pool. We will seek to explore new business models with existing and potential partners to realise the steady, long-term growth of our platform.

(e) *Further diversifying our monetisation capabilities*. In response to the continuously evolving needs of our users, we will continue to leverage our innovations to explore new monetisation channels, further diversifying our sources of income and realising the commercial potential of our platform. We will continue to enrich our content offerings and commercialise our platform. For our online music services, we will continue to strengthen our leadership position in music streaming services through diversified music content offerings that appeal to our users. For our social entertainment services, we plan to expand our offerings of music-inspired content, such as audio and video live streaming content by attracting premium performers to our platform. We will also promote our paid content and services available in our community and therefore increase the number of paying users.

Management Discussion and Analysis

FINANCIAL REVIEW

The following table sets forth our consolidated statements of profit or loss, both in absolute amounts and as percentages of our total revenues, for the years ended 31 December 2021 and 2020, respectively:

	Year ended 31 December			
	2021		2020	
	RMB	**%**	RMB	%
	(in thousands, except for percentages)			
Revenue	**6,997,622**	**100.0**	4,895,731	100.0
Cost of revenue	**(6,854,948)**	**(98.0)**	(5,491,066)	(112.2)
Gross profit/(loss)	**142,674**	**2.0**	(595,335)	(12.2)
Selling and marketing expenses	**(431,312)**	**(6.1)**	(327,323)	(6.7)
General and administrative expenses	**(264,216)**	**(3.7)**	(96,909)	(2.0)
Research and development expenses	**(869,146)**	**(12.4)**	(576,457)	(11.8)
Other income	**72,067**	**1.0**	71,251	1.5
Other gains/(losses), net	**2,998**	**0.0**	(17)	(0.0)
Operating loss	**(1,346,935)**	**(19.2)**	(1,524,790)	(31.2)
Share of results of investments accounted for using equity method	**2,334**	**0.0**	(3,658)	(0.1)
Finance income	**48,416**	**0.7**	100,642	2.1
Changes in fair value of Convertible redeemable Preferred Shares	**(755,238)**	**(10.8)**	(1,361,581)	(27.8)
Loss on buy-back of Convertible redeemable Preferred Shares	**–**	**–**	(160,500)	(3.3)
Loss before income tax	**(2,051,423)**	**(29.3)**	(2,949,887)	(60.3)
Income tax expense	**(4,669)**	**(0.0)**	(1,576)	(0.0)
Loss for the year attributable to equity holders of the Company	**(2,056,092)**	**(29.3)**	(2,951,463)	(60.3)
Non-IFRS measure：				
Adjusted net loss [1]	**(1,043,712)**	**(14.9)**	(1,567,989)	(32.0)

Notes:

(1) Adjusted net loss is a non-IFRS measure. We define "adjusted net loss" as loss for the year adjusted by adding back equity-settled share-based payments and changes in fair value of convertible redeemable preferred shares. Adjusted net loss is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net loss has limitations as an analytical tool, and you should not consider it in isolation from, as a substitute for analysis of, or superior to, our results of operations or financial condition as reported under IFRS. For more details, see "– Non-IFRS Measure" in this section.

Management Discussion and Analysis

Overview

Over the reporting period, we recorded a revenue of RMB6,997.6 million and a gross profit of RMB142.7 million. Our net loss amounted to RMB2.1 billion and RMB3.0 billion in 2021 and 2020, respectively. Our adjusted net loss in 2021 was RMB1.0 billion, representing a decrease of RMB524.3 million or 33.4% from that in 2020. The decrease in the adjusted net loss was mainly due to the increased net revenues as well as improved cost control.

Revenue

Our revenue increased by 42.9% from RMB4,895.7 million in 2020 to RMB6,997.6 million in 2021.

Revenue from online music services increased by 25.4% from RMB2.6 billion in 2020 to RMB3.3 billion in 2021, primarily due to the significant growth in revenues from sales of membership subscriptions. In particular, MAUs of online music services grew from 180.5 million in 2020 to 182.6 million in 2021, and monthly paying users of online music services expanded from 16.0 million in 2020 to 28.9 million in 2021. Our monthly ARPPU (average revenue per paying user) of online music services decreased from RMB8.4 in 2020 to RMB6.7 in 2021, primarily because we increased our use of joint membership packages in cooperation with other platforms from 2020 to 2021, in which our membership subscriptions were sold at a discount to promote our subscriptions and broaden the reach of our services.

Revenue from social entertainment services and others increased by 63.1% from RMB2.3 billion in 2020 to RMB3.7 billion in 2021, as a result of the rapid growth of social entertainment services revenue, substantially all of which was derived from live streaming services. In particular, our monthly paying users of social entertainment services expanded from 327.1 thousand in 2020 to 683.3 thousand in 2021, and monthly ARPPU of social entertainment services was RMB573.8 in 2020 and RMB448.1 in 2021, respectively.

Cost of Revenue

Our cost of revenue increased by 24.8% from RMB5.5 billion in 2020 to RMB6.9 billion in 2021, attributable to an increase in content service costs from RMB4.8 billion in 2020 to RMB6.0 billion in 2021, as a result of an increase in revenue sharing fees along with an increase in revenue from social entertainment services.

Gross Profit/(Loss) and Positive/Negative Gross Margin

As a result of the above, we incurred a gross loss of RMB595.3 million representing a negative gross margin of 12.2% in 2020 and received a gross profit of RMB142.7 million representing a gross profit margin of 2.0% in 2021. Our gross margin turned from negative to positive as a result of our significant revenue increase and control over content licensing fees.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 31.8% from RMB327.3 million in 2020 to RMB431.3 million in 2021, primarily due to the increased expenses related to promoting our music-inspired social entertainment products and services.

Management Discussion and Analysis

General and Administrative Expenses

Our general and administrative expenses increased by 172.6% from RMB96.9 million in 2020 to RMB264.2 million in 2021, primarily due to an increase in employee benefit expenses as a result of (i) an increase in the headcount of administrative personnel to support our business growth, and (ii) an increase of share-based payment expenses related to employee share incentive plans. In addition, we incurred listing expenses of RMB65.5 million.

Research and Development Expenses

Our research and development expenses increased by 50.8% from RMB576.5 million in 2020 to RMB869.1 million in 2021, primarily due to an increase in employee benefit expenses and technology development fees as a result of the expansion of our business.

Other Income

Our other income increased slightly from RMB71.3 million in 2020 to RMB72.1 million in 2021.

Other Gains/(Losses), Net

We recorded other losses, net of RMB17 thousand in 2020, while we recorded other gains, net of RMB3.0 million in 2021. The change from losses to gains was primarily due to a decrease of our net foreign exchange losses.

Finance Income

Our finance income decreased by 51.9% from RMB100.6 million in 2020 to RMB48.4 million in 2021, primarily due to a decrease in the interest income from bank deposits which resulted from a decrease in interest rate.

Changes in Fair Value of Convertible Redeemable Preferred Shares

Historically, we have completed multiple rounds of financing by issuing convertible redeemable preferred shares to investors. The changes in fair value of convertible redeemable preferred shares decreased by 44.5% from RMB1,361.6 million in 2020 to RMB755.2 million in 2021 were mainly the result of changes in the valuation of our company, which was determined with reference to the offering price of our shares in our initial public offering in December 2021.

Taxation

We recorded income tax expenses of RMB1.6 million in 2020 as compared to income tax expense of RMB4.7 million in 2021, primarily due to an increase in taxable income attributable to certain of our group companies.

Loss for the Year

As a result of the above, our loss for the year decreased by 30.3% from RMB3.0 billion in 2020 to RMB2.1 billion in 2021.

Management Discussion and Analysis

Non-IFRS Measure

To supplement our consolidated results, which are prepared and presented in accordance with IFRS, we use adjusted net loss as an additional financial measure, which is not required by, or presented in accordance with IFRS. We believe that this measure facilitates comparisons of operating performance from period to period and company to company by eliminating the potential impact of items that our management does not consider to be indicative of our operating performance, such as certain non-cash items. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider them in isolation from, as a substitute for, analysis of, or superior to, our results of operations or financial condition as reported under IFRS. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies, and may not be comparable to other similarly titled measures used by other companies. Our presentation of this non-IFRS measure should not be construed as an implication that our future results will be unaffected by unusual or non-recurring items.

The following table sets forth a reconciliation of our adjusted net loss for the years ended 31 December 2020 and 2021, respectively.

	For the year ended 31 December	
	2021	2020
	(in RMB thousands)	
Loss for the year attributable to the equity holders of the Company	**(2,056,092)**	(2,951,463)
Add:		
Equity-settled share-based payments[a]	**257,142**	21,893
Changes in fair value of convertible redeemable preferred shares[b]	**755,238**	1,361,581
Adjusted net loss	**(1,043,712)**	(1,567,989)

Notes:

(a) Equity-settled share-based payments mainly represent share-based compensation expenses incurred in connection with our pre-IPO share incentive plan approved and adopted by our company in 2016. Share-based compensation expenses are not expected to result in future cash payments and are not indicative of our core operating results. The reconciling item is non-cash and does not result in cash outflow.

(b) Changes in fair value of the convertible redeemable preferred shares are not directly related to our group's ability to generate revenue from its daily operations, and we did not record any further changes in fair value of the convertible redeemable preferred shares as such convertible redeemable preferred shares were re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares in our initial public offering in December 2021. The reconciling item is non-cash and does not result in cash outflow.

Management Discussion and Analysis

Liquidity and Capital Resources

As at 31 December 2021, we funded our cash requirements primarily from cash flows from financing and cash flows from investors (including convertible redeemable preferred shares). We had cash and cash equivalents of RMB3.0 billion and RMB0.9 billion as at 31 December 2020 and 2021, respectively.

Our principal uses of cash have been for funding required working capital, capital expenditures and other recurring expenses to support the expansion of our group's operations. Going forward, our company believes that our liquidity requirements will be satisfied by a combination of net proceeds received from our company's global offering, and other funds raised from capital markets from time to time. Any significant decrease in users of our online music services and/or social entertainment services, or a significant decrease in the availability of external financing may adversely impact our liquidity.

The following table sets forth a summary of our cash flows for the year indicated, respectively:

	Year ended 31 December	
	2021	2020
	(in RMB thousands)	
Operating cash outflows before movement in working capital	**(1,079,564)**	(1,498,416)
Changes in working capital	**176,896**	530,510
Income taxes paid	**(5,744)**	(1,552)
Net cash used in operating activities	**(908,412)**	(969,458)
Net cash (used in)/generated from investing activities	**(3,862,405)**	3,405,915
Net cash generated from/(used in) financing activities	**2,614,174**	(320,948)
Net (decrease)/increase in cash and cash equivalents	**(2,156,643)**	2,115,509
Cash and cash equivalents at the beginning of the year	**3,006,206**	911,266
Exchange differences on cash and cash equivalents	**3,891**	(20,569)
Cash and cash equivalents at the end of the year	**853,454**	3,006,206

Report of Directors

Our board is pleased to present this report of Directors together with the consolidated financial statements of our group for the 2021 financial year.

OVERVIEW OF OUR BOARD

Our Directors who held office during the Reporting Period and up to the Latest Practicable Date are:

Executive Directors:

Mr. William Lei Ding *(Chairman and Chief Executive Officer)*
Mr. Yong Li*
Ms. Yanfeng Wang*

Non-Executive Directors:

Mr. Yat Keung Li
Mr. Dewei Zheng*
Mr. Feng Yu*

Independent Non-Executive Directors:

Mr. Ying Kit Caleb Lo**
Mr. Xianfeng Gu**
Mr. Zhong Xu**

* effective date of appointment on 25 May 2021
** effective date of appointment on the Listing Date

Biographical details of our Directors are set out in "Directors and Senior Management" at pages 36 to 39 of this annual report.

In accordance with Article 16.20 of our articles of association, Mr. Yong Li, Ms. Yanfeng Wang, and Mr. Dewei Zheng shall retire at our upcoming annual general meeting. Each of these Directors, being eligible, will offer themselves for re-election at our upcoming annual general meeting.

Our company is not aware of other changes in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Report of Directors

OVERVIEW OF OUR COMPANY

Our company was incorporated in the Cayman Islands on 2 February 2016 as an exempted limited liability company. Our shares were listed on the Main Board of the Stock Exchange on 2 December 2021.

Our Business

We operate an online music platform in China. We provide community-centric online music services and social entertainment services for music enthusiasts. NetEase Cloud Music empowers music enthusiasts to connect with one another and to discover, enjoy, share and create diverse music and music-inspired content.

Subsidiaries

Particulars of our company's subsidiaries are set out in Note 17 to the consolidated financial statements.

Purchase, Sale or Redemption of our company's Listed Securities

Neither our company nor any of its subsidiaries purchased, sold or redeemed any of our securities listed on the Stock Exchange since the Listing Date and until the end of the Reporting Period.

Public Float

Based on information that is publicly available to our company and within the knowledge of our Directors as at the Latest Practicable Date, our company had maintained the prescribed percentage of public float under the Listing Rules.

OVERVIEW OF OUR PERFORMANCE OVER THE REPORTING PERIOD

A fair review of the business of our group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of our group's financial performance and an indication of likely future developments in our group's business, is set out in "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. Those discussions form part of this report. Events affecting our company that have occurred since the end of the 2021 financial year are set out in "Important Events After the Reporting Period" in this annual report. An account of our company's key relationships with our employees, customers and suppliers and others that have a significant impact on our company is set out in "Environmental, Social and Governance Report" at pages 59 to 98 of this annual report.

Results of our Group

The results of our group for the Reporting Period are set out in the consolidated statement of profit or loss at page 104 of this annual report.

Report of Directors

Financial Summary

A summary of the consolidated results and the assets and liabilities of our group for the last four financial years, as extracted from the consolidated financial statements, is set out at page 178 of this annual report. This summary does not form part of the consolidated financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under our articles of association or the laws of the Cayman Islands that would oblige our company to offer new shares on a pro-rata basis to our Shareholders.

Tax Relief and Exemption

Our Directors are not aware of any tax relief and exemption available to our Shareholders by reason of their holding of our securities.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of our group during the Reporting Period are set out in Note 15 to the consolidated financial statements.

Share Capital and Shares Issued

Our company has one class of shares with a nominal or par value of US$0.0001 each. Details of movements in the share capital of our company, and details of our shares issued, during the Reporting Period are set out in Note 25 to the consolidated financial statements.

Donation

During the Reporting Period, our group made charitable donations of RMB30,000.00 (2020: RMB209,298.49).

Debenture Issued

Our group did not issue any debenture during the Reporting Period.

Equity-linked Agreements

Save as disclosed in "Share Incentive Plan" at page 43 of this annual report, no equity-linked agreements were entered into by our group, or existed during the Reporting Period.

Dividends

Our board does not recommend the distribution of a final dividend for the Reporting Period.

No Shareholder has waived or agreed to waive any dividends for the 2021 financial year.

Report of Directors

Permitted Indemnity

Pursuant to our articles of association and subject to the applicable laws and regulations, every Director shall be indemnified out of the assets of our company against all losses or liabilities incurred or sustained which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force over the Reporting Period. Our company has taken out liability insurance to provide appropriate coverage for the Directors.

Distributable Reserves

Our company may pay dividends out of either profits or share premium account provided that immediately following the payment of such dividends, our company will be in a position to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2021, our company had distributable reserves of RMB13,861.5 million (2020: RMB508.9 million).

Details of movements in the reserves of our group and our company during the Reporting Period are set out in the consolidated statement of changes in equity at pages 108 to 109 and in Note 36(b) to the consolidated financial statements, respectively.

Bank Loans and Other Borrowings

As at 31 December 2021, our Group did not have any bank loans or other borrowings.

Pledge of Assets

As at 31 December 2021, none of our assets were pledged to secure our loans and banking facilities.

Gearing Ratio

As at 31 December 2021, our gearing ratio was 21.4%. Gearing ratio is calculated as our total liabilities divided by our total assets as at a particular date.

Significant Investments

Save as disclosed in this report, we did not make or hold any significant investments (including any investment in an investee company with a value of 5 percent or more of our company's total assets) during 2021.

Material Acquisitions and Disposals

We did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities or associated companies during 2021.

Report of Directors

Major Customers and Suppliers

During the Reporting Period, revenue from our group's top five customers, which are primarily media and internet companies, accounted for 13.9% (2020: 14.6%) of our group's revenue in the same year.

During the Reporting Period, cost of revenue from our group's five largest suppliers accounted for 18.6% (2020: 28.8%) of our group's total cost of revenue amount in the same year. Our group's largest supplier for the 2021 financial year accounted for approximately 4.7% (2020: 14.4%) of our group's total cost of revenue amount for the same year.

During the Reporting Period, our group did not experience any significant disputes with its customers or suppliers.

Employee and Remuneration Policy

As at 31 December 2020 and 2021, we had 1,148 and 1,503 employees, respectively. As at 31 December 2021, substantially all of our employees were based in China.

The number of employees employed by our group varies from time to time depending on business need. Employees' remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. Our group's compensation system is well-structured and consists of a basic salary, a performance-based bonus and long-term incentives, which is reviewed periodically. Our group also provides training sessions to its employees, which mainly focus on campus recruiting personnel, management personnel and professional technology personnel.

As required by regulations in China, we participate in various employee social security plans that are organised by municipal and provincial governments for our PRC-based full-time employees, including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing funds. These plans are defined contribution plans, under which, we and our PRC-based employees who are participants are required to make monthly contributions in the amount specified under PRC laws and regulations, which are calculated based on the employee's actual salary level in the previous year, subject to certain ceilings imposed. There are no forfeited contributions for these defined contribution plans as the contributions are fully vested to the employees upon payment to the scheme. The prescribed percentages are determined by the PRC government and differ across municipalities and provinces in Mainland China. See Note 2.17 to the consolidated financial statements for more information on defined contribution plans.

The range of applicable percentages for these state-managed contribution plans for the 2021 financial year as applicable to our group are listed below:

	Percentages
Pension insurance	15% to 16%
Medical insurance	5.45% to 10.5%
Unemployment insurance	0.48% to 0.5%
Work-related injury insurance	0.16% to 0.4%
Housing provident fund	7% to 12%

Remuneration of directors and other senior management of our group is reviewed by our company's remuneration committee to the Board based on our performance and the senior managements' respective contributions to our group.

Additionally, our company has a share incentive plan, the material terms of which are described in Appendix IV to the Prospectus. The total remuneration cost incurred by us during the Reporting Period was RMB1,120.7 million (2020: RMB646.6 million).

Report of Directors

PRINCIPAL RISKS AND UNCERTAINTIES

The following list is a summary of certain principal risks and uncertainties facing our group, some of which are beyond our control:

(a) ability to achieve or maintain profitability in the future;

(b) ability to accurately predict and effectively cater to changing user preferences in terms of content and product offerings;

(c) ability to protect, maintain and enhance our brand and community culture;

(d) uncertainties with compliance with laws and regulations in the PRC and other jurisdictions relating to data privacy and security;

(e) uncertainties with respect to the enactment, interpretation and implementation of certain laws, regulations and government policies in the PRC;

(f) ability to effectively execute monetisation strategies;

(g) intense competition for users, users' time and attention, content, talent, advertising customers and other resources; and

(h) risks related to industry, business and operations.

The above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in our shares.

CONTRACTS WITH CONTROLLING SHAREHOLDER AND MANAGEMENT

NetEase is the controlling Shareholder (as defined under the Listing Rules) of our company. Save as disclosed in the Prospectus and in this annual report, to the best knowledge and belief of our Directors, NetEase has no contracts of significance with us or have any competing business which would require disclosure under Rule 8.10 of the Listing Rules.

Save as disclosed in the Prospectus and in this annual report, no contract, concerning the management and administration of the whole or any substantial part of the business of our company was entered into or existed during the Reporting Period.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Our group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

To the best of our knowledge, our group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of our group. During the Reporting Period, there was no material breach of, or non-compliance with, applicable laws and regulations by our group.

Report of Directors

MATERIAL LITIGATION

Our company was not involved in any material litigation or arbitration during the Reporting Period. Our Directors are also not aware of any material litigation or claims that are pending or threatened against our group during the Reporting Period.

INFORMATION RELATING TO OUR DIRECTORS

Directors' Service Contracts

Each of our Executive Directors entered into a service contract with our company on 21 November 2021 for an initial term of three years from the Listing Date. Either party may terminate the agreement by giving prior written notice.

Each of the non-executive Directors entered into an appointment letter with our company on 21 November 2021 for an initial term of three years from the Listing Date. Either party may terminate the agreement by giving prior written notice.

Each of the independent non-executive Directors entered into an appointment letter with our company on 21 November 2021 for an initial term of three years from the Listing Date. Either party may terminate the agreement by giving prior written notice.

The above appointments are subject to the provisions of retirement of directors under our articles of association.

None of the Directors proposed for re-election at our upcoming annual general meeting has a service contract with members of our group that is not determinable by our group within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed at pages 28 to 30 and in Note 10 to the consolidated financial statements, none of our Directors nor any entity connected with our Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which our company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended 31 December 2021.

Directors' Rights to Acquire Shares or Debenture

Save as disclosed in this annual report, at no time during the Reporting Period was our company or any of its subsidiaries a party to any arrangements to enable our Directors to acquire benefits by means of the acquisition of shares in, or debentures of, our company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of our company or any other body corporate, or had exercised any such right.

Emolument Policy and Directors' Remuneration

In compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code, our company has established a remuneration committee to assist our board in formulating remuneration policies. Remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for our independent non-executive Directors, their remuneration is determined by our board upon recommendation from our board's remuneration committee. Our Directors and the senior management personnel are eligible participants of our share incentive plan (details of which are summarised in "Share Incentive Plan" at page 43 of this annual report). Details of the remuneration of our Directors, senior management (which is also our key management) and the five highest paid individuals are set out in Notes 10, 34(c) and 9 to the consolidated financial statements.

Report of Directors

None of our Directors waived or agreed to waive any remuneration and there were no emoluments paid by our group to any of our Directors or the five highest paid individuals as an inducement to join, or upon joining our group, or as compensation for loss of office.

Over the Reporting Period, the aggregate amount of remuneration (including basic salaries, housing allowances, other allowances, and benefits in kind, contributions to pension plans and discretionary bonuses) for our Directors was approximately RMB18.9 million (as set out in Note 10 to the consolidated financial statements).

Directors' Interests in Competing Business

During the Reporting Period, none of our Directors control a business similar to principal business of our group that competes or is likely to compete, either directly or indirectly, with our group's business, which would require disclosure under Rule 8.10 of the Listing Rules.

Continuing Disclosure Obligations pursuant to the Listing Rules

Save as disclosed in the Prospectus and in this annual report, our company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, our group engaged in certain transactions with the following persons that constituted continuing connected transactions under the Listing Rules.

Name of connected person	Relationship
Registered shareholders that hold 10% or more of the equity interest in the Onshore Holdcos (Note)	our substantial shareholder
NetEase	our substantial shareholder

Set out below is a summary of the non-exempt and partially-exempt continuing connected transactions of our group during the Reporting Period.

Note:

The Onshore Holdcos are Hangzhou Yuedu Technology Co., Ltd. (杭州樂讀科技有限公司) ("Hangzhou Yuedu"), which operates online programmes, online performances and live streaming businesses and Hangzhou Rege Culture Creativity Co., Ltd. (杭州熱歌文化創意有限公司) ("Hangzhou Rege"), through which our company makes minority investments related to our business. The registered shareholders Hangzhou Yuedu are Mr. William Lei Ding as to 99% and Mr. Yiwen Zhu as to 1% and the registered shareholder of Hangzhou Rege is Mr. Yong Peng as to 100%. Mr. Peng is a business partner of NetEase and an independent third party.

Report of Directors

Contractual Arrangements

We engage in radio and television programme production and operation, commercial internet cultural activities and value-added telecommunications services. Under PRC laws and regulations, foreign ownership is prohibited in entities engaging in radio and television programme production and operation and the internet cultural business (except for music) and restricted in entities engaging in value-added telecommunications service providers (in addition to imposing a qualification requirement on the foreign owners).

As a result of these foreign ownership restrictions, these businesses are operated by our consolidated affiliated entities, which are in turn, controlled by us and from which we derive the economic benefits through a series of contractual arrangements. These contractual arrangements are narrowly tailored to achieve our business purpose and minimise the potential conflict with relevant PRC laws and regulations.

For further details of the relevant foreign ownership regulations in the PRC and a discussion of the material terms of the agreements underlying our contractual arrangements are set out in "Contractual Arrangements" section of the Prospectus.

Risks relating to the Contractual Arrangements and actions taken to mitigate the risks

We believe the following risks are associated with our contractual arrangements. Further details of these risks are set out in the "Risk Factors" section of the Prospectus.

(a) If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with PRC regulations on foreign investment in internet and other related businesses, or if these regulations or their interpretation change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

(b) We rely on contractual arrangements with our VIEs and their shareholders for our operations in China, which may not be as effective in providing operational control as direct ownership.

(c) We may lose the ability to use and enjoy assets held by our VIEs and their subsidiaries that are important to our business if our VIEs and their subsidiaries declare bankruptcy or become subject to a dissolution or liquidation proceeding.

(d) Contractual arrangements we have entered into with our VIEs may be subject to scrutiny by the PRC tax authorities. A finding that we owe additional taxes could negatively affect our financial condition and the value of your investment.

(e) If the chops of our PRC subsidiaries, our VIEs and their subsidiaries, are not kept safely, are stolen or are used by unauthorised persons or for unauthorised purposes, the corporate governance of these entities could be severely and adversely compromised.

(f) The shareholders of Hangzhou Yuedu may have potential conflicts of interest with us, which may materially and adversely affect our business.

(g) Substantial uncertainties exist with respect to how the Foreign Investment Law may impact the viability of our current corporate structure and operations.

Report of Directors

Summary of the agreements underlying our contractual arrangements

The contractual arrangements in place during the Reporting Period include:

(a) an amended and restated cooperation agreement dated 18 May 2021 entered into between Hangzhou Yuedu and Hangzhou NetEase Cloud Music Technology Co., Ltd. (杭州網易雲音樂科技有限公司) ("WFOE"), pursuant to which the parties would cooperate to provide clients with, among other things, internet information services, technical support and maintenance services relating to the research and development and operation of computer softwares, internet technology services, and technology development, technical assistance and support for electronic publishing and telecommunications.

(b) an amended and restated operating agreement dated 18 May 2021 entered into among the WFOE, Hangzhou Yuedu, William Lei Ding (丁磊) ("Mr. Ding") and Yiwen Zhu (朱一聞) ("Mr. Zhu"), pursuant to which the WFOE agreed to be the guarantor of Hangzhou Yuedu in, and to provide full guarantee for the performance of the, contracts, agreements or transactions entered into between Hangzhou Yuedu and third-parties in connection with Hangzhou Yuedu's business and operations. As counter-guarantee, Hangzhou Yuedu agreed to pledge its accounts receivable in its operations and assets to the WFOE.

(c) an amended and restated exclusive purchase option agreement dated 18 May 2021 entered into among the WFOE, Mr. Ding and Hangzhou Yuedu, pursuant to which (i) Mr. Ding irrevocably granted to the WFOE an option to purchase (or cause a person designated by the WFOE to purchase) part or all of the equity interests held by Mr. Ding in Hangzhou Yuedu at a purchase price equal to outstanding loans owed by Mr. Ding to the WFOE under the loan agreement entered into between the WFOE and Mr. Ding on the same date; and (ii) Hangzhou Yuedu irrevocably granted to the WFOE an option to purchase (or cause a person designated by the WFOE to purchase) part or all of the assets held by Hangzhou Yuedu or its subsidiaries at the minimum purchase price permitted under PRC laws and regulations.

(d) an amended and restated exclusive purchase option agreement dated 18 May 2021 entered into among the WFOE, Mr. Zhu and Hangzhou Yuedu, pursuant to which (i) Mr. Zhu irrevocably granted to the WFOE an option to purchase (or cause a person designated by the WFOE to purchase) part or all of the equity interests held by Mr. Zhu in Hangzhou Yuedu at a purchase price equal to outstanding loans owed by Mr. Zhu to the WFOE under the loan agreement entered into between the WFOE and Mr. Zhu on the same date; and (ii) Hangzhou Yuedu irrevocably granted to the WFOE an option to purchase (or cause a person designated by the WFOE to purchase) part or all of the assets held by Hangzhou Yuedu or its subsidiaries at the minimum purchase price permitted under PRC laws and regulations.

(e) an amended and restated equity pledge agreement dated 18 May 2021 entered into between the WFOE and Mr. Ding, pursuant to which Mr. Ding pledged to the WFOE a first security interest in all of Mr. Ding's rights, title and interests in Hangzhou Yuedu.

(f) an amended and restated equity pledge agreement dated 18 May 2021 entered into between the WFOE and Mr. Zhu, pursuant to which Mr. Zhu pledged to the WFOE a first security interest in all of Mr. Zhu's rights, title and interests in Hangzhou Yuedu.

(g) an amended and restated shareholder voting right trust agreement dated 18 May 2021 entered into between the WFOE and Mr. Ding, and agreed and accepted by Hangzhou Yuedu, pursuant to which Mr. Ding irrevocably entrusted the WFOE (and the person designated by the WFOE) to exercise on Mr. Ding's behalf all shareholder's voting rights and all other shareholder's rights at the shareholders' meeting of Hangzhou Yuedu.

Report of Directors

(h) an amended and restated shareholder voting right trust agreement dated 18 May 2021 entered into between the WFOE and Mr. Zhu, and agreed and accepted by Hangzhou Yuedu, pursuant to which Mr. Zhu irrevocably entrusted the WFOE (and the person designated by the WFOE) to exercise on Mr. Zhu's behalf all shareholder's voting rights and all other shareholder's rights at the shareholders' meeting of Hangzhou Yuedu.

(i) an amended and restated loan agreement dated 18 May 2021 entered into between the WFOE and Mr. Ding, pursuant to which the WFOE shall provide to Mr. Ding interest-free loan(s) to pay for the capital contribution towards the registered capital of Hangzhou Yuedu.

(j) an amended and restated loan agreement dated 18 May 2021 entered into between the WFOE and Mr. Zhu, pursuant to which the WFOE shall provide to Mr. Zhu interest-free loan(s) to pay for the capital contribution towards the registered capital of Hangzhou Yuedu.

(k) a cooperation agreement dated 18 May 2021 entered into between Hangzhou Rege and the WFOE, pursuant to which the parties would cooperate to provide clients with, among other things, supply of music licence, innovation consultancy services, technical support and maintenance services relating to the research and development and operation of computer softwares, internet technology services, and technology development, technical assistance and support for electronic publishing and telecommunications.

(l) an amended and restated operating agreement dated 18 May 2021 entered into among the WFOE, Hangzhou Rege and Yong Peng (彭勇) ("Mr. Peng"), pursuant to which the WFOE agreed to be the guarantor of Hangzhou Rege in, and to provide full guarantee for the performance of the, contracts, agreements or transactions entered into between Hangzhou Rege and third-parties in connection with Hangzhou Rege's business and operations. As counter-guarantee, Hangzhou Rege agreed to pledge its accounts receivable in its operations and assets to the WFOE.

(m) an amended and restated exclusive purchase option agreement dated 18 May 2021 entered into among the WFOE, Mr. Peng and Hangzhou Rege, pursuant to which (i) Mr. Peng irrevocably granted to the WFOE an option to purchase (or cause a person designated by the WFOE to purchase) part or all of the equity interests held by Mr. Peng in Hangzhou Rege at a purchase price equal to the original and any additional paid-in capital paid by Mr. Peng for the equity interest; and (ii) Hangzhou Rege irrevocably granted to the WFOE an option to purchase (or cause a person designated by the WFOE to purchase) part or all of the assets held by Hangzhou Rege or its subsidiaries at the minimum purchase price permitted under PRC laws and regulations.

(n) an amended and restated equity pledge agreement dated 18 May 2021 entered into between the WFOE and Mr. Peng, pursuant to which Mr. Peng pledged to the WFOE a first security interest in all of Mr. Peng's rights, title and interests in Hangzhou Rege.

(o) an amended and restated shareholder voting right trust agreement dated 18 May 2021 entered into between the WFOE and Mr. Peng, and agreed and accepted by Hangzhou Rege, pursuant to which Mr. Peng irrevocably entrusted the WFOE (and the person designated by the WFOE) to exercise on Mr. Peng's behalf all shareholder's voting rights and all other shareholder's rights at the shareholders' meeting of Hangzhou Rege.

Substantially all of our group's total revenue and certain net assets are derived from our consolidated affiliated entities that are subject to the contractual arrangements. The total revenue and net assets derived from our consolidated affiliated entities that are subject to the contractual arrangements are approximately RMB6,689.0 million during the Reporting Period and approximately RMB33.8 million as at 31 December 2021, respectively.

Report of Directors

Other continuing connected transactions with NetEase Group

On 5 August 2021, we entered into a framework agreement with NetEase Group (the "NetEase Group Framework Agreement"), pursuant to which:

(a) our group would provide to NetEase Group, (i) advertising services (the "Advertising Services CCTs"), and (ii) Other Services (the "Other Services CCTs"); and

(b) NetEase Group would provide to our group, among others, (i) advertising agency services (the "Advertising Agency Services CCTs"), (ii) bandwidth, server custody and rack services (the "Bandwidth, Server Custody and Rack Services CCTs"), (iii) information technology services (the "Information Technology Services CCTs"), (iv) shared services (the "Shared Services CCTs"), and (v) product procurement (the "Product Procurement CCTs").

The terms of the NetEase Group Framework Agreement were entered into on normal commercial terms (or better) after arm's length negotiations and the transactions under the NetEase Group Framework Agreement commenced on the 2 December 2021 and will continue until 31 December 2023 (both dates inclusive).

Further details of each transaction under the NetEase Group Framework Agreement, including historical transaction amounts, pricing policy and annual caps set are set out in the "Connected Transactions" section of the Prospectus.

Annual cap and actual transaction amounts

The annual caps and actual transaction amounts of the continuing connected transactions with NetEase Group during the Reporting Period are set out below:

Transaction	Annual Cap for Reporting Period RMB million	Transaction Amount in Reporting Period RMB million
Other Services CCTs	27.4	18.0
Bandwidth, Server Custody and Rack Services CCTs	105.2	104.5
Shared Services CCTs	79.5	77.0
Product Procurement CCTs	24.2	11.7
Advertising Services CCTs	N/A (see below)	473.2
Advertising Agency Services CCTs	N/A (see below)	–
Information Technology CCTs	281.9	281.5

For the Advertising Services CCTs and Advertising Agency Services CCTs, we are of the view that it would not be appropriate to set a fixed monetary annual cap on these transactions given that advertising is another method to monetise our business and the transaction amounts under these transactions would correlate with the growth of our business, and we expect and intend to grow our advertising revenue with time and do not consider it appropriate or in the interests of our Shareholders to assign a cap on this revenue stream. Instead, we will determine the transaction amount in accordance with the below two pricing formulae.

Report of Directors

The pricing policy for the Advertising Services CCTs is based on the following formula:

Quantity of advertising units x Base rate for each advertising unit x Discounted rate x (1 – rebate ratio)

The pricing policy for the Advertising Agency Services CCTs is based on the following formula:

Quantity of advertising units x Base rate for each advertising unit x Discounted rate x Rebate ratio

These pricing formulae are in accordance with market practice for advertising services conducted in the online music entertainment industry, and takes into account the following factors:

- a base rate for each advertising unit, determined with reference to market rates;
- the volume/quantity of each advertising unit, according to the request of the end-advertising client;
- a discounted rate, which provides our group with greater flexibility to tailor the end price according to, among other factors, the end-advertising client, campaign, seasonality, overall market factors; and
- a rebate ratio, which represents the percentage charged by NetEase Group to our group for services they had provided us in the overall process.

Implication under the Listing Rules and Confirmations

Waivers applied for under the Listing Rules

For the purposes of Chapter 14A of the Listing Rules, our consolidated affiliated entities are treated as connected persons of our company, and as such, the contractual arrangements are considered continuing connected tractions for our company.

We have applied for, and the Stock Exchange has granted us, in respect of the contractual arrangements, (i) a waiver from strict compliance with the announcement, circular and independent shareholders' approval (including recommendation from an independent financial adviser) requirements under Chapter 14A of the Listing Rules; (ii) a waiver from strict compliance with the requirement to set a term of not exceeding three years under Rule 14A.52 of the Listing Rules; and (iii) a waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53(1) of the Listing Rules, subject to certain conditions set out in the Prospectus.

In relation to the transactions under the NetEase Group Framework Agreement, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement, circular and independent shareholders' approval (including recommendation from an independent financial adviser) requirements under the Chapter 14A of the Listing Rules, as the case may be, subject to certain conditions set out in the Prospectus.

In addition, for the Advertising Services CCTs and Advertising Agency Services CCTs, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements to set an annual monetary cap under Rule 14A.53(1) of the Listing Rules, subject to certain conditions set out in the Prospectus.

Report of Directors

Confirmation from Independent Non-executive Directors

Our independent non-executive Directors have reviewed the above continuing connected transactions and have confirmed that each of these transactions have been:

(a) in the ordinary and usual course of business of our group;

(b) are on normal commercial terms or better; and

(c) conducted during the Reporting Period in accordance with the agreement governing them on terms that are fair and reasonable and in the interests of our Shareholders as a whole.

Confirmation from our company's Independent Auditor

PricewaterhouseCoopers, the auditor of our company, has confirmed in a letter to our board that, with respect to the continuing connected transactions mentioned above during the Reporting Period:

(a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by our board;

(b) for transactions involving the provision of goods or services by our group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of our group;

(c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) with respect to the aggregate amount of each of these continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap (if any) as set by our company.

During the Reporting Period, save as disclosed in "Continuing Connected Transactions" of this annual report, no related party transactions disclosed in Note 34 to the financial statements constituted a connected transaction or continuing connected transaction that should be disclosed pursuant to the Listing Rules. Our company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to these continuing connected transactions entered into by our group during the Reporting Period.

Report of Directors

USE OF NET PROCEEDS FROM GLOBAL OFFERING

Our company's shares were listed on the Stock Exchange on 2 December 2021. In parallel with the Listing, our company allotted and issued 16,000,000 new shares under our global offering issued, which resulted in approximately HK$3,160 million (equivalent to approximately RMB2,584 million) raised in net proceeds. Details of our global offering are set out in the Prospectus and our allotment results announcement published on the Stock Exchange's website on 1 December 2021.

Set out below is the status of use of proceeds from the global offering as at 31 December 2021.

Purpose	% of use of proceeds	Net proceeds (HK$ million)	Utilised for the year ended 31 December 2021 (HK$ million)	Unutilised amount as at 31 December 2021 (HK$ million)
Continuingly cultivating our community	40%	1,264	–	1,264
Continuingly innovating and improving technological capabilities	40%	1,264	–	1,264
Selected mergers, acquisitions, and strategic investments, including to continue seeking potential businesses and assets that would provide synergies with our business and resources, particularly in areas including content sourcing, data and audio technology	10%	316	–	316
Working capital and general and administrative purposes	10%	316	–	316
Total	**100%**	**3,160**	**–**	**3,160**

There was no change in the intended use of net proceeds as disclosed in the Prospectus. Our company will gradually apply the remaining net proceeds in the next 24 to 36 months in the manner set out in the Prospectus. See "Future Plans and Use of Proceeds" section of the Prospectus for further details.

Report of Directors

AUDITOR

The consolidated financial statements of our group have been audited by PricewaterhouseCoopers, Certified Public Accountants and Registered Public Interest Entity Auditor, who will retire and, being eligible, offer themselves for reappointment at our upcoming annual general meeting.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

On 24 March, our company announced that our board of directors proposes to change the name of our company from "Cloud Village Inc. 雲音樂股份有限公司" to "Cloud Music Inc. 雲音樂股份有限公司". The proposed change of company name is subject to (i) the passing of a special resolution by our shareholders approving the same at our upcoming annual general meeting; and (ii) the new name being entered in the Register of Companies by the Registrar of Companies in the Cayman Islands. Further details of the proposed change of company name are set out in the announcement of our company dated 24 March 2021 and titled "Proposed Change of Company Name".

Save as disclosed in this annual report, no important events affecting our company occurred since the end of the Reporting Period and up to the Latest Practicable Date.

By the order of our board of Directors
Mr. William Lei Ding
Chairman

Hong Kong
24 March 2022

Directors and Senior Management

Our board consists of three executive Directors, three non-executive Directors and three independent non-executive Directors.

DIRECTORS

Executive Directors

Mr. William Lei Ding, aged 50, is an executive Director and the chief executive officer of our company and chairperson of the board. Mr. Ding is the founder of NetEase, and has served as a director since its inception in July 1999 and as its chief executive officer since November 2005. Between 1999 to 2005, Mr. Ding served a number of roles within NetEase, including the chief architect, the acting chief executive officer, acting chief operating officer, and co-chief technology officer of NetEase. Mr. Ding currently serves on the board of directors of Youdao, Inc. (NYSE: DAO) since January 2015. Mr. Ding received a Bachelor of Science degree in Communication Technology from the University of Electronic Science and Technology of China.

Mr. Yong Li, aged 44, is an executive Director and the vice president of business intelligence of our company. Mr. Li joined NetEase in April 2019 and served as a vice president of Kaola. Prior to joining our company, Mr. Li was a senior technical expert in Tencent Holdings Limited from July 2010 to April 2015. He then served as vice president at Vipshop Holdings Ltd. from April 2015 to June 2018. Mr. Li served as a general manager of operations at Hillhouse Capital in 2018. Mr. Li received a bachelor's degree in information management in July 1999 and a master's degree in statistics in January 2002 from Anhui University of Finance and Economics. He also received his doctoral degree in informatics from Nanjing University in September 2004. Mr. Li served as a post-doctoral researcher in computer science at Tsinghua University from September 2004 to September 2006.

Ms. Yanfeng Wang, aged 35, is an executive Director. She is one of the directors for self-produced content in our company since July 2020, and is also responsible for the group's brand communication, since 2015. Prior to that, she was a senior editor and column writer at NetEase Media between May 2013 to March 2015, and a senior editor at Phoenix New Media Limited from June 2011 to May 2013. Ms. Wang received a bachelor's degree in Chinese Language and Literature from Beijing Normal University in July 2008. She also received her master's degree in Literature from Communication University of China in June 2011.

Non-executive Directors

Mr. Yat Keung Li, aged 49, is a non-executive Director. Mr. Li currently serves as the Vice president of NetEase. Mr. Li first joined NetEase in 2003 and took several senior roles in marketing, business partnership and corporate development within the group. Prior to NetEase, Mr. Li successively served as an account manager and associate account director at DDB Group Hong Kong from August 1999 to October 2003, and as a brand executive at Leo Burnett Hong Kong from January 1998 to July 1999. Mr. Li received his Bachelor of Science in Physics from the University of Hong Kong in November 1996.

Mr. Dewei Zheng, aged 38, is a non-executive Director. Mr. Zheng joined NetEase in July 2005 and worked at the games promotion department until July 2009, and served as the sales director of the games market department from August 2009 to August 2012. He then served as the sales director, senior sales director and chief marketing officer of the marketing channel centre at NetEase from September 2012 to September 2018. Mr. Zheng has been serving as the senior chief marketing officer at NetEase Games since January 2019, and the chairperson and chief executive officer of Xian Yunrui Network Technology Co., Ltd. (西安雲睿網絡科技有限公司). Mr. Zheng received a bachelor's degree in Information Management and Information System from Sichuan University in July 2005.

Directors and Senior Management

Mr. Feng Yu, aged 45, is a non-executive Director. Mr. Yu joined Alibaba Group in March 2006 and currently serves as the vice president of the Taobao user development and operation centre at Alibaba Group Holding Limited (NYSE: BABA; SEHK: 9988). Mr. Yu received his Bachelor of Science in Applied Mathematics from Zhejiang University in June 2000. Mr. Yu also received his Master of Business Administration from China Europe International Business School in November 2016.

Independent Non-executive Directors

Mr. Ying Kit Caleb Lo, aged 60, is an independent non-executive Director, and the chairman of the audit committee and a member of the remuneration committee and nomination committee. Mr. Lo served at Motorola for more than 10 years since 1992 in China and Singapore and held several positions of finance management including the finance controller. Mr. Lo then joined Hangzhou H3C Technologies Co., Ltd. and has served as a vice president and the chief financial officer, during which he concurrently served as a vice president and the chief financial officer of the China region of HP Inc. (NYSE: HPQ) from May 2014 to August 2015. Mr. Lo then served as CFO and Co-President of New H3C Group prior to joining JiHu Information Technology (Hubei) Co., Ltd as CFO in September 2021, a JV of GitLab Inc. Mr. Lo has the appropriate professional accounting or related financial management experience for the purpose of Rule 3.10(2) of the Listing Rules. Mr. Lo received his CPA certificate from University of Illinois in February 1995 and he was admitted as a CPA in Hong Kong in October 1995. He is also a member of the American Institute of Certified Public Accountants, and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lo received his diploma in Business Administration from Hong Kong Shue Yan College in July 1986. He received his Master of Business Administration from Oklahoma City University in May 1991.

Mr. Xianfeng Gu, aged 51, is an independent non-executive Director, the chairperson of the nomination committee and a member of the audit committee and remuneration committee. Mr. Gu has worked at Stony Brook University since June 2004 and has served as a tenured professor since September 2009, and an Empire Innovation Professor since January 2021.He was previously an assistant professor at University of Florida from August 2003 to May 2004. Mr. Gu received a bachelor's degree in Computer Science from Tsinghua University in July 1994. He also received his Ph.D. degree in Computer Science from Harvard University in March 2003.

Mr. Zhong Xu, aged 53, is an independent non-executive Director, and the chairman of the remuneration committee and a member of the audit committee and nomination committee. Mr. Xu has won various international competitions as a pianist, including the First Prize at the Maria Canals International Piano Competition in 1988, the Third Prize at the Hamamatsu International Piano Competition in 1991, the Santander Prize of Honour at the Santander Paloma O'Shea International Piano Competition in 1992, the First Prize and three other awards at the Tokyo International Piano Competition in 1992 and the Fourth Prize at the Tchaikovsky International Piano Competition in Moscow in 1994. He was awarded the "Chevalier de L'Ordre des Arts et des Lettres" in 2010, and the "Officier de L'Ordre des Arts et des Lettres" in 2018 by the Ministry of Culture and Communication of France. Mr. Xu has served as the Principal Director of Fondazione Arena di Verona, the General Director of Shanghai Opera House, the Chief Conductor of Suzhou Symphony Orchestra, the dean of the School of Music at Soochow University and one of the International Chairs at Royal Welsh College of Music and Drama. He previously served as the Artistic Director of Teatro Massimo Bellini and the Music Director of Israel Haifa Symphony Orchestra. Mr. Xu started his study in Piano in November 1986 at Le Conservatoire national superieur de musique et de danse de Paris. He is also recognised as a level 1 conductor by the Assessment Committee of the Qualification for Senior Professional and Technical Occupations in the Art Categories under the Shanghai Municipal Human Resources and Social Security Bureau.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Ding is an executive Director, the chairman and chief executive officer of our company. Please refer to the above section for his biography.

Mr. Yiwen Zhu, aged 41, is the senior vice president of our company. Previously, Mr. Zhu served a number of positions within NetEase from September 2006 to July 2012 including technical engineer, technical director, and product director. Prior to joining NetEase, Mr. Zhu worked as a software engineer at IBM China in 2006. He received his bachelor's degree in Computer Science and Technology from Zhejiang University in June 2003, and his master's degree in Computer Software and Theory from Fudan University in June 2006. He is also a certified member of senior engineers from the Information Technology Engineering Technician and Senior Engineer Professional Qualification Evaluation Committee of the Zhejiang Province (浙江省信息技術工程技術人員高級工程師職務任職資格評審委員會) since December 2019.

Mr. Bo Ding, aged 43, is the vice president of content of our company. Mr. Bo Ding has served as our chief content editor and content operation director since joining our company in July 2012. Prior to joining us, he was the chief editor of the music section at NetEase Media from July 2009 to July 2012. From April 2005 to May 2009, Mr. Bo Ding worked as the head of the cultural and recreational department of The First (競報) at Beijing Xin'ao Media Co., Ltd. (北京新奧傳媒有限公司). Mr. Bo Ding graduated from Communication University of China, majoring in journalism, in July 2005.

Mr. Cai Cao, aged 36, is the vice president of technology of our company. He had previously served as our senior technical manager and technical director since joining our company in July 2012. He also worked as senior development engineer within NetEase from July 2008 to July 2012. Mr. Cao received his bachelor's degree and master's degree, both in Computer Science and Technology from Zhejiang University in June 2005 and June 2008, respectively. He is also a certified member of senior engineers from the Information Technology Engineering Technician and Senior Engineer Professional Qualification Evaluation Committee of the Zhejiang Province (浙江省信息技術工程技術人員高級工程師職務任職資格評審委員會) since December 2019.

Ms. Ju Lu, aged 41, is the vice president of finance of our company. She has served as our financial controller since joining in 2018. Previously, she served as the chief financial officer at UNIS-WDC Storage Co., Ltd. (紫光西部數據有限公司) from May 2016 to February 2018. She was the finance controller at StormNet Information Technology (Shanghai) Co., Ltd. (戰上風信息技術(上海)有限公司) from March 2011 to March 2016. Ms. Lu also worked at Ernst & Young Hua Ming LLP from September 2002 to December 2010 and left as a senior manager. Ms. Lu received her CICPA qualification from the Shanghai Institute of Certified Public Accountants and her AICPA qualification from the Missouri State Board of Accountancy in the U.S. She also obtained a legal professional qualification certificate from the Ministry of Justice of PRC in March 2019. She received her Bachelor of Economics degree in Accounting from Fudan University in July 2002.

Directors and Senior Management

COMPANY SECRETARY

Ms. Wong Wai Yee Ella, aged 46, is our company secretary. Ms. Wong is also a Director of Corporate Services of Tricor Services Limited and has been providing corporate secretarial and compliance services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Wong currently holds company secretary or joint company secretary positions in China Minsheng Banking Corp., Ltd. 中國民生銀行股份有限公司(SEHK: 1988), China Vered Financial Holding Corporation Limited 中薇金融控股有限公司(SEHK: 245), China Harmony Auto Holding Limited 中國和諧汽車控股有限公司(SEHK: 3836), Precision Tsugami (China) Corporation Limited 津上精密機床（中國）有限公司(SEHK: 1651), Vedan International (Holdings) Limited 味丹國際（控股）有限公司(SEHK: 2317), and SenseTime Group Inc. 商湯集團股份有限公司(SEHK: 0020).

Ms. Wong is a Chartered Secretary, Chartered Governance Professional, Fellow of The Hong Kong Chartered Governance Institute (HKCGI) (formerly "The Hong Kong Institute of Chartered Secretaries" (HKICS)) and Fellow of The Chartered Governance Institute (CGI) (formerly "The Institute of Chartered Secretaries and Administrators" (ICSA)).

Other Information

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of our Company or Any of Its Associated Corporations

As at 31 December 2021, the interests and short positions of our Directors or chief executives of our company in any of our shares, underlying shares and debentures of our company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)), as recorded in the register required to be kept by our company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to our company and the Stock Exchange pursuant to the Model Code were as follows:

Interest in our company

Name of Director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of holding[5]	Long position/ Short position
Mr. William Lei Ding	Other [1]	127,391,568	61.32%	Long position
Mr. Yong Li[2]	Beneficial interest	300,000	0.14%	Long position
Mr. Yat Keung Li[3]	Beneficial interest	4,000	0.00%	Long position
Ms. Yanfeng Wang[4]	Beneficial interest	3,000	0.00%	Long position

Notes:

(1) 127,391,568 shares are held by Shining Globe International Limited through NetEase. Shining Globe International Limited is wholly-owned by Shining Globe Holding Limited, which is in turn wholly-owned by a trust for which TMF (Cayman) Ltd. acts as the trustee and the beneficiaries of which include Mr. William Lei Ding and his family. Mr. William Lei Ding is also the settlor of the trust.

(2) Mr. Yong Li is entitled to receive up to 300,000 shares pursuant to the exercise of options granted under our company's share incentive plan.

(3) Mr. Yat Keung Li is entitled to receive up to 4,000 shares pursuant to the exercise of options granted under our company's share incentive plan.

(4) Ms. Yanfeng Wang is entitled to receive up to 3,000 shares pursuant to the exercise of options granted under our company's share incentive plan.

(5) The calculation is based on the total number of 207,756,876 shares in issue as at 31 December 2021.

Other Information

Interest in our associated corporation – NetEase

Name of Director	Capacity/Nature of interest	Number of ADSs[3]/ ordinary shares	Interest in associated corporation[1]	Long position/ Short position
Mr. William Lei Ding	Other[2]	1,450,300,000	44.2%	Long position
Mr. Yong Li[3]	Beneficial interest	17,549 ADSs	0.00%	Long position
Mr. Yat Keung Li[3]	Beneficial interest	23,694 ADSs	0.00%	Long position
Mr. Dewei Zheng[3]	Beneficial interest	20,440 ADSs	0.00%	Long position
Ms. Yanfeng Wang[3]	Beneficial interest	2,705 ADSs 100 shares	0.00%	Long position

Notes:

(1) To the best knowledge of the Company, as at the Latest Practicable Date and based on publicly available information.

(2) Shining Globe International Limited is the record holder of these 1,450,300,000 NetEase Shares, which comprise 1,406,000,000 NetEase Shares and 8,860,000 ADSs. As mentioned above, Shining Globe International Limited is wholly-owned by Shining Globe Holding Limited, which is in turn wholly-owned by a trust for which TMF (Cayman) Ltd. acts as the trustee and the beneficiaries of which include Mr. William Lei Ding and his family. Mr. William Lei Ding is also the settlor of the trust. This reflects the position as at 31 March 2022, which is based on the latest available published information. For more information, please refer to the annual report of NetEase, a copy of which is available for viewing on the Stock Exchange's website at www.hkexnews.hk by the end of April 2022.

(3) The interests underlying the ADSs comprise the Director's entitlement to receive shares in NetEase pursuant to restricted share units under the 2009 Stock Incentive Plan and/or the 2019 Restricted Share Unit Plan of NetEase, where each restricted share unit represents one ADS of NetEase (being equal to five NetEase Shares). This includes vested and unvested restricted share units, with the unvested portion subject to the terms and conditions of the grant.

(4) Each ADS represents five NetEase Shares.

Interest in our associated corporation – Zhejiang Weiyang Technology Co., Ltd.

Name of Director	Capacity/Nature of interest	Number of ordinary shares	Interest in associated corporation[1]	Long position/ Short position
Ms. Yanfeng Wang	Beneficial interest underlying share awards	30,000	0.00%	Long position

Note:

(1) To the best knowledge of the Company, as at the Latest Practicable Date and based on publicly available information.

Save as disclosed above, as at 31 December 2021, none of our Directors or chief executives of our company had or was deemed to have any interests or short positions in our shares, underlying shares or debentures of our company or any of its associated corporations.

Other Information

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2021, so far as our Directors are aware, the following persons (other than our Directors or chief executives of our company) had interests or short positions in our shares or underlying shares of our company as recorded in the register required to be kept by our company pursuant to Section 336 of the Securities and Futures Ordinance:

Name of Shareholder	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of holding[4]	Long position/ Short position
NetEase[1]	Beneficial owner	127,391,568	61.32%	Long position
Shining Globe Holding Limited[1]	Interest in a controlled corporation	127,391,568	61.32%	Long position
Shining Globe International Limited[1]	Interest in a controlled corporation	127,391,568	61.32%	Long position
TMF (Cayman) Ltd.[1]	Trustee	127,391,568	61.32%	Long position
Alibaba Group Holding Limited[2]	Interest in a controlled corporation	20,733,975	9.98%	Long position
Taobao Holding Limited[2]	Interest in a controlled corporation	20,733,975	9.98%	Long position
Taobao China Holding Limited[2]	Beneficial owner	20,733,975	9.98%	Long position
GIC Private Limited[3]	Interest in a controlled corporation	13,923,356	6.70%	Long position
	Investment manager	225,000	0.11%	Long position
GIC (Ventures) Pte. Ltd.[3]	Interest in a controlled corporation	13,923,356	6.70%	Long position
GIC Special Investments Private Limited[3]	Investment manager	13,923,356	6.70%	Long position

Notes:

(1) Mr. Ding (through his controlled corporations) is interested in one-third or more of NetEase, and under the Securities and Futures Ordinance, is deemed to be interested in NetEase's interest in our company. 127,391,568 shares are held by Shining Globe International Limited through NetEase. Shining Globe International Limited is wholly-owned by Shining Globe Holding Limited, which is in turn wholly-owned by a trust for which TMF (Cayman) Ltd. acts as the trustee and the beneficiaries of which include Mr. Ding and his family. Mr. Ding is also the settlor of the trust.

(2) Taobao China Holding Limited is a wholly-owned subsidiary of Alibaba Group Holding Limited, a company incorporated in the Cayman Islands, with its American depositary shares, each representing eight ordinary shares, listed on the New York Stock Exchange, stock symbol BABA, and its ordinary shares listed on the Main Board of the Stock Exchange, stock code 9988. Under the Securities and Futures Ordinance, Alibaba Group Holding Limited, and its intermediary subsidiary entities through which it is interested in Taobao China Holding Limited (being Taobao Holding Limited), are deemed to be interested in all of our shares interested by Taobao China Holding Limited in our company.

(3) 225,000 shares are beneficially held by GIC Private Limited. The remaining shares represent (i) 10,366,988 shares held by Novel Entertainment Limited; (ii) 1,329,770 shares held by Sincere Jovial Limited; and (iii) 2,226,598 shares held by LVC Cloudy Paradise LP, each of which hold less than 5% interest in our company. These shareholders are controlled by corporations or investment managers that are ultimately controlled by GIC Private Limited through, among others, its wholly-owned entities GIC (Ventures) Pte. Ltd. and GIC Special Investments Private Limited. Under the Securities and Futures Ordinance, GIC Private Limited and entities through which it controls (as defined under the Securities and Futures Ordinance and includes corporations in which it controls one-third or more and investment managers) are deemed to be interested in all of the shares held by Novel Entertainment Limited, Sincere Jovial Limited and LVC Cloudy Paradise LP in our company on an aggregated basis.

(4) The calculation is based on the total number of 207,756,876 shares in issue as at 31 December 2021.

Other Information

Save as disclosed above, as at 31 December 2021 based on publicly available information, no other person (other than our Directors or chief executives of our company) had an interest or short position in the shares or underlying shares of our company which were required to be disclosed to our company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or which were required to be entered in the register required to be kept under section 336 of the Securities and Futures Ordinance.

SHARE INCENTIVE PLAN

We adopted an employee share incentive plan in 2016. This plan is not governed by Chapter 17 of the Listing Rules. Details of the material terms of this plan is set out below.

Purpose

The purpose of this plan is to promote the success and enhance the value of our company's business by linking the personal interests of the employees to those of the shareholders of our company and by providing such individuals with an incentive for outstanding performance to generate superior returns to the shareholders of our company. This plan also intends to provide flexibility to our company in its ability to motivate, attract, and retain the services of the employees upon whose judgement, interest, and special effort the successful conduct of the business's operation is largely dependent.

Further details of this plan are set out in the Prospectus and Note 27 to the consolidated financial statements.

Eligibility

Persons eligible to participate in this plan include employees of our company, any parent, subsidiary or affiliate of our company or any related entity to which a participant provides services as an employee (a "Service Recipient"), directors of our company, any parent, subsidiary or any related entity of our company, and consultant or adviser rendering services to a Service Recipient. Eligibility is determined by our board or a committee of members of our board to whom our board delegates the authority to grant or amend awards to participants.

Maximum number of Shares

The maximum aggregate number of shares which may be issued pursuant to all awards pursuant to this plan is 15,000,000 shares, which represents approximately 7.22% of the issued shares of our company as at 31 December 2021. A maximum of 13,436,150 shares remain to be issued under this plan (including shares underlying granted and ungranted awards), representing approximately 6.47% of the issued shares of our company, as at 31 December 2021.

Grant of Awards

Awards include, among other things, options, restricted shares, restricted share units, share appreciation right, dividend equivalents and share payment. Awards are over interests in shares of our company.

Other Information

Options

The exercise price per share subject to an option is determined by the plan committee and set forth in the award agreement which may be a fixed or variable price related to the fair market value of the shares. The exercise price per share subject to an option may be adjusted in the absolute discretion of the plan committee whose determination will be final, binding and conclusive, and the re-pricing will be effective without the approval of our Shareholders or participants. The exercise price per share however shall not be increased without the approval of the relevant participants.

The plan committee determines the time(s) at which an option may be exercised in whole or in part, including exercise prior to vesting, provided that the term of any option granted under this plan shall not exceed ten years, except otherwise provided in the award agreement. The plan committee also determines any conditions, if any, that must be satisfied before all or part of an option may be exercised, including setting any performance objectives or other vesting criteria. Further, the plan committee determines the methods by which the exercise price of an option may be paid.

Following our Listing, our company can no longer grant any options under this plan.

Restricted Shares, Restricted Share Units, Share Appreciation Rights, Dividend Equivalents and Share Payments

The plan committee is also authorised to make awards of restricted shares, restricted share units, share appreciation rights, dividend equivalents and/or share payments to any participants selected by the plan committee in such number and subject to such terms and conditions as determined by the plan committee.

Term and Remaining Life of this Plan

Unless terminated or extended by our board, this plan will terminate ten years after its adoption date. Any options that are still outstanding shall remain outstanding according to the terms of this plan and the applicable award agreement. The remaining life of this plan is approximately 5 years.

Other Information

Outstanding Share Options under our Share Incentive Plan

As at 31 December 2021, our company had share options outstanding under this plan to subscribe for an aggregate of 11,654,900 shares granted to 629 grantees (including Directors and senior management of our company, employees of our group and NetEase Group). The exercise price of all the options granted under this plan ranges between US$1 and US$11. No consideration was paid by the grantees for the outstanding options granted under this plan.

The table below shows the details of share options granted to Directors and senior management and other connected persons of our company under this plan:

Name or category of grantees	Date of Grant	Vesting Period	Exercise Price (US$)	Number of our shares underlying options outstanding as at 1 January 2021	Number of options exercised during the Reporting Period and the exercise price	Number of options lapsed during the Reporting Period	Number of options cancelled during the Reporting Period	Number of our shares underlying option outstanding as at 31 December 2021
Directors								
Mr. Yong Li	25 September 2019	4 years	US$11 per share	300,000	–	–	–	300,000
Ms. Yanfeng Wang	19 February 2021	1 year	US$11 per share	3,000	–	–	–	3,000
Mr. Yat Keung Li	18 January 2017	4 years	US$8 per share	4,000	–	–	–	4,000
6 other individuals	Between 26 May 2016 to 27 May 2021	4 years	US$1-$11 per share	1,810,000	–	–	–	1,810,000

As at 31 December 2021, our company had not granted any awards of restricted shares, restricted share units, share appreciation rights, dividend equivalents and/or share payments under this plan.

Corporate Governance Report

Our board is pleased to present the corporate governance report for our company for the 2021 financial year.

CORPORATE GOVERNANCE PRACTICES

Our board is committed to achieve high corporate governance standards. Our board believes that high corporate governance standards are essential in providing a framework for our group to safeguard the interests of shareholders and to enhance corporate value and accountability.

Our company has adopted the principles and code provisions of the Corporate Governance Code as the basis of our company's corporate governance practices.

Code provision C.2.1 of the Corporate Governance Code recommends that the roles of chairman and chief executive to be separate and not be performed by the same person. Our company deviates from this provision as Mr. William Lei Ding performs both the roles of chairman of our board and the chief executive officer of our company. Mr. Ding is the founder of NetEase, our parent company and controlling Shareholder, and has extensive experience in the business operations and management of our group. Our board believes that vesting the roles of both chairman and chief executive officer to Mr. Ding has the benefit of ensuring consistent leadership within our group and enables more effective and efficient overall strategic planning. This structure will enable our company to make and implement decisions promptly and effectively. Our board considers that the balance of power and authority will not be impaired due to this arrangement. In addition, all major decisions are made in consultation with members of our board, including the relevant board committees, and our three independent non-executive Directors. Our board will reassess the division of the roles of chairman and the chief executive officer from time-to-time, and may recommend dividing the two roles between different people in the future, taking into account the circumstances of our group as a whole.

Additionally, code provision C.2.7 of the Corporate Governance Code recommends that the chairman of the board should meet at least annually with the independent non-executive directors without the presence of other directors, and code provision C.5.1 recommends that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. Our company recently listed on the Stock Exchange on 2 December 2021, from which date our Corporate Governance Code commenced. Since the Listing Date and until the end of the Reporting Period, we did not hold any board meetings and our board chairman did not meet with the independent non-executive directors without the presence of other directors. Nevertheless, our board has been in regular communication with one another and, going forward, will continue to meet regularly to update themselves on our company's affairs.

Save as disclosed above, we have complied with the code provisions set out in the Corporate Governance Code since the Listing Date and up to the Latest Practicable Date. Our company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain a high standard of corporate governance practices of our company.

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS

Our company has adopted management securities dealing policies that are on terms no less stringent than the Model Code set out in Appendix 10 to the Listing Rules to regulate all dealings by Directors and relevant insiders in securities of our company and other matters covered by the Model Code.

Specific enquiry has been made to all our Directors and they have confirmed that they have complied with the Model Code during the period from the Listing Date to 31 December 2021. No incident of non-compliance of the Model Code by the relevant employees has been noted by our company during the period from the Listing Date to 31 December 2021.

BOARD OF DIRECTORS

Board Composition

During the Reporting Period and as at the Latest Practicable Date, our board comprised three executive Directors, three non-executive Directors and three independent non-executive Directors.

For details on the members of our board and their biographies, see "Directors and Senior Management" at pages 36 to 39 of this annual report.

Save as disclosed in this report, none of our Directors and members of senior management are related to other Directors or members of senior management.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. William Lei Ding. Please refer to "Corporate Governance Practices" above for further details.

Corporate Governance Report

Board Meetings, Committee Meetings and General Meetings

A summary of the attendance record of the Directors at our board meetings and committee meetings during the period from the Listing Date to the end of the Reporting Period is set out in the following table below:

Name of Director	Board[(1)]	Remuneration Committee[(1)]	Nomination Committee[(1)]	Audit Committee[(1)]	General Meeting[(2)]
Executive Directors:					
Mr. William Lei Ding	0/0	0/0	0/0	0/0	0/0
Mr. Yong Li	0/0	0/0	0/0	0/0	0/0
Ms. Yanfeng Wang	0/0	0/0	0/0	0/0	0/0
Non-executive Directors:					
Mr. Yat Keung Li	0/0	0/0	0/0	0/0	0/0
Mr. Dewei Zheng	0/0	0/0	0/0	0/0	0/0
Mr. Feng Yu	0/0	0/0	0/0	0/0	0/0
Independent Non-executive Directors:					
Mr. Ying Kit Caleb Lo	0/0	0/0	0/0	0/0	0/0
Mr. Xianfeng Gu	0/0	0/0	0/0	0/0	0/0
Mr. Zhong Xu	0/0	0/0	0/0	0/0	0/0

Notes:

(1) Code provision C.5.1 of the Corporate Governance Code recommend that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. Our company recently listed on the Stock Exchange on 2 December 2021, from which date our Corporate Governance Code commenced. Since the Listing Date and until the end of the Reporting Period, we did not hold any board meetings or board committee meetings. Nevertheless, our board has been in regular communication with one another and, going forward, will continue to meet regularly to update themselves on our company's affairs.

(2) No annual general meeting was held during the period from the Listing Date to the end of the Reporting Period.

Independence of Independent Non-Executive Directors

During the period from the Listing Date to the end of the Reporting Period, our board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of our board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Our board has received from each of the independent non-executive Directors a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent.

Corporate Governance Report

Appointment, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in our articles of association. Our board's nomination committee is responsible for reviewing the composition of our board, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors.

At every annual general meeting of our company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he/she retires and shall be eligible for re-election thereat. Our articles of association also provides that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the next following general meeting after appointment. The retiring Directors shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

Our board should assume responsibility for leadership and control of our company, and is collectively responsible for directing and supervising our company's affairs.

Our board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors our group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to our board for its efficient and effective functioning.

All Directors have full and timely access to all the information of our company and may, upon request, seek independent professional advice in appropriate circumstances, at our company's expenses for discharging their duties to our company.

The Directors shall disclose to our company details of other offices held by them.

Our board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of our company. Responsibilities relating to implementing decisions of our board, directing and coordinating the daily operation and management of our company are delegated to the management.

Corporate Governance Report

Continuous Professional Development of Directors

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to our board remains informed and relevant.

Every newly appointed Director should receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of our company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for our Directors would be arranged and reading material on relevant topics would be provided to our Directors where appropriate. All Directors are encouraged to attend relevant training courses at our company's expenses.

During the 2021 financial year and prior to our Listing, all of our Directors participated in a training session conducted by Skadden, Arps, Slate, Meagher & Flom, our legal adviser as to Hong Kong law, on directors' duties, responsibilities and obligations under the Listing Rules and the Securities and Futures Ordinance.

Directors' and Officers' Liabilities Insurance

Our company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against Directors, officers and senior management of our company arising out of corporate activities. See also "Permitted Indemnity" at page 23 of this annual report.

BOARD COMMITTEES

Our board has established three committees, namely, the audit committee, the remuneration committee, and the nomination committee for overseeing particular aspects of our company's affairs. Each of these committees is established with defined written terms of reference. Copies of these terms of reference are available on the Stock Exchange's website.

Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The audit committee comprises three members, namely Mr. Xianfeng Gu, Mr. Ying Kit Caleb Lo and Mr. Zhong Xu, with Mr. Ying Kit Caleb Lo (being our independent non-executive Director with the appropriate professional qualifications) as chairman of the audit committee.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of our group, review and approve connected transactions and provide advice and comments to our board.

As our company's shares were listed on the Stock Exchange on 2 December 2021, no audit committee meeting was held during the Reporting Period. During the Listing Date and up to the Latest Practicable Date, the audit committee has held one meeting to review the annual financial results and reports for 2021 financial year, the continuing connected transactions of our group, the significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, the appointment of external auditor and engagement of non-audit services and relevant scope of works, and the arrangements for employees to raise concerns about possible improprieties.

The audit committee has also met once with the external auditor without the presence of the executive Directors.

Corporate Governance Report

Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The remuneration committee comprises three members, namely Mr. Xianfeng Gu, Mr. Ying Kit Caleb Lo and Mr. Zhong Xu, with Mr. Zhong Xu as chairman of the remuneration committee.

The primary duties of the remuneration committee are to review and make recommendations to our board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management.

As our company's shares were listed on the Stock Exchange on 2 December 2021, no remuneration committee meeting was held during the Reporting Period. During the Listing Date and up to the Latest Practicable Date, the remuneration committee has held one meeting to report to our board on the remuneration packages of individual executive Directors and senior management, review and make recommendations to the board on the remuneration of non-executive Directors, and to review and make recommendations to our board on our company's policy and structure for the remuneration of all directors and senior management.

Details of the Directors' remuneration for the year ended 31 December 2021 are set out in Note 10 to the consolidated financial statements.

The remuneration of the senior management (other than Directors) of our group by band for the 2021 financial year is set out below:

Remuneration Bands (HKD)	Number of Persons
HK$0-HK$10,000,000	1
HK$10,000,001-HK$20,000,000	1
HK$20,000,001-HK$30,000,000	2
Total	4

Nomination Committee

We have established a nomination committee with written terms of reference in compliance with the Corporate Governance Code. The nomination committee comprises three members, namely Mr. Xianfeng Gu, Mr. Ying Kit Caleb Lo and Mr. Zhong Xu, with Mr. Xianfeng Gu as chairman of the nomination committee.

The primary duties of the nomination committee are to make recommendations to our board on the appointment of Directors and management of our board's succession.

As our company's shares were listed on the Stock Exchange on 2 December 2021, no nomination committee meeting was held during the Reporting Period. During the Listing Date and up to the Latest Practicable Date, the nomination committee has held one meeting to review the structure, size and composition of our board, assess the independence of the independent non-executive Directors and consider the qualifications of the retiring Directors standing for election at the forthcoming annual general meeting, and recommend to our board on any measurable objectives for implementing the Board diversity policy.

Corporate Governance Report

BOARD POLICIES AND CORPORATE GOVERNANCE FUNCTIONS

Board Diversity Policy

Our company has adopted a board diversity policy which sets out the approach to achieve diversity of our board. Our company recognises and embraces the benefits of having a diverse board of directors and sees increasing diversity at our board level, including gender diversity, as an essential element in maintaining our company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. In reviewing and assessing suitable candidates to serve as a director of our company, the nomination committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. The nomination committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on our board and recommend them to our board for adoption.

Director Nomination Policy

Our company has adopted a director nomination policy in accordance with the Corporate Governance Code. The director nomination policy sets out the selection criteria and process and our board's succession planning considerations in relation to nomination and appointment of directors of our company and aims to ensure that our board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of our company's business.

The nomination committee shall identify, consider and recommend to our board appropriate candidates to serve as Directors and to make recommendations to our Shareholders. The ultimate responsibility for selection and appointment of Directors rests with our entire board.

The director nomination policy sets out the non-exhaustive factors for assessing the suitability and the potential contribution to our board of a proposed candidate, including but not limited to the following:

- reputation for integrity;
- professional qualifications and skills;
- accomplishment and experience in the industry of our company;
- commitment in respect of available time and relevant interest;
- independence of proposed independent non-executive Directors; and
- diversity of our board in all aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The director nomination policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The nomination committee will review the director nomination policy, from time to time and as appropriate, to ensure its effectiveness.

Corporate Governance Report

Corporate Governance Function

Our board is responsible for performing the functions set out in code provision A.2.1 of the Corporate Governance Code.

Our board would review our company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, our company's policies and practices on compliance with legal and regulatory requirements, and our company's compliance with the Corporate Governance Code and disclosure in its Corporate Governance Report.

Our Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of our company may from time to time and as the circumstances require provide updated written training materials relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

Dividend Policy

Our company has adopted a dividend policy on payment of dividends in accordance with code provision F.1.1 of the Corporate Governance Code.

Our company does not have any pre-determined dividend payout ratio. According to the dividend policy, payment of dividends depends on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors may deem relevant. Dividends may be proposed and/or declared by our board during a financial year and any final dividend for a financial year will be subject to our Shareholders' approval.

FINANCIAL STATEMENTS, INTERNAL CONTROL AND RISK MANAGEMENT

Directors' Responsibility in Respect of the Financial Statements

Our Directors acknowledge their responsibility for preparing the financial statements of our company for the 2021 financial year.

Our Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon our company's ability to continue as a going concern.

The statement of the independent auditor of our company, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report at pages 99 to 103 of this annual report.

Corporate Governance Report

Auditors' Responsibility and Remuneration

Our company appointed PricewaterhouseCoopers as the external auditor for the 2021 financial year. A statement by PricewaterhouseCoopers about their reporting responsibilities for the financial statements is included in the Independent Auditor's Report at pages 99 to 103.

Details of the fees paid and payable in respect of the audit, audited related and non-audit services provided by PricewaterhouseCoopers and their affiliated firms for the 2021 financial year are set out in the table below:

Services rendered for our company	Total fees paid and payable RMB'000
IPO services	15,200
Audit services related to the Group	4,000
Other audit related services and non-audit services	2,228
Total	21,428

Risk Management and Internal Controls

Our board acknowledges its responsibility for our company's risk management and internal control systems and reviewing their effectiveness. The risk management and internal control measures are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. During the Reporting Period, our board conducted a review on the effectiveness of the risk management internal control system of our company and considered the system effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Risk Management

Our company recognises that risk management is critical to the success of the business operation. Key operational risks faced by our company include changes in the general market conditions and the regulatory environment of China's internet, music, live streaming and online telecommunications and publishing industries.

Our company has adopted a consolidated set of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor key risks (including but not limited to financial reporting risks, information system risks, compliance and intellectual property right risks, internal control risks, human resources risks and investment risks) associated with the strategic objectives on an on-going basis. The audit committee, and ultimately our Directors, supervise the implementation of risk management policies. Risks identified by management will be analysed on the basis of likelihood and impact, and will be properly followed up and mitigated by our group and reported to our Directors.

Our company considers that our Directors and members of the senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control. See "Directors and Senior Management" at pages 36 to 39 for details of their qualification and experiences.

Corporate Governance Report

Internal Control

Our board is responsible for establishing the internal control system and reviewing its effectiveness. Our company established an internal control function to develop and maintain an appropriate internal control framework. In addition, an internal audit function was also established to perform independent monitoring responsibilities.

Our company regularly reviews and enhances the internal control system. Below is a summary of the internal control policies, measures and procedures our company has implemented:

(a) We maintain internal procedures to ensure that we have obtained all material requisite licences, permits and approvals for our business operation, and conduct regular reviews to monitor the status and effectiveness of those licences and approvals. Relevant business departments work with related functional departments to obtain requisite governmental approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.

(b) To comply with the rapidly evolving laws and regulations in the internet industry, we have professional teams in our group to enforce our strict internal procedures, which include without limitation monitoring laws and regulations updated from time to time and conducting relevant researches and studies; monitoring notices, instructions and requirements issued by the regulatory authorities and communicating with relevant authorities to obtain further instructions when necessary; collecting external professional opinions on any new laws and regulations; issuing appropriate plans of compliance for each product and ensuring the implementation of such plans; carry out supervision, inspection and feedback on the implementation.

(c) To comply with the laws and regulations relating to live-streaming entertainment business, we have established various regulating mechanisms including the Management of Practices of Live Streaming Performers《主播管理規範》, the Management of Practices on Users《用戶管理規範》and Penalties on Violation of the Rules by Live Streaming Talent Agencies《LOOK直播公會違規處罰規則》. We have also established a comprehensive review system on live streams that covers all sections from the registration of performers, to the process of live streaming, and to the reporting after the end of the live streaming programs. The specific actions include but are not limited to the following:

- Firstly, we have established a management and security system. For instance, we have implemented a stringent real-name basis system through which performers are required to registered with information such as their real name and ID numbers. Such information will be verified by authorised third-party organisations using biometrics technologies such as face recognition and identity authentication, to match the face of performers with their identity information and confirm the validity of such identity information. During the face recognition process, after obtaining the consent from the performers, the system will capture the face information of the performers through camera, and will instruct the performers perform certain actions, such as blinking and opening the mouth, to confirm it is a real person. The authorised third-party organisation will compare the pictures captured by the camera with photos in the performers' ID cards to verify whether the performers are the holders of such ID cards. The content review system adopts a "machine + manual" approach, with the help from technologies such as AI capture and key words detection, voice recognition, and risk characteristic models. The review team is on 24/7 shifts to ensure sufficient manpower to monitor all live stream content.

Corporate Governance Report

- Secondly, we have established a protection mechanism for minor users. We have set up and continuous upgrade the youth review mode, which cover various aspects of minor usage, including Internet addiction and virtual gifting. We have also set up multiple real-name authentication portals. Any user identified as a minor user by real-name authentication cannot be registered as a live streaming performer or top up in the live streaming service.

- Finally, we have established a management mechanism of live streaming performers. We have set up penalties for prohibited conducts such as spreading vulgar content in live streaming rooms and inducing minors to make virtual gifting. The penalties include but not limited to warning, closing live streaming room, banning performance, freezing account, blocking or suspending settlement of revenue sharing for the month and suspending provision of publicity and promotion resources. We have also a tagging system for contents of live streaming programmes and a grading system based on quality of live streaming programmes and performers, and different levels are allocated with different resources.

(d) Our Directors (who are responsible for monitoring the corporate governance of our group), with help from the legal advisers, also periodically review the compliance status with all relevant laws and regulations after Listing.

(e) Our board has established the audit committee, which: (i) makes recommendations to our Directors on the appointment and removal of external auditors; and (ii) reviews the financial statements and renders advice in respect of financial reporting as well as oversees internal control procedures of our group.

(f) Our company has engaged China International Capital Corporation Hong Kong Securities Limited as its compliance adviser to provide advice to our Directors and management team until the end of the first financial year after Listing regarding matters relating to the Listing Rules. The compliance adviser is expected to ensure the use of funding complies with what is disclosed in the "Future Plans and Use of Proceeds" section of the Prospectus after the Listing, as well as to provide support and advice regarding requirements of relevant regulatory authorities in a timely fashion.

Our company regulates the handling and dissemination of inside information as set out in various inside information disclosure procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

COMPANY SECRETARY

Ms. Wong Wai Yee Ella has been appointed as our company's company secretary. Ms. Wong's primary contact person at our company is Ms. Ju Lu, vice president of finance of our company. See "Directors and Senior Management" at page 39 in this annual report for Ms. Wong's biography.

In the 2021 financial year, Ms. Wong has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Corporate Governance Report

SHAREHOLDER RIGHTS AND COMMUNICATIONS

Convening of Extraordinary General Meetings by Shareholders

Pursuant to article 12.3 of our articles of association, our board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the written requisition of one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of our company which carry the right of voting at general meetings of our company. The written requisition shall be deposited at the principal office of our company in Hong Kong or, in the event our company ceases to have such a principal office, the registered office of our company, specifying the objects of the meeting and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed to convene a meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of our Directors shall be reimbursed to them by our company.

Putting Forward Proposals at General Meetings

There are no provisions allowing Shareholders to propose new resolutions at general meetings under the Companies Act of Cayman Islands (as revised and amended from time to time) or our articles of association. However, Shareholders who wish to put forward proposals at general meetings may achieve this by means of convening an extraordinary general meeting following the procedures set out in paragraph above.

For the procedures for our Shareholders to propose a candidate for election as a director of our company, please see our company's website at http://ir.music.163.com.

Putting Forward Enquiries to the Board and Contact Details

For putting forward any enquiries to our board, Shareholders may send written enquiries to our company as follows:

Attn.: The Board of Directors Cloud Village Inc.

Room 1201, Block A Hangzhou International Expo Center

No. 353 Benjing Avenue, Qianjiang Century City, Xiaoshan District

Hangzhou, Zhejiang Province, China.

Our company will not normally deal with verbal or anonymous enquiries.

Corporate Governance Report

Communication with Shareholders and Investors Relations

Our company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of our group's business performance and strategies. Our company endeavours to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the forthcoming annual general meeting, our Directors (or their delegates as appropriate) will be available to meet Shareholders and answer their enquiries.

To promote effective communication, our company maintains a website at http://ir.music.163.com, where information and updates on our company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

Changes in Constitutional Documents

From the Listing Date to 31 December 2021, our company did not make any significant changes to its constitutional documents.

The latest version of our memorandum of association and articles of association are available on the websites of our company and the Stock Exchange.

Environmental, Social and Governance Report

ABOUT THIS REPORT

Introduction

Cloud Village Inc. is releasing its inaugural Environmental, Social and Governance (ESG) Report ("this Report") to share our efforts, initiatives and achievements in ESG activities with stakeholders.

Reporting Period

This Report covers the period from 1 January 2021, to 31 December 2021 ("the reporting period"). Developments before or after the 2021 calendar year may be referred to where appropriate.

Reporting Scope

The information in this Report is presented on behalf of Cloud Village Inc. ("the Company", "Cloud Village", "we", "us" or "our") and all of our subsidiaries.

Reporting Guidelines

This Report drew on the *Appendix 27 Environmental*, *Social and Governance Reporting Guide* in the *Listing Rules and Guidance* issued by The Stock Exchange of Hong Kong Limited ("HKEX").

This Report was created following a pre-determined roadmap. First, we identified key stakeholders and ESG concerns. Then we decided on the reporting scope, gathered data and information and put together this Report. The completed report was checked and reviewed prior to publication. The information in this Report is thorough, substantial, credible and balanced thanks to these procedures.

Sources and Credibility

The information and data contained herein are from the Company's statistical reports and official documents and approved by relevant departments. The Company undertakes that this Report does not contain any inaccurate or misleading material and that the content is credible, accurate and comprehensive.

Languages and Formats

This Report comes in both English and Chinese and is available in digital format. For more information about Cloud Village's background, operations and sustainable development principles, visit http://ir.music.163.com/en/index.php.

Compiling Process

The compilation of this Report was achieved through a detailed course of action, including working group establishment, data collection, stakeholder interviews, outline drafting, report writing and internal reviews.

Confirmation and Approval

This Report was confirmed by the management team and approved by the Board of Directors.

Access and Feedback

We welcome, value and appreciate comments and feedback from all stakeholders. Feel free to leave us your comments and questions at music.ir@service.netease.com.

Environmental, Social and Governance Report

1. GOVERNANCE

1.1 Risk Management

At Cloud Village, we rigorously abide by all applicable risk management rules and regulations, including but not limited to the *People's Republic of China Company Law*, the *Basic Standard for Enterprise Internal Control* with *Implementation Guidelines* and the HKEX *Listing Rules*. We've also created a set of corporate governance principles and procedures. In our daily operations, we meet regulatory standards and maintain business compliance. In addition, we've put in place a solid internal control structure to boost risk prevention and control.

We identified and assessed the risks associated with our company's operations throughout the reporting period, including strategies, policies, customer insights, channels, products, services, marketing, branding, technology, supply chain and human resources. In-depth interviews and surveys provided us with valuable information.

1.2 Business Ethics

Cloud Village is committed to upholding its integrity. We have a zero-tolerance policy against all sorts of illegal activity, including bribery, extortion and embezzlement. As a result of this, we strictly adhere to all relevant rules and regulations, including the *People's Republic of China's Antitrust Law*, *Anti-Money Laundering Law* and *Interim Provisions on Commercial Bribery*. Internal management guidelines including "NetEase Business Ethics and Integrity Regulations," "NetEase Professional Ethics and Code of Conduct," "NetEase Whistleblower System," and "Operation Rules for the NetEase Ethics Committee" are also followed. There were no bribery or corruption cases brought forward throughout the reporting period.

Environmental, Social and Governance Report

Anti-corruption

We recognise that honesty and integrity are the foundation of long-term business success. NetEase Group has formed an Ethics Committee to oversee the business and manage all personnel to ensure compliance.

Ethics Committee Office's Whistleblowing Procedure

From July to September 2021, we began offering annual group-wide compliance and professional ethics training and certification, covering a variety of topics such as security, integrity, internal audit, investor and public relations, to assist our employees in understanding corporate rules and policies and conducting business with honesty, integrity, mutual respect and trust. For the 2021 cycle, all 1,199 eligible Cloud Village employees have earned the ethics certification.

At Cloud Village, we take all necessary measures to prevent bribery and corruption. Our anti-bribery and anti-corruption training is tailored to personnel with various jobs and responsibilities. We provide annual training for the management team and the Board of Directors based on professional ethics standards and historical case studies. We introduce financial rules and the most recent financial criminal instances to procurement personnel. To coordinate daily operations, we meet with suppliers regularly to brief them on incidents that violate our compliance criteria and to state our integrity policy.

Environmental, Social and Governance Report

Integrity Campaign

We launched a one-month campaign to emphasise integrity in our people and workplace. This month, we provided live streaming courses and offline training on professional ethics. We also put on themed caricatures and micro movies in offices, restrooms and dining halls to remind our employees to follow our professional ethics and integrity requirements at any time, any place.

2021 Integrity Campaign Poster on Campus

Protection for Whistleblowers

We have established a comprehensive whistleblowing system, with the Ethics Committee overseeing and responding to all disclosures. Whistleblowers from all walks of life are appreciated and welcomed. At the same time, we take every precaution to protect whistleblowers. Only department heads and investigators can access reports; employees can make anonymous disclosures and investigators must sign non-disclosure agreements (NDAs).

1.3 ESG Management

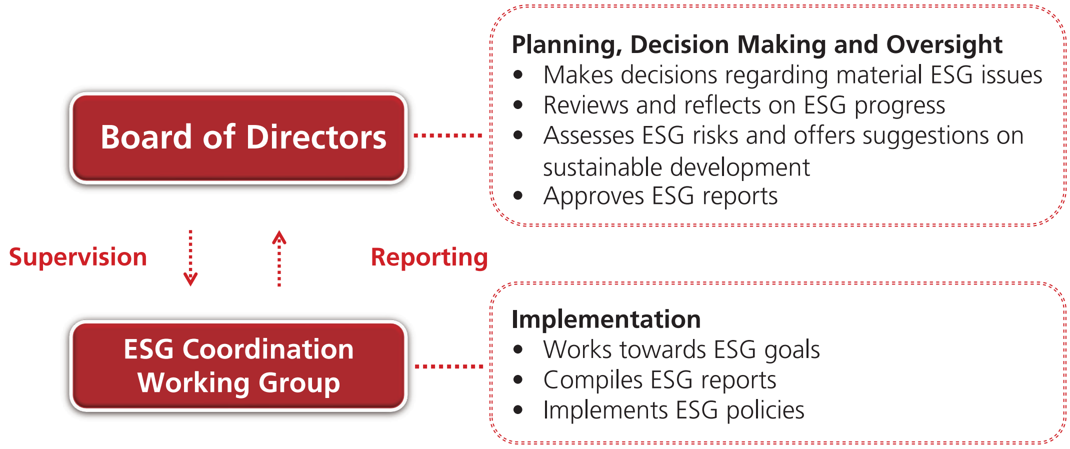
As a company with strong ties to its users, we can only secure long-term financial viability if we also commit to social responsibilities.

In keeping with our commitment, we've built an ESG governance framework to ensure that ESG initiatives are implemented. We're also eager to maintain open, effective and real-time communication with stakeholders through a variety of channels, as well as respond to public opinion.

Environmental, Social and Governance Report

ESG Governance Structure

In 2021, we established an ESG Coordination Working Group supervised by the Board of Directors to further ESG practises and promote sustainable development.



Cloud Village ESG Governance Structure

Statement by the Board of Directors

- **Responsibilities of the Board of Directors**

  Cloud Village's ESG performance and sustainable development are the responsibility of the Board of Directors. To maintain a strong and effective internal control system, it identifies and assesses risks. The Board of Directors also develops ESG governance principles, strategies and goals, and monitors the Company's progress on ESG issues.

- **ESG implementation**

  The ESG Coordination Working Group is responsible for ESG implementation and ensures sustainability in every aspect of operations, including implementing sustainability strategies, setting goals and management guidelines and compiling ESG reports. The ESG Coordination Working Group reports regularly to the Board of Directors.

- **Risks and opportunities**

  We stay close to internal and external stakeholders to hear their expectations, identify ESG risks and grasp ESG opportunities. We have discussed and agreed on material sustainability issues and are formulating appropriate strategies, goals and guidelines. Additionally, we conduct regular progress reviews, observe other players' efforts and follow the latest international developments.

Environmental, Social and Governance Report

Stakeholder Engagement

We understand that stakeholders' opinions are paramount in formulating and implementing short- and long-term sustainable development strategies. We regularly engage them through two-way communication to better respond to stakeholders' concerns. This allows us to hear the demands and expectations of all parties promptly and thereby act on them to ensure more sustainable development.

Stakeholder	Expectation	Channel
Users	Content Innovation Content Compliance Customer Services and Satisfaction Privacy and Data Security	The Company's Website Customer Satisfaction Surveys Customer Complaint Handling Official WeChat Account
Partners and Industry Associations	Experience Sharing Support for Industry Development	Strategic Cooperation Industry Exchanges
Employees	Compensation and Benefits Health and Safety Employee Communication Equal Promotion and Career Advancement Opportunities	Employee Satisfaction Surveys Forums Teambuilding and Other Activities
Shareholders and Investors	Corporate Governance Return on Investment (ROI) and Growth Risk Management Tackling Climate Change	Shareholder Meetings Information Disclosure via ESG and Annual Reporting Road Shows Investor Conference and Other Activities
Communities	Higher Employment Rate and Economic Growth Social Care and Volunteering Tackling Climate Change	Charity Work Community Building Visits
Government and Regulatory Authorities	Compliance with Law and Regulations Tax Payment According to Law Tackling Climate Change Support for Circular Economy Energy Conservation and Emission Reduction	Meetings Information Disclosure
Charities	Social Issues (i.e., Poverty Alleviation and Student Assistance) Care for Disadvantaged Groups	Charity Work Community Development Activities
Media	Support for Social Development Care for Vulnerable Groups	Press Conferences
Suppliers	Fair and Open Procurement Quality Assurance	Supplier Qualification Assessment Supplier Training

Environmental, Social and Governance Report

Material ESG Issues

During the reporting period, we combed through the ESG indexes and items concerned by HKEX and analysed the best practices of our peers. We identified 20 ESG issues of significance to Cloud Village. We then narrowed our focus to nine material ESG issues based on interviews with shareholders, feedback from the management and benchmarking analysis. These nine issues steered the direction of our ESG strategies.

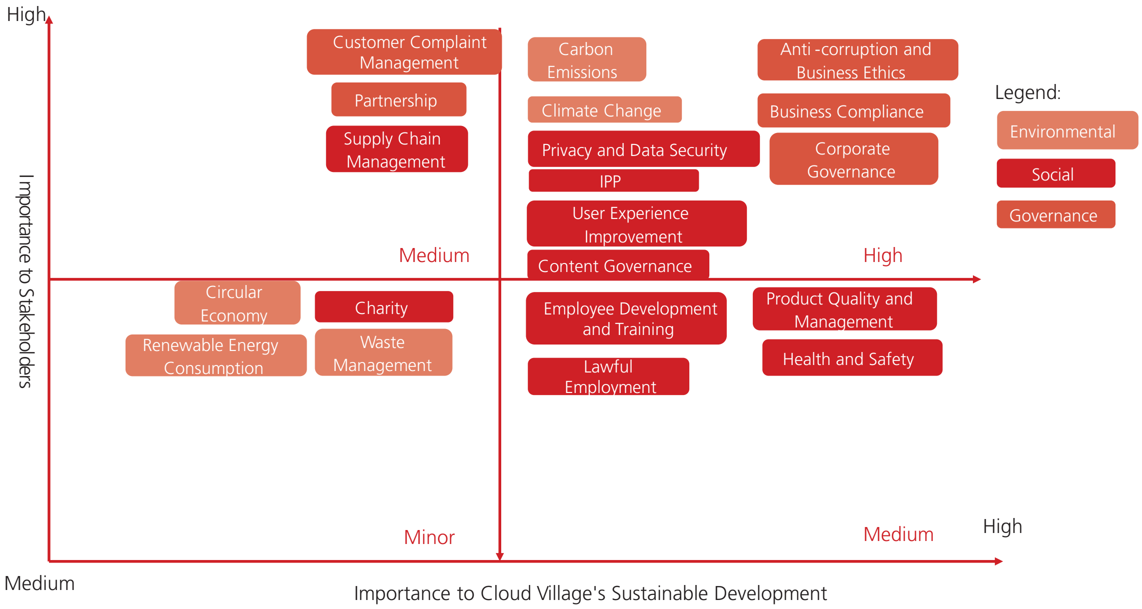
- **Material issues**

No.	Issue	Category
1	**Carbon Emissions**	Environmental
2	**Tackling Climate Change**	
3	Renewable Energy Consumption	
4	Waste Management	
5	Circular Economy	
6	**Privacy and Data Security**	Social
7	**Intellectual Property Protection (IPP)**	
8	**User Experience Improvement**	
9	**Content Governance**	
10	Employee Development and Training	
11	Lawful Employment	
12	Health and Safety	
13	Product Quality and Management	
14	Supply Chain Management	
15	Charity	
16	**Anti-corruption and Business Ethics**	Governance
17	**Business Compliance**	
18	**Corporate Governance**	
19	Complaint Management	
20	Partnerships	

Note: The nine material issues for this reporting period are in bold.

Environmental, Social and Governance Report

- **Materiality matrix**



2. SOCIAL

2.1 Our Employees

At Cloud Village, we believe that every success story starts with our people. That is why we always remember to put our employees first and endeavour to empower our employees to achieve their fullest potential. We believe that as our people thrive, our company will too.

Employee Rights

At Cloud Village, we abide by all relevant laws and regulations and make continuous efforts to improve a system that ensures the implementation and protection of employees' rights and interests. We believe that such efforts will lead to a harmonious, autonomous atmosphere and a healthy, productive work environment.

- **Recruitment**

  We are committed to protecting the rights and interests of each candidate during the recruitment process. We strictly comply with all relevant laws and regulations of China, including the *Labor Law*, *Employment Contracts Law*, *Social Insurance Law* and all other relevant provincial and governmental policies. We have also followed the "NetEase Recruitment Policies" and "NetEase Employee Handbook" and repeatedly state our recruitment policies to our staff.

- **Labor rights**

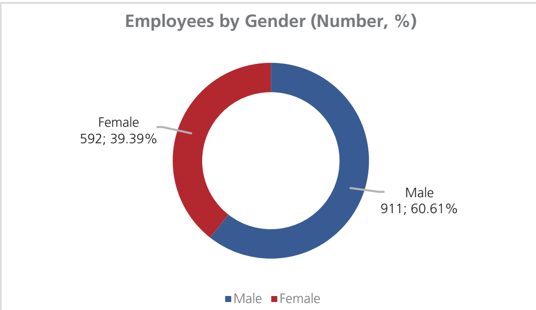
  Preventing illegal employment: We forbid any form of unlawful employment. We do not hire child labor and we hold a commitment never to do so. We carefully check the employees' identities upon onboarding to ensure our procedure is compliant and that employees' rights and interests are well-protected.

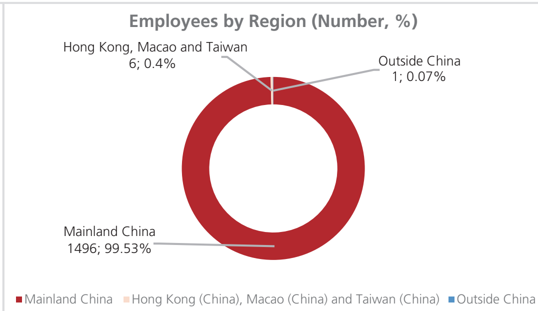
Environmental, Social and Governance Report

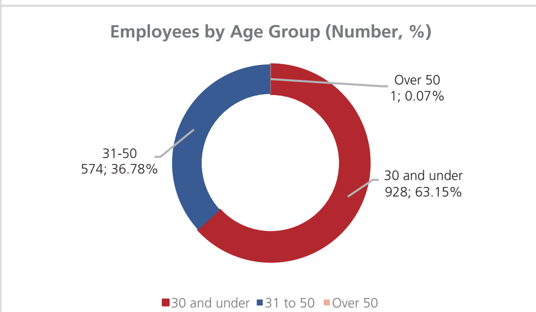
Anti-discrimination: We adopt and enforce a zero-tolerance policy against discrimination and harassment of any kind. We treat every employee with respect and provide every candidate with equal opportunity. We strive to create a workplace where every individual feels safe, heard and accepted without judgment, regardless of age, gender, ethnicity, nationality, marital and family status, health status, religion, or any other distinguishing characteristic or trait.

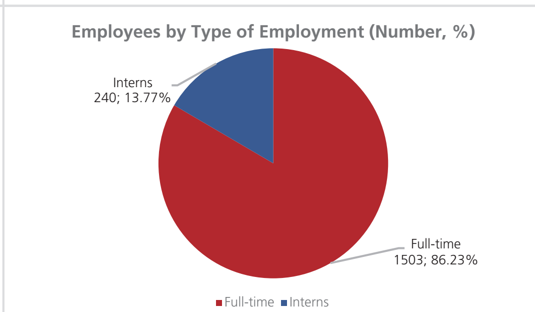
Diversity and equity: At Cloud Village, we envision a workplace that reflects the communities we serve. We are committed to creating an environment where our employees, of any gender, from any background, at any age, feel equally empowered to bring their authentic selves to work. We firmly believe that diversity is a critical part of our success – a comfortable and inclusive workplace fuels creativity and innovation.

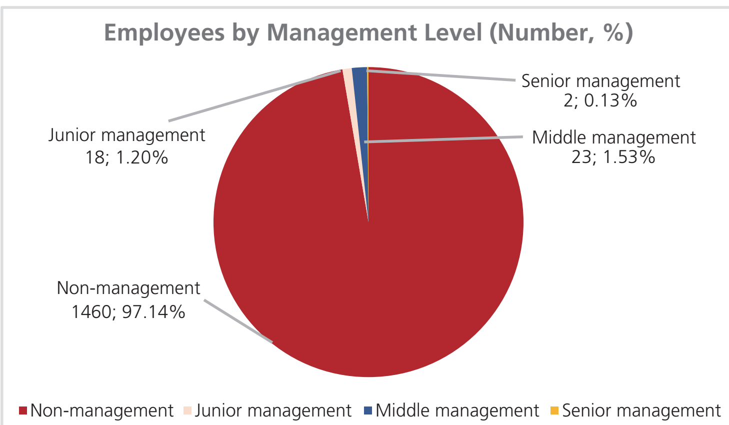
We had 1,503 full-time employees at the end of the reporting period. The following is a breakdown of our workforce by gender, region, age group, type of employment and management level.











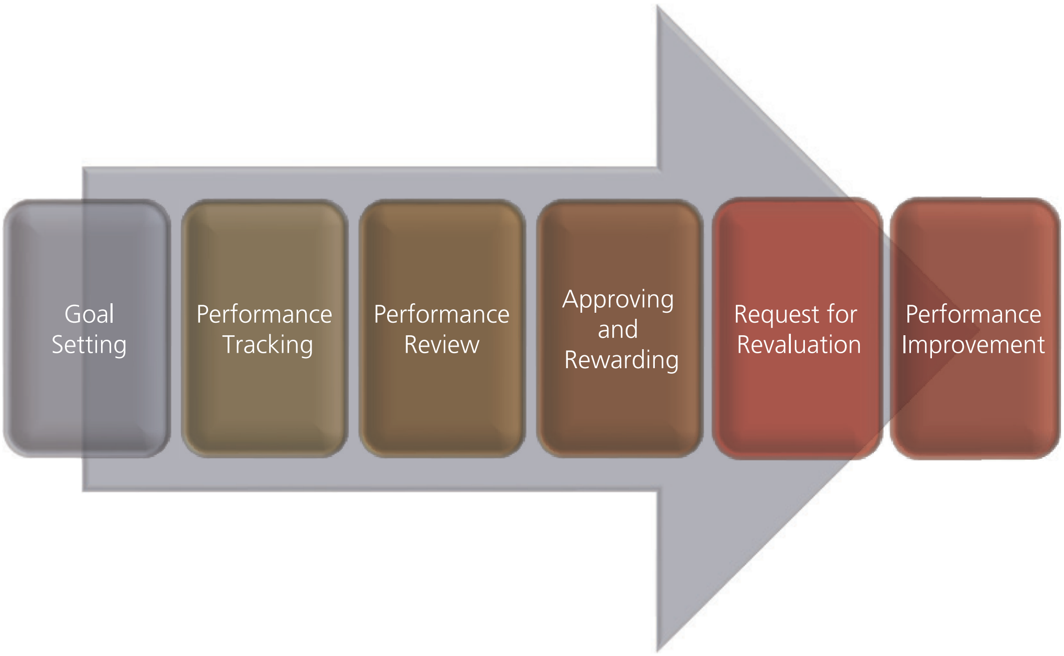
Environmental, Social and Governance Report

Compensation and Benefits

We always believe that our people make Cloud Village, and every inch of our progress is attributed to their relentless contributions. We offer competitive pay and comprehensive benefits to our employees, and we have an attractive bonus structure to motivate and incentivize excellent performance. We believe that every individual is unique and talented in their own way. We help them identify their distinguishing qualities and unlock their fullest potential.

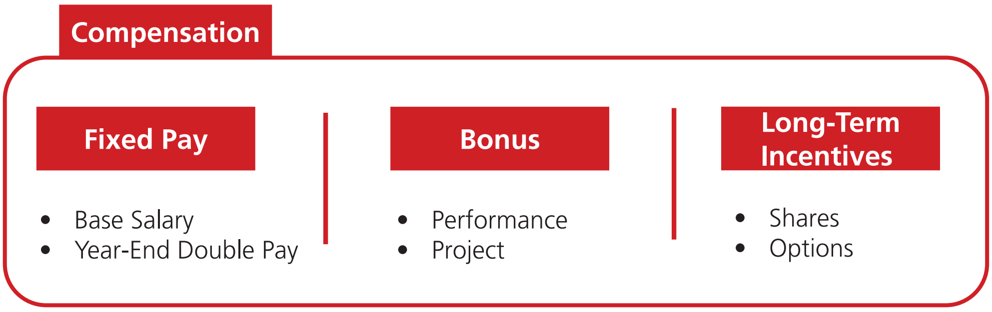
- **Performance management**

  We believe that a sound incentive mechanism underpins success in business. We have established a comprehensive performance management system to support employees' and organisations' growth.



Cloud Village's Performance Management System

Environmental, Social and Governance Report



Compensation at Cloud Village

- **Benefits**

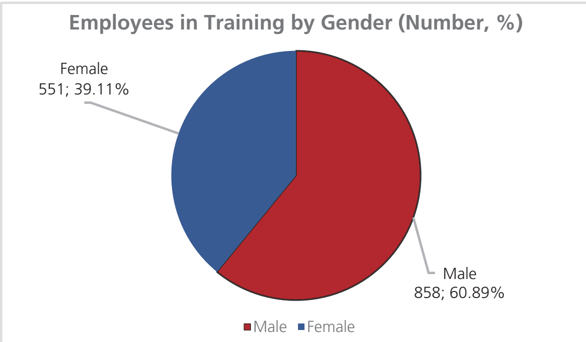
  We offer an array of perks to make our people feel supported and valued. These include meals, gifts on holidays, free shuttles, childbirth care, employee discounts, facilities, paid leaves, discounts on home mortgages, talent-attraction policies and subsidy programmes.

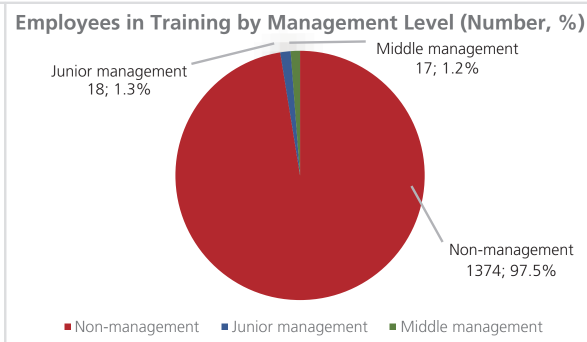
Talent Development

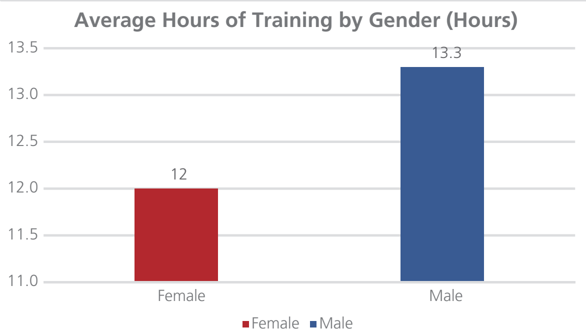
People are the lifeblood of our organisation, so we invest heavily in talent acquisition and development. Our company-wide training programs cover everyone from interns to managers, helping us stay strong and competitive for future successes. In addition, we encourage career-long learning and incentivize our employees as they reach milestones along the way.

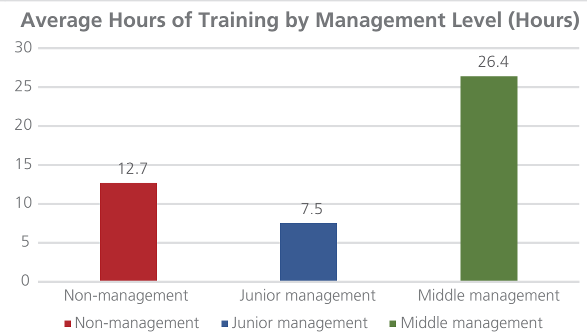
Environmental, Social and Governance Report

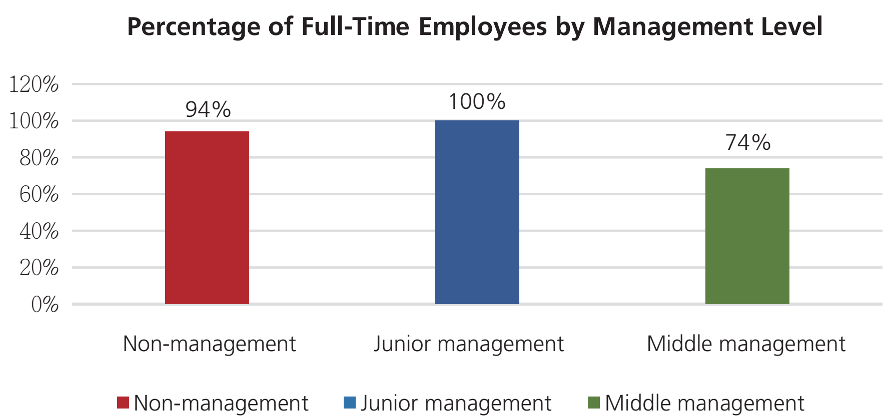
As shown in the following figures, we have offered a series of training options during the reporting period that targets employees at all levels.











Each year, we analyse why people quit and what we can do to keep them with us, therefore mitigating human capital risks and talent loss. During the reporting period, the turnover rate was 23.60%.

Environmental, Social and Governance Report

Employee Care

We believe that employees play a crucial role in the company's growth. We care about our people, listen to their needs and act on their feedback.

- **Communication**

  We are committed to creating an ongoing dialogue between rank-and-file employees and high-level management. The NetEase intranet portal, for example, is the first resort for employees to express their thoughts and ideas, which contributes to two-way communication. "Ease Master" is a credit-based platform designed and complemented to motivate employees to grow together with the Company. We're also devoted to boosting employee satisfaction and forming bonds and connections through team building.

- **Care**

  We maintain that employees are the heart and soul of Cloud Village. We have set up an employee welfare and care system to improve employee well-being and strike a balance between work and life.

Cloud Village Guitar Club

Our employees can try playing the guitar in the Cloud Village Guitar club, covering music theory and weekly guitar or bass lessons delivered by our in-house instructors. In 2021, the club had a total of 108 members, including two bands that have made frequent appearances in internal and external events, such as "IPO Night", "Music for Love Charity Performance" and "Grassland Music Festival". They have even written, recorded and released two singles.

Environmental, Social and Governance Report

- **Health and safety**

  We remain committed to ensuring employees' physical and mental well-being. We also endeavour to create a safe workplace through strict compliance with the *Fire Protection Law of the People's Republic of China* and other relevant laws and legislations. As the fight against COVID-19 continues, we have taken measures to contain the pandemic.

  For example, we evaluate office facilities and infrastructure, provide masks and other medical supplies and put emergency coping strategies in place. We closely follow the latest pandemic development and adjust our policies accordingly to balance COVID-19 prevention and sustained operation. We take strict prevention measures to keep our people safe, including daily cleaning and disinfection of the ventilation mechanical control system on the Beijing campus and fan coils on the Hangzhou campuses.

  Additionally, we provide employees with periodic health checks, health insurance and health-education lectures. Our office buildings are equipped with gyms and health consulting rooms, and we offer weight-management programs, employee assistance programs and mental-health assistance services. The goal is to build a workplace where everyone is cared for and has a sense of belonging. The past three years saw zero death from work-related injuries within the company. No work-related injuries occurred during the reporting period.

2.2 Our Products and Services

As a pioneer at the forefront of China's online music entertainment services, we are committed to serving our users with integrity and safeguarding digital music's healthy development and prosperity of the Internet industry. We conduct business by laws and industrial regulations. We have established and are making continuous efforts to improve the internal management system to better protect artists and their original content. We respect the rights and interests of each of our users and, therefore, we take effective actions to secure user data and privacy. Based on the best technological practices available, we evaluate and control operational risks that may affect our product quality.

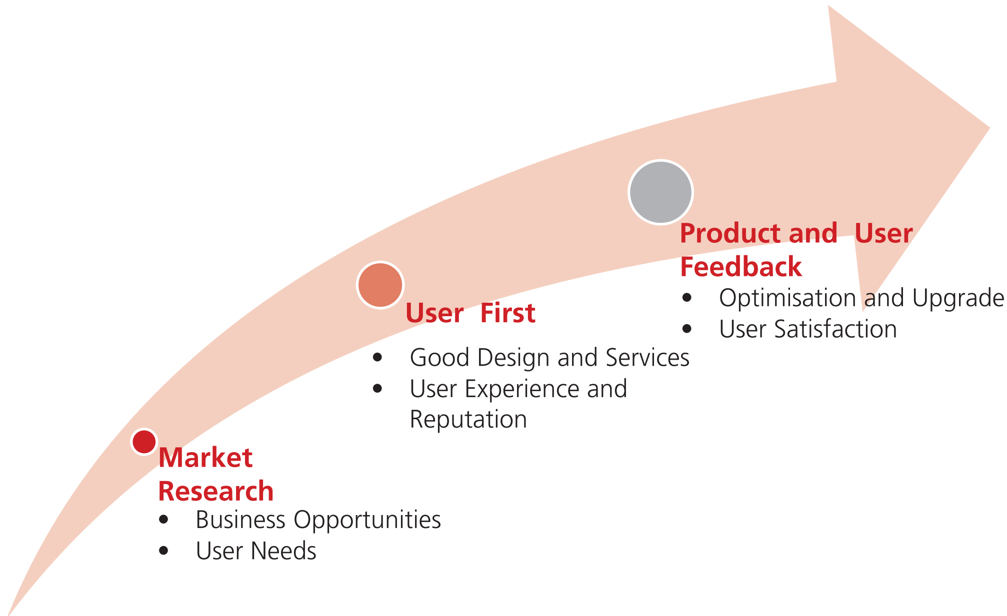
Quality Optimisation

We work relentlessly to optimise and upgrade our products in all respects. We offer platforms that enable users to share their thoughts on amicable terms and help more people hear original music content. At the same time, we spare no effort to protect the IP of creators on our platforms.

Environmental, Social and Governance Report

- **Improving product quality**

  We conduct extensive market research for each product feature prior to launching it, thus ensuring its functionality and popularity among users. Elaborate designs ensure the target audience likes the features we provide. Additionally, we keep an eye on our content and are mindful of users' feedback and take quick follow-ups on the issues that may arise. We benchmark our products, exercise a tried scheme to respond to customer feedback and audit product content to ensure stability and availability.



- **Improving community experience**

  We are committed to building a healthy, productive platform that inspires creativity and encourages sharing. We are attentive to users' voices because we believe they play a fundamental role in our further development. On 25 August 2021, we launched NetEase Cloud Music V8.5, a new version of our app, which created more interaction among our audience. It enabled users to easily follow and view recently shared posts by their friends or favourite musicians.

Environmental, Social and Governance Report

Cloud Village Healing Program

Cloud Village strives to create a welcoming, warm and uplifting experience. In August 2020, we launched the Cloud Village Healing Program, which included three major projects to boost community morale. We held a comment competition, with 10 thousand popular music reviewers involved, to encourage optimistic, friendly, authentic and engaging comments. We revised our content policies, encouraging users to leave positive and responsible comments. And finally, we established the "Cloud Village Healing Clinic" of over 10 thousand psychologists and volunteers, helping people with depression live a life inspired by the power of music. Over the past two years, the 24/7 "clinic" project has provided free counselling for tens of thousands of people in need, and the number continues to grow.

Music Moments of the Year

In 2021, we revamped the *Music Moments of the Year* page. In addition to a more detailed annual review, we introduced virtual tours with dynamic scenarios in *Cloud Village* for the first time and analysed streaming data at a finer granularity. It quickly became viral among *villagers* and brought interaction and exposure data to a record high.

Virtual Hug

We aspire to create warm and positive interpersonal interactions across our community. For this, we innovated a feature that enables users to give a virtual hug to people singing the blues. The feature, not surprisingly, received extensive favourable reviews from users, especially young people.

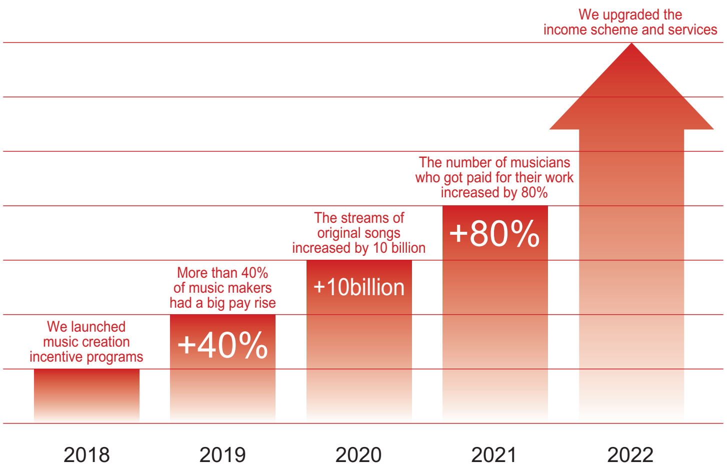
Environmental, Social and Governance Report

- **Supporting original music and independent artists**

We believe original works energise the development of the music industry, and their creators are sure to become mainstays – that's why we support and call for respect for original works and independent artists. We are committed to building a platform where the rights and interests of independent artists are well protected, where talented young musicians are encouraged to share their works and thoughts with the world. We know this won't be easy, but we believe we can build a better future for the Chinese music industry with passion and relentless efforts.

Music Talent Initiative 2022

On 29 November 2021, Cloud Village released the *Music Talent Initiative 2022*. According to the new initiative, musicians will enjoy greater exposure and rewards. Not only songwriters but arrangers and producers can be certified as platform's musicians. Lyricists, composers, and singers can share earnings from music works as arranged. We also incorporated all advertising revenue across our platform into a money pool for sharing. Moreover, we added a new enforcement mechanism so that Independent Artists can protect their IP easily.



Stronger Support for Independent Artists

In 2021, we stood firm in our support for discovering music talents. In July, we held *Galaxy Album Music Camp* with China Music Techno Base to find and nurture outstanding music talents for the Chinese music industry. The camp's theme was *China Fusion*, aiming to promote traditional Chinese culture. In September, we released *Project Stone IV*, an annual sponsorship program for music artists. Musicians engaged in the project will receive long-term support and exposure, including virtual labels, album production and tour sponsorship. In October, we invited professional music mentors and launched the first phase of the Musician Training Class to cultivate music talents.

Environmental, Social and Governance Report

- **Protecting IP**

  Cloud Village is strongly committed to protecting our IP and others based on laws and regulations including China's *Copyright Law* and *Patent Law*. We promptly apply for and register our works, software, trademarks and patents to ensure proper IP usage during business operations. We monitor infringements of our music copyright on the Internet and take appropriate action. We also pay equal attention to avoid infringement of others' IP. For example, we tag all the licensed songs to track the authorisation status of our music library and proactively block content with infringement risks.

  Additionally, we have a dedicated channel to collect infringement complaints and have dedicated staff to deal with the complaints. Once repeated infringement is confirmed, we have the right to suspend or even terminate infringing accounts. We are also in constant communication with other platforms to handle complaints swiftly, thus reducing litigation risks and costs.

  These measures safeguard the legitimate rights and interests of our Independent Artists and effectively minimise infringement cases from happening.

Content Governance

Cloud Village is committed to building a platform with positive and inspirational content. For this purpose, we conduct extensive content governance in strict compliance with the *Internet Information Service Management Measures* and abide by media ethics, being at the helm of entertainment service providers.

Our public input and content review teams collect and summarise national and international public input regarding politics, economy and society daily and weekly. We organise training and tests for content reviewers to help them get the most up-to-date information and improve job competence.

Moreover, we initiatively took special measures to combat improper celebrity culture under the guidance of regulatory authorities. The results have been successful and satisfying – our business, operation and community are now fully compliant with the legal requirements.

Environmental, Social and Governance Report

Rankings and Operations	• Cancelled all the celebrity/artist rankings. • Limited purchases of best-selling digital albums. • Encouraged users to pay more attention to works rather than celebrities themselves to prevent overzealous fan support. • Removed limited-time fan bonuses, fan clubs, and fan rankings. • Reset the names of fandom accounts that were not endorsed by celebrity studios or companies.
Community	• Imposed strict punishments on malicious fandom behaviours such as personal attacks, insults, patronising remarks, show-offs, vanities, and doxings. • Tightened supervision over celebrity chaohua(super hashtags), groups, and circles. • Strengthened identity review of group/circle holders, and minors shall not become group/circle holders or administrators. • Published "NetEase Cloud Village Announcement on Cracking down on Improper Fan Culture" and "NetEase Cloud Village Announcement on Intensified Crackdowns on Improper Fan Culture".

Cloud Village's Content Governance Measures

Cybersecurity

Cybersecurity is always high on our agenda. We are committed to building a secure, healthy and community-driven platform for our users. We have established a sophisticated security system and emergency response mechanism to prevent cyber-attacks, making continuous efforts to ensure our security staff and measures are adapted to the times.

- **Improving security management**

  We have developed a series of regulations to protect user data, including "NetEase Cloud Village User Personal Information Protection and Management Rules", "User Personal Information Processing Activity Rules," "Guidelines on User Privacy Protection Measures", "Data Security Compliance Assessment and Management Rules", and "Risk Evaluation and Control Process". These documents specify what each department should do, how to assess information security status, how to process personal information and how to train our staff.

  We have also formulated the "Emergency Response Plan" and "Data Security Incident Response Plan" that define the procedures to secure data in case of emergencies. It is worth mentioning that in 2021, no data breaches happened at Cloud Village.

Environmental, Social and Governance Report

- **Ensuring data security**

Data security is paramount at Cloud Village, and we take stringent security measures to protect users' personal information:

Data Categorisation and Classification

- Classify data based on "NetEase Cloud Village Data Categorisation and Classification Regulations".
- Classify data based on data sensitivity.

Data Storage and Encryption

- Encrypt sensitive data stored in databases with multi-layer keys. The keys are stored and managed independently, securing data in all aspects.

Multi-level Access Control

- Develop the "Data Security and Access Control Regulations".
- Establish an access authorisation system that fits the entire process.

Sensitive User Data Anonymization

- Anonymize users' personal data based on business needs.
- Anonymize personal information before it is displayed to users.

- **Internal and external audits**

We know there's a lot we can do internally and externally to ensure data security in addition to conducting business according to law.

External audit: Our app has been certified as Level-3 Communication Network Security Protection and Management System by the Ministry of Industry and Information Technology of China and has passed the Level-3 test of China's Multi-Level Protection Scheme under the supervision of the public security authorities.

Internal audit: In 2021, we conducted special audits on user privacy and data security with internal audit and security departments based on relevant standards, regulations and systems, ensuring that any potential risk was alleviated. We also examined data access logs periodically to check for unauthorised access, batch copy, destruction and interface calls.

- **Cybersecurity training**

To provide a safe experience to our users, we provide cyber security literacy training to all relevant staff. Our content security team tracks and analyses public opinion on trending topics weekly. They then share their information with the rest of the staff during Content Security Center's weekly training sessions. These training programs help us identify risks, take targeted actions and prevent illegal content. At the same time, the security tech team and NetEase Group Security Department introduce privacy compliance knowledge and risk prevention measures to employees to improve their cybersecurity awareness.

Environmental, Social and Governance Report

Services

We constantly endeavour to provide a great user experience, and we want our users to enjoy better services and feel that their privacy is being protected.

- **User privacy protection**

  In 2021, we began to employ the Advanced Encryption Standard (AES) to encrypt keys and sensitive personal information in databases and applied HTTPS to transfer the encrypted sensitive data. At the same time, we anonymized the data before it is displayed to our operations personnel. Together, these efforts contributed to zero breaches in user privacy during the reporting period.

  Personal Information Lists

  The Ministry of Industry and Information Technology of China announced in January 2022, asking Internet service providers to optimise the display of privacy policies and publish the lists of the personal information they have collected and shared with third parties. In response to the requirements, our music App immediately prepared a list of personal information we collect and use, a list of personal information we share with third parties and an overview of our Privacy Policy.

- **User complaint management**

  User complaints are the best way to know about issues with our services and help us improve. We welcome complaints and have created various mechanisms to resolve them to increase user satisfaction. All of the 556 complaints we received during the reporting period have been resolved, with a user satisfaction rate of 93.14%.

User Complaint Management

Public Relations Management

- Set up an emergency response team.
- Assign decision-makers and reporters for emergencies.
- Develop emergency classification standards.

Emergency Response Plan

- Specify common business emergencies.
- Develop response plans.
- Develop response measures.

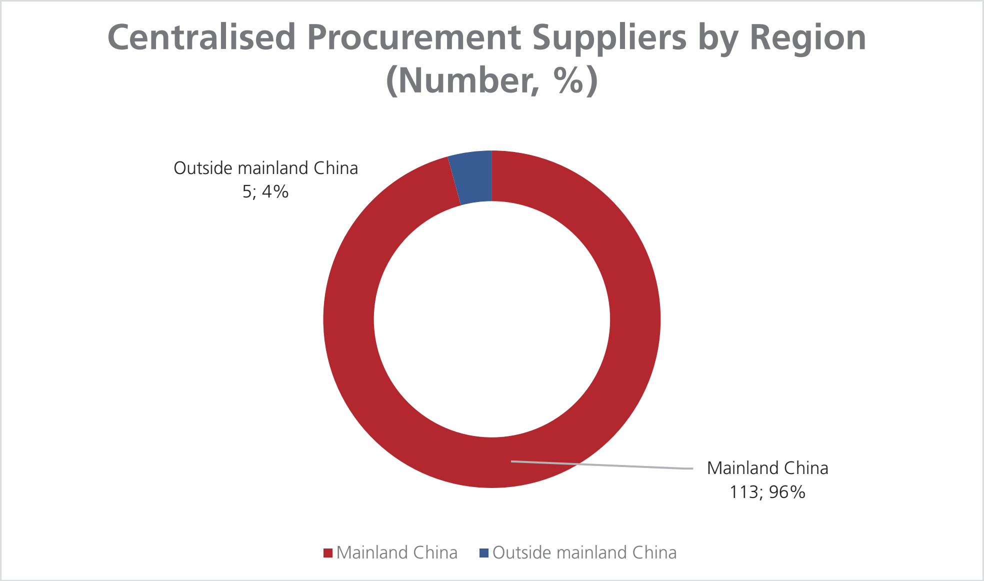
Communication Channel

- Create effective complaint channels: online customer service, WeChat account, and regulatory authorities.
- Handle and respond to all user complaints.

Environmental, Social and Governance Report

2.3 Supplier Management

We select, evaluate and regulate our suppliers according to applicable laws, including China's *Bidding Law*. Most of our suppliers come from Hangzhou, where most of our business is conducted. We purchased catering services, food, office supplies and property services from 118 suppliers during the reporting period. The following figure shows the number of centralised procurement suppliers in each region and percentage:

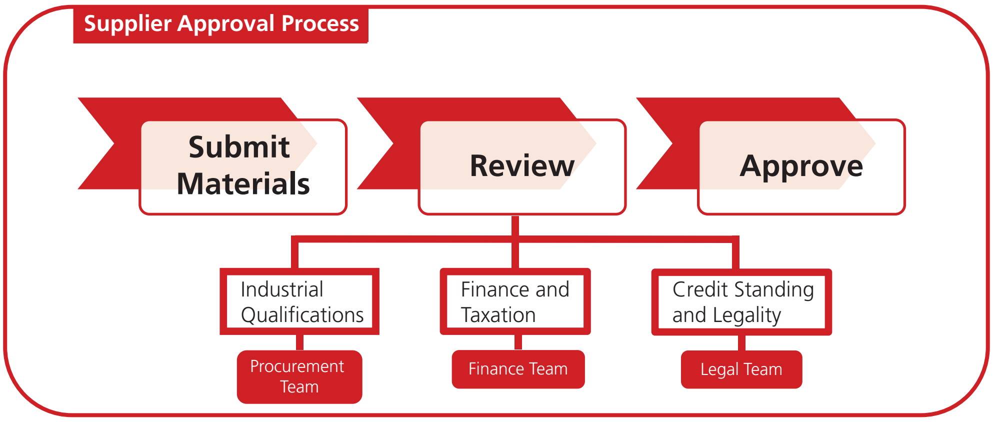


To ensure every procurement activity procedure is compliant, we have formulated detailed rules, such as the "Business Procurement and Cooperation Department Supplier Management Regulations" and the "Business Outsourcing Regulations".

Environmental, Social and Governance Report

Supplier Approval

We set a high bar for our suppliers. To become a supplier, a company should have a good reputation on the market or be recommended by other business departments. Then it should be approved by the business supervisor of the procurement team, legal team and finance team at the same time.



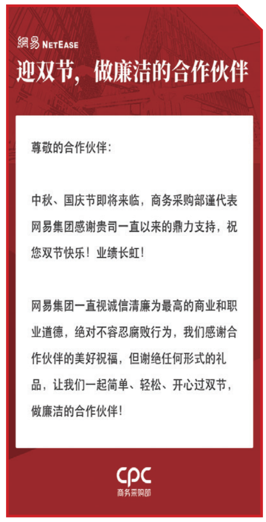
Supplier Training

We work closely with our suppliers to communicate our integrity policies and business requirements, hoping to maintain a healthy partnership that benefits both parties. For example, we hold annual training regarding these matters with our business partners and on-site workers.

Environmental, Social and Governance Report

Supplier Integrity Training

We expect our suppliers to conduct business with integrity. On Mid-Autumn Days and National Days, we send e-mails to our suppliers to remind them of our integrity policies.



Supplier Communication and Support

Good communication underpins a good relationship. Inviting our suppliers to rate our procurement process regularly identifies and mitigates the risks and weaknesses in procurement management, improving procurement efficiency.

We also work with our suppliers to address their needs, share the benefits of cooperation and enhance the trust between two parties.

Purchasing Rice to Alleviate Poverty

NetEase partners with Ruiqian Rice and local farmers to build a rice plantation and workshop.
The cooperation creates jobs and income for local people, and we can provide employees with safer rice at lower prices in staff canteens.
Many low-income families benefit from the programme and have released themselves from the shackles of poverty.

2.4 Multi-party Cooperation

We know the sustainable development of the Chinese music industry cannot be done on our own. With the medium of music as a means of communication, we cooperate with industrial partners to deliver profound values.

For example, we partnered with China Record Group to produce a series of podcasts such as "Ode to a Stronger China." We value every opportunity for industrial exchanges and have held a number of forums to promote joint development.

Environmental, Social and Governance Report

The 8th China International Copyright Expo – China Digital Music Copyright Development Forum

On 17 October 2021, Cloud Village, as one of the organisers, held the 8th China International Copyright Expo – China Digital Music Copyright Development Forum at the Hangzhou White Horse Lake International Convention and Exhibition Center in the presence of copyright authorities and competent offices. On the theme of "Building music copyright ecology in the era of digital music," the forum discussed how to build a new, healthy, open and shared music copyright ecology for the Chinese music industry. The forum also published the first industrial initiative on building a healthy copyright ecology for the development of digital music.

Individual development contributes to industrial progress. Cloud Village upgrades its regulations and platforms to bring more benefits to musicians. We provide sheet music and the secure beat-sharing platform BeatSoul to producers and music lovers. In addition, we advocate non-exclusive licences in the industry so that more people can enjoy the beauty of music.

Promoting Original Works

Cloud Village pioneered the sheet music feature in the industry in November 2021. We had introduced millions of pages of licensed sheet music from nkoda, the world's well-known digital library of sheet music. Users can find works created by great masters, including Bach, Mozart, Beethoven, Chopin, Liszt and Debussy. Soon afterward, we upgraded the feature, allowing user generated content – users can upload sheet music and others can use these resources free of charge. This benefits users interested in music production and facilitates the spread of good music.

In January 2022, we launched BeatSoul, a service where users can upload, share and purchase beats. Independent Artists can sell and license the beats they create at the prices they want, and all earnings go to their own pockets.

It's a big, bold step forward in copyright protection and a catalyst for creating and sharing original music works.

Promoting Non-exclusive Licensing

As exclusive copyright agreements are restricted, we work hard to seek cooperation with more copyright holders. Since September 2021, we have obtained licences from a number of major labels, including Modern Sky, Emperor Entertainment, China Record Group, Fenghua Qiushi and Yue Hua Entertainment, allowing us to provide more music works to our users. Restricting exclusive copyright agreements marks an antitrust milestone in the music industry. We believe it is a good sign for the Chinese music industry and a golden opportunity to rebuild the competition landscape. And we believe the new era of China's digital music is coming to us soon.

Environmental, Social and Governance Report

2.5 Social Charity

As an industrial leader, we take on equal social responsibility. Music has the power to heal, inspire people and to help us remember important times in our lives. We are proud that we can leverage the power of music to help those in need and make the world a better place.

Henan Floods

We believe music is the best medicine for a soul and the best way to connect people. When the heavy rainfall caused deadly floods in Henan Province in 2021, we participated in disaster relief in our own way.

Charity Record Zhong (Literally "People")

We believe the power of music is tremendous, and we hope more people can feel it. In August 2021, we released the charity record Zhong for Henan in cooperation with Xinhua News Agency, one of China's biggest and most influential media organisations. Produced by our Yunxia Studio, the single got over 1 million streams in one day on our App and ranked No.2 on the daily trending chart. It was also one of the most-streamed new songs and hit singles in the week.

Campus Radio Broadcaster

In October 2021, NetEase funded schools in Henan to reconstruct the campus for children in cooperation with China Social Assistance Foundation. Cloud Village also rolled out the Campus Radio Broadcaster campaign to assist children's emotional recovery. We collected audio records from our users, hoping to encourage the children with warm and positive voices and content.

Social Issues

When words fail, music speaks. We create songs and try to show the world's good side to people in need.

Qianyong (Literally "Diving"), a Single for People with Depression

On the World Mental Health Day in 2021, Cloud Village, Imaginist and Vistopia dedicated the single Qianyong to people with depression. The song was produced by Cloud Village and performed by the famed artist Ma Di, trying to gather wider public attention for the group. We also provided knowledge of depression online the same day to help more people learn about depression and be aware of the importance of mental health. Before this, we had launched Cloud Village Healing Program to help our users relieve psychological problems.

1376 Xin Xiang Shi Cheng (Literally "All Dreams Come True")

On 4 February 2021, we released a special single, "1376 Xin Xiang Shi Cheng" to celebrate the upcoming Chinese New Year. In the Tibetan language, 1376 stands for "all dreams come true," so this song is the best wishes from us to our users. The song was also used as the background music by Zhongjian Press, which is owned by the Supreme People's Procuratorate of China, in its charity video "See & Safeguard". The video, which exhibits the progress in environmental protection in Tibet and calls for more public effort, was presented to the public during the Two Sessions.

Environmental, Social and Governance Report

Fighting Against COVID-19

Cloud Village is committed to making good things happen. When doctors and nurses were fighting tooth and nail, we were doing our part to soothe, inspire and cure the people demoralised by the pandemic with the power of music.

For Zhengzhou, A Chinese Valentine's Day Like None Other

Zhengzhou, the capital city of Henan Province, once again came to a halt on Chinese Valentine's Day after severe floods. This time, it was an outbreak of COVID-19. Based on user comments, we compiled the Love Dictionary based on user comments, including their love stories and memorable moments, to encourage and soothe people at home and on the front line. Though Zhengzhou residents couldn't celebrate Chinese Valentine's Day as they had hoped, they could still find love and consolation in music.

3. ENVIRONMENT

3.1 Climate Change

Climate change is a defining issue of our time that Cloud Village is very serious about tackling, and we are aware of the potential consequences it may have on our business. Based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we identified the following risks and established corresponding coping methods to address climate change.

Risk Type		Description	Measure
Transition	Policy and legal	Stricter reporting obligations	Implement more refined energy management and data collection, and calculate carbon emissions.
	Reputation	Changing consumer preferences	Create works that call for environmental protection and sustainability.
		Increased concern among stakeholders about the associated impact on their reputation	Establish regular communication in various forms to address their concerns.

Environmental, Social and Governance Report

Risk Type		Description	Impact
Physical	Acute	Typhoon	Typhoons could destroy the internet infrastructure, disrupt our services, and increase repair and purchasing costs.
	Chronic	Extreme fluctuations in rainfall and weather patterns	Heavy rainfall could cause floods and debris flows, which damages the internet infrastructure.
		Increase in average temperature	A warming climate could increase thermal stress for our campuses and data centers, resulting in higher repair and energy costs due to damage to facilities.
		Sea level rise	Rising sea level could cause floods and even submersion of some of our properties, damaging our facilities and internet infrastructure.

3.2 *Green Office*

We are conscious of our company's environmental impact. We have implemented various measures to maximise energy and resource efficiency and reduce waste across our operations, according to China's *Environmental Protection Law* and *Energy Conservation Law*.

Energy Consumption Management

We have formulated strict energy consumption policies and adopted advanced technologies to optimise resource use.

- **Energy structure optimisation**

  We have built a rooftop solar power system on one of our Hangzhou campuses to power the office and facilities. We are also on a path to powering other campuses with renewable energy to improve further the share of renewable energy in our energy structure.

- **Energy management**

  "SpaceEase" Smart System, is the virtual brain of our campus. It continuously monitors the temperature, humidity, and CO2 levels in our offices, public areas, server rooms, power distribution rooms, refrigerator rooms, and boiler rooms in real time. It works in conjunction with our smart Internet of Lights system, fresh air and ventilation system, and air conditioning system to reduce electricity usage through smart control. The data it collects on energy consumption also serves as the foundation for our future energy management and decision-making. Additionally, we put up banners and notices in public locations to urge staff to switch off lights and air conditioning before leaving their desks, ultimately striving to cultivate an energy-saving culture on our campus.

Environmental, Social and Governance Report

Smart Internet of Lights System

- We have installed infrared sensors across office areas, conference rooms, garages and sports halls. Lights can be turned on by the active presence of a human body within the detection range, and will be turned off when there is no presence.
- Furthermore, the lighting for our outdoor signage only operates after the sun has set and switch off once the sun rises. The campus illumination system is equipped with ambient light sensors for smart brightness control.
- It controls not only lighting but air conditioners, ventilators and fresh air systems to allow smart and efficient energy management.

Smart Heating, Ventilation and Air Conditioning System

- The infrared sensors in our fresh air, ventilation, and air conditioning systems can detect occupancy to enable automatic control and reduce electricity use.
- In winter, we use air cooling generator sets to bring in the cold, dry air outdoors to cool down our devices in northern China. This eliminates the use of air conditioners and thus decrease electricity use.
- We also monitor and adjust the operation of air conditioners in server rooms based on real-time energy consumption data and ambient conditions of server cabinets.

Energy Consumption Management System

- Our campuses are equipped with smart, IoT-empowered electricity distribution systems, water metres, and gas metres. They allow us to identify water or gas leaks with ease and help us better understand and control energy usage at each site to reduce the energy consumption of server rooms.

- **Green data centers**

  We endeavour to work towards building green data centers with low energy consumption and low carbon emissions to help us mitigate market and technical risks that may be brought by climate change. It's worth noting that one of our large data centers' annual PUE[1] has hit 1.39. All of the new modules used energy-saving technologies and devices throughout the reporting period, including high-efficiency UPS[2], HVDC[3] systems, high-efficiency variable-speed centrifugal water-cooling units, variable-speed pumps, and electrical commutation fans. It used artificial intelligence to enhance energy efficiency, introduced free cooling in the winter, and increased the utilisation of natural cooling source in transition season. It also implemented cold aisle containment systems, allowing accurate air cooling.

[1] PUE (Power Usage Effectiveness) is the relation between the total energy entering a data center and the energy used by IT equipment inside the data center. The closer it is to 1, the more energy-efficient the data center is.

[2] UPS: Uninterruptible Power Supply

[3] HVDC: High-Voltage Direct Current

Environmental, Social and Governance Report

The following table details our energy consumption during the reporting period:

Item		Unit	Amount
Direct Energy Consumption[1]	Gasoline	Metric ton	1.95
	Diesel	Metric ton	4.73
	Natural Gas	Cubic meter	121,110.48
Indirect Energy Consumption[2]	Electricity Purchased for Offices	MWh	10,182.82
	Electricity Generated from Renewables for self-use	MWh	71.23
Total Direct Energy Consumption		GWh	1.39
Total Indirect Energy Consumption		GWh	10.25
Total Comprehensive Energy Consumption[3]		GWh	11.64
Comprehensive Energy Consumption Intensity		GWh/Person	0.0077

1 Direct Energy Consumption: It includes gasoline and natural gas consumption in our own facilities as well as diesel consumption in our data centers.

2 Indirect Energy Consumption: The Electricity Purchased for Offices encompasses the electricity purchased for our self-owned facilities and leased facilities.

3 The comprehensive energy consumption is calculated based on the *General Principles for Calculation of Comprehensive Energy Consumption (2018.07 Draft)*.

Environmental, Social and Governance Report

- **Environmental goals**

  We have set the following environmental goals based on our business operations and industrial characteristics:

Emissions

Build up a carbon footprint management system, and gradually reduce carbon emissions.

Energy Efficiency

Build a sound energy system and improve energy efficiency.

Waste Reduction and Water Conservation

Take effective measures to reduce wastes and improve water use efficiency.

Water Resource Management

On our campuses, we've installed rainwater collection and drip irrigation systems. We hold water conservation programs now and again, and strictly regulate third-party water use. We inspect the campus water lines regularly to ensure no leaks. We may utilise the rainwater we gather to irrigate the landscape, flush toilets, and wash cars, reducing the pressure on municipal systems. The drip irrigation system can save much water and increase efficiency by supplying water directly to the plant's root zone. Water usage is one of our catering service providers' KPIs in canteens. We upgrade facilities in office buildings to control the waste of water resources.

Environmental, Social and Governance Report

Upgrading Restroom Facilities and Water Dispensers

We've replaced the toilet pedal flush valves and urinal sensor valves with water-saving models. The new urinal valves flush only once, which can save 277 metric tons of water each year. We've also upgraded water dispensers. Each new facility can save 1.5 liters of raw water to produce 1 liter of drinkable water compared to the previous ones. On our Beijing campus alone, the new facilities will save 2,960 m^3 of water and 16,790 kWh of power per year.

The following table details our water consumption during the reporting period:

Item	Unit	Amount
Total Water Consumption	Metric ton	40,791.77
Per Capita Consumption	Metric ton/Person	27.14

Waste Management

All the wastes we generate are disposed of in accordance with the *Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste*. We take firm actions, including waste recycling, paperless office, the use of electric vehicles, and the Clean Plate campaign, to reduce waste.

- **Green office**

  Paperless office is one of our major strategies. While restricting the number of documents that can be printed, we encourage double-sided printing. Most of our documents and processes are now transmitted and done online. We started to print our business cards on recycled paper. We also provided stationery for sharing in offices, with resource conservation posters to reduce waste.

- **Clean Plate campaign**

  We encourage employees to save food through Clean Plate campaigns, surprise checks, persuasion, slogans, and posters. At the same time, we provide Small- and Large-sized meals on certain menus that employees can choose from based on their needs. To accommodate employees' dietary preferences and minimise food waste, we also offer buffets and semi-buffets so that employees can take the food they want. In addition, we adjust dishes based on employees' preferences and set up a dashboard that displays the number of leftovers daily to remind employees to consume responsibly.

  Most of the wastes we generate are office waste and kitchen garbage, all of which are disposed of properly.

Environmental, Social and Governance Report

Recycling Electronics

- To make the best use of resources, we encourage our employees to recycle retired laptops and displays for personal use before sending them elsewhere.

End-of-Life Hardware

- We entrust qualified suppliers to recycle hardware reaching the end of its life cycle.

Common Solid Waste

- We classify household wastes and send it to municipal systems for disposal.

Hazardous Waste

- We designate qualified third-party suppliers to ensure proper disposal of hazardous waste such as toner cartridges, ink cartridges, batteries and light tubes.

Food Waste

- We designate qualified third-party suppliers to transport food waste to waste treatment plants. In the future, we plan to turn part of food waste into bio-fertilisers.

The following table details the amount of waste we generated during the reporting period:

Item		Unit	Amount
Nonhazardous Waste	Other Waste	Cubic meter	1,523.19
	Food Waste	Cubic meter	350.78
Per Capita Nonhazardous Waste		Cubic meter/person	1.25

The following table details our carbon emissions during the reporting period. The data have been verified by a qualified third party[1].

Scope	Unit	Amount
Scope 1 (Direct Emissions)	Metric ton of CO_2e	271.34
Scope 2 (Indirect Emissions related to energy purchase)	Metric ton of CO_2e	1,817.86
Scope 1 + 2	Metric ton of CO_2e	2,089.20
Scope 3 (Indirect Emissions in value chain)	Metric ton of CO_2e	5,917.75
Per Capita Emissions from Operations (Scope 1 + 2)	Metric ton of CO_2/person	1.39
Total Per Capita Emissions (Scope 1 + 2 +3)	Metric ton of CO_2/person	5.33

1 Emission factors are from the 2019 *Refinement to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories* published by the International Panel on Climate Change, *the 2011 and 2012 Average Emission Factors for Regional Power Grids in China* published by China's National Development and Reform Commission (the latest regional grid factors), etc.

Environmental, Social and Governance Report

3.3 Green Concepts

Cloud Village is progressing toward an eternal goal to integrate green concepts into our commitments. During the reporting period, we took initiatives that speak to our long-standing commitment to advocating green concepts and encouraging all people to respect and protect nature.

On the occasion of the 26th United Nations Framework Convention on the Climate Change Conference of the Parties (COP26), we joined with United Nations Development Programme (UNDP) to launch the "Don't Choose Extinction" campaign. We invited several artists to dub a short film to educate the public on the risks of climate change, curb climate inaction and advocate a low-carbon way of life.

"Don't Choose Extinction" Campaign with UNDP

As the centerpiece of the "Don't Choose Extinction" campaign, UNDP released a short film in which a dinosaur urges global leaders to address the climate crisis. Cloud Village was the only interactive audio platform partnering with UNDP on this campaign, in which we launched a dubbing competition, inviting our users to take the part of the dinosaur. We identified the winners and used AI to merge their dubs into one audio file. We then used this audio to replace the original one and released a special version of the film. This campaign aimed to urge the public not to choose extinction by inaction.

Environmental, Social and Governance Report

APPENDIX: HKEX ESG REPORTING GUIDE

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Environmental			
Aspect A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	3.2 Green Office
	KPI A1.1	The types of emissions and respective emissions data.	3.2 Green Office – Waste Management
	KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.2 Green Office – Waste Management
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	As of the most recent reporting date, Cloud Village had produced a limited amount of hazardous waste. Therefore, no daily statistics were collected and disclosed.
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g., per unit of production volume, per facility).	3.2 Green Office – Waste Management
	KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	3.2 Green Office – Energy Consumption Management
	KPI A1.6	Description of how hazardous and non-hazardous waste is handled, and a description of reduction target(s) set and steps taken to achieve them.	3.2 Green Office – Waste Management

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Environmental			
Aspect A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	3.2 Green Office
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g., electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).	3.2 Green Office – Energy Consumption Management
	KPI A2.2	Water consumption in total and intensity (e.g., per unit of production volume, per facility).	3.2 Green Office – Water Resource Management
	KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	3.2 Green Office – Energy Consumption Management
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	3.2 Green Office – Energy Consumption Management
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	No packaging material is used in our business.
Aspect A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer’s significant impacts on the environment and natural resources.	3.2 Green Office
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	3.2 Green Office
Aspect A4: Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	3.1 Climate Change
	KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	3.1 Climate Change

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Social			
Aspect B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	2.1 Our Employees – Employee Rights 2.1 Our Employees – Compensation and Benefits 2.1 Our Employees – Talent Development 2.1 Our Employees – Employee Care
	KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	2.1 Our Employees – Employee Rights
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	No relevant statistics are collected.
Aspect B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	2.1 Our Employees – Employee Care
	KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	2.1 Our Employees – Employee Care
	KPI B2.2	Lost days due to work injury.	2.1 Our Employees – Employee Care
	KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	2.1 Our Employees – Employee Care

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Social			
Aspect B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	2.1 Our Employees – Talent Development
	KPI B3.1	The percentage of employees trained by gender and employee category (such as Senior Management, Middle Management).	2.1 Our Employees – Talent Development
	KPI B3.2	The average training hours completed per employee by gender and employee category (such as Senior Management, Middle Management).	2.1 Our Employees – Talent Development
Aspect B4: Labor Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	2.1 Our Employees – Employee Rights
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	2.1 Our Employees – Employee Rights
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	2.1 Our Employees – Employee Rights
Aspect B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	2.3 Supplier Management
	KPI B5.1	Number of suppliers by geographical region.	2.3 Supplier Management
	KPI B5.2	Description of practises relating to engaging suppliers, number of suppliers where the practises are being implemented, and how they are implemented and monitored.	2.3 Supplier Management – Supplier Approval

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Social			
	KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	1.1 Risk Management
	KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	2.3 Supplier Management
Aspect B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	2.2 Our Products and Services
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product recalls are irrelevant to our business.
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.	2.2 Our Products and Services – Services
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	2.2 Our Products and Services – Quality Optimisation
	KPI B6.4	Description of quality assurance process and recall procedures.	Product recalls are irrelevant to our business.
	KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	2.2 Our Products and Services – Services

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Social			
Aspect B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	1.2 Business Ethics
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	1.2 Business Ethics
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	1.2 Business Ethics – Protection for Whistleblowers
	KPI B7.3	Description of anti-corruption training provided to directors and staff.	1.2 Business Ethics – Anti-corruption
Aspect B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	2.5 Social Charity
	KPI B8.1	Focus areas of contribution.	2.5 Social Charity
	B8.2	Resources (e.g. money or time) contributed to the focus area.	2.5 Social Charity

Independent Auditor's Report

To the Shareholders of Cloud Village Inc.

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Cloud Village Inc. (the "Company") and its subsidiaries (the "Group") which are set out on pages 104 to 177, comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to revenue recognition.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to notes 2.20 and 5 to the consolidated financial statements. The Group's revenue is primarily from the provision of online music services and social entertainment services and others. Online music services mainly include revenue from membership subscriptions, contents sublicensing, sales of digital music album and songs, and online advertising on the Group's online platforms. Social entertainment services and others mainly include revenue from sales of virtual items in live streaming platforms operating by the Group. During the year ended 31 December 2021, revenue of the Group amounting to approximately RMB6.97 billion which is recognised when or as the control of the services or goods is transferred to the customers.	Our procedures in relation to revenue recognition included: • Evaluated the appropriateness of the revenue recognition policies as adopted by management; • Understood, evaluated and tested, on a sample basis, the key internal controls in relation to recognition of revenue from online music services and social entertainment services; • Understood, evaluated and tested, on a sample basis, the key controls in relation to the general control environment of the IT Systems and the underlying automated controls relevant to capturing, processing and recording of data and transactions supporting the corresponding revenue of the Group;

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
We focused on this area as significant efforts were spent on auditing the revenue recognised by the Group due to the variety of services offered by the Group, magnitude of the revenue amount and most of the revenue recorded are dependent on information generated from the relevant information technology systems ("IT Systems") where significant volume of data are captured and processed.	• By using computer-assisted audit techniques, tested the mathematical accuracy and the completeness of the system generated reports that summarised the key inputs for the calculation of revenue; and tested, on a sample basis, reconciliation of data from these reports to the relevant revenue amount recognised; and • Tested revenue transactions, on a sample basis, by comparing the underlying contracts, the key terms and attributes of the contracts, the services consumed and cash receipts, where relevant, against the underlying data recorded in the relevant IT Systems used in transaction processing and recalculated the revenue amount recognised. Based on the procedures performed, we found revenue recognition of the Group to be supportable by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mak Tze Leung, William.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
24 March 2022

Consolidated Statement of Profit or Loss

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
		Year ended 31 December	
Revenue	5	**6,997,622**	4,895,731
Cost of revenue	8	**(6,854,948)**	(5,491,066)
Gross profit/(loss)		**142,674**	(595,335)
Selling and marketing expenses	8	**(431,312)**	(327,323)
General and administrative expenses	8	**(264,216)**	(96,909)
Research and development expenses	8	**(869,146)**	(576,457)
Other income	6	**72,067**	71,251
Other gains/(losses), net	7	**2,998**	(17)
Operating loss		**(1,346,935)**	(1,524,790)
Share of results of investments accounted for using equity method	18	**2,334**	(3,658)
Finance income	11	**48,416**	100,642
Changes in fair value of Convertible redeemable Preferred Shares	31	**(755,238)**	(1,361,581)
Loss on buy-back of Convertible redeemable Preferred Shares	32(c)	**–**	(160,500)
Loss before income tax		**(2,051,423)**	(2,949,887)
Income tax expense	12	**(4,669)**	(1,576)
Loss for the year attributable to equity holders of the Company		**(2,056,092)**	(2,951,463)
Loss per share attributable to equity holders of the Company (expressed in RMB per share)			
Basic loss per share	13	**15.92**	24.22
Diluted loss per share	13	**15.92**	24.22

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2021

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Loss for the year	**(2,056,092)**	(2,951,463)
Other comprehensive income/(loss):		
Items that will not be reclassified to profit or loss		
Changes in fair value of Convertible redeemable Preferred Shares due to own credit risk	**(25,975)**	(97,436)
Currency translation differences	**195,774**	524,040
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	**1**	6
Other comprehensive income for the year, net of taxes	**169,800**	426,610
Total comprehensive loss for the year attributable to equity holders of the Company	**(1,886,292)**	(2,524,853)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

AS AT 31 DECEMBER 2021

	Notes	As at 31 December 2021 RMB'000	2020 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	15	44,043	20,802
Right-of-use assets	16	10,505	–
Investments accounted for using equity method	18	92,914	88,580
Prepaid contents royalties	21	471,125	894,758
Prepayments and deposits	22	332	633
Long-term bank deposits	23	–	190,000
		618,919	1,194,773
Current assets			
Accounts receivables	20	673,650	254,375
Prepaid contents royalties	21	1,109,834	1,362,001
Prepayments, deposits and other receivables	22	234,909	280,133
Amounts due from group companies	34	128,368	171,682
Financial assets at fair value through profit or loss	19	240,772	971,315
Short-term bank deposits	23	5,527,732	816,917
Cash and cash equivalents	24	853,454	3,006,206
		8,768,719	6,862,629
Total assets		9,387,638	8,057,402
Equity			
Equity attributable to equity holders of the Company			
Share capital	25	132	78
Other reserves	26	17,981,771	3,065,596
Accumulated losses		(10,600,233)	(8,372,440)
Total equity holders' equity/(deficits)		7,381,670	(5,306,766)
Liabilities			
Non-current liabilities			
Contract liabilities	30	50,555	29,105
Convertible redeemable Preferred Shares	31	–	11,162,403
Lease liabilities	16	7,893	–
		58,448	11,191,508

Consolidated Balance Sheet

AS AT 31 DECEMBER 2021

	Notes	As at 31 December 2021 RMB'000	2020 RMB'000
Current liabilities			
Accounts payables	28	**134**	1,400
Accruals and other payables	29	**1,283,771**	1,639,840
Contract liabilities	30	**604,614**	384,978
Amounts due to group companies	34	**56,389**	145,800
Income tax payable		**–**	642
Lease liabilities	16	**2,612**	–
		1,947,520	2,172,660
Total liabilities		**2,005,968**	13,364,168
Total equity and liabilities		**9,387,638**	8,057,402

The consolidated financial statements on pages 104 to 177 were approved by the Board of Directors on 24 March 2022 and were signed on its behalf:

William Lei Ding
Director

Yong Li
Director

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Attributable to equity holders of the Company			
		Share capital RMB'000	Other reserves RMB'000 (Note 26)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2021		78	3,065,596	(8,372,440)	(5,306,766)
Loss for the year		–	–	(2,056,092)	(2,056,092)
Other comprehensive income/(loss):					
Fair value change on Convertible redeemable Preferred Shares due to own credit risk		–	(25,975)	–	(25,975)
Currency translation differences		–	195,775	–	195,775
Total comprehensive income/(loss) for the year		–	169,800	(2,056,092)	(1,886,292)
Transactions with equity holders:					
Conversion of Convertible redeemable Preferred Shares to ordinary shares	25, 26	44	11,671,902	–	11,671,946
Issuance of ordinary shares relating to initial public offering, netting of underwriting commissions and other issuance costs	25, 26	10	2,645,630	–	2,645,640
Transfer of accumulated changes in fair value due to own credit risk upon derecognition of Convertible redeemable Preferred Shares	26	–	92,527	(92,527)	–
Equity-settled share-based payments	26	–	335,268	(78,126)	257,142
Appropriations to statutory reserves	26	–	1,048	(1,048)	–
Total transactions with equity holders		54	14,746,375	(171,701)	14,574,728
Balance at 31 December 2021		132	17,981,771	(10,600,233)	7,381,670

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Attributable to equity holders of the Company			
		Share capital RMB'000	Other reserves RMB'000 (Note 26)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2020		77	2,477,590	(5,423,176)	(2,945,509)
Loss for the year		–	–	(2,951,463)	(2,951,463)
Other comprehensive income/(loss):					
Fair value change on Convertible redeemable Preferred Shares due to own credit risk		–	(97,436)	–	(97,436)
Currency translation differences		–	524,046	–	524,046
Total comprehensive income/(loss) for the year		–	426,610	(2,951,463)	(2,524,853)
Transactions with equity holders:					
Issuance of Preferred Shares	25, 26	1	141,702	–	141,703
Equity-settled share-based payments	26	–	18,957	2,936	21,893
Appropriations to statutory reserves	26	–	737	(737)	–
Total transactions with equity holders		1	161,396	2,199	163,596
Balance at 31 December 2020		78	3,065,596	(8,372,440)	(5,306,766)

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	For the year ended 2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash used in operations	32(a)	**(902,668)**	(967,906)
Income taxes paid		**(5,744)**	(1,552)
Net cash used in operating activities		**(908,412)**	(969,458)
Cash flows from investing activities			
Additions of investments accounted for using equity method		**(2,000)**	(20,208)
Purchase of property, plant and equipment	15	**(39,502)**	(20,565)
Proceeds from disposal of property, plant and equipment		**1,299**	1,086
Placement of long-term bank deposits		**–**	(190,000)
Placement of short-term deposits		**(9,399,114)**	(1,968,664)
Proceeds from maturity of short-term deposits		**4,798,513**	6,090,039
Payments for investments in financial assets at fair value through profit or loss		**(2,145,000)**	(4,565,130)
Proceeds from disposal of financial assets at fair value through profit or loss		**2,882,981**	3,954,997
Refund of prepayment for an investment		**6,500**	15,000
Interest received		**33,918**	109,360
Net cash (used in)/generated from investing activities		**(3,862,405)**	3,405,915
Cash flows from financing activities			
Interest paid		**(64,499)**	–
Proceeds from issuance of ordinary shares	26	**2,682,056**	–
Proceeds from issuance of Preferred Shares	25	**–**	141,702
Payment of listing expenses		**(2,967)**	–
Payment of lease liabilities	32(b)	**(416)**	–
Buy-back of Convertible redeemable Preferred Shares	32(c)	**–**	(462,650)
Net cash generated from/(used in) financing activities		**2,614,174**	(320,948)
Net (decrease)/increase in cash and cash equivalents		**(2,156,643)**	2,115,509
Cash and cash equivalents at beginning of the year		**3,006,206**	911,266
Exchange differences on cash and cash equivalents		**3,891**	(20,569)
Cash and cash equivalents at end of the year	24	**853,454**	3,006,206

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION AND HISTORY OF THE GROUP

1.1 General information

Cloud Village Inc. (the "Company") was incorporated in the Cayman Islands on 2 February 2016 as an exempted company with limited liability. The registered office is at PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in the operation of online platforms to provide music services and social entertainment services in the People's Republic of China (the "PRC").

NetEase, Inc. ("NetEase") is the immediate holding company and the ultimate holding company of the Company. NetEase, Inc., its subsidiaries and consolidated affiliated entities, excluding the Group, are collectively referred to as "NetEase Group".

The Company completed its initial public offering on 2 December 2021 (the "Listing") and the Company's shares have been listing on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of unit of Renminbi (RMB'000), unless otherwise stated.

The Group operates its business primarily through contractual arrangements (the "Contractual Arrangements") with Hangzhou Yuedu Technology Co., Ltd ("Hangzhou Yuedu"), which enable to the Group to exercise power over Hangzhou Yuedu, receive variable returns from its involvement in Hangzhou Yuedu and have the ability to affect those returns through its power over Hangzhou Yuedu. Therefore, the Group controls Hangzhou Yuedu and regards Hangzhou Yuedu as a controlled structured entity.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the structured entity. Uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the structured entity. The directors of the Company, based on the advice from its legal counsel, consider that the Contractual Arrangements among the Group, Hangzhou Yuedu and its equity holders are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable. Other contractual arrangements were also executed for another entity which is insignificant to the Group. All these operating companies are treated as controlled structured entities of the Group and their financial statements have also been consolidated by the Group. See details in Note 17.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied throughout the year ended 31 December 2021, unless otherwise stated.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and financial liabilities, which are measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Change in accounting policy and disclosures

(a) Effect of adopting new standards and amendments to standards

All of the new standards and amendments to standards that are effective on 1 January 2020 have been early adopted by the Group prior to the annual periods beginning after 1 January 2020.

(b) New standards and amendments to standards not yet adopted

Certain new standards and amendments to standards have been issued but are not yet effective for the year beginning on 1 January 2021 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Amendments to IFRS 16	Covid-19-related Rent Concessions	1 April 2021
Amendments to IFRS 3	Regarding reference to the conceptual framework	1 January 2022
Amendments to IAS 16	Regarding property, plant and equipment: proceeds before intended use	1 January 2022
Amendments to IAS 37	Regarding onerous contracts – cost of fulfilling a contract	1 January 2022
Annual improvements 2018 – 2020 cycle	Improvements to IFRSs	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
IFRS 17	Insurance contracts	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation (Continued)

2.1.1 Change in accounting policy and disclosures (Continued)

(b) New standards and amendments to standards not yet adopted *(Continued)*

The Group is in the process of making an assessment of the impact of these new standards and amendments of standards, and has concluded on a preliminary basis that the adoption of these new and amended standards is not expected to have a significant impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation and equity accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Subsidiaries controlled through Contractual Arrangements

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet content and other restricted businesses, the Group operates its business operations within these areas in the PRC through a series of contractual arrangements entered into among the Company, its wholly-owned subsidiaries, and certain domestic entities ("Structured entities") that legally owned by certain management members of the Group ("Registered Shareholders") authorised by the Group (collectively, the "Contractual Arrangements").

The Contractual Arrangements include Cooperation Agreements and Operation Agreements, Exclusive Purchases Option Agreement, Equity Pledge Agreements, Shareholders' Voting Rights Trust Agreements and Powers of Attorney, which enable the Group to:

- govern the financial and operating policies of the Structured entities;
- receive substantially all of the economic interest returns generated by the Structured entities in consideration for the technical support, consulting and other services provided exclusively by the WFOE, at the WFOE's discretion;
- obtain an irrevocable and exclusive right to purchase part or all of the equity interests in the Structured entities at any time and from time to time, at the minimum consideration permitted by the relevant law in China at the time of transfer;

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Principles of consolidation and equity accounting (Continued)

(b) Subsidiaries controlled through Contractual Arrangements (Continued)

- obtain a pledge over all of its equity interests from its respective Registered Shareholders as collateral for all of the PRC entities' payments due to the Group to secure performance of entities' obligation under the Contractual Arrangements; and
- exercise equity holder voting rights of the Structured entities.

Accordingly, the Group has rights to control these entities and they are accounted for as entities controlled by the Group.

(c) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (e) below), after initially being recognised at cost in the consolidated balance sheets.

(d) Joint ventures

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be a joint venture.

Interests in a joint venture are accounted for using the equity method (see (e) below), after initially being recognised at cost in the consolidated balance sheets.

(e) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivables from associates and joint venture are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.8.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 *Principles of consolidation and equity accounting* *(Continued)*

(f) *Changes in ownership interests*

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 *Separate financial statements*

Investments in subsidiaries, associate and joint venture are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries, associate and joint venture is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary, associate or joint venture in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (the "CODM"), who is responsible for allocating resources and assessing performance of the operating segments and making strategic decisions.

2.5 *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States Dollars ("US$"). The Company's primary subsidiaries and structured entities are incorporated in the PRC and the functional currency of these entities is Renminbi ("RMB"). The Group determined to present its consolidated financial statements in RMB.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment *(Continued)*

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Server and network equipment	3 years
Office furniture, equipment and others	3 – 5 years
Leasehold improvements	Shorter of expected lives of leasehold improvements and lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each financial period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Construction in progress ("CIP") represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises all direct costs of construction. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use.

2.7 Prepaid contents royalties

Prepaid contents royalties represent the prepaid licence fee related to the music contents licensed from third parties. Prepaid contents royalties are carried at cost less impairment loss and are expensed to the consolidated statement of profit or loss within cost of revenue according to the pattern that the Group derives the benefit from the prepaid contents royalties, which is straight line over the relevant licence period as the benefits of its own use or revenue from sublicensing are both derived evenly throughout the period. Prepaid contents royalties are presented on the balance sheets as current and non-current based on estimated time of usage.

2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non- financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss ("FVPL") are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Investments and other financial assets *(Continued)*

(c) Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. There are three categories into which the Group classifies its debt instruments:

- Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other gains/(losses), net" together with foreign exchange gains and losses. Impairment losses are charged to profit or loss.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "other gains/(losses), net" in the consolidated statements of profit or loss. Interest income from these financial assets is recognised using the effective interest rate method. Foreign exchange gains and losses are presented in "other (losses)/gains, net" and impairment loss are charged to profit or loss.

- FVPL: Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at FVPL. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in "other gains/(losses), net" for the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other gains/(losses), net" in the consolidated statements of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 *Investments and other financial assets* *(Continued)*

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised since initial recognition. For other financial assets, the Group applies the general approach permitted by IFRS 9, which requires the 12-months losses when there is no significant increase in credit risk since origination.

2.10 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 *Accounts receivables*

Accounts receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Accounts receivables are generally due for settlement within one year and therefore are all classified as current.

Accounts receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the accounts receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 20 for further information about the Group's accounting for accounts receivables and Note 3.1 (b) for a description of the Group's impairment policies.

2.12 *Cash and cash equivalents*

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.13 *Share capital*

Ordinary shares and non-redeemable participating preference shares are classified as equity (Note 25).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Convertible redeemable Preferred Shares are classified as financial liabilities, see Note 2.15 and Note 3.3.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Accounts and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Accounts and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Convertible redeemable Preferred Shares

Convertible redeemable Preferred Shares issued by the Company are redeemable at the option of the holder upon occurrence of certain events. These instruments can also be converted into ordinary shares of the Company at any time at the option of the holders, or automatically upon occurrence of an initial public offering (the "IPO") of the Company, see Note 31 for details.

The Group designated the Convertible redeemable Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised in profit or loss. Fair value changes relating to market risk are recognised in profit or loss, the component of fair value changes relating to the Company's own credit risk is recognised in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to accumulated losses when realised.

The Convertible redeemable Preferred Shares were classified as non-current liabilities unless the holders of the relevant Preferred Shares can demand the Company to redeem the Preferred Shares in cash within 12 months after the end of the reporting period.

2.16 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries, associates and joint venture operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Current and deferred income tax (Continued)

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.17 Employee benefits

(a) Short-term obligation

Liabilities for wages and salaries, including non-monetary benefits and annual leaves that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheets.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Employee benefits *(Continued)*

(b) Post-employment obligations

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by government authorities. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions.

2.18 Share-based payments

The Group operates an equity-settled share-based compensation plan (i.e. share option scheme), under which the Group receives services from employees and others who provide similar services as employees ("Service Recipients"), as consideration for equity instruments of the Company. In addition, the controlling shareholder, NetEase, also operates certain share-based compensation plans (i.e. restricted share units ("RSUs") plans) which may cover certain employees (the "Eligible Grantees") of the Group. Share options and RSUs granted to the grantees of the Group are measured at the grant date based on the fair value of equity instruments and are recognised as an employee benefit expenses over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, with a corresponding increase in equity as "share-based compensation reserve" if it is related to equity instruments of the Company or as "contributions from ultimate holding company" if it is related to equity instruments of NetEase.

At the end of each period, the Group revises its estimates of the number of options and RSUs that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The total amount to be expensed is determined by reference to the fair value of the options and RSUs granted:

- including any market performance conditions (e.g. the entity's share price),
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining as an employee of the entity over a specified time period), and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or hold shares for a specific period of time).

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Share-based payments *(Continued)*

For share options with a performance condition that affects vesting, the performance condition is not considered in determining the share option's fair value on the grant date. Performance condition should be considered when the Group is estimating the quantity of share options that will vest. The Group recognises compensation expenses for share options with performance conditions if and when the Group concludes that it is probable that the performance condition will be achieved, net of actual pre-vesting forfeitures over the requisite service period. The Group reassesses the probability of vesting at each reporting period for share options with performance conditions and adjusts compensation expenses based on its probability assessment.

2.19 Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.20 Revenue recognition

The Group generates revenue primarily from provision of online music services and social entertainment services, such as music membership subscriptions, sublicensing of contents royalties, online advertising and sales of virtual items. Revenue is recognised when or as the control of the services or goods is transferred to the customer. Depending on the terms of the contract and the laws that are applied to the contract, control of the services and goods may be transferred over time or at a point in time.

(a) Revenue from online music services

Online music services mainly include revenue from membership subscriptions, sales of digital music album and songs, contents sublicensing and online advertising on the Group's online platforms.

The Group offers users subscription packages which entitled paying subscribers access to the Group's relevant music contents and other privileged features on its platforms. The subscription fees for these packages are primarily time-based mainly from weekly to yearly and is collected upfront. The receipt of subscription fees is initially recognised as contract liabilities. The Group satisfies its performance obligations throughout the subscription period and revenue from the membership subscriptions is recognised over time.

The Group also offers users to purchase exclusive digital music albums and songs which can listen both online and offline. The Group considers that the control has been transferred to customer at time of purchase. As a result, the performance obligation is satisfied and revenue is recognised at a point in time.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Revenue recognition *(Continued)*

(a) Revenue from online music services (Continued)

The Group sublicenses certain of its music contents to other music platforms for a fixed period of one to three years, which generally falls within the original licence period. The Group determines sublicense of contents as a single performance obligation, and the revenue from sublicensing of contents is recognised over time throughout the sublicense period.

Revenue from online advertising is primarily generated through display of advertisements on the Group's online platforms.

The Group entered into contracts with third party advertising agencies and entities controlled by NetEase. Revenue is recognised rateably over the period that the advertising is displayed as the performance obligation is expended evenly over the period. Display-based advertisements are generally with short term. The Group will share a portion of the revenue with the advertising agencies and revenue is recognised on a gross or net basis in accordance with the principal versus agent consideration in note (c) below. If revenue for online advertising is recorded on a gross basis, the shared revenue portion is recognised as "cost of revenue" in profit or loss. If revenue is recorded on a net basis, the costs are accounted for as a reduction of revenue.

(b) Revenue from social entertainment service and others

The Group operates a live streaming platform whereby users can view live stream performance provided by live streaming performers and interact with them on a real time basis free of charge.

The Group sells virtual items to users at pre-determined price, which users can gift the virtual items to live streaming performers to show their support and appreciation. The Group generates revenue from the sale of virtual items, which are produced and delivered by the Group. Revenue from sales of virtual items are recognised when the virtual items are gifted by users to live streaming performers, which is considered as the point when the Group's performance obligation is satisfied and the Group has no further obligations related to the virtual items after they are consumed by the users. The Group allocates revenue to each performance obligation on a relative stand-alone selling price basis, which are determined based on the prices charged to customers. Proceeds received from the sales of virtual items before they are gifted by users to live streaming performers are recorded as contract liabilities.

The Group shares with the live streaming performers a portion of the revenue from sale of virtual items. Revenue from sale of virtual items are generally recorded at the gross amount with the portion remitted to live streaming performers as cost of revenue as the Group considers itself as the principal for the sale of virtual items as the Group controls the production and price setting of the virtual items before they are transferred to the customers. Further consideration about principal versus agent consideration in relation to recognising revenue on a gross or net basis is disclosed in note (c) below.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Revenue recognition *(Continued)*

(c) Principal agent consideration

The Group reports revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The determination of whether to report the revenue on a gross or net basis is based on an evaluation of various factors, including but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) changes the product or performs part of the service; and (iv) has involvement in the determination of product and service specifications.

(d) Contract liabilities

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2.21 Interest income

Interest income is presented within "finance income" when it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.23 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. For leases of rentals of offices for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Leases (Continued)

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. The Group uses the incremental borrowing rate, for the implicit rate cannot be readily determined, which is the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of office buildings and servers are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.24 Dividends distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

Distribution of non-cash assets to the Company's shareholders is recognised and measured at the fair value of the non-cash assets to be distributed. Any difference between the fair value and the carrying amount of the non-cash assets to be distributed is recognised in the consolidated statements of profit or loss.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Research and development expenses

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are capitalised as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the intangible asset so that it will be available for use or sales; (b) management intends to complete the intangible asset and use or sell it; (c) there is an ability to use or sell the intangible asset; (d) it can be demonstrated how the intangible asset will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and (f) the expenditure attributable to the intangible asset during its development can be reliably measured. Other development costs that do not meet these criteria are expensed as incurred. There were no development costs meeting these criteria and capitalised as intangible assets as of 31 December 2021 and 2020.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the functional currency of the respective entity of the Group. The functional currency of the Company is US$ whereas the functional currency of the subsidiaries which operate in the PRC is RMB. The Group currently does not hedge transactions undertaken in foreign currencies but manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

As at 31 December 2021 and 2020, the impact of foreign exchange fluctuations is not material as the Group's entities had no material financial assets or financial liabilities denominated in a currency that different from its functional currency and therefore no sensitivity analysis is presented for foreign exchange risk.

(ii) Price risk

The Group is exposed to price risk mainly relating to certain investments held by the Group, which were classified as financial assets at fair value through profit or loss, including investments in wealth management products. The Group is not exposed to commodity price risk. See Note 3.3 for details.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(iii) Interest rate risk

The Group's interest rate risk primarily arises from long-term bank deposits, short-term bank deposits and certain cash at bank. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2021 and 2020, management considered that as any reasonable changes in interest rate would not result in a significant impact on the Group's results and financial position, no sensitivity analysis is presented for interest rate risk.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

(b) Credit risk

(i) Risk management

Credit risk arises from long-term bank deposits, short-term bank deposits, cash and cash equivalents, as well as credit exposures on amounts due from group companies, accounts receivables, other receivables and deposits. The carrying amount of each class of these financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

Credit risk is managed on a group basis. Bank deposits and cash and cash equivalents are mainly placed with reputable financial institutions in the PRC and reputable international financial institutions in Hong Kong, which management considers being of high credit quality. For accounts receivables, the Group assesses the credit quality of the receivables by taking account of various factors, including past operational and financial performance and other factors.

(ii) Impairment of financial assets

The Group has following types of financial assets that are subject to the expected credit loss model:

- Accounts receivables
- Long-term bank deposits
- Short-term bank deposits
- Cash and cash equivalents
- Amounts due from group companies
- Other receivables and deposits

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets *(Continued)*

Accounts receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all accounts receivables. To measure the expected credit losses, accounts receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the historical payment profiles and historical loss rates, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables. The Group has identified the Gross Domestic Products ("GDP") of the PRC to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2021 and 2020 was determined as follows for accounts receivables:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Gross carrying amount	**676,878**	257,672
Loss allowance provision	**(3,228)**	(3,297)
Expected loss rate	**0.01%**	0.04%

The loss allowances for accounts receivables as at 31 December 2021 and 2020 reconcile to the opening loss allowances is as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At 1 January	**3,297**	263
Net (reversal of impairment loss)/impairment loss during the year	**(69)**	3,034
At 31 December	**3,228**	3,297

Accounts receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery, include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and indicators of financial difficulties. Impairment losses on accounts receivables are charged to profit or loss, and subsequent recoveries of amounts previously written off are credited against the same line item.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets *(Continued)*

Other financial assets at amortised cost

Credit risk also arises from long-term bank deposits, short-term bank deposits, cash and cash equivalents, as well as credit exposures on amounts due from group companies, other receivables and deposits. The carrying amount of each class of these financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage credit risk, bank deposits and cash and cash equivalents are mainly placed with reputable financial institutions in PRC and reputable international financial institutions in Hong Kong. There has been no recent history of default in relation to these financial institutions.

For impairment on amounts due from group companies, other receivables and deposits, it is measured as either 12-months expected credit losses or lifetime expected credit loss, depending on whether there has been significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivables has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. Management makes periodic collective assessments as well as individual assessment on these financial assets based on historical settlement records and past experience.

The expected credit loss on other financial assets at amortised cost is insignificant to the Group.

(c) Liquidity risk

The Group intends to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate liquid assets such as cash and cash equivalents, short-term time deposits and investments in wealth management products or to retain adequate financing arrangements to meet the Group's liquidity requirements.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 *Financial risk factors* *(Continued)*

(c) *Liquidity risk (Continued)*

The table below analyses the Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	On demand RMB'000	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
At 31 December 2021					
Accounts payables	**–**	**134**	**–**	**–**	**134**
Accruals and other payable (excluding non-financial liabilities)	**–**	**1,089,760**	**–**	**–**	**1,089,760**
Amounts due to group companies	**56,389**	**–**	**–**	**–**	**56,389**
Lease liabilities	**–**	**2,959**	**2,355**	**6,079**	**11,393**
At 31 December 2020					
Accounts payables	–	1,400	–	–	1,400
Accruals and other payable (excluding non-financial liabilities)	–	1,478,885	–	–	1,478,885
Amounts due to group companies	145,800	–	–	–	145,800

Details of the description of Convertible redeemable Preferred Shares are presented in Note 31.

3.2 *Capital risk management*

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital (including share capital, share premium and preferred shares on an as-if-converted basis) by regularly reviewing the capital structure. As part of this review, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. As at 31 December 2021 and 2020, the directors of the Company consider that the capital risk of the Group is minimal as the Group's capital structure is mainly financed by ordinary and preferred shares with net cash and there is no material external interest-bearing debts during the years ended 31 December 2021 and 2020.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at each balance sheet date by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 31 December and 2021 and 2020:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2021				
Assets				
Financial assets at fair value through profit or loss				
– Wealth management products	**–**	**240,772**	**–**	**240,772**
At 31 December 2020				
Assets				
Financial assets at fair value through profit or loss				
– Wealth management products	–	971,315	–	971,315
Liabilities				
Convertible redeemable Preferred Shares	–	–	11,162,403	11,162,403

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the year ended 31 December 2021 and 2020.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(a) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The following table presents the changes in level 2 items of financial assets at fair value through profit or loss for the year ended 31 December 2021 and 2020:

	RMB'000
At 1 January 2021	**971,315**
Additions	**2,145,000**
Disposals	**(2,882,981)**
Change in fair value through profit or loss	**7,438**
At 31 December 2021	**240,772**
At 1 January 2020	338,742
Additions	4,565,130
Disposals	(3,954,997)
Change in fair value through profit or loss	22,440
At 31 December 2020	971,315

Investments in wealth management products were mainly the investment products purchased from reputable financial institutions in the PRC. The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. None of these investments are past due.

(b) Financial instruments in Level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments,
- discounted cash flow analysis, and
- observable and unobservable inputs, including discount rate, risk-free interest rate, discount for lack of marketability ("DLOM"), and expected volatility, etc.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 *Fair value estimation* *(Continued)*

(b) *Financial instruments in Level 3 (Continued)*

Level 3 instruments of the Group's liabilities include Convertible redeemable Preferred Shares, details of the movements and significant unobservable inputs are set out in Note 31.

(c) *Financial instruments at amortised cost*

The carrying amounts of the Group's other financial assets measured at amortised costs, including long-term bank deposits, short-term deposits, cash and cash equivalents, amounts due from group companies, accounts receivables, other receivables and deposits and the Group's financial liabilities, including accounts payables, accruals and other payables and amounts due to group companies, approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) *Impairment assessment of non-financial assets*

Non-financial assets, mainly including prepaid contents royalties, property, plant and equipment, investments accounted for using equity method, right-of-use assets and other prepayments, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to disposal. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; (iii) the selection of the most appropriate valuation technique, e.g. the market approach, the income approach, as well as a combination of approaches, including the adjusted net asset method; and (iv) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Fair value measurement of Convertible redeemable Preferred Shares

The fair values of the Group's Convertible redeemable Preferred Shares, which are not traded in an active market, are determined by using valuation techniques. Significant judgements and assumptions are exercised by the management in selection of valuation models and unobservable inputs at the end of each reporting period. Changing the key assumptions used by management could materially affect the fair value of Convertible redeemable Preferred Shares and as a result affect the Group's financial position and results of operation. Details of the valuation models, key assumptions and inputs are disclosed in Note 31.

(c) Contractual arrangements

As disclosed in Note 2.2 (b), the Group exercises control over certain Structured entities and has the right to recognise and receive substantially all the economic benefits from them through the Contractual Arrangements. The Directors consider that the Group controls these Structured entities notwithstanding that it does not have direct or indirect legal ownership in equity of these entities as the Group has power over the financial and operating policies of these entities and receives substantially all the economic interest returns generated from the business activities of these entities through these Contractual Arrangements. Accordingly, all these Structured entities are accounted for as controlled structured entities and their financial statements have also been consolidated by the Company throughout the years ended 31 December 2021 and 2020.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Structured entities. Uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Structured entities. Significant judgement is involved in determining whether the Group is able to control these entities through these Contractual Arrangements. The Directors of the Company, after taking into account of the advice from its external legal advisors, consider that the Contractual Arrangements entered into by the Group are in compliance with the relevant PRC laws and regulations and are therefore legally binding and enforceable.

(d) Share-based payments

The Group measures the cost of equity-settled transactions with employees and others who provide similar services as employees with reference to the fair value of the equity instruments at the date at which they are granted. Significant estimates and assumptions are involved in the determination of the fair value of equity instruments, which include the use of the most appropriate valuation model and inputs based on the terms and conditions of the grant. The assumptions and models used for the share-based payments are disclosed in Note 27.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(e) Income taxes

The Group is subject to income taxes in the PRC and other jurisdictions. Significant judgement is required in determining the provision for income taxes in each of these jurisdictions. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provision in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

5 REVENUE AND SEGMENT INFORMATION

(a) Disaggregation of revenue from contracts with customers

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Type of goods or services:		
Online music services	**3,289,991**	2,622,685
Social entertainment services and others	**3,707,631**	2,273,046
	6,997,622	4,895,731
Timing of revenue recognition:		
A point in time	**3,893,522**	2,652,911
Over time	**3,104,100**	2,242,820
Total	**6,997,622**	4,895,731

There is no concentration risk as no revenue from a single customer was more than 10% of the Group's total revenue for the years ended 31 December 2021 and 2020.

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information

The CODM has been identified as the Board of directors, who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group as a whole. For the purpose of internal reporting and management's operation review, the CODM considered that the Group's businesses are operated and managed as one single segment and no separate segment information was presented for the years ended 31 December 2021 and 2020.

During the year ended 31 December 2021, the Group principally operated in the PRC and most of its revenue was generated in the PRC. All of its non-current assets were located in the PRC during the years ended 31 December 2021 and 2020.

6 OTHER INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Government grants and value-added tax subsidies	**72,067**	71,251

7 OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Net foreign exchange losses	**(3,861)**	(21,366)
Gain on fair value changes of financial assets at fair value through profit or loss	**7,438**	22,440
Impairment loss for investments in associates (Note 18)	**–**	(1,501)
Others	**(579)**	410
	2,998	(17)

Notes to the Consolidated Financial Statements

8 EXPENSES BY NATURE

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Content service costs (Note)	**5,960,862**	4,787,497
Technology costs	**486,806**	398,620
Employee benefit expenses (Note 9)	**1,120,654**	646,613
Promotion and advertising expenses	**372,744**	264,326
Payment channel fees	**254,103**	222,244
Net impairment losses on financial assets	**1,931**	3,034
Depreciation of property, plant and equipment	**15,043**	22,383
Auditors' remuneration		
– Audit services related to the Group	**4,000**	–
– Other audit related services and non-audit services	**2,420**	1,781
Legal and professional fees	**9,541**	4,966
Listing expenses	**65,470**	–
Others	**126,048**	140,291
Total cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses	**8,419,622**	6,491,755

Note: Content service costs mainly comprise of content licensing fees and revenue sharing fees.

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Salaries and bonuses	**715,413**	545,242
Welfare and other employee benefits	**148,099**	79,478
Equity-settled share-based payments	**257,142**	21,893
	1,120,654	646,613

Note: The employee benefit expenses included labour outsourcing services from NetEase Group which provide labour services during the years ended 31 December 2021 and 2020 of RMB50,179,000 and RMB54,302,000, respectively.

Notes to the Consolidated Financial Statements

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

During the years ended 31 December 2021 and 2020, employee benefit expenses were charged to the consolidated profit or loss as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cost of revenue	**360,793**	191,722
Selling and marketing expenses	**55,215**	58,453
General and administrative expenses	**156,876**	62,494
Research and development expenses	**547,770**	333,944
	1,120,654	646,613

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the years ended 31 December 2021 and 2020 include one director in 31 December 2021 and 2020, whose emoluments were reflected in the analysis presented in Note 10. The emoluments paid and payable to the five individuals during the years ended 31 December 2021 and 2020 are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Salaries and bonus	**13,001**	14,236
Welfare and other employee benefits	**567**	438
Equity-settled share-based payments	**53,134**	6,125
	66,702	20,799

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December	
	2021	2020
Emolument bands (in HK$)		
HK$3,000,001 to HK$3,500,000	**–**	3
HK$4,000,001 to HK$4,500,000	**–**	1
HK$7,500,001 to HK$8,000,000	**–**	1
HK$9,000,001 to HK$9,500,000	**1**	–
HK$14,000,001 to HK$14,500,000	**1**	–
HK$14,500,001 to HK$15,000,000	**1**	–
HK$21,500,001 to HK$22,000,000	**2**	–
	5	5

Notes to the Consolidated Financial Statements

10 BENEFITS AND INTERESTS OF DIRECTORS

The remuneration of every director and chief executive during the years ended 31 December 2021 and 2020 is set out below:

For the year ended 31 December 2021:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking				
Name	Fees RMB'000	Salary RMB'000	Estimated money value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
William Lei Ding	–	–	–	–	–
Zhipeng Hu (Note (i))	–	–	–	–	–
Yat Keung Li	–	–	83	–	83
Jianqin Tao (Note (i))	–	–	2,273	–	2,273
Zhaoxuan Yang (Note (i))	–	–	1,975	–	1,975
Yiwen Zhu (Note (i))	–	1,295	4,053	40	5,388
Chi Zhang (Note (i))	–	–	–	–	–
Zhiyi Chen (Note (i))	–	–	–	–	–
Huan Zhou (Note (i))	–	–	–	–	–
Fan Jiang (Note (i))	–	–	–	–	–
Xiaoyan Xia (Note (i))	–	–	–	–	–
Yong Li (Note (ii))	–	2,070	6,026	69	8,165
Yanfeng Wang (Note (ii))	–	491	360	45	896
Feng Yu (Note (ii))	–	–	–	–	–
Dewei Zheng (Note (ii))	–	–	–	–	–
Xianfeng Gu (Note (iii))	–	42	–	–	42
Ying Kit Caleb Lo (Note (iii))	–	42	–	–	42
Zhong Xu (Note (iii))	–	42	–	–	42

Notes to the Consolidated Financial Statements

10 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

For the year ended 31 December 2020:

Name	Fees	Salary	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Total
	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
William Lei Ding	–	–	–	–	–
Zhipeng Hu (Note (i))	–	–	–	–	–
Yat Keung Li	–	–	–	–	–
Jianqin Tao (Note (i))	–	–	–	–	–
Zhaoxuan Yang (Note (i))	–	–	–	–	–
Yiwen Zhu (Note (i))	–	3,753	–	82	3,835
Chi Zhang (Note (i))	–	–	–	–	–
Zhiyi Chen (Note (i))	–	–	–	–	–
Huan Zhou (Note (i))	–	–	–	–	–
Fan Jiang (Note (i))	–	–	–	–	–
Xiaoyan Xia (Note (i))	–	–	–	–	–

Notes:

(i) Resigned as director since May 2021.

(ii) Appointed as director since May 2021.

(iii) Appointed as director since December 2021.

(a) Directors' retirement or termination benefits

None of the directors received or will receive any retirement or termination benefits during the years ended 31 December 2021 and 2020.

(b) Consideration provided to third parties for making available directors' services

During the years ended 31 December 2021 and 2020, the Company did not pay consideration to any third parties for making available directors' services.

(c) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the years ended 31 December 2021 and 2020, there is no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled body corporates and connected entities of such directors.

Notes to the Consolidated Financial Statements

10 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(d) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted at 31 December 2021 or at any time during the years ended 31 December 2021 and 2020.

11 FINANCE INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**48,416**	100,642
	48,416	100,642

12 INCOME TAX EXPENSE

The income tax expense of the Group is analysed as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	**4,669**	1,576
Deferred income tax	**–**	–
	4,669	1,576

(a) Cayman Islands

Under the current laws of the Cayman Islands, the Company is not currently subject to tax on income or capital gains.

(b) Hong Kong

Subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5%. No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong.

Notes to the Consolidated Financial Statements

12 INCOME TAX EXPENSE *(Continued)*

(c) PRC

Under the Enterprise Income Tax ("EIT") Law, foreign invested enterprises and domestic enterprises are subject to a unified EIT rate of 25%, except for a subsidiary of the Group in the PRC that was approved as High and New Technology Enterprise ("HNTE") which enjoys a preferential tax rate of 15% from 2019 onwards and subject to re-approval by the related authorities in every three years.

Under the Enterprise Income Tax ("EIT") Law, finance income from financial institutions located in mainland China earned by foreign investors is subject to withholding tax of 10%.

The taxation on the Group's loss before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended 31 December 2021 and 2020, being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Loss before income tax	**(2,051,423)**	(2,949,887)
Tax calculated at a tax rate of 25%	**(512,856)**	(737,472)
Effect of different tax rates applicable to different companies within the Group	**259,183**	360,390
Effect of preferential income tax rate of a subsidiary	**90,149**	146,245
Expenses not deductible for tax purposes	**117,098**	741
Income not subject to tax	**(928)**	(97)
Super Deduction for research and development expenses	**(27,605)**	(26,335)
Tax losses and other temporary differences not recognised	**78,769**	258,641
Others	**859**	(537)
	4,669	1,576

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods.

As at 31 December 2021 and 2020, the Group had unrecognised tax losses to be carried forward against future taxable income amounted to RMB6,449 million and RMB6,176 million respectively. These unrecognised tax losses will mainly expire within 5 to 10 years. As at 31 December 2021 and 2020, the potential deferred income tax assets in respect of the above unrecognised tax losses amounted to RMB980 million and RMB928 million, respectively. Unrecognised tax assets in respect of other deductible temporary differences are relatively insignificant.

Notes to the Consolidated Financial Statements

13 LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of shares outstanding during the year.

	Year ended 31 December	
	2021	2020
Loss for the year attributable to equity holders of the Company (in RMB'000)	**(2,056,092)**	(2,951,463)
Weighted average number of shares outstanding	**129,164,825**	121,874,826
Basic loss per share (in RMB)	**15.92**	24.22

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the years ended 31 December 2021 and 2020, the Company had two categories of potential ordinary shares: share options and Convertible redeemable Preferred Shares. Diluted loss per share presented is the same as the basic loss per share as the inclusion of the potential ordinary shares in the calculation of dilutive loss per share would be anti-dilutive.

14 DIVIDENDS

No dividends have been paid or declared by the Company during each of the years ended 31 December 2021 and 2020.

Notes to the Consolidated Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT

	Servers and network equipment RMB'000	Leasehold improvements RMB'000	Office furniture, equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2020					
Cost	52,510	1,201	5,933	–	59,644
Accumulated depreciation	(33,895)	(598)	(1,442)	–	(35,935)
Net book amount	18,615	603	4,491	–	23,709
Year ended 31 December 2020					
Opening net book amount	18,615	603	4,491	–	23,709
Additions	14,955	–	5,610	–	20,565
Disposals	(842)	–	(247)	–	(1,089)
Depreciation charge	(20,539)	(137)	(1,707)	–	(22,383)
Closing net book amount	12,189	466	8,147	–	20,802
As at 31 December 2020					
Cost	65,640	1,201	11,055	–	77,896
Accumulated depreciation	(53,451)	(735)	(2,908)	–	(57,094)
Net book amount	12,189	466	8,147	–	20,802
Year ended 31 December 2021					
Opening net book amount	**12,189**	**466**	**8,147**	**–**	**20,802**
Additions	**29,897**	**54**	**6,723**	**2,828**	**39,502**
Disposals	**(470)**	**–**	**(748)**	**–**	**(1,218)**
Depreciation charge	**(11,212)**	**(136)**	**(3,695)**	**–**	**(15,043)**
Closing net book amount	**30,404**	**384**	**10,427**	**2,828**	**44,043**
As at 31 December 2021					
Cost	**93,854**	**1,255**	**16,562**	**2,828**	**114,499**
Accumulated depreciation	**(63,450)**	**(871)**	**(6,135)**	**–**	**(70,456)**
Net book amount	**30,404**	**384**	**10,427**	**2,828**	**44,043**

Notes to the Consolidated Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

During the years ended 31 December 2021 and 2020, depreciation was charged to the consolidated statements of profit or loss as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cost of revenue	**3,828**	6,878
Selling and marketing expenses	**367**	798
General and administrative expenses	**59**	50
Research and development expenses	**10,789**	14,657
	15,043	22,383

16 RIGHT-OF-USE ASSETS/LEASE LIABILITIES

Items recognised in the consolidated balance sheet

The Group has applied IFRS 16 retrospectively without using the simplified transitional approach permitted under IFRS 16.

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Right-of-use assets		
Office buildings	**10,505**	–

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Lease liabilities		
Current	**2,612**	–
Non-current	**7,893**	–
	10,505	–

Additions to the right-of-use assets for the year ended 31 December 2021 was RMB11.0 million (2020: nil).

Depreciation charge of right-of-use assets and interest expense relating to lease liabilities are insignificant during the year ended 31 December 2021.

Notes to the Consolidated Financial Statements

17 SUBSIDIARIES

The Group's subsidiaries (including structured entities) during the years ended 31 December 2021 and 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interest held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Date of incorporation	Place of incorporation and kind of legal entity	Principal activities	Particulars of issued/Registered/ paid-in capital	Effective interest held 2021	Effective interest held 2020
Subsidiaries directly held:						
Cloud Village Limited	2 February 2016	Hong Kong, limited liability company	Investment holdings	HKD1	100%	100%
Dream Studio, Inc.	6 December 2017	Cayman Islands, limited liability company	Investment holdings	US$1	100%	100%
Indirectly held:						
Dream Studio (Hong Kong) Limited	6 December 2017	Hong Kong, limited liability company	Investment holdings	HKD1	100%	100%
Hangzhou NetEase Cloud Music Technology Co., Ltd.	18 May 2016	PRC, limited liability company	Provision of online music streaming services in the PRC	US$1,309,000,000/ US$1,309,000,000	100%	100%
Dream Studio Music Production US, Inc.	1 December 2017	USA, limited liability company	Provision of music production services	US$1	100%	100%
Beijing Creativity and Dream Music Culture Media Co., Ltd.	18 January 2018	PRC, limited liability company	Provision of music production services	US$200,000/-	100%	100%
Hangzhou Yuyinniaoniao Culture Media Co., Ltd.*	18 September 2018	PRC, limited liability company	Provision of music production services	US$200,000/-	100%	100%
Beijing Chuyin Culture Co., Ltd.*	14 November 2016	PRC, limited liability company	Provision of artist management services	RMB1,000,000/ RMB1,000,000	100%	100%
Guangzhou NetEase Cloud Music Technology Co., Ltd.	22 December 2021	PRC, limited liability company	Provision of online music streaming services in the PRC	US$100,000/–	100%	100%
Structured entities (Note (i))						
Hangzhou Yuedu Technology Co., Ltd.	25 December 2014	PRC, limited liability company	Provision of online music streaming services and social entertainment services in the PRC	RMB10,000,000/ RMB10,000,000	100%	100%
Hangzhou Rege Culture Creativity Co., Ltd.*	20 July 2018	PRC, limited liability company	Dormant	RMB100,000/-	100%	100%

Notes to the Consolidated Financial Statements

17 SUBSIDIARIES *(Continued)*

* English names are translated for identification purpose only.

Note (i): The Company does not have direct or indirect legal ownership in equity of the structured entities. Nevertheless, under certain Contractual Arrangements entered into with the structured entities and their registered owners, the Company and its other legally owned subsidiaries have rights to exercise power over the structured entities, receive variable returns from its involvement in the structured entities, and have the ability to affect those returns through its power over these structured entities. As a result, they are presented as structured entities of the Group.

18 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Associates	**92,914**	84,647
Joint venture	**–**	3,933
	92,914	88,580

Movement of investments in associates is analysed as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At 1 January	**84,647**	73,531
Additions	**2,000**	15,043
Share of results	**6,267**	(2,426)
Impairment loss (Note)	**–**	(1,501)
At 31 December	**92,914**	84,647

Note:

Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investments may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indicators, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less cost of disposal and value in use.

The Group made an aggregate impairment provision of approximately RMB1,501,000 and nil against the carrying amounts of certain investments in associates during the years ended 31 December 2020 and 2021, respectively. The impairment losses mainly resulted from revisions of financial and business outlook of the associates and changes in the market environment of the underlying business.

Notes to the Consolidated Financial Statements

18 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD *(Continued)*

Movement of investment in a joint venture is analysed as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At 1 January	**3,933**	–
Additions	**–**	5,165
Share of results	**(3,933)**	(1,232)
At 31 December	**–**	3,933

Details of principal associate are as follows:

Name of entity	**Date of incorporation**	**Place of business/ country of incorporation**	**Percentage of ownership attributable to the Group**		**Principal activities**
			2021	2020	
Indirectly held:					
AIVA Technologies S.A.R.L	23 September 2016	Luxembourg	**20%**	20%	Provision of online AI soundtrack creating services

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Wealth management products	**240,772**	971,315

For the fair value measurement of financial assets at fair value, please refer to Note 3.3.

Notes to the Consolidated Financial Statements

20 ACCOUNTS RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Accounts receivables	**676,878**	257,672
Less: loss allowance	**(3,228)**	(3,297)
Accounts receivables, net	**673,650**	254,375

The Group generally allows a credit period of 0 to 180 days to its customers depending on different revenue streams. Aging analysis of accounts receivables based on invoice date is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Up to 3 months	**636,007**	185,397
3 to 6 months	**18,393**	68,974
Over 6 months	**22,478**	3,301
	676,878	257,672

The carrying amount of accounts receivables approximated their fair values and were denominated in RMB. Information about the impairment of accounts receivables and the Group's exposure to credit risk can be found in Note 3.1.

21 PREPAID CONTENTS ROYALTIES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current	**1,109,834**	1,362,001
Non-current	**471,125**	894,758
	1,580,959	2,256,759

Prepaid contents royalties represent the prepaid licence fee related to the music contents licensed from third parties.

Notes to the Consolidated Financial Statements

22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Non-current assets		
Deposits	**300**	600
Prepayments	**32**	33
	332	633
Current assets		
Interest receivable	**19,669**	5,171
Prepaid payment channel fees	**64,446**	46,250
Prepaid promotion, advertising and other expenses	**33,604**	30,164
Value-added tax recoverables	**107,475**	179,450
Rental and other deposits	**750**	1,194
Others	**10,965**	17,904
	236,909	280,133
Less: loss allowance	**(2,000)**	–
	234,909	280,133

23 BANK DEPOSITS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current	**5,527,732**	816,917
Non-current	**–**	190,000
	5,527,732	1,006,917

The weighted average effective interest rate on bank deposits of the Group with initial terms of over three months as at 31 December 2021 and 2020 was 1.14% and 1.29% per annum, respectively.

Notes to the Consolidated Financial Statements

23 BANK DEPOSITS *(Continued)*

The carrying amounts of bank deposits with initial terms of over three months approximated their fair values and were denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
US$	**5,527,732**	816,917
RMB	**–**	190,000
	5,527,732	1,006,917

24 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Cash at bank	**853,454**	24,327
Bank deposits with initial terms within three months	**–**	2,981,879
	853,454	3,006,206

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
US$	**405,089**	2,996,528
RMB	**392,450**	9,669
HK$	**55,915**	9
	853,454	3,006,206

The weighted average effective interest rate on bank deposits of the Group with initial terms within three months as at 31 December 2020 was 1.13% per annum.

The conversion of the RMB denominated balances maintained in the PRC into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

Notes to the Consolidated Financial Statements

25 SHARE CAPITAL

Authorised:

	Number of Class A ordinary shares '000	Number of Class B ordinary shares '000	Number of other ordinary shares '000	Number of ordinary shares '000	Total number of ordinary shares '000	Nominal value of ordinary shares US$'000	Number of preferred shares '000	Nominal value of preferred shares US$'000	Total number of shares '000	Total Nominal value of shares US$'000
At 1 January 2020, 31 December 2020 and 1 January 2021	703,875	119,770	100,000	–	923,645	93	76,355	7	1,000,000	100
Conversion of Class B ordinary shares into Class A ordinary shares	119,770	(119,770)	–	–	–	–	–	–	–	–
Conversion of preferred shares into Class A ordinary shares	76,355	–	–	–	76,355	7	(76,355)	(7)	–	–
Conversion of other ordinary shares into Class A ordinary shares	100,000	–	(100,000)	–	–	–	–	–	–	–
Re-designation of Class A ordinary shares to ordinary shares	(1,000,000)	–	–	1,000,000	–	–	–	–	–	–
At 31 December 2021	–	–	–	1,000,000	1,000,000	100	–	–	1,000,000	100

The share capital of the Company comprises Class A Ordinary Shares, Class B Ordinary Shares, Other Ordinary Shares, Series A Preferred Shares, Series B Preferred Shares, Series B1 Preferred Shares and Series B2 Preferred Shares. Each Class A Ordinary Share, Series B Preferred Share, Series B1 Preference Share and Series B2 Preferred Share entitles the holder to exercise one vote on all matters subject to the vote at general meetings of the Company. Each Class B Ordinary Share and Series A Preferred Share entitles the holder to exercise 10 votes, on all matters subject to the vote at general meetings of our Company. Other Ordinary Shares may be determined by the board of directors of the Company as to such class or classes however designated.

Pursuant to the Articles and the Pre-IPO Shareholders' Agreement, the Class B Ordinary Shares and all the preferred shares shall be automatically and immediately converted into Class A Ordinary Shares upon completion of an initial public offering of the Company. Class B Ordinary Shares will be converted into Class A Ordinary Shares on a one-to-one ratio. The Preferred Shares will be converted into Class A Ordinary Shares on a one-to-one ratio and subject to customary adjustments.

Notes to the Consolidated Financial Statements

25 SHARE CAPITAL *(Continued)*

Authorised: (Continued)

Upon the completion of the Global Offering by the Company on 2 December 2021, all the Class B Ordinary Shares, preferred shares and other ordinary shares were automatically converted into Class A Ordinary Shares. Upon the conversion of all the issued and outstanding Class B Ordinary Shares and preferred shares into Class A Ordinary Shares, the weighted voting rights structure also ceased as all Class A Ordinary Shares entitle the holder to exercise one vote on all matters subject to the vote general meetings of the Company. Immediate following the above conversion all Class A Ordinary Shares are re-designated and reclassified as ordinary shares with par value of US$0.0001 each.

Issued and fully paid:

	Number of Class A ordinary shares	Number of Class B ordinary shares	Number of Series A Preferred Share with no redemption rights	Number of ordinary shares	Number of shares	Nominal value of share capital RMB'000
As at 1 January 2020	1,470,100	119,770,118	–	–	121,240,218	77
Issuance of Series A Preferred Shares (Note (i))	–	–	886,513	–	886,513	1
At 31 December 2020 and 1 January 2021	1,470,100	119,770,118	886,513	–	122,126,731	78
Conversion of Class B ordinary shares into Class A ordinary shares	119,770,118	(119,770,118)	–	–	–	–
Conversion of Convertible redeemable Preferred Shares into Class A ordinary shares	69,630,145	–	–	–	69,630,145	44
Conversion of preferred shares into Class A ordinary shares	886,513	–	(886,513)	–	–	–
Re-designation of Class A ordinary shares to ordinary shares	(191,756,876)	–	–	191,756,876	–	–
Issuance of ordinary shares (Note 26(c))	–	–	–	16,000,000	16,000,000	10
At 31 December 2021	–	–	–	207,756,876	207,756,876	132

Notes to the Consolidated Financial Statements

25 SHARE CAPITAL *(Continued)*

Issued and fully paid: (Continued)

As at 31 December 2021 and 2020, analysis of the Company's issued shares are as follows:

	Number of shares	Nominal value of share capital
		RMB'000
As at 31 December 2021		
Ordinary shares	**207,756,876**	**132**
	207,756,876	**132**
As at 31 December 2020		
Class A ordinary shares	1,470,100	1
Class B ordinary shares	119,770,118	76
Series A Preferred Shares with no redemption rights	886,513	1
	122,126,731	78

Note:

During the year ended 31 December 2020, 886,513 Series A Preferred Shares of the Company with no redemption rights were issued for a cash consideration of approximately RMB141,702,000. Save for certain voting rights and conversion rights, these preferred shares, with no redemption features and liquidation preferences attached, are accounted for as equity and resulted in an increase in the nominal value of the share capital and share premium by approximately RMB1,000 and RMB141,702,000, respectively.

Refer to Note 31 for details of the other preferred shares.

Notes to the Consolidated Financial Statements

26 OTHER RESERVES

	Share premium RMB'000	Contributions from ultimate holding company RMB'000 (Note (a))	Share-based compensation reserve RMB'000	PRC statutory reserve RMB'000 (Note (b))	Exchange reserve RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2021	**2,581,975**	**18,439**	**97,259**	**1,821**	**432,654**	**(66,552)**	**3,065,596**
Conversion of Convertible redeemable Preferred Shares into ordinary shares	**11,671,902**	**–**	**–**	**–**	**–**	**–**	**11,671,902**
Fair value change on Convertible redeemable Preferred Shares due to own credit risk	**–**	**–**	**–**	**–**	**–**	**(25,975)**	**(25,975)**
Issuance of ordinary shares relating to initial public offering, netting of underwriting commissions and other issuance costs (Note (c))	**2,645,630**	**–**	**–**	**–**	**–**	**–**	**2,645,630**
Transfer of accumulated changes in fair value due to own credit risk upon derecognition of Convertible redeemable Preferred Shares	**–**	**–**	**–**	**–**	**–**	**92,527**	**92,527**
Equity-settled share-based payments	**–**	**5,125**	**330,143**	**–**	**–**	**–**	**335,268**
Appropriations to statutory reserves	**–**	**–**	**–**	**1,048**	**–**	**–**	**1,048**
Currency translation differences	**–**	**–**	**–**	**–**	**195,775**	**–**	**195,775**
As at 31 December 2021	**16,899,507**	**23,564**	**427,402**	**2,869**	**628,429**	**–**	**17,981,771**
As at 1 January 2020	2,440,273	11,676	85,065	1,084	(91,392)	30,884	2,477,590
Issuance of Preferred Shares	141,702	–	–	–	–	–	141,702
Equity-settled share-based payments	–	6,763	12,194	–	–	–	18,957
Appropriations to statutory reserves	–	–	–	737	–	–	737
Fair value change on Convertible redeemable Preferred Shares due to own credit risk	–	–	–	–	–	(97,436)	(97,436)
Currency translation differences	–	–	–	–	524,046	–	524,046
As at 31 December 2020	2,581,975	18,439	97,259	1,821	432,654	(66,552)	3,065,596

Notes to the Consolidated Financial Statements

26 OTHER RESERVES *(Continued)*

Notes:

(a) Contributions from ultimate holding company

The contributions from ultimate holding company represent deemed contribution from NetEase as a result of NetEase granting restricted share units to Eligible Grantees of the Group.

(b) PRC statutory reserve

According to the Companies Laws of the PRC and the articles of association of the relevant subsidiaries established in the PRC, PRC subsidiaries are required to transfer not less than 10% of their net profit to PRC statutory reserves before distributions are made to the equity owners. Such a transfer is not required when the balance of the PRC statutory reserve reaches 50% of the subsidiaries' registered capital. The PRC statutory reserves shall only be used to make up losses of the subsidiaries, to expand the subsidiaries' production operations, or to increase the capital of the subsidiaries. Upon approval by the resolutions of the subsidiaries' shareholders in general meetings, the subsidiaries may convert their PRC statutory reserves into registered capital and issue bonus capital to existing owners in proportion to their existing ownership structure.

(c) Share premium regarding issuance of ordinary shares of IPO

On 2 December 2021, upon the Listing on the Main Board of the Stock Exchange, the Company issued 16,000,000 new ordinary shares at par value of US$0.0001 per share for cash consideration of HK$205 each, and raised gross proceeds of approximately HK$3,280 million (equivalents to approximately RMB2,682 million). The nominal value of the share capital was approximately RMB10,000 and share premium arising from the issuance was approximately RMB2,646 million, after netting off share issuance costs of approximately RMB36 million.

27 SHARE-BASED COMPENSATION

During the years ended 31 December 2021 and 2020, the Group has in place a share option scheme and was also a party to the Restricted Share Unit ("RSU") plan of NetEase whereas restricted share units ("RSUs") may be issued to Eligible Grantees of the Group.

(a) Share options

During the year ended 31 December 2016, the board of directors of the Company approved the establishment of a Pre-IPO Share Incentive Plan (the "Pre-IPO Share Incentive Plan") with the purpose of motivating, attracting and retaining those individuals for outstanding performance to generate superior returns to the shareholders of the Group. The Pre-IPO Share Incentive Plan is valid and effective for 10 years from the approval of the board of directors. The maximum aggregate number of Shares which may be issued pursuant to the Pre-IPO Share Incentive Plan is 15,000,000 Class A Ordinary Shares.

The share options have graded vesting terms, and will be vested from the grant date over four years to five years on the condition that employees remain in service together with a performance requirement.

The options may be exercised at any time after the IPO of the Company provided the options have vested and subject to the terms of the Pre-IPO Share Incentive Plan. The options are exercisable for a maximum period of seven years after the date of grant.

Notes to the Consolidated Financial Statements

27 SHARE-BASED COMPENSATION *(Continued)*

(a) *Share options* *(Continued)*

Set out below are summaries of options granted under the plan:

	Number of share options	Weighted average exercise price per share option US$
Outstanding as of 1 January 2021	**11,332,600**	**5.87**
Granted during the year	**1,907,850**	**11.00**
Forfeited during the year	**(1,585,550)**	**7.53**
Outstanding as of 31 December 2021	**11,654,900**	**6.49**
Vested and exercisable at 31 December 2021	**7,996,575**	**4.65**
Outstanding as of 1 January 2020	13,173,500	4.95
Granted during the year	1,278,300	11.00
Forfeited during the year	(3,119,200)	4.06
Outstanding as of 31 December 2020	11,332,600	5.87
Vested and exercisable at 31 December 2020	2,050,460	5.33

Notes to the Consolidated Financial Statements

27 SHARE-BASED COMPENSATION *(Continued)*

(a) *Share options* *(Continued)*

Share options outstanding at the end of the year have the following expiry date and exercise price.

Grant date	Expiry date	Exercise price	Vesting year*	Year ended 31 December 2021	2020
25 May 2016	25 May 2023	US$1	4 years from grant date	**4,183,500**	4,516,300
29 August 2016	29 August 2023	US$1	4 years from grant date	**27,500**	40,000
18 January 2017	18 January 2024	US$8	4 years from grant date	**548,000**	711,000
10 July 2017	10 July 2024	US$8	4 years from grant date	**536,000**	613,000
7 August 2017	7 August 2024	US$8	5 years from grant date	**–**	–
23 November 2017	23 November 2024	US$8	4 years from grant date	**267,000**	275,000
12 February 2018	12 February 2025	US$8	4 years from grant date	**170,000**	170,000
21 May 2018	21 May 2025	US$8	4 years from grant date	**1,225,000**	1,313,000
17 August 2018	17 August 2025	US$8	4 years from grant date	**295,000**	525,000
19 November 2018	19 November 2025	US$8	4 years from grant date	**120,000**	130,000
2 March 2019	2 March 2026	US$8	4 years from grant date	**146,250**	185,000
21 May 2019	21 May 2026	US$8	4 years from grant date	**189,000**	255,000
25 September 2019	25 September 2026	US$11	4 years from grant date	**988,250**	1,109,000
22 November 2019	22 November 2026	US$11	4 years from grant date	**337,000**	410,000
1 March 2020	1 March 2027	US$11	4 years from grant date	**178,000**	210,000
20 May 2020	20 May 2027	US$11	4 years from grant date	**78,300**	142,300
30 September 2020	30 September 2027	US$11	4 years from grant date	**459,000**	508,000
24 November 2020	24 November 2027	US$11	4 years from grant date	**197,000**	220,000
19 February 2021	19 February 2028	US$11	1 year from grant date	**8,000**	–
26 February 2021	26 February 2028	US$11	4 years from grant date	**191,150**	–
27 May 2021	27 May 2028	US$11	4 years from grant date	**1,310,100**	–
15 June 2021	15 June 2028	US$11	1 year from grant date	**3,000**	–
15 June 2021	15 June 2028	US$11	4 years from grant date	**197,850**	–
Total				**11,654,900**	11,332,600
Weighted average remaining contractual life of options outstanding at end of the year				**4.39 years**	4.82 years

Notes to the Consolidated Financial Statements

27 SHARE-BASED COMPENSATION *(Continued)*

(a) *Share options (Continued)*

* 20% to 100% of the options, depending on different vesting terms and performance requirements, are vested on the first anniversary of the grant date, and remaining options shall be vested in equal tranches at the anniversary of remaining vesting periods.

Based on fair value of the underlying ordinary shares, the Group has used Binomial model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	2021	2020
Fair value per share (in US$)	**15.05-20.07**	5.5-10.19
Exercise price (in US$)	**11**	11
Risk-free interest rate	**0.96%-1.25%**	0.52%-0.63%
Expected life	**7 years**	7 years
Expected volatility	**45%-49%**	44%
Dividend yield	**0.00%**	0.00%

(b) *Restricted share units plan*

2009 Restricted Share Unit Plan

In November 2009, NetEase adopted a restricted share unit plan for the employees, directors and consultants of NetEase and its subsidiaries (the "2009 Plan"). NetEase has reserved 323,694,050 ordinary shares for issuance under the plan. The 2009 Plan was adopted by a resolution of the board of directors of NetEase on 17 November 2009 and became effective for a term of ten years unless sooner terminated. The 2009 Plan was expired on 16 November 2019.

2019 Restricted Share Unit Plan

In October 2019, NetEase adopted a 2019 restricted share unit plan for the employees, directors and consultants of NetEase and its subsidiaries (the "2019 Plan"). The 2019 Plan has a ten-year term and a maximum number of 322,458,300 ordinary shares of NetEase is available for issuance pursuant to all awards under the plan.

NetEase granted certain RSUs (or the "share-based awards") to certain Eligible Grantees of the Group. These RSUs will be vested from the grant date over one year to five years on the condition that employees and others remain in service with performance requirement.

All, one-second, one-fourth or one-fifth of the relevant RSUs, depending on different vesting terms and performance requirements, are vested on the first anniversary of the grant date, and remaining RSUs shall be vested in equal tranches at the anniversary of remaining vesting periods.

Notes to the Consolidated Financial Statements

27 SHARE-BASED COMPENSATION *(Continued)*

(b) *Restricted share units plan* *(Continued)*

2019 Restricted Share Unit Plan (Continued)

Movement in the number of RSUs granted to Eligible Grantees of the Group for the years ended 31 December 2021 and 2020 are as follows:

	Number of RSUs	Weighted average grant date fair value US$
Outstanding as at 1 January 2021	**42,161**	**57.29**
Granted during the year	**1,753**	**109.03**
Vested and transferred during the year	**(17,575)**	**52.80**
Forfeited during the year	**(3,727)**	**68.59**
Outstanding as at 31 December 2021	**22,612**	**62.93**
Outstanding as at 1 January 2020	72,675	51.64
Granted during the year	6,739	80.26
Vested and transferred during the year	(29,583)	50.12
Forfeited during the year	(7,670)	51.64
Outstanding as at 31 December 2020	42,161	57.29

The equity-settled share-based payment of RSUs was measured based on the fair value of NetEase's ordinary shares on the date of grant.

(c) *Expenses arising from share-based payment transactions*

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expenses were as follows:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Options issued under the Pre-IPO Incentive Plan	**252,017**	15,130
RSUs granted to Eligible Grantees of the Group	**5,125**	6,763
	257,142	21,893

Notes to the Consolidated Financial Statements

28 ACCOUNTS PAYABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Accounts payables	**134**	1,400

Accounts payables are unsecured and are usually paid within 30 days of recognition and denominated in RMB.

As at 31 December 2021 and 2020, the aging of accounts payables are all between 0 – 90 days based on invoice date.

29 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current liabilities		
Accrued content service costs	**765,014**	1,308,373
Accrued expenses	**153,188**	106,237
Accrued listing expenses	**92,737**	–
Accrued salaries and staff benefits	**179,003**	150,771
Deposits from customers	**47,822**	31,892
Other taxes payable	**15,008**	10,184
Others	**30,999**	32,383
	1,283,771	1,639,840

30 CONTRACT LIABILITIES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Contract liabilities related to online music services	**626,338**	383,293
Contract liabilities related to social entertainment services and others	**28,831**	30,790
Contract liabilities	**655,169**	414,083
Less: Non-current portion	**(50,555)**	(29,105)
Current portion	**604,614**	384,978

Notes to the Consolidated Financial Statements

30 CONTRACT LIABILITIES *(Continued)*

(i) Significant changes in contract liabilities

Contract liabilities mainly represent advance payments received from customers related to music membership subscription, sublicensing of contents royalties and sales of virtual items. Contract liabilities increased by RMB241,086,000 and RMB230,491,000 during the years ended 31 December 2021 and 2020, respectively mainly due to the increase of music membership subscription.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the year related to carried forward contract liabilities.

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**384,978**	175,456

(iii) Unsatisfied performance obligations

The following table shows unsatisfied performance obligations mainly resulting from fixed-price contracts:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Within one year	**604,614**	384,978
Over 1 year	**50,555**	29,105
	655,169	414,083

As at 31 December 2021 and 2020, the Group expects that the unsatisfied performance obligations resulting from the above contracts that will be recognised as revenue within one year amounting to RMB604,614,000 and RMB384,978,000 respectively. The remaining unsatisfied performance obligations are primarily expected to be recognised as revenue within the second year after the respective balance sheet dates.

31 CONVERTIBLE REDEEMABLE PREFERRED SHARES

Since the date of incorporation, the Company has completed four rounds of financing by issuing Convertible redeemable Preferred Shares to investors, namely, series A Preferred Shares, series B Preferred Shares, series B1 Preferred Shares and series B2 Preferred Shares.

Notes to the Consolidated Financial Statements

31 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

The details of the issuance are set out in the table below:

	Date of issuance	Number of Preferred Shares	Price per share (US$)	Total consideration US$'000	RMB'000
Series A Preferred Shares	30 May 2018	4,266,757	10.83	46,191	293,703
Series A Preferred Shares	29 June 2018	3,076,475	10.83	33,305	212,746
Series A Preferred Shares	10 July 2018	681,888	10.83	7,382	48,463
Series A Preferred Shares	17 August 2018	1,239,796	10.83	13,422	91,489
Series A Preferred Shares	17 April 2019	2,939,491	10.83	31,822	214,299
Series B Preferred Shares	31 July 2018	5,443,501	18.37	100,000	661,660
Series B Preferred Shares	18 September 2018	2,721,751	18.37	50,000	341,230
Series B1 Preferred Shares	23 October 2018	6,648,848	22.56	150,000	1,031,880
Series B1 Preferred Shares	31 October 2018	6,648,848	22.56	150,000	1,031,880
Series B1 Preferred Shares	6 November 2018	5,762,337	22.56	130,000	905,398
Series B1 Preferred Shares	14 November 2018	1,329,770	22.56	30,000	208,938
Series B1 Preferred Shares	26 November 2018	265,954	22.56	6,000	41,788
Series B1 Preferred Shares	21 January 2019	443,257	22.56	10,000	68,632
Series B2 Preferred Shares	3 December 2019	20,733,975	22.56	467,764	3,288,292
Series B2 Preferred Shares	4 December 2019	10,366,988	22.56	233,882	1,644,146
				1,459,768	10,084,544

Notes to the Consolidated Financial Statements

31 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

Details of the movements of number of Convertible redeemable Preferred Shares are as follows:

	Number of preference shares
Outstanding as of 1 January 2021	**69,630,145**
Conversion of Convertible redeemable Preferred Shares to ordinary shares	**(69,630,145)**
Outstanding as of 31 December 2021	**–**

There is no outstanding balance as of 31 December 2021.

Outstanding as of 1 January 2020	72,569,636
Buy-back of Series A (Note 32(c))	(2,939,491)
Outstanding as of 31 December 2020	69,630,145
Outstanding as at 31 December 2020 represents:	
– Series A	9,264,916
– Series B	8,165,252
– Series B1	21,099,014
– Series B2	31,100,963
Outstanding as of 31 December 2020	69,630,145

The key terms of the Convertible redeemable Preferred Shares are summarised as follows:

(a) Dividends right

Each holder of the preferred shares shall be entitled to receive from the Company, out of funds legally available, non-cumulative dividend per Preferred Share held by such holder on a discretionary basis. The dividends should be distributed pro rata among the holders of the Ordinary Shares and the preferred shares in accordance with the number of the Class A Ordinary Shares held by them (on an as converted but otherwise non-diluted basis).

(b) Conversion features

The Convertible redeemable Preferred Shares shall be converted into ordinary shares at the options of holders at any time after the considerations of each series of preferred shares were fully-paid, or automatically converted into ordinary shares at the then effective applicable conversion price when the closing of an Initial Public Offering ("IPO") occurs. In the event of the automatic conversion of the preferred shares, the person(s) entitled to receive the ordinary shares issuable upon such conversion of preferred shares shall not be deemed to have converted such preferred shares until immediately prior to the closing of such transaction.

IPO means the first underwritten public offering of the Ordinary Shares of the Company on a stock exchange in: (i) the United States of America; (ii) the PRC; (iii) Hong Kong; or (iv) such other exchange approved by the holders of preferred shares.

Notes to the Consolidated Financial Statements

31 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

(c) Redemption features

At any time commencing on the relevant redemption date below and at the option of the holders of the relevant preferred shares, among other terms and conditions, the Company shall redeem all or any part of the preferred shares. The redemption price paid by the Company to the preferred shareholders shall comprised of initial subscription price and any accrued but unpaid dividends thereon. For Series B, B1 and B2, redemption price includes a simple eight percent (8%) per annum interest of the original issue price on each Preferred Share accrued during the period from the issuance date of each Preferred Share until the date on which the redemption price is paid in full.

	Redemption Commencement date	
Series A	3 months from the commencement date of the redeemable Series A Preferred Shares	18 or 30 April 2022, as appropriate
Series B	Earlier of (i) 210 days from the commencement date of the redeemable Series B Preferred Shares or (ii) immediately prior to or at the automatic conversion when the closing of an IPO occurs	31 July 2023
Series B1 Lead Investors	Earlier of (i) 60 days from the commencement date of the redeemable Series B1 Preferred Shares or (ii) immediately prior to or at the automatic conversion when the closing of an IPO occurs	30 October 2023
Series B2	Earlier of (i) 60 or 210 days from the commencement date of the redeemable Series B2 Preferred Shares or (ii) immediately prior to or at the automatic conversion when the closing of an IPO occurs	23 October 2023

(d) Liquidation preferences

Upon the occurrence of any liquidation, dissolution or winding up of the Company, distributions to the Shareholders of the Company shall be made in the following manner:

Each holder of preferred shares shall be entitled to receive funds or assets of the Company legally available for distribution. The amount equal to the subscription price, interest accrued on preferred shares and all accrued or declared but unpaid dividends on such preferred shares. If the assets and funds available for distribution is not sufficient, the liquidation preference amount will be paid to the preferred shareholders in the following order: first to holders of Series B1 and B2, second to holders of Series B and remaining shall be distributed pro rata among all the holders of the Series A Preferred Shares and Ordinary Shares (on an as-converted basis).

Notes to the Consolidated Financial Statements

31 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

(d) Liquidation preferences *(Continued)*

The Group does not bifurcate any embedded derivatives from the host instruments and designates the entire instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of profit or loss.

The movements of the Convertible redeemable Preferred Shares are set out as below:

	RMB'000
At 1 January 2021	**11,162,403**
Change in fair value through profit or loss	**755,238**
Change in fair value through other comprehensive income	**25,975**
Currency translation differences	**(271,670)**
Conversion of Convertible redeemable Preferred Shares to ordinary shares	**(11,671,946)**
At 31 December 2021	**–**
At 1 January 2020	10,763,816
Buy-back of Convertible redeemable Preferred Shares (Note 32(c))	(302,150)
Change in fair value through profit or loss	1,361,581
Change in fair value through other comprehensive income	97,436
Currency translation differences	(758,280)
At 31 December 2020	11,162,403

The Group applied the discount cash flow method to determine the underlying equity value of the Company and adopted equity allocation model to determine the fair value of the Convertible redeemable Preferred Shares as at 31 December 2020. Key assumption are set as below:

	As at 31 December 2020
Discount rate	**18.5%**
Risk-free interest rate	**0.1% – 0.2%**
DLOM	**10.0%**
Volatility	**45.4% – 46.2%**

Notes to the Consolidated Financial Statements

31 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

(d) Liquidation preferences (Continued)

Discount rate (post-tax) was estimated by weighted average cost of capital as at each valuation date. The directors estimated the risk-free interest rate based on the market yield of US Treasury Curve with maturity close to expected redemption date as of the valuation date.

The DLOM was estimated based on the option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the privately held share can be sold, was considered as a basis to determine the lack of marketability discount.

Volatility was estimated based on annualised standard deviation of the daily return embedded in historical stock prices of comparable companies with a time horizon close to the expected term.

Probability weight among redemption, liquidation and IPO scenarios was based on the Company's best estimates. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of the Convertible redeemable Preferred Shares at each valuation date.

Changes in fair value of the Convertible redeemable Preferred Shares were recorded in "Changes in fair value of Convertible redeemable Preferred Shares" in the consolidated statement of profit or loss, amid the fair value changes in the Convertible redeemable Preferred Shares that are attributable to changes of own credit risk of this liability are recorded in consolidated statement of other comprehensive income.

Fair value of convertible redeemable preferred shares is affected by changes in the Company's equity value. If the Company's equity value had increased/decreased by 10% with all other variables held constant, the loss before income tax for the year ended 31 December 2020 would have been approximately RMB798,466,000/774,331,000 higher/lower, respectively.

Fair value of convertible redeemable preferred shares is also affected by changes in the discount rate. If the discount rate had increased/decreased by 1% with all other variables held constant, the loss before income tax for the year ended 31 December 2020 would have been approximately RMB656,742,000/795,600,000 lower/higher, respectively.

All convertible redeemable preferred shares were converted into ordinary shares upon completion of the Global Offering by the Company on 2 December 2021. Also the cumulative loss recognised in other comprehensive income related to the convertible redeemable preferred shares and convertible notes due to changes of fair value in the liability's credit risk of RMB92,527,000 was transferred from other reserves to accumulated losses upon IPO. The fair value of each convertible redeemable preferred share at the conversion date is the offer price (HK$205) in the Global Offering.

Notes to the Consolidated Financial Statements

32 CASH FLOW INFORMATION

(a) Cash used in operations

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Loss before income tax	**(2,051,423)**	(2,949,887)
Adjustments for:		
Depreciation of property, plant and equipment (Note 15)	**15,043**	22,383
Depreciation of right-of-use assets	**774**	–
Impairment loss for investments in associates (Note 7)	**–**	1,501
Net impairment loss on financial assets	**1,931**	3,034
Equity-settled share-based payments (Note 9)	**257,142**	21,893
Changes in fair value of Convertible redeemable Preferred Shares	**755,238**	1,361,581
(Gain)/loss on disposal of property, plant and equipment	**(81)**	3
Gain on fair value changes of financial assets at fair value through profit or loss	**(7,438)**	(22,440)
Loss on buy-back of Convertible redeemable Preferred Shares	**–**	160,500
Share of results of investments accounted for using equity method	**(2,334)**	3,658
Finance income	**(48,416)**	(100,642)
	(1,079,564)	(1,498,416)
Changes in working capital:		
Changes in accounts receivables	**(419,206)**	116,489
Changes in other operating assets	**771,070**	(583,871)
Changes in accounts payables	**(1,266)**	(124,477)
Changes in other operating liabilities	**(173,702)**	1,122,369
Cash used in operations	**(902,668)**	(967,906)

Notes to the Consolidated Financial Statements

32 CASH FLOW INFORMATION *(Continued)*

(b) Reconciliation of liabilities arising from financing activities

	Convertible redeemable Preferred Shares RMB'000	Lease liabilities RMB'000	Total RMB'000
Balance at 1 January 2020	10,763,816	–	10,763,816
Cash flows	(462,650)	–	(462,650)
Non-cash movements	861,237	–	861,237
Balance at 31 December 2020	11,162,403	–	11,162,403
Balance at 1 January 2021	**11,162,403**	**–**	**11,162,403**
Cash flows	**–**	**(416)**	**(416)**
Non-cash movements	**(11,162,403)**	**10,921**	**(11,151,482)**
Balance at 31 December 2021	**–**	**10,505**	**10,505**

(c) During the year ended 31 December 2020, the Group buy-back 2,939,491 Series A Convertible redeemable Preferred Shares at a total consideration of RMB462,650,000. The difference between the purchase consideration and the carrying amount of the shares of RMB302,150,000 amounting to RMB160,500,000 was recognised in profit or loss for the year ended 31 December 2020.

Notes to the Consolidated Financial Statements

33 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

Financial assets	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Total
	RMB'000	RMB'000	RMB'000
As at 31 December 2021			
Accounts receivables (Note 20)	**673,650**	**–**	**673,650**
Deposits and other receivables	**29,251**	**–**	**29,251**
Amounts due from group companies (Note 34)	**128,368**	**–**	**128,368**
Short-term bank deposits (Note 23)	**5,527,732**	**–**	**5,527,732**
Cash and cash equivalents (Note 24)	**853,454**	**–**	**853,454**
Financial assets at fair value through profit or loss (Note 19)	**–**	**240,772**	**240,772**
	7,212,455	**240,772**	**7,453,227**
As at 31 December 2020			
Long-term bank deposits (Note 23)	190,000	–	190,000
Accounts receivables (Note 20)	254,375	–	254,375
Deposits and other receivables	24,869	–	24,869
Amounts due from group companies (Note 34)	171,682	–	171,682
Short-term bank deposits (Note 23)	816,917	–	816,917
Cash and cash equivalents (Note 24)	3,006,206	–	3,006,206
Financial assets at fair value through profit or loss (Note 19)	–	971,315	971,315
	4,464,049	971,315	5,435,364

Notes to the Consolidated Financial Statements

33 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000
As at 31 December 2021			
Accounts payables (Note 28)	**134**	**–**	**134**
Accruals and other payables (excluding non-financial liabilities)	**1,089,760**	**–**	**1,089,760**
Amounts due to group companies (Note 34)	**56,389**	**–**	**56,389**
Lease liabilities (Note 16)	**10,505**	**–**	**10,505**
	1,156,788	**–**	**1,156,788**
As at 31 December 2020			
Accounts payables (Note 28)	1,400	–	1,400
Accruals and other payables (excluding non-financial liabilities)	1,478,885	–	1,478,885
Amounts due to group companies (Note 34)	145,800	–	145,800
Convertible redeemable Preferred Shares (Note 31)	–	11,162,403	11,162,403
	1,626,085	11,162,403	12,788,488

34 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions in addition to the related party information shown elsewhere in the consolidated financial statements:

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the years ended 31 December 2021 and 2020:

Name of related parties	Relationship with the Group
NetEase and its subsidiaries other than the entities controlled by the Group ("NetEase Group")	The Company's principal shareholder

Notes to the Consolidated Financial Statements

34 RELATED PARTY TRANSACTIONS *(Continued)*

(a) *Transactions*

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Purchase of property, plant and equipment from NetEase Group	**5,250**	9,245
Purchase of goods from NetEase Group	**6,467**	8,702
Purchase of technology and other services from NetEase Group	**463,008**	403,203
Provide advertising services to NetEase Group	**473,229**	464,434
Provide other services to NetEase Group	**17,124**	18,833
Sales of property, plant and equipment to NetEase Group	**863**	1,051
Sales of goods to NetEase Group	**–**	152

Transactions with related parties were determined based on prices and terms mutually agreed by the relevant parties involved.

(b) *Balances with related parties*

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Amounts due from NetEase Group:		
(i) Trade	**128,368**	171,680
(ii) Non-trade	**–**	2
Amounts due to NetEase Group:		
(i) Trade	**56,389**	74,152
(ii) Non-trade	**–**	71,648

Note: Outstanding balances are unsecured, interest-free and are repayable on demand.

Notes to the Consolidated Financial Statements

34 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management personnel compensation

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Salaries and bonus	**9,808**	9,961
Welfare and other employee benefits	**438**	381
Equity-settled share-based payments	**40,954**	394
	51,200	10,736

35 CONTINGENT LIABILITIES

As at 31 December 2021 and 2020, there were no material contingent liabilities to the Group.

Notes to the Consolidated Financial Statements

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Assets		
Non-current assets		
Investment in an associate	**17,575**	17,575
Investment in a joint venture	**–**	5,165
Investments in subsidiaries	**8,662,474**	8,115,204
	8,680,049	8,137,944
Current assets		
Prepayments, deposits and other receivables	**19,891**	4,145
Short-term bank deposits	**5,527,732**	816,917
Cash and cash equivalents	**164,150**	2,848,590
	5,711,773	3,669,652
Total assets	**14,391,822**	11,807,596
Equity		
Equity attributable to equity holders of the Company		
Share capital	**132**	78
Reserves (Note (b))	**14,294,040**	645,001
Total equity	**14,294,172**	645,079
Liabilities		
Non-current liabilities		
Convertible redeemable Preferred Shares	**–**	11,162,403
	–	11,162,403
Current liabilities		
Accruals and other payables	**97,650**	114
	97,650	114
Total liabilities	**97,650**	11,162,517
Total equity and liabilities	**14,391,822**	11,807,596

Notes to the Consolidated Financial Statements

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Reserve movement of the Company

	Share premium RMB'000	Share-based compensation reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2021	2,581,975	97,259	99,854	(2,073,049)	(61,038)	645,001
Loss for the year	–	–	–	(794,327)	–	(794,327)
Fair value change on Convertible redeemable Preferred Shares due to own credit risk	–	–	–	–	(25,975)	(25,975)
Conversion of Convertible redeemable Preferred Shares into ordinary shares	11,671,902	–	–	–	–	11,671,902
Issuance of ordinary shares relating to initial public offering, netting of underwriting commissions and other issuance costs	2,645,630	–	–	–	–	2,645,630
Transfer of accumulated changes in fair value due to own credit risk upon derecognition of Convertible redeemable Preferred Shares	–	–	–	(92,527)	92,527	–
Equity-settled share-based payments	–	330,143	–	(78,126)	–	252,017
Currency translation differences	–	–	(100,208)	–	–	(100,208)
As at 31 December 2021	16,899,507	427,402	(354)	(3,038,029)	5,514	14,294,040
As at 1 January 2020	2,440,273	85,065	(9,876)	(630,037)	36,398	1,921,823
Loss for the year	–	–	–	(1,445,948)	–	(1,445,948)
Issuance of ordinary shares	141,702	–	–	–	–	141,702
Equity-settled share-based payments	–	12,194	–	2,936	–	15,130
Fair value change on Convertible redeemable Preferred Shares due to own credit risk	–	–	–	–	(97,436)	(97,436)
Currency translation differences	–	–	109,730	–	–	109,730
As at 31 December 2020	2,581,975	97,259	99,854	(2,073,049)	(61,038)	645,001

Four Year Financial Summary

CONDENSED CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			
	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**
Revenue	1,148,037	2,318,390	4,895,731	**6,997,622**
Gross (loss)/profit	(1,317,218)	(1,056,714)	(595,335)	**142,674**
Loss before income tax	(2,004,212)	(2,013,622)	(2,949,887)	**(2,051,423)**
Loss for the year attributable to equity holders of the Company	(2,006,249)	(2,015,759)	(2,951,463)	**(2,056,092)**
Other comprehensive income/(loss) for the year, net of taxes	9,119	(69,632)	426,610	**169,800**
Total comprehensive loss for the year attributable to equity holders of the Company	(1,997,130)	(2,085,391)	(2,524,853)	**(1,886,292)**

CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 31 December			
	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**
ASSETS				
Non-current assets	633,136	780,734	1,194,773	**618,919**
Current assets	7,331,619	8,256,428	6,862,629	**8,768,719**
Total assets	7,964,755	9,037,162	8,057,402	**9,387,638**
EQUITY				
Total equity holders' (deficits)/equity	(899,621)	(2,945,509)	(5,306,766)	**7,381,670**
LIABILITIES				
Non-current liabilities	5,095,906	10,771,952	11,191,508	**58,448**
Current liabilities	3,768,470	1,210,719	2,172,660	**1,947,520**
Total liabilities	8,864,376	11,982,671	13,364,168	**2,005,968**
Total equity and liabilities	7,964,755	9,037,162	8,057,402	**9,387,638**

Definitions

"China" or the "PRC"	the People's Republic of China, and for the purpose of this annual report only, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
"Corporate Governance Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"DAUs of online music services"	the number of users that accessed the NetEase Cloud Music application at least once during a given day through mobile devices or PC devices, as the case may be; duplicate access is eliminated from the calculation based on our estimates by user account
"Director(s)"	the director(s) of our company
"IFRS"	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
"Latest Practicable Date"	19 April 2022, being the latest practicable date for ascertaining certain information in this annual report before its publication
"Listing"	the listing of our shares on the Main Board of the Stock Exchange
"Listing Date"	2 December 2021, the date on which our shares were listed and on which dealings in our shares were first permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"MAUs of online music services"	the monthly average number of users in a given period that have accessed the NetEase Cloud Music application at least once in a given month through mobile devices or PC devices, as the case may be; duplicate access is eliminated from the calculation based on our estimates by user account
"MAUs of social entertainment services"	the monthly average number of users in a given period that have accessed the social entertainment services offered by (i) NetEase Cloud Music application; (ii) LOOK Live Streaming; (iii) Sheng Bo application; and (iv) Xin Yu application at least once in a given month through mobile devices or PC devices, as the case may be; duplicate access of (i) and (ii) services is eliminated from the calculation based on our estimates by user account
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules

Definitions

"Monthly ARPPU of online music services"	the monthly average of the revenues from membership subscriptions for that period divided by the number of monthly paying users of online music services for that period
"Monthly ARPPU of social entertainment services"	the monthly average of the revenues of the social entertainment services for that period divided by the number of monthly paying users of social entertainment services for that period
"Monthly paying users of online music services"	the average of the number of user whose membership subscription packages remain active as of the last day of each month in a given period. Monthly paying users of online music services for any given period excludes the number of users who only purchase digital music singles and albums during such period because these user purchasing patterns tend to reflect specific hit releases, which fluctuate from period to period
"Monthly paying users of social entertainment services"	the average of the number of users who contribute revenues to our social entertainment services for each month in a given period
"NetEase"	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
"NetEase Group"	NetEase and its subsidiaries and consolidated affiliated entities, and unless the context otherwise requires, excluding our group
"Prospectus"	Our company's prospectus dated 23 November 2021, a copy of which is available on the Stock Exchange's website at www.hkexnews.hk
"Registered Independent Artists"	the artists who have registered on our platform to qualify for publishing their songs and have published at least one song on our platform
"Reporting Period"	the financial year ended 31 December 2021
"Shareholder(s)"	holder(s) of our company's share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

网易云音乐

(incorporated in the Cayman Islands with limited liability)

Stock Code: 9899