

Cloud Village Inc.

(incorporated in the Cayman Islands with limited liability)

Stock code: 9899

GLOBAL OFFERING

Joint Sponsors, Joint Global Coordinators and Joint Bookrunners

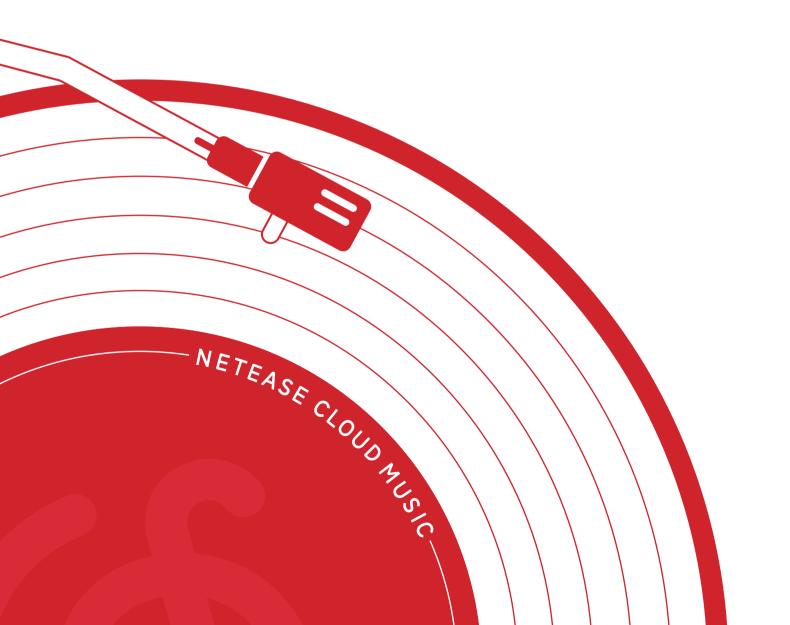
(In alphabetical order)

BofA SECURITIES CICC CREDIT SUISSE

Other Joint Bookrunners

(In alphabetical order)

ABCI BOCI CCBI Citigroup CMBI HSBC HTSC ICBCI



IMPORTANT

If you are in any doubt about any of the contents in this document, you should obtain independent professional advice.



(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the : 16,000,000 Shares (subject to the Over-

Global Offering allotment Option)

Number of Hong Kong Offer Shares : 1,600,000 Shares (subject to reallocation)

Number of International Offer Shares : 14,400,000 Shares (subject to

reallocation and the Over-allotment

Option)

Maximum Offer Price: HK\$220.00 per Offer Share plus

brokerage of 1%, SFC transaction levy

of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars,

subject to refund)

Nominal value: US\$0.0001 per Share

Stock code: 9899

Joint Sponsors, Joint Global Coordinators and Joint Bookrunners

(In alphabetical order)

BofA SECURITIES CICC CREDIT SUISSE

Other Joint Bookrunners

(In alphabetical order)

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

A copy of this document, having attached thereto the documents specified in "Documents delivered to the Registrar of Companies and available for inspection" in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or around Friday, 26 November 2021. If, for any reason, the Offer Price is not agreed by Wednesday, 1 December 2021, the Global Offering will not proceed and will lapse. The Offer Price will be no more than HK\$220.00 per Offer Share and is currently expected to be no less than HK\$190.00 per Offer Share unless otherwise announced.

The Joint Sponsors and the Joint Global Coordinators may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this document at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. See "Structure of the Global Offering" and "How to apply for Hong Kong Offer Shares" for further details.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination" for further details.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this document, including the risk factors set out in "Risk Factors."

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at http://ir.music.163.com. If you require a printed copy of this document, you may download and print from the website addresses above.

IMPORTANT

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the "HKEXnews > New Listings > New Listing Information" section, and our website at http://ir.music.163.com. If you require a printed copy of this document, you may download and print from the website addresses above.

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online through the White Form eIPO service at www.eipo.com.hk;
- (2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, both at +852 2862 8646 on the following dates and times:

```
Tuesday, 23 November 2021 — 9:00 a.m. to 9:00 p.m. Wednesday, 24 November 2021 — 9:00 a.m. to 9:00 p.m. Thursday, 25 November 2021 — 9:00 a.m. to 9:00 p.m. Friday, 26 November 2021 — 9:00 a.m. to 12:00 noon
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We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this document are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary**, **broker** or **agent**, please remind your customers, clients or principals, as applicable, that this document is available online at the website addresses above.

IMPORTANT

Please refer to "How to Apply for Hong Kong Offer Shares" for further details of the procedures through which you can apply for the Hong Kong Offer Shares electronically.

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 50 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

	No. of		No. of		No. of	
	Hong Kong		Hong Kong		Hong Kong	
Amount payable	Offer Shares	Amount payable	Offer Shares	Amount payable	Offer Shares	Amount payable
on application	applied for	on application	applied for	on application	applied for	on application
HK\$		HK\$		HK\$		HK\$
11,110.85	700	155,551.86	5,000	1,111,084.70	70,000	15,555,185.80
22,221.69	800	177,773.55	6,000	1,333,301.64	80,000	17,777,355.20
33,332.54	900	199,995.25	7,000	1,555,518.58	90,000	19,999,524.60
44,443.39	1,000	222,216.94	8,000	1,777,735.52	100,000	22,221,694.00
55,554.24	1,500	333,325.41	9,000	1,999,952.46	200,000	44,443,388.00
66,665.08	2,000	444,433.88	10,000	2,222,169.40	300,000	66,665,082.00
77,775.93	2,500	555,542.35	20,000	4,444,338.80	400,000	88,886,776.00
88,886.78	3,000	666,650.82	30,000	6,666,508.20	500,000	111,108,470.00
99,997.62	3,500	777,759.29	40,000	8,888,677.60	600,000	133,330,164.00
111,108.47	4,000	888,867.76	50,000	11,110,847.00	700,000	155,551,858.00
133,330.16	4,500	999,976.23	60,000	13,333,016.40	800,000(1	177,773,552.00
	on application HK\$ 11,110.85 22,221.69 33,332.54 44,443.39 55,554.24 66,665.08 77,775.93 88,886.78 99,997.62 111,108.47	Amount payable on application HK\$ 11,110.85 700 22,221.69 800 33,332.54 900 44,443.39 1,000 55,554.24 1,500 66,665.08 2,000 77,775.93 2,500 88,886.78 3,000 99,997.62 3,500 111,108.47 4,000	Amount payable on applicationHong Kong applied for hares applied forAmount payable on application11,110.85700155,551.8622,221.69800177,773.5533,332.54900199,995.2544,443.391,000222,216.9455,554.241,500333,325.4166,665.082,000444,433.8877,775.932,500555,542.3588,886.783,000666,650.8299,997.623,500777,759.29111,108.474,000888,867.76	Amount payable on application Offer Shares applied for point applied for application Amount payable on application Hong Kong Offer Shares applied for point applied for applied for 11,110.85 700 155,551.86 5,000 22,221.69 800 177,773.55 6,000 33,332.54 900 199,995.25 7,000 44,443.39 1,000 222,216.94 8,000 55,554.24 1,500 333,325.41 9,000 66,665.08 2,000 444,433.88 10,000 77,775.93 2,500 555,542.35 20,000 88,886.78 3,000 666,650.82 30,000 99,997.62 3,500 777,759.29 40,000 111,108.47 4,000 888,867.76 50,000	Amount payable on applicationHong Kong applied for payable on applicationHong Kong on applicationHong Kong on applied for payable on applicationHK\$Amount payable applied for point appli	Amount payable on application Hong Kong applied for payable on application Hong Kong on application Hong Kong on applied for applied for on application HK\$ Hong Kong Offer Shares applied for applied for on application HK\$ TO,000 1,111,084.70 70,000 70,000 1,233,3301.64 80,000 80,000 1,333,301.64 80,000 333,332.54 900 199,995.25 7,000 1,555,518.58 90,000 44,443.39 1,000 222,216.94 8,000 1,777,735.52 100,000 55,554.24 1,500 3333,325.41 9,000 1,999,952.46 200,000 66,665.08 2,000 444,433.88 10,000 2,222,169.40 300,000 77,775.93 2,500 555,542.35 20,000 4,444,338.80 400,000 88,886.78 3,000 666,650.82 30,000 6,666,508.20 500,000 11,110,847.00 700,000 111,108.47 4,000 888,8

⁽¹⁾ Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

EXPECTED TIMETABLE

If there is any change in the following expected timetable, we will issue an announcement on the respective websites of the Company at http://ir.music.163.com and the Hong Kong Stock Exchange at www.hkexnews.hk.

Date ⁽¹⁾
Hong Kong Public Offering commences
Latest time for completing electronic applications under White Form eIPO service through the designated website www.eipo.com.hk (2)
Application lists open ⁽³⁾
Latest time for (a) completing payment for White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (b) giving electronic application instructions to HKSCC ⁽⁴⁾
Friday, 26 November 2021
If you are instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.
Application lists close ⁽³⁾
Expected Price Determination Date ⁽⁵⁾ Friday, 26 November 2021
Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on our website at https://ir.music.163.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk on or before

EXPECTED TIMETABLE

The results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:

• in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at http://ir.music.163.com and www.hkexnews.hk , respectively
• from the designated results of allocations website at www.iporesults.com.hk (alternatively: English https://www.eipo.com.hk/en/Allotment ; Chinese https://www.eipo.com.hk/zh-hk/Allotment) with a "search by ID" function from 8:00 a.m. on Wednesday, 1 December 2021 to 12:00 midnight on Tuesday, 7 December 2021
• from the allocation results telephone enquiry by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on
Share certificates in respect of wholly or partially successful applications to be dispatched/collected or deposited into CCASS on or before ⁽⁷⁾⁽⁹⁾
White Form e-Refund payment instructions/refund cheques in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications to be dispatched/collected on or before (8)(9)
Dealings in the Shares on the Hong Kong Stock Exchange expected to commence

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 26 November 2021, the application lists will not open or close on that day. See "How to Apply for Hong Kong Offer Shares C. Effect of bad weather and Extreme Conditions on the opening and closing of the application lists" in this document.

EXPECTED TIMETABLE

- (4) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC via CCASS or instructing your broker or custodian to apply on your behalf via CCASS should refer to "How to Apply for Hong Kong Offer Shares Applying through CCASS EIPO service."
- (5) The Price Determination Date is expected to be on or around Friday, 26 November 2021 and, in any event, not later than Wednesday, 1 December 2021. If, for any reason, we do not agree with the Joint Global Coordinators (on behalf of the Underwriters) on the pricing of the Offer Shares by Wednesday, 1 December 2021, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this document.
- (7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in "Underwriting Underwriting arrangements and expenses Hong Kong Public Offering Grounds for termination" has not been exercised. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.
- e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.
- (9) Applicants who have applied on White Form eIPO for 100,000 or more Hong Kong Offer Shares may collect any refund cheques (where applicable) and/or Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 1 December 2021 or such other date as notified by us as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection may not authorise any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied for Hong Kong Offer Shares through **CCASS EIPO** service should refer to "How to Apply for Hong Kong Offer Shares — G. Despatch/collection of share certificates/e-refund payment instructions/refund cheques — Personal collection — If you apply through CCASS EIPO service" for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Share certificates and/or refund cheques for applicants who have applied for less than 100,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in "How to Apply for Hong Kong Offer Shares — F. Refund of application monies" and "How to Apply for Hong Kong Offer Shares — G. Despatch/collection of share certificates/e-refund payment instructions/refund cheques."

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, we will make an announcement as soon as practicable thereafter.

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IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This document is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this document pursuant to the Hong Kong Public Offering. This document may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstance. No action has been taken to permit a public offering of the Hong Kong Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document for purposes of a public offering and the offering and sale of the Hong Kong Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this document and the Green Application Form to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this document and the Green Application Form. We have not authorised anyone to provide you with information that is different from what is contained in this document and the Green Application Form. Any information or representations not contained or made in this document and the Green Application Form must not be relied on by you as having been authorised by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, any of the Underwriters, any of our or their respective directors, officers, employees, agents or representatives, or any other parties involved in the Global Offering.

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This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. Moreover, there are risks associated with any investment. Some of the particular risks of investing in the Offer Shares are set out in "Risk factors." You should read the entire document carefully before you decide to invest in the Offer Shares.

WHO WE ARE

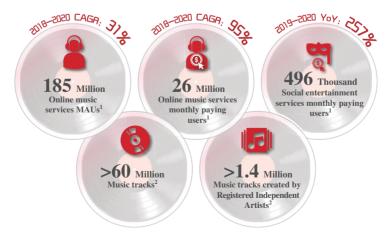
Today we are one of the leading online music platforms, featuring an interactive content community for music enthusiasts in terms of user scale and engagement. For example, in our comments section under each music track, users can share their appreciation and critiques of the music, as well as personal anecdotes, reminiscences and memories rekindled by the music. 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. Leveraging our iconic cornerstone product, 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.

We monetise our platform primarily through the sales of membership subscriptions for our online music services and sales of virtual items for our social entertainment services. To diversify our revenue streams, we have been actively developing other monetisation channels, such as the provisioning of advertising services, sales of digital albums and music-inspired services. See "Business — Our Monetisation Model" for more details on our platform's monetisation.

Our accomplishments in terms of user base, content reserve, brand appeal, technology and financial profile are illustrated in the below highlights.

Scale and rapid growth

We experienced rapid growth during the Track Record Period in terms of our user base and content reserve, which is illustrated by the following metrics:

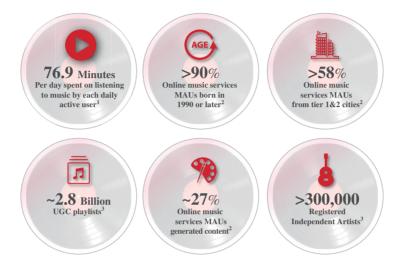


Notes:

- 1. For the six months ended 30 June 2021.
- 2. As of 30 June 2021.

Brand appeal

Our brand appeals to and resonates with the spirit of young, highly engaged music enthusiasts. The swarms of fans, artists, critics, opinion leaders and other forces in the music industry that our platform has rallied over the years have allowed us to provide compelling music experience to users in China, according to the CIC Report. Our brand appeal can be manifested by the following metrics:



Notes:

- 1. For the six months ended 30 June 2021.
- 2. In June 2021.
- 3. As of 30 June 2021.

Technological prowess

We ensure that we can deliver a satisfying music experience consistently at scale by continuously innovating and improving our platform and heavily investing in research and development. Our industry-leading AI and data analytics capabilities lay the foundation for our platform's personalised content recommendations, assisted content creation, interactive social functions and other powerful features that optimise user experience and realise the unique value of our diverse content.

HOW WE ARE DIFFERENT

Upholding our aspiration in the past eight years, we have opened new possibilities for the exploration and creation of music and music-inspired content, as well as social interactions surrounding them. We believe what sets us apart from our competition primarily includes the following factors:

• A young generation of music enthusiasts. According to the CIC Report, among all music platforms, we have the highest proportion of users who were born in 1990 or later, and our penetration rate among users who were born in 1990 or later is above the industry average. At the same time, we are the most popular online music platform in China among people who were born in 1990 or later, the rapidly growing age group that accounts for nearly 50% of the online music entertainment market, according to a survey conducted by CIC. Our deep understanding of the young demographic enables us to adapt to their

evolving tastes and preferences and to broaden their musical horizons. With their profound passion and curiosity for diverse music content, our young users constitute the fabric of our vibrant community, actively contributing new content and initiating interactions.

- A new breed of talented independent artists. With a large base of young music enthusiasts who tend to be more receptive to, and interested in, new voices, works and styles, we continuously attract emerging independent artists to join our platform to express their creative visions. We have systematically developed a comprehensive suite of instruments for independent artists to utilise in the key aspects of their career development. Having served over 300,000 Registered Independent Artists, we were the largest online incubator for independent artists in China as of 30 June 2021, according to the CIC Report. The music content contributed by Registered Independent Artists constituted over 47% of all music streams on our platform in June 2021.
- A lively community cultivated by innovations. We believe that music should be shared, enjoyed together and created by more people. Guided by this belief, we have innovated a number of product features to encourage user interactions and content creation, which, according to the CIC Report, have influenced the habits of many music platform users in China. When immersed in their favourite music and music-inspired content, our users can connect with others who share their passion for music and empathise with them contributing to our vigorous, engaging community culture.

OUR COMMUNITY

When we started to amass a stable, loyal user base in the earliest years of our development, our users came up with an endearing nickname for our community — the *cloud village*. The nickname has since become the sign of our iconic community. Our community's individual participants include an active base of music enthusiasts with diverse and evolving needs. The institutional participants consist of various valuable partners with whom we have formed synergetic business relationships in strengthening and broadening our community.

Individual participants

We offer our users a wide range of functions that facilitate them in playing various roles as they wish when participating in our community.

- A radio to explore your passion. We offer our users various tools to search, browse and discover music and music-inspired content. Throughout their musical exploration using these tools, we have accumulated a deep understanding of their personal preferences, tastes and habits in specific scenarios. Bearing testimony to our strong recommendation ability and positive user feedback, in June 2021, 3.0 out of every 10 music streams were attributable to our platform's recommendations.
- A space to share your feelings. To facilitate the dynamic and engaging interactions within our community, we offer a variety of channels for users to freely express themselves among their fellow music enthusiasts. For example, in our *comments section* under each music track, users can share their appreciation and critiques of the music, as well as personal anecdotes, reminiscences and memories rekindled by the music. The comments section has become a source of UGC and a symbol of our community spirit. In June 2021, over 48% of our listeners also browsed the comments section.

- A stage to showcase your talents. We enable our users to create a diverse array of music-inspired content on our platform at different participation levels as they please, from compiling playlists, posting comments, and producing podcasts and music videos to broadcasting live-streaming sessions and karaoke performances. In June 2021, approximately 27% of our MAUs of online music services had generated content on our platform, which bears attestation to our user engagement efforts and helps enrich our platform's content.
- An incubator to unleash your potential. We equip independent artists with our time-tested tools and services (for example, AI-based music creation tools and digital income settlement tools) to pursue their aspiration, from talent discovery and content creation to promotion and monetisation of their works. To support their production efforts, we offer AI-enabled creative assistance to locate suitable musical resources for their inspiration. Our multi-channel community features help independent artists reach more fans and interact with them in an efficient and engaging manner. Independent artists can generate income from their works in a variety of easily accessible, incentivising ways through our platform.

Institutional participants

Institutional participants play important roles in developing our *cloud village*, actively helping us in improving our user experience, enriching our content and commercialising our platform.

- Music labels. Music labels have helped us build a vast reservoir of music content for our users to enjoy and utilise as inspiration for creating music-inspired content. We have established long-term relationships with many leading music labels in China and around the world. Our large, active user base, on the other hand, provides music labels rewarding opportunities to capitalise on their content assets.
- Talent agencies. As major contributors of music-inspired content on our platform, talent agencies are our important partners in discovering, training and supporting live streaming performers. We seek to continuously strengthen our relationships with them to provide diverse, engaging content for our users and to help monetise our platform.
- Advertisers. Our platform has attracted many advertisers seeking to target the young user
 demographic on our platform. We strive to create more value for advertisers and users,
 believing that advertisements that are compatible with our community culture and
 relevant to our users can enhance our users' experience and increase returns for
 advertisers.

OUR CUSTOMERS AND SUPPLIERS

We have a broad base of customers, including advertisers, copyright licensees and paying users. Our top five customers, which are primarily media and internet companies, accounted for 37.4%, 21.9%, 14.6% and 15.6% of our total revenue for each of the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, and revenue from our largest customer accounted for 21.8%, 11.8%, 9.9% and 8.8% of our total revenue during each of these periods. See "Business — Customers" for more details.

Our suppliers primarily include copyright licensors, agencies of live streaming performers and providers of technology service, advertising agency service and other services. Our top five suppliers accounted for 56.6%, 48.1%, 28.8% and 21.9% of our cost of revenue respectively

for each of the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, and our cost of revenue from the largest supplier accounted for 36.8%, 27.6%, 14.4% and 7.7% of our total cost of revenue during each of these periods. See "Business — Suppliers" for more details.

BUSINESS SUSTAINABILITY

We have incurred gross losses, net losses and net operating cash outflow throughout the Track Record Period, as we have been focused on growing our user base via investing in our brand and high-quality content, rather than seeking immediate financial returns or profitability, in order to lay a solid foundation for long-term development. We are at a relatively early stage of our monetisation efforts. Our future profitability is uncertain and subject to various factors, including our ability to effectively monetise our product and service offerings and continuously grow revenues in a cost-effective way by improving our operational efficiency. Despite our continued increase in user base, we may continue to incur gross and net losses and net operating cash outflow in the foreseeable future, including for the year ending 31 December 2021, due to our continued investments in content, technologies, marketing initiatives as well as research and development. We expect to remain loss-making for the years ending 31 December 2021, 2022 and 2023. We expect to return to or become consolidated net asset position upon listing. However, we may turn to net liabilities position if our profitability further deteriorates after listing. If we fail to ramp up the scale of our operation and if we do not achieve our satisfactory future growths, we may have funding shortfall which may require us to raise funds further before reaching our adjusted net profit and/or net operating cash flow breakeven. See "Risk factors — We incurred gross and net losses and net operating cash outflow during the Track Record Period and may not be able to achieve or maintain profitability in the future."

We are focused on offering the right services to the users, which incurs higher expenses in the short-term but is crucial to lay a solid foundation for long-term success. We intend to achieve profitability primarily by further (i) growing our user base and deepening our user engagement; (ii) enhancing our monetisation capabilities by offering new features, products and services, including more music-inspired social entertainment functions and products, such as the Listening Together function and audio live streaming content to increase the paying ratio of our online music services and social entertainment services. We are also making efforts to increase our revenue from advertising services by offering more service options for advertisers, such as immersive marketing options in our classic Vinyl record setting and personalised playlist or music for a certain brand; (iii) enriching our music content offerings and managing related content costs; (iv) enriching our social entertainment content offerings and managing related costs; (v) increasing our operating leverage, and (vi) enhancing our technological capabilities. As demonstrated during the Track Record Period, the above measures have proven to be generally effective in improving our profitability. With our improving profitability, we also expect our operating cash flow to improve concurrently. That being said, due to the fast evolving business environment and competitive landscape, we are not able to predict when we will be able to start generating positive operating cash flow and profits and may continue to incur gross and net losses and net operating cash outflow in the foreseeable future.

Our Strong and Robust Historical Growth

Since we began offering our services in 2013, we continuously attract users with diversified music and music-inspired content, retain users with vibrant community and curate the right content to satisfy their consumption needs. We have built a highly engaged and loyal user base,

and our growing content ecosystem continues to satisfy our users' evolving needs, providing us with multiple levers and avenues for user-centric monetisation. We began cooperating with advertising agencies since 2017 to explore our advertising business and launched *vinyl VIP membership* since June 2018.

We witnessed strong and robust growth in our business operation and financial condition during the Track Record Period. Our revenues increased from RMB1.1 billion in 2018 to RMB2.3 billion in 2019 and further to RMB4.9 billion in 2020, and from RMB2.0 billion in the six months ended 30 June 2020 to RMB3.2 billion in the six months ended 30 June 2021, as both the online music services and social entertainment services and others demonstrated rapid growth.

- Online music services: Our MAUs of online music services increased significantly from 105.1 million in 2018 to 147.2 million in 2019, and further to 180.5 million in 2020, and up from 173.2 million in the six months ended 30 June 2020 to 184.5 million in the six months ended 30 June 2021. Our monthly paying users of online music services expanded from 4.2 million in 2018 to 8.6 million in 2019, and further to 16.0 million in 2020, and up from 13.0 million in the six months ended 30 June 2020 to 26.1 million in the six months ended 30 June 2021. Monthly ARPPU of online music services has been relatively stable at RMB8.9 in 2018, RMB9.3 in 2019 and RMB8.4 in 2020, and RMB9.3 and RMB6.8 in the six months ended 30 June 2020 and 2021, respectively. The growth in MAUs of online music services was primarily due to our continued efforts in improving user experience, innovating interactive features and enriching our content offerings. Consequently, our revenues from online music services grew from RMB1.0 billion in 2018 to RMB1.8 billion in 2019, and further to RMB2.6 billion in 2020, and up from RMB1.1 billion in the six months ended 30 June 2020 to RMB1.6 billion in the six months ended 30 June 2021.
- Social entertainment services and others: Our monthly paying users of social entertainment services expanded from 5.8 thousand in 2018 to 91.7 thousand in 2019, and further to 327.1 thousand in 2020, and up from 270.2 thousand in the six months ended 30 June 2020 to 496.4 thousand in the six months ended 30 June 2021. Our MAUs of social entertainment services have reached approximately 19.4 million in 2020, and 20.4 million and 19.1 million in the six months ended 30 June 2020 and 2021, respectively. Monthly ARPPU of social entertainment services increased from RMB477.6 in 2019 to RMB573.8 in 2020. For the six months ended 30 June 2020 and 2021, monthly ARPPU of social entertainment services was RMB551.9 and RMB526.5, respectively. Our social entertainment services' monthly paying users and monthly ARPPU experienced robust growth due to the rapid development of our live streaming services since its launch in the second half of 2018. Consequently, with immaterial revenue contribution in 2018, our revenue from social entertainment services and others grew from RMB0.5 billion in 2019 to RMB2.3 billion in 2020, and up from RMB0.9 billion in the six months ended 30 June 2021.

Our Growth Strategies and Path to Profitability

Through further improving user experience, enriching music and music-inspired content and cultivating our community culture, we believe that we are able to continue the growth in online music services MAUs and monthly paying users of online music services and social entertainment services and improve paying user conversion.

The large and growing user base of online music and entertainment platforms in China has created a flourishing market. The market size increased from RMB6.7 billion in 2016 to RMB41.4 billion in 2020 with a CAGR of 57.9%, and is expected to reach RMB167.0 billion

in 2025 with a CAGR of 32.2%, according to the CIC Report. We believe that our diverse content and highly engaged community represent ample opportunities for continued growth and user penetration. We believe our effective monetisation strategies based on our increasing MAU will benefit our financial performance. With the rapid growth of our MAU, we have demonstrated our success in monetisation by encouraging users to pay for online music and social entertainment services while maintaining robust user growth.

To better capture and capitalise on these opportunities, we have made a strategic decision to focus on growing our user base and user engagement via cultivating our *cloud village* community to pave the way for long-term profitability. We have invested in content licensing to enrich our content library, focusing on valuable content that could most effectively address our users' needs. We will also continue to develop our in-house content by matching artists, melodies, lyrics and other resources effectively in order to further enrich our content library. Our unique community culture, strong brand and leading market position have made us an attractive partner for music labels. We are committed to further strengthening our relationships with music labels, availing us of more favourable terms in music content sourcing.

To better cater to user needs against the backdrop of these trends, we also seek to continually encourage and empower independent artists to create more high-quality, diverse music content, which could, in turn, help us improve our cost structure with respect to music content sourcing. In addition, we incurred more revenue sharing costs paid to live streaming performers and other content partners, further strengthening the interactive atmosphere of our community and encouraging more users to share, interact, and create content.

Leveraging our deep understanding of users' interests and preferences from their engagement on our platform, we are well positioned to create more consumption scenarios around users' evolving demands. We believe it would naturally lead to larger user scale, greater user engagement, higher paying conversion from active users, an expanding paying user base, and increased average spending per user. As shown by some of our peers who benefit from their market positions with lower content cost and revenue sharing cost as percentage of revenue, we have confidence that with continuous growth of user base and revenue scale, we can further improve our bargaining power, hence better control costs and achieve profitability.

Working Capital Sufficiency

The Company believes that it possesses sufficient working capital, including sufficient cash and liquidity assets, supplemented by strong fund-raising capability to meet our present requirements and for the next 12 months from the date of this document, estimated based on our improving cash flow conditions during the Track Record Period. In addition, as evidenced by four rounds of historical fund-raising activities, the Company has a good track record in being able to raise money from renowned investors to finance its business. The Company believes that the Global Offering and other potential external financing sources will provide additional funding to its operation including the time until it achieves positive profitability and operating cash flow.

Round 1		Round 2	Round 3	Round 4	
Date of completion	17 Apr 2019	18 Sept 2018	21 Jan 2019	4 Dec 2019	
Total consideration	US\$132,121,625	US\$150,000,000	US\$476,000,000	US\$701,647,059	

OUR PLAN FOR NEXT STEPS

We plan to implement the following strategies in the next three years. In the longer term, we strive to continue to be a driving force behind improving quality, rising standards, evolving tastes and other positive changes in the music industry.

Relentlessly innovating our products and services

- Further developing our community
- Continuing to invest in technological capabilities
- Pursuing win-win collaboration with our partners
- Further diversifying our monetisation capabilities

OUR KEY ARRANGEMENTS WITH CUSTOMERS

We generate revenue primarily from online music services and social entertainment services. The following table sets forth our key arrangements with customers.

Monetisation models	Our customers		Key arrangements with customers
Online music services Membership services	Paying users	• 3	We offer both classic vinyl VIP memberships typically priced at RMB18 per month and basic music subscription packages typically priced at RMB8 per month. We also offer joint membership packages at a discount in cooperation with other platforms. Users may choose to purchase the membership for a fixed term or
Advertising services	Advertisers		automatic renewal. We offer advertising services in various formats, including brand advertising and performance-based advertising. We support a variety of pricing models, such as billing based on impressions and clicks. Payments are typically made periodically, such as quarterly or semi-annually. One of NetEase's subsidiaries, Beijing NetEase Media Co., Ltd., acts as our exclusive agent from 1 January 2020 to
Sales of digital albums and singles Sublicensing	Digital album and single purchasers Copyright licensees	• 0	31 December 2022. We sell digital music albums and singles on our platform typically priced at RMB2 to RMB25 per single or album. We charge either by minimum guarantee or revenue-sharing incentive royalties, or both. Payments are made upon each transaction.
		1	Our licensing agreements with copyright licensees are typically renewable by mutual agreement of both parties.
Social entertainment services Live streaming services	ces and others Virtual item purchasers	• (We generate revenue from live streaming services primarily from sales of virtual items, which are typically priced at RMB0.1 to RMB5,200 per item. Our virtual items, once purchased, cannot be converted into cash by our users and have to be consumed by them on our platform.

OUR KEY ARRANGEMENTS WITH CONTENT PARTNERS

We have adopted a number of methods to create, protect and expand our content library. The following table sets forth our key arrangements with content partners.

Our content partners	Key arrangements with content partners
Music labels and other institutional sources	 We pay music labels for licensed music content based or minimum guaranteed licensing fees and on performance-based licensing fees or both. Minimum guaranteed licensing fees are made upon each transaction. Performance-based licensing fees are made periodically, such as monthly. The licensing agreements between music labels or other institutional sources and us are currently either on an exclusive or non-exclusive basis. The agreements generally expire upon the end of their terms, unless terminated earlier in accordance with the relevant provisions under certain circumstances, such as a breach of contract which gives a right to terminate as stipulated therein.
Registered Independent Artists Live streaming performers and their agencies	 Whether we can sublicense what we source from music labels and other institutional sources will be determined in the relevant licensing agreements. We typically pay these artists performance-based licensing fees. We may also make prepayments or pay fixed fees to certain artists, depending on their popularity and performance. The licensing agreements between Registered Independent Artists and us are currently either on an exclusive or non-exclusive basis. The agreements generally expire upon the end of their terms, unless terminated earlier in accordance with the relevant provisions under certain circumstances, such as a breach of contract which gives a right to terminate as stipulated therein. Whether we can sublicense what we source from Registered Independent Artists will be determined in the relevant licensing agreements. Under our arrangements with live streaming performers and talent agencies, we allow them to have a percentage share of revenue from sales of virtual items that were presented to the corresponding live streaming performers. We have generally kept such revenue sharing ratio comparable to the range by industry players. We set qualitative and quantitative requirements for
	players.

RISK FACTORS

There are certain risks involved in our business and industries, our corporate structure, our business operations in China, investing in our Shares, the Listing and the Global Offering, many of which are beyond our control. For example, these risks include, among others, the following risks related to our business:

- We incurred gross and net losses and net operating cash outflow during the Track Record Period and may not be able to achieve or maintain profitability in the future.
- We operate in a rapidly evolving industry. If we fail to accurately predict and effectively cater to changing user preferences in terms of content and product offerings, we may fail to retain existing users and attract new users in sufficient numbers, and our business, results of operations and prospects may be materially and adversely affected.
- Our business generates and processes a large amount of data, and we are required to comply with laws and regulations in the PRC and other jurisdictions relating to data privacy and security. The improper use or disclosure of data could have a material and adverse effect on our business and prospects.
 - (1) the Personal Information Protection Law (《個人信息保護法》) (the "PIPL")
 - (2) the Data Security Law (《數據安全法》)
 - (3) the Opinions on Strictly Combating Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》) (the "6 July Opinion")
 - (4) the Cybersecurity Review Measures (Revision Draft for Comments) (網絡安全審查辦法(修訂草案徵求意見稿)) (the"**Draft Cybersecurity Review Measures**")
 - (5) the Measures for the Security Assessment of Data Cross-border Transfer (Draft for Comments) (《數據出境安全評估辦法(徵求意見稿)》)
 - (6) the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例 (徵求意見稿)》) (the "**Draft Data Security Regulations**")
- We face uncertainties with respect to the enactment, interpretation and implementation of Notice 78.
 - (1) Notice on Strengthening the Management of Online Show Live Broadcasting and E-commerce Live Broadcasting (《關於加強網絡秀場直播和電商直播管理的通知》) ("Notice 78")
- The approval of the CSRC or other PRC government authorities may be required in connection with this offering and our future capital raising activities under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.
 - (1) the 6 July Opinion

- We face uncertainties with respect to the interpretation and implementation of the Anti-monopoly Law and the Anti-Monopoly Guidelines for the Internet Platform Economy Sector.
 - (1) the Anti-Monopoly Committee of the State Council published the Anti-Monopoly Guidelines for the Internet Platform Economy Sector (《關於平台經濟領域的反壟斷指南》) (the "Guideline")
- China's internet, music, live streaming and online entertainment industries are highly regulated. Any lack of requisite approvals, licences, permits, registrations or filings applicable to our business operation or any changes in applicable laws, regulations or government policies may materially and adversely impact our business, prospects and results of operations.
 - (1) Notice 78;
 - (2) the Measures for the Administration of Online Performance Brokerage Agencies (網絡表演經紀機構管理辦法) ("Online Performance Brokerage Agencies Measures")
- We have devoted, and will continue to devote substantial efforts to monetising our user base. If we fail to effectively execute our monetisation strategies, our business prospects, financial condition and results of operations may be materially and adversely affected.
- We face intense competition for users, users' time and attention, content, talent, advertising customers and other resources. In China's online music services industry, Tencent Music Entertainment Group and us are the two online music platforms at scale in China, with 72.8% and 20.5% market share in terms of revenue in 2020, respectively. We face competition mainly from Tencent Music Entertainment and other music service providers in China. Please also refer to "Industry Landscape of Online Music Entertainment Market" for further information about the key operating metrics of online music entertainment market in China in 2020. We may not be able to increase or maintain our market share if we fail to compete effectively.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountant's Report set out in Appendix I to this document. The summary consolidated financial data set forth below should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this document, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

Selected Consolidated Income Statement Items

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 periods indicated:

	Year ended 31 December						Six Months ended 30 June			
	2018	2018 2019 2020			2020		2021			
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
							(unaudited)			
				(in thou	sands, except	for perce	ntages)			
Revenue	1,148,037 (2,465,255)	100.0 (214.7)	2,318,390 (3,375,104)	100.0 (145.6)	4,895,731 (5,491,066)	100.0 (112.2)	1,978,586 (2,375,100)	100.0 (120.0)	3,183,674 (3,196,530)	100.0 (100.4)
Gross loss	(1,317,218)	(114.7)	(1,056,714)	(45.6)	(595,335)	(12.2)	(396,514)	(20.0)	(12,856)	(0.4)
expenses	(127,867)	(11.1)	(223,410)	(9.6)	(327,323)	(6.7)	(90,550)	(4.6)	(154,925)	(4.9)
expenses	(34,323)	(3.0)	(55,373)	(2.4)	(96,909)	(2.0)	(44,625)	(2.3)	(130,261)	(4.1)
expenses	(265,978)	(23.2)	(363,200)	(15.7)	(576,457)	(11.8)	(247,158)	(12.5)	(420,313)	(13.2)
Other income	132	0.0	50,946	2.2	71,251	1.5	24,494	1.2	13,500	0.4
Other gains/(losses), net	21,174	1.8	8,398	0.4	(17)	(0.0)	11,898	0.6	3,540	0.1
Operating loss Share of results of investments accounted for	(1,724,080)	(150.2)	(1,639,353)	(70.7)	(1,524,790)	(31.2)	(742,455)	(37.5)	(701,315)	(22.0)
using equity method	(3,969)	(0.3)	(1,011)	(0.0)	(3,658)	(0.1)	(2,659)	(0.1)	(1,780)	(0.1)
Finance income	22,181	1.9	79,055	3.4	100,642	2.1	57,976	2.9	24,795	0.8
Finance cost	(123,060)	(10.7)	(28,814)	(1.2)	-	-	-	-	-	-
preferred shares Loss on buy-back of convertible redeemable	(175,284)	(15.3)	(423,499)	(18.3)	(1,361,581)	(27.8)	(180,110)	(9.1)	(3,128,668)	(98.3)
preferred shares					(160,500)	(3.3)	(160,500)	(8.1)		
Loss before income tax Income tax expenses	(2,004,212) (2,037)	(174.6) (0.2)	(2,013,622) (2,137)	(86.8)	(2,949,887) (1,576)	(60.3)	(1,027,748) (475)	(51.9)	(3,806,968) (2,179)	(119.6) (0.1)
Loss for the year/period attributable to the equity holders of the										
Company	(2,006,249)	(174.8)	(2,015,759)	(86.9)	(2,951,463)	(60.3)	(1,028,223)	(52.0)	(3,809,147)	(119.6)
Non-IFRS Measures: Adjusted net loss (unaudited) ⁽¹⁾	(1,813,745)	(158.0)	(1,580,283)	(68.2)	(1,567,989)	(32.0)	(837,787)	(42.3)	(532,976)	(16.7)

Note:

(1) Adjusted net profit/(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 profit/(loss) is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net profit/(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 "Summary — Reconciliation for Non-IFRS measures."

Reconciliation for Non-IFRS Measures

We believe that the presentation of non-IFRS measures 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 these non-IFRS measures 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 conditions as reported under IFRS. In addition, these non-IFRS financial measures 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 these non-IFRS measures 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 non-IFRS financial measures for the periods indicated to the nearest measures prepared in accordance with IFRS:

Six Months ended

	Year e	nded 31 Dece	mber	30 June		
	2018	2019	2020	2020	2021	
				(unaudited)		
		(in I				
Loss for the year attributable to the equity holders of						
the Company Equity-settled share-based	(2,006,249)	(2,015,759)	(2,951,463)	(1,028,223)	(3,809,147)	
payments ^(a)	17,220	11,977	21,893	10,326	147,503	
redeemable preferred shares (b)	175,284	423,499	1,361,581	180,110	3,128,668	
Non-IFRS measures: Adjusted net loss $(unaudited)^{(c)}$	(1,813,745)	(1,580,283)	(1,567,989)	(837,787)	(532,976)	

Note:

- (a) Equity-settled share-based payments mainly represent share-based compensation expenses incurred in connection with our Pre-IPO Share Incentive Plan. 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, and the adjustment has been consistently made during the Track Record Period.
- (b) Changes in fair value of convertible redeemable preferred shares represent fair value changes of the convertible redeemable preferred shares issued by our Company and relate to changes in the valuation of our Company. Changes in fair value of the convertible redeemable preferred shares are not directly related to our ability to generate revenue from our daily operations, and we do not expect to record any further changes in

fair value of the convertible redeemable preferred shares as such convertible redeemable preferred shares will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing. The reconciling item is non-cash and does not result in cash outflow.

(c) A non-IFRS measure.

Our revenues increased from RMB1.1 billion in 2018 to RMB2.3 billion in 2019 and further to RMB4.9 billion in 2020, and up from RMB2.0 billion in the six months ended 30 June 2020 to RMB3.2 billion in the six months ended 30 June 2021, as both the online music services and social entertainment services and others demonstrated rapid growth. Our negative gross margin significantly narrowed during the Track Record Period, from 114.7% in 2018 to 45.6% in 2019. and further to 12.2% in 2020, and decreased from 20.0% in the six months ended 30 June 2020 to 0.4% for the same period in 2021. We recognised fair value loss of convertible redeemable preferred shares of RMB175.3 million, RMB423.5 million, RMB1,361.6 million in 2018, 2019 and 2020 and RMB3,128.7 million in the six months ended 30 June 2021 which is due to the increases in the fair value liabilities of our convertible redeemable preferred shares mainly driven by the increases in the valuation of our Company. This led to the increases in our losses during the Track Record Period. Our convertible redeemable preferred shares will be re-designated and reclassified from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing. Changes in fair value of convertible redeemable preferred shares affect the Group's performance significantly during the Track Record Period and may continue to have adverse effect on the results of the Company when the valuation of the Company continue to increase until conversion into ordinary shares of the Company, after which we do not expect to recognise any further loss or gain on fair value changes from convertible redeemable preferred shares and will return to a net assets position.

Our net loss remained at RMB2.0 billion in both 2018 and 2019, and then increased to RMB3.0 billion in 2020, and further increased from RMB1.0 billion in the six months ended 30 June 2021 to RMB3.8 billion in the six months ended 30 June 2021. The increase in net loss is mainly a result of the increase of our revenue, offset with increase of selling and marketing expenses and increase of research and development expenses, as a result of the business expansion; and the increase of fair value loss of our convertible redeemable preferred shares, driven by the increases in the valuation of our Company. We had adjusted net loss (a non-IFRS measure) of RMB1.8 billion, RMB1.6 billion, RMB1.6 billion, RMB0.8 billion and RMB0.5 billion for 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively. See "Financial information" for more details on our operating results.

We incurred equity-settled share-based compensation payments of RMB17.2 million, RMB12.0 million, RMB21.9 million and RMB147.5 million in 2018, 2019, 2020 and the six months ended 30 June 2021. Some of our options granted under our Pre-IPO Share Incentive Plan are subject to the performance conditions of we completing an IPO. As a result, upon the completion of this offering, we expect to incur a substantial increase in equity-settled share-based compensation payments in connection with the completion of Listing.

The following table sets forth our revenues by business line in absolute amounts and as percentages of our total revenues for the periods indicated, respectively:

	Year ended 31 December					Six Months ended 30 June					
	2018		2019		2020		2020		2021		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	
							(unaudited)				
		(in thousands, except for percentages)									
Revenues:											
Online music services	1,026,168	89.4	1,776,970	76.6	2,622,685	53.6	1,073,826	54.3	1,604,325	50.4	
Social entertainment										10.6	
services and others	121,869	10.6	541,420	23.4	2,273,046	46.4	904,760	45.7	1,579,349	49.6	
Total revenues	1,148,037	100.0	2,318,390	100.0	4,895,731	100.0	1,978,586	100.0	3,183,674	100.0	

Online music services

The following table sets forth the components of our revenue from online music services in absolute amounts and as percentages of our revenues from online music services for the periods indicated, respectively:

	Year ended 31 December					Six Months ended 30 June				
	2018		2019		2020		2020		2021	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
							(unaudit	ed)		
	(in thousands, except for percentages)									
Online music services										
Membership										
subscription	447,129	43.6	965,923	54.4	1,603,934	61.2	725,444	67.6	1,064,600	66.4
Advertising services	290,744	28.3	414,401	23.3	465,880	17.8	186,293	17.3	270,723	16.9
Others	288,295	28.1	396,646	22.3	552,871	21.0	162,089	15.1	269,002	16.7
Total	1,026,168	100.0	1,776,970	100.0	2,622,685	100.0	1,073,826	100.0	1,604,325	100.0

- Our revenue grew rapidly during the Track Record Period, from RMB1.1 billion in 2018 to RMB2.3 billion in 2019, and further to RMB4.9 billion in 2020, and up from RMB2.0 billion in the six months ended 30 June 2020 to RMB3.2 billion in the six months ended 30 June 2021.
- Our negative gross margin significantly narrowed during the Track Record Period, from 114.7% in 2018 to 45.6% in 2019, and further to 12.2% in 2020 and from 20.0% in the six months ended 30 June 2020 to 0.4% in the six months ended 30 June 2021.
- Our net loss remained at RMB2.0 billion in both 2018 and 2019, and then increased to RMB3.0 billion in 2020. For the six months ended 30 June 2020 and 2021, our net loss increased from RMB1.0 billion to RMB3.8 billion.
- Adjusted net profit/(loss) is a non-IFRS measure. We had adjusted net loss of RMB1.8 billion, RMB1.6 billion, RMB1.6 billion, RMB0.8 billion and RMB0.5 billion in 2018, 2019 and 2020, and six months ended 30 June 2020 and 30 June 2021, respectively. For more details, see "Financial information Non-IFRS measures."

We strive to further diversify our monetisation channels and improve our financial profile. See "Financial information" for more details on our operating results.

Selected Consolidated Balance Sheets

	As	As of 30 June		
	2018	2019	2020	2021
		(in RMB	thousands)	
ASSETS Non-current assets				
Property, plant and equipment Right-of-use assets Investments accounted for using	25,669 -	23,709	20,802	20,621 388
equity method	26,401	73,531	88,580	86,800
Prepaid contents royalties Prepayments, deposits and other	550,645	652,860	894,758	597,391
assets	30,421	30,634	633 190,000	495
	633,136	780,734	1,194,773	705,695
Current assets				
Accounts receivables	300,420	373,898	254,375	463,646
Prepaid contents royalties Prepayments, deposits and other	1,081,418	1,184,462	1,362,001	1,276,849
receivables	208,753	262,676	280,133	310,086
companies	2,134,151	18,461	171,682	173,420
through profit or loss	162,759	338,742	971,315	52,840
Short-term bank deposits	2,892,839	5,166,923	816,917	3,622,897
Cash and cash equivalents	551,279	911,266	3,006,206	476,149
	7,331,619	8,256,428	6,862,629	6,375,887
Total assets	7,964,755	9,037,162	8,057,402	7,081,582
LIABILITIES				
Non-current liabilities				
Contract liabilities	10,470	8,136	29,105	37,851
shares	5,051,120	10,763,816	11,162,403	12,398,813
value through profit or loss	34,316	_	_	_
Lease liabilities				138
	5,095,906	10,771,952	11,191,508	12,436,802

As of

	As	As of 30 June		
	2018	2019	2020	2021
		(in RMB t	housands)	
Current liabilities				
Accounts payables	103,275 352,859 112,893	125,877 669,651 175,456	1,400 1,639,840 384,978	522 1,065,215 536,011
share	_	_	_	1,812,387
companies	3,198,920 523 —	239,117 618 	145,800 642 	153,765 548 250
	3,768,470	1,210,719	2,172,660	3,568,698
Total liabilities	8,864,376	11,982,671	13,364,168	16,005,500
Equity attributable to equity holders of the Company		77	70	70
Share capital Other reserves Accumulated losses	76 2,517,790 (3,417,487)	2,477,590 (5,423,176)	78 3,065,596 (8,372,440)	78 3,308,388 (12,232,384)
Total equity holders' deficits	(899,621)	(2,945,509)	(5,306,766)	(8,923,918)
Total equity and liabilities	7,964,755	9,037,162	8,057,402	7,081,582
Net current assets Net liabilities	3,563,149 (899,621)	7,045,709 (2,945,509)	4,689,969 (5,306,766)	2,807,189 (8,923,918)

We recorded net current assets of RMB3.6 billion, RMB7.0 billion, RMB4.7 billion, and RMB2.8 billion as of 31 December 2018, 2019, 2020, and 30 June 2021, respectively. Our net current assets were primarily attributable to prepaid current royalties, short-term bank deposits and cash and cash equivalents, partially offset by accounts payables, accruals and other payables and amounts due to NetEase Group. The net current assets fluctuate during the Track Record Period mainly because of the cash proceeds received from several rounds of preference shares issuance, partially offset by movement of balances with NetEase Group. For a detailed discussion of material changes in the various working capital items, see "Financial Information — Working Capital."

We had net liabilities of RMB0.9 billion, RMB2.9 billion, RMB5.3 billion and RMB8.9 billion, as of 31 December, 2018, 2019 and 2020 and 30 June 2021, respectively. The increase of net liabilities was primarily due to the operating loss incurred by us during the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 and the increase in the fair value liabilities of our convertible redeemable preferred shares mainly driven by the increases in the valuation of our Company.

All the convertible redeemable preferred shares which were accounted for as liabilities will be converted into ordinary shares of the Company immediately prior to the completion of the Listing, and such liabilities would be derecognised and accounted as an increase in equity upon the Listing. We expect that our net liabilities position will turn into net assets position upon the Listing.

Selected Consolidated Cash Flow Items

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

Civ Months anded

	Year ended 31 December		Six Months ended 30 June		
	2018	2019	2020	2020	2021
				(unaudited)	
		(in 1	RMB thousand	ls)	
Operating cash outflows before movement in working capital	(1,690,060)	(1,618,048)	(1,498,416)	(728,971)	(551,839)
Changes in working capital	(1,055,146)	(85,806)	530,510	(989)	(193,903)
Income taxes paid	(1,239)	(2,042)	(1,552)	(488)	(2,273)
Net cash used in operating activities	(2,746,445)	(1,705,896)	(969,458)	(730,448)	(748,015)
from investing activities Net cash generated from/(used in) financing activities	(3,130,149) 6,370,794	(2,440,046) 4,488,208	3,405,915 (320,948)	(320,948)	(1,721,241) (64,499)
Net increase/(decrease) in cash and cash equivalents Cash and cash equivalents at	494,200	342,266	2,115,509	(386,963)	(2,533,755)
the beginning of the year Exchange differences on cash	23,460	551,279	911,266	911,266	3,006,206
and cash equivalents	33,619	17,721	(20,569)	21,430	3,698
Cash and cash equivalents at the end of the year	551,279	911,266	3,006,206	545,733	476,149

We had net cash used in operating activities of RMB2.7 billion, RMB1.7 billion, RMB969.5 million, RMB730.4 million and RMB748.0 million for the years ended 31 December 2018, 2019 and 2020 and for the six months ended 30 June 2020 and 2021, respectively. The improvement in net cash used in operating activities is mainly were attributable to our business expansion. In particular, the cash inflow arising from the increase in revenue in our membership subscriptions and live streaming services outweigh the cash outflow arising from the increase in content service costs. We have invested in content acquisition to enrich our content library, focusing on valuable content that could most effectively address our users' needs. For more details, see "Financial information – Liquidity and capital resources – Net cash used in operating activities."

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated, respectively:

	Year ended 31 December			Six Months ended 30 June	
-	2018	2019	2020	2020	2021
Revenue growth (%) Negative gross margin ⁽¹⁾ (%)	N/A 114.7	101.9 45.6	111.2 12.2	N/A 20.0	60.9 0.4

Note:

Our negative gross margin narrowed from 114.7% in 2018 to 45.6% in 2019, then further to 12.2% in 2020, and our negative gross margin narrowed from 20.0% in the six months ended 30 June 2020 to 0.4% in the six months ended 30 June 2021. The negative gross margin narrowed down during the Track Record Period mainly due to (i) the expansion of our business operations scale and particularly the rapid growth of live streaming business, and (ii) the control of our cost of revenue.

KEY OPERATING DATA

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

	Year ended 31 December			Six Months ended 30 June	
	2018	2019	2020	2020	2021
MAUs of online music services (in millions) ⁽¹⁾	105.1	147.2	180.5	173.2	184.5

Note:

During the Track Record Period, our MAUs of online music services increased significantly, primarily as a result of our continued efforts in improving user experience, innovating interactive features and enriching our content offerings.

As the size and engagement level of our online music services' user base continued to grow, we strive to provide more music-inspired social entertainment services to them, which primarily include our live streaming services. We launched our live streaming services in the second half of 2018, which accounted for substantially all of the revenues of social entertainment services during the Track Record Period. Our vibrant community culture that encourages content creation, as well as our diverse content offerings in both audio- and video-based live streaming formats, contributed to the robust growth of our live streaming business. Our live streaming services business is in a relatively early stage, and we expect our revenues generated from it to increase in absolute amounts in the foreseeable future.

⁽¹⁾ Negative gross margin is calculated by dividing gross loss by our revenues.

⁽¹⁾ For the definition, see "Glossary of technical terms."

The following table sets forth our monthly paying users and monthly ARPPU during the Track Record Period.

	Year ended 31 December			Six Months ended 30 June	
-	2018	2019	2020	2020	2021
Monthly paying users ⁽¹⁾ (in thousands)					
Online music services Social entertainment	4,201.1	8,626.5	15,961.5	12,999.0	26,134.5
services	5.8	91.7	327.1	270.2	496.4
Online music services ⁽²⁾ Social entertainment	8.9	9.3	8.4	9.3	6.8
services ⁽³⁾	N.M.*	477.6	573.8	551.9	526.5

Notes:

- * Not meaningful as our social entertainment services commenced in the second half of the year.
- (1) For the definitions, see "Glossary of technical terms."
- (2) The revenues used to calculate the monthly ARPPU of online music services include revenues from membership subscriptions only, which amounted to RMB447.1 million, RMB965.9 million, RMB1,603.9 million, RMB725.4 million, and RMB1,064.6 million in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively.
- (3) The revenues used to calculate the monthly ARPPU of social entertainment services include revenues from social entertainment only, which amounted to RMB3.9 million, RMB525.6 million, RMB2,252.2 million, RMB894.7 million, and RMB1,568.2 million in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively.

Our monthly paying users of online music services significantly increased during the Track Record Period, primarily due to the enhanced product and content offerings of our membership services. Our social entertainment services' monthly paying users and monthly ARPPU experienced robust growth due to the rapid development of our live streaming services since its launch in the second half of 2018. To further cultivate our users' willingness to pay, we are committed to continually improving user experience, strengthening our product and content offerings and deepening user engagement.

COMPETITIVE LANDSCAPE

In China's online music services industry, we are one of two online music platforms at scale in China with the highest average paying ratio in 2020, featuring a highly interactive content community for music enthusiasts in terms of user scale and engagement, according to CIC Report. In addition, we are the most popular online music platform in China among people who were born in 1990 or later, the rapidly growing age group that accounts for nearly 50% of the online music entertainment market, according to a survey conducted by CIC. NetEase Cloud Music has attracted more than 300,000 Registered Independent Artists as of 30 June 2021, making it the largest online incubator for independent artists in China. In China, there are several social entertainment platforms that are built on audio or music-inspired live streaming content. According to the CIC Report, we are one of the largest music-inspired social entertainment services providers in China, with the highest monthly ARPPU in 2020.

The largest market player in the online music entertainment market in China had approximately 644 million average mobile monthly active users and 7.7% average paying ratios for online music services in 2020, according to the CIC Report. In addition, this market player had approximately RMB9.3 billion in revenue from online music services for 2020, according to the CIC Report. Companies have their own calculation methods for operating metrics such as average monthly active users and average paying ratios. As a result, the operating figures of such other market player may not be directly comparable to ours and are for your reference only. Although the Group, being a late market entrant relative to the largest market player, has achieved a user base of approximately 180.5 million online music services MAUs and 8.8% average paying ratio of online music services in 2020, and the second largest market share in terms of online music services revenue in 2020 in China with the approximately RMB2.6 billion in revenue from online music services, there is still a significant gap in scale between the Group and the largest market player. For more information on the comparison of key operating metrics and revenue between the Group and other market players, see "Industry."

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this document, save for the subsequent events as described in Note 35 to the Accountant's Report in Appendix I, the recent developments as described in "Summary — Recent developments" and risks as described in "Summary — Business Sustainability", there has been no material adverse change in our financial or trading position since 30 June 2021, being the end date of the periods reported in the Accountant's Report in Appendix I to this document, and there has been no event since 30 June 2021 that would materially affect the information as set out in the Accountant's Report in Appendix I to this document.

OFFERING STATISTICS

All statistics in the following table are based on the assumptions that (i) the Global Offering has been completed and 16,000,000 Offer Shares are issued pursuant to the Global Offering; and (ii) 207,756,876 Shares are issued and outstanding following the completion of the Global Offering.

	Based on an Offer Price of HK\$190.00 per Share	Based on an Offer Price of HK\$220.00 per Share
Market capitalisation of our Shares ⁽¹⁾ Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	HK\$39,474 million HK\$45.14 (RMB37.02)	HK\$45,707 million HK\$47.41 (RMB38.88)

Notes:

- (1) The calculation of market capitalisation is based on 207,756,876 Shares expected to be in issue immediately upon completion of the Global Offering (assuming the Presumptions).
- (2) The unaudited pro forma adjusted net tangible asset per Share as of 30 June 2021 is calculated after making the adjustments referred to in Appendix II and on the basis that 207,756,876 Shares are in issue assuming that the Global Offering and the conversion of the Preferred Shares to Class A Ordinary Shares had been completed on 30 June 2021.

For the calculation of the unaudited pro forma adjusted net tangible asset value per Share attributed to our Shareholders, see "Unaudited Pro Forma Financial Information" in Appendix II

LISTING EXPENSE

Based on the mid-point Offer Price of HK\$205.00, the total estimated listing expenses in relation to the Global Offering is up to approximately RMB128 million, assuming the Over-allotment Option is not exercised. The total estimated listing expenses will represent approximately 4.8% of the total gross proceeds from the Global Offering of approximately HK\$3,280.0 million. Out of the total listing expenses, we estimate RMB79 million will be charged to our consolidated statement of profit or loss for the year ending 31 December 2021. The remaining balance of approximately RMB49 million, which mainly includes underwriting commission, is expected to be accounted for as a deduction from equity upon the completion of the Global Offering. These listing expenses mainly comprise professional fees paid and payable to the professional parties for their services rendered in relation to the Listing and the Global Offering which are non-underwriting related expenses, including fees for legal advisers, Reporting Accountant and internal control consultant of RMB67 million, and other nonunderwriting-related fees of RMB20 million, as well as the underwriting commission (including SFC transaction levy and Stock Exchange trading fee) of up to RMB41 million. payable to the Underwriters in connection with the offering of Offer Shares under the Global Offering.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$3,124 million after deducting estimated underwriting fees and the estimated offering expenses payable by us and based upon mid-point of the Offer Price Range of HK\$205.00 per Offer Share for the Global Offering, and assuming that the Over-allotment Option is not exercised, or HK\$3,608 million if the Over-allotment Option is exercised in full. We plan to use the net proceeds we will receive from the Global Offering for the following purposes:

- Approximately 40% of the net proceeds, or approximately HK\$1,250 million, is expected to be used for continuingly cultivating our community. We will continue investing in music and music-inspired content to expand the music content library, and enrich vertical music content offerings, especially in new and innovative genres, in order to provide diverse content choices and satisfy the evolving needs of young users; continue discovering and engaging independent artists through our platform and various initiatives and supporting the creation, promotion and monetisation of their music content leveraging our multi-channel community features, user feedback and technology capabilities, so as to further enrich and diversify our content and meeting evolving user needs and preference; continue refining our social interactive features, implementing our support projects and strengthening the vibrant culture of our community in order to encourage and incentivise our users to interact with each other and create content; and continue promoting our brand to increase its popularity and influence among users, especially among young users. We expect to use such portion of the net proceeds for the purposes described above in the next 36 to 60 months.
- Approximately 40% of the net proceeds, or approximately HK\$1,250 million, is expected to be used for continuingly innovating and improving technological capabilities. We will continue attracting, retaining and incentivising our research and development talents, especially data scientists, artificial intelligence experts, software engineers and other research and development personnel in order to support our research and development initiatives, product innovation, including, but not limited to, improving music and live streaming technologies to further enhance the performance of our apps and refining our product features and functions to further enhance user engagement; continue investing in artificial intelligence, machine learning and data analysis-related research

and development initiatives to strengthen our technological capabilities, improve our understanding of users' needs and preferences, optimise our personalised content recommendations and further develop tools to assist the creative endeavours of independent artists and users; continue innovating to improve and upgrade our music and social entertainment products and services, providing a more immersive and liberating user experience that meets the ever increasing needs of users and improves user stickiness; and continue upgrading and scaling up our IT infrastructure, including data centres and bandwidth, to support our growing user base as well as product and content offerings. We expect to use such portion of the net proceeds for the purposes described above in the next 24 to 36 months.

- Approximately 10% of the net proceeds, or approximately HK\$312 million, is expected to be used for 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. We believe such acquisitions and investments would be complementary to our business and are in line with our growth strategies. In particular, in order to strengthen our technological position, attract more users to the platform, cultivate and help Registered Independent Artists with content creation, we will seek out potential businesses and assets that are synergistic with our current businesses.
- Approximately 10% of the net proceeds, or approximately HK\$312 million, is expected to be used for working capital and general corporate purposes.

See "Future plans and use of proceeds" for further details.

OUR CONTROLLING SHAREHOLDER

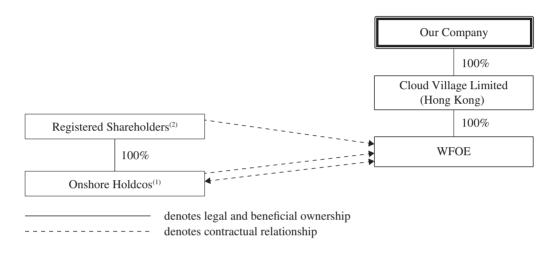
As at the Latest Practicable Date, NetEase, our parent company, is the only shareholder that directly controls more than 30% of the voting rights in our Company through beneficially owned Shares and 62.46% of the total issued share capital of our Company. No single shareholder has statutory control over NetEase, which is a public company whose ADSs are listed on the Nasdaq (Nasdaq: NTES) and shares are secondary listed on the Stock Exchange (SEHK: 9999). Accordingly, our Company will remain a subsidiary of NetEase, and NetEase will be our Controlling Shareholder after the Listing. See "Relationship with our Controlling Shareholder" for more information.

On 31 March 2021, NetEase was granted an Anti-dilution Right by our Company. As at the Latest Practicable Date, NetEase intends to exercise its Anti-dilution Right up to a maximum of US\$200 million, acquiring up to 7,602,000 new Shares at the Offer Price under the Global Offering (based on the mid-point of the Offer Price range), which represents 47.51% of the total Offer Shares (not including the exercise of the Over-allotment Option) and would take NetEase's aggregate shareholding to 61.31% immediately after the Global Offering (assuming the Presumptions, other than the exercise of the Anti-dilution Right). See "History – Pre-IPO Investment – Rights of Pre-IPO Investors" for more information on the effects of the Anti-dilution Right on NetEase's shareholding and voting percentages in the Company.

CONTRACTUAL ARRANGEMENTS

We operate in industries that are subject to restrictions under current PRC laws and regulations. In order to comply with these laws, we control our Onshore Holdcos through the Contractual Arrangements. Through the Contractual Arrangements, we have effective control over the financial and operational matters of the Onshore Holdcos and are entitled to all the economic benefits derived from the Consolidate Affiliated Entity's operations. See "Contractual Arrangements."

The following simplified diagram illustrates the flow of economic benefits from our Onshore Holdcos to our Group under the Contractual Arrangements:



Notes:

- (1) The Onshore Holdcos are Hangzhou Yuedu and Hangzhou Rege. The industries in which we operate and that are subject to foreign investment restrictions are radio and television programme production, commercial internet cultural activities, and value-added telecommunication services.
- (2) The Registered Shareholders of Hangzhou Yuedu are Mr. Ding as to 99% and Mr. Yiwen Zhu as to 1%. The Registered Shareholder of Hangzhou Rege is Mr. Yong Peng as to 100%.

SPIN-OFF

Having considered, among other things, that our business has grown to a sufficient size that justifies a separate listing on the Stock Exchange and the current market conditions in respect of the online music entertainment industry, our parent, NetEase, submitted a spin-off proposal to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules. The Stock Exchange has confirmed that NetEase may proceed with the Spin-off as proposed. We will comply with the requirements under Practice Note 15 and other applicable requirements of the Listing Rules regarding the Spin-off, save with respect to paragraph 3(f) of Practice Note 15, in respect of which NetEase has applied for, and the Stock Exchange has granted, a waiver from the requirement for us to provide existing NetEase shareholders an assured entitlement to apply for Shares under the Global Offering. See "History — Spin-off" for further information on the Spin-off.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including Shares that may be issued pursuant to the exercise of the Over-allotment Option or acquired pursuant to the Anti-dilution Right) and which may be issued pursuant to the Pre-IPO Share Incentive Plan.

GLOBAL OFFERING

This document is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 1,600,000 Offer Shares (subject to reallocation) in Hong Kong as described in "Structure of the Global Offering The Hong Kong Public Offering"; and
- (ii) the International Offering of initially 14,400,000 Offer Shares (subject to reallocation and the Over-allotment Option) (a) in the United States to QIBs in reliance on Rule 144A or another available exemption, and (b) outside the United States in reliance on Regulation S (including to professional and institutional investors in Hong Kong).

The Offer Shares will represent approximately 7.70% of the issued share capital of our Company immediately following completion of the Global Offering, assuming the Presumptions.

DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. Any future decision to declare and pay any dividends, including interim dividends, will be at the discretion of our Board and will depend on, among other things, the availability of dividends received from our subsidiaries, our earnings, capital and investment requirements, level of indebtedness, and other factors that our Board deems relevant. Our Company does not have a fixed dividend payout ratio. We currently intend to retain most, if not all, of the available funds and any future earnings to operate and expand its business. As advised by our Cayman Islands counsel, under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profits or share premium account. Even if there is an accumulated loss, a dividend may be paid out of the share premium account, provided that the Memorandum and Articles of Association do not prohibit such payment. In no circumstances may a dividend be declared or paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. However, investors should not purchase our Shares with the expectation of receiving cash dividends.

RECENT DEVELOPMENTS

Key Operating Data

The following table sets forth our monthly paying users and monthly ARPPU for the periods indicated:

_	Nine Months ended 30 September		
_	2020	2021	
Monthly paying users ⁽¹⁾ (in thousands)			
Online music services	14,241.6	27,521.4	
Social entertainment services	303.0	583.7	
Monthly ARPPU ⁽¹⁾ (RMB)			
Online music services ⁽²⁾	9.0	6.8	
Social entertainment services ⁽³⁾	552.3	504.1	

Notes:

- (2) The revenues used to calculate the monthly ARPPU of online music services include revenues from membership subscriptions only, which amounted to RMB1.2 billion and RMB1.7 billion in the nine months ended 30 September 2020 and 2021, respectively.
- (3) The revenues used to calculate the monthly ARPPU of social entertainment services include revenues from social entertainment only, which amounted to RMB1.5 billion and RMB2.6 billion in the nine months ended 30 September 2020 and 2021, respectively.

Unaudited Financial Information for the Nine Months Ended 30 September 2021

Based on our unaudited management accounts, our total revenues for the nine months ended 30 September 2021 were RMB5.1 billion. Our gross profit was RMB19.6 million, representing a gross margin of 0.4%, for the nine months ended 30 September 2021. Our operating loss was RMB1.1 billion for the nine months ended 30 September 2021.

⁽¹⁾ For the definitions, see "Glossary of technical terms."

During the nine months ended 30 September 2020 and 2021, we generated revenues from online music services and social entertainment services and others. The following table sets forth our revenues by business line in absolute amounts and as percentages of our revenues for the periods indicated, respectively:

	Period Ended 30 September,			
	2020		2021	
	RMB	%	RMB	%
	(unaudited)			
	(in thousands, except for percentages)			
Total Revenues	3,371,222 1,851,299	100.0 54.9	5,108,357 2,435,566	100.0 47.7
and others	1,519,923 (3,858,569)	45.1 (114.5)	2,672,791 (5,088,767)	52.3 (99.6)
Gross (Loss)/Profit	(487,347)	(14.5)	19,590	0.4

Our revenues from online music services primarily consist of the sales of membership subscriptions in various content and service packages. Our revenues from social entertainment services and others are primarily derived from sales of virtual items. Our revenue increased significantly from RMB3.4 billion in the nine months ended 30 September 2020 to RMB5.1 billion in the nine months ended 30 September 2021 primarily because our user base increased constantly, and our revenues from social entertainment services and membership subscriptions increased significantly. Our MAUs of online music services increased from 179.6 million in the nine months ended 30 September 2020 to 184.2 million in the nine months ended 30 September 2021. Our MAUs of social entertainment services increased from 20.0 million in the nine months ended 30 September 2021.

Our cost of revenues primarily consists of content service costs, which include (1) content licensing fees paid to music labels, independent artists and other copyright partners and (2) revenue sharing fees paid to live streaming performers and their agencies, and other costs. Our cost of revenues increased from RMB3.9 billion in the nine months ended 30 September 2020 to RMB5.1 billion in the nine months ended 30 September 2021 primarily because revenue sharing fees increased along with the revenue increase from social entertainment services, and the content licensing fees slightly increased.

We incurred gross loss of RMB487.3 million representing negative gross margin of 14.5% and received gross profit of RMB19.6 million representing gross profit margin of 0.4% in the nine months ended 30 September 2020 and 2021, respectively. Our gross margin turned from negative to positive as a result of our significant revenue increase and control over content licensing fees. Our equity-settled share-based compensation payments may affect the net profit or loss for the year ending 31 December 2021.

The foregoing unaudited financial information for the nine months ended 30 September 2021 is derived from our unaudited interim consolidated financial information for the nine months ended 30 September 2021. We are responsible for the preparation of our unaudited interim consolidated financial information for the nine months ended 30 September 2021 in accordance with International Accounting Standard 34 "Interim Financial Reporting." Our unaudited interim consolidated financial information for the nine months ended 30 September 2021 has been reviewed by our Reporting Accountant in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

Recent Regulatory Developments

On 24 July 2021, the SAMR issued an Administrative Penalty Decision against a Chinese internet giant, or the Decision. Pursuant to the Decision, SAMR imposed a fine of RMB500,000 on the internet giant for not applying for the centralised anti-monopoly review relating to its acquisition of a music company, and required the internet giant and its affiliated music company to implement a rectification plan to, among other things, terminate its exclusive music copyright licensing agreements within 30 days from the date of the Decision.

The Decision encourages an open, fair and healthy industry environment based on open licensing and reasonable copyright fees. Music services and user experience, compared to copyright resources, will be increasingly important for industry players. Our diverse offerings of music and music-inspired products and services will give us competitive advantages in future industry competition. Since the affiliated music company of the internet giant was required to terminate its exclusive music copyright licensing agreements, we have been negotiating cooperation with a number of music labels. Recently, we announced our new strategic cooperation with Modern Sky, one of the major original music record companies in China, and obtained the full music copyright authorisation from them and our cooperation with Emperor Entertainment Group, one of the largest entertainment groups in Hong Kong.

In November 2020, the NRTA promulgated Notice 78, which sets forth registration requirements for platforms providing online show live broadcasting or e-commerce live broadcasting as well as requirements for certain live broadcasting businesses with respect to real-name registration, limits on user spending on virtual gifting, prohibitions on minors on virtual gifting, live broadcasting review personnel requirements, content tagging requirements and other requirements. According to Guiding Opinions on Strengthening the Standardised Management of Network Live Broadcasting (《關於加強網絡直播規範管理工作的指導意 見》) issued on 9 February 2021, live streaming platforms that carry out network audio-visual programme services must hold the AVSP (or complete the registration in the national network audio-visual platform information registration management system) and carry out ICP filing. During the Track Record Period, we generated a portion of our revenues from live broadcasting. The application for registration of our platforms, including NetEase Cloud Music (Ge Fang), Sheng Bo, LOOK Live Streaming, has been submitted to the national network audio-visual platform information registration management system, and is currently under review. We are still in the process of obtaining further guidance from regulatory authorities and evaluating the applicability and effect of the various requirements under Notice 78 on our business.

On 30 August 2021, the MCT published the Online Performance Brokerage Agencies Measures, which provides that the online performance brokerage agencies should not induce users to consume by means of false consumption, taking the lead in virtual gifting, etc., or to promote their online performers by encouraging virtual gifting with rankings and fake advertising. However, the Online Performance Brokerage Agencies Measures is relatively new, and the interpretation and enforcement of which involve uncertainties.

On 1 June 2021, the Law of the PRC on the Protection of Minors (2020 Revision) (《未成年人保護法(2020修訂)》) took effect, which provides that, among others, live broadcasting service providers are not allowed to provide minors under age 16 with an online live broadcasting publisher account registration service, and must obtain the consent from parents or guardians and verify the identity of the minors before allowing minors aged 16 or above to register live broadcasting publisher accounts. As of the date of this document, we have not been subject to any penalties in connection with protection of minors.

On 7 February 2021, the Anti-Monopoly Committee of the State Council published the Guideline, which became effective on the same day, aiming to enhance anti-monopoly administration of businesses that operate under the platform model and the overall platform economy. The Guideline specifies some circumstances under which an activity of an internet platform may be identified as monopolistic and sets out merger control filing procedures involving variable interest entities. As of the date of this document, we have not been subject to any penalties in connection with anti-monopoly.

On 6 July 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the 6 July Opinion, which called for the enhanced administration and supervision of overseas-listed China-based companies, proposed to revise the relevant regulation governing the overseas issuance and listing of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities. Furthermore, along with the promulgation of the 6 July Opinion, overseas-listed China-based companies (中概股公司) are experiencing a heightened scrutiny over their compliance with laws and regulations regarding data security, cross-border data flow and management of confidential information from PRC regulatory authorities. Such laws and regulations are expected to undergo further changes, which may require increased information security responsibilities and stronger cross-border information management mechanism and process. As of the date of this document, we have not received any inquiry, notice, warning, or sanctions regarding this offering from the CSRC or any other PRC government authorities in such respect.

On 10 July 2021, the CAC has publicly solicited opinions on the Draft Cybersecurity Review Measures, which stipulates that operators of critical information infrastructure purchasing network products and services, and data processors (together with the operators of critical information infrastructure, the "Operators") carrying out data processing activities that affect or may affect national security, shall conduct cyber security review. According to the Draft Cybersecurity Review Measures, an Operator who controls more than 1 million users' personal information must report to the cyber security review office for a cyber security review if it intends to be listed abroad (國外上市). However, the Draft Cybersecurity Review Measures provides no further explanation or interpretation for "listed abroad." As of the Latest Practicable Date, the Draft Cybersecurity Review Measures has not been formally adopted. Under the current PRC cybersecurity laws, critical information infrastructure operators that intend to purchase internet products and services that may affect national security must be subject to the cybersecurity review. As advised by our PRC Legal Adviser, the exact scope of "critical information infrastructure operators" under the Draft Cybersecurity Review Measures and the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws. As of the date of this document, we have not been involved in any investigations on cybersecurity review made by the CAC on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect.

On 20 August 2021, the SCNPC promulgated the PIPL, which took effect on 1 November 2021. The PIPL further accentuates the importance of processors' obligations and responsibilities for personal information protection and sets out the basic rules for processing personal information and the rules for cross-border transfer of personal information.

Pursuant to the PIPL, a personal information processor is allowed to process (including collection, storage, usage, transmission, provision, disclosure, deletion, etc.) personal information only under certain circumstances, such as processing with consent from such individual, or for necessity of performance of a contract to which such individual is a contracting party or statutory duties, management of human resource under the labour rules and regulations developed in accordance with the law or a collective contract signed in accordance with the law, protection of public interest, or reasonable usage of legally disclosed information, etc. Processing of sensitive personal information, such as the personal information that is likely to result in damage to personal dignity, personal or property safety once illegally disclosed, as well as the personal information of minors under the age of 14, is subject to higher regulatory requirements including specific purpose, sufficient necessity, duty of explanation to such individuals and consent from a parent or a guardian of minors.

Furthermore, any cross-border transfer of personal information is subject to the principle of necessity, as well as the satisfaction of at least one of the following conditions: (i) a security assessment organised by the national cyberspace administration has been passed; (ii) certification of personal information protection from a professional institution in accordance with the provisions issued by the national cyberspace administration has been passed; (iii) a standard contract formulated by the national cyberspace administration with the overseas recipient has been entered into; or (iv) any other condition prescribed by laws, administrative regulations or any other requirements by the national cyberspace administration.

Critical information infrastructure operators and personal information processors who have processed personal information which surpassed the threshold prescribed by the national cyberspace administration, must store in the territory of the PRC the personal information collected or generated within the territory of the PRC. If it is necessary to provide such information to an overseas recipient, a security assessment organised by the national cyberspace administration must be passed. As of the date of this document, we have not been subject to any penalties in connection with protection of personal information.

On 14 November 2021, the CAC publicly solicited opinions on the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) ("**Draft Data Security Regulations**"). According to the Draft Data Security Regulations, data processors shall, in accordance with relevant state provisions, apply for cyber security review when carrying out the following activities:(1) the merger, reorganization or separation of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests, which affects or may affect national security; (2) data processors that handle the personal information of more than one million people intends to be listed abroad; (3) the data processor intends to be listed in Hong Kong, which affects or may affect national security; (4) other data processing activities that affect or may affect national security. However, the Draft Data Security Regulations provides no further explanation or interpretation for "affects or may affect national security." As advised by our PRC Legal Adviser, the PRC government authorities may have wide discretion in the interpretation of "affects or may affect national security."

In addition, the Draft Data Security Regulations also regulate other specific requirements in respect of the data processing activities conducted by data processors through internet in the view of personal data protection, important data safety, data cross-broader safety management and obligations of internet platform operators. For example, in one of the following situations, data processors shall delete or anonymise personal information within fifteen business days: (1) the purpose of processing personal information has been achieved or the purpose of processing is no longer needed; (2) the storage term agreed with the users or specified in the personal information processing rules has expired; (3) the service has been terminated or the account has been cancelled by the individual; and (4) unnecessary personal information or personal information without the consent of the individual, which was collected inevitably due to the use of automatic data collection technology. For the processing of important data,

specific requirements shall be complied with, for example, processors of important data shall specify the responsible person of data safety, establish a data safety management department and file to the cyberspace administration at the districted city level within fifteen business days after the identification of their important data.

Data processors that process personal information of more than one million people shall also comply with the provisions on important data safety of the Draft Data Security Regulations for important data processors. The processors of important data or data processors who are listed overseas shall carry out data security assessments by themselves or by entrusting data security service agencies every year, and submit the previous year's data security assessment report to the cyberspace administration at the districted city level before 31 January of each year. When providing overseas data collected and generated within the territory of PRC, if such data includes important data, or if the data processor is a critical information infrastructure operator or processes personal information of more than one million people, the data processors shall go through the security assessment of data cross-border transfer organized by the national cyberspace administration.

Since the Draft Data Security Regulations has been published quite recently and some of the requirements in the Draft Data Security Regulations are subject to more specific explicit provisions or implementation standards, we are still in the process of evaluating the applicability of the various requirements under the Draft Data Security Regulations on our business. Based on the facts that the Draft Data Security Regulations has not been formally adopted and is subject to further guidance, and the Group has not been involved in any investigations on cyber security review made by the CAC on such basis and not received any inquiry, notice, warning, or sanctions in such respect, after consulting with the PRC Legal Advisers, the Directors are of the view that such regulation does not have material adverse impacts on the Group's business operations and financial performance as of the date of this document, and will not affect the Company's compliance with laws and regulations in any material aspects as of the date of this document. However, our Directors and PRC Legal Adviser cannot preclude the possibility that new rules or regulations promulgated in the future will impose additional compliance requirements on the Group.

We and our PRC Legal Adviser are of the view that, assuming the Draft Cybersecurity Review Measures and the Draft Data Security Regulations become effective in their current forms in the future, subject to further implementation details, guidance or clarification of the Draft Cybersecurity Review Measures and the Draft Data Security Regulations, they will not have a material adverse effect on our compliance with laws and regulations in any material aspects as of the date of this document, or the Listing, on the basis that (i) as disclosed in "Business - DATA SECURITY", we have implemented comprehensive measures to ensure secured storage and transmission of data and prevent any unauthorised access or use of data; (ii) as of the date of this document, we had not been subject to material fines or administrative penalties imposed by any government authorities in relation to infringement of data security laws and regulations; (iii) as of the date of this document, there is no material leakage of data or personal information or violation of data protection and privacy laws and regulations by us which will have a material adverse impact on our business operations; (iv) we have already been taking measures to prepare for compliance with the requirements in the Draft Data Security Regulations; and (v) we will continue to monitor the developments of data security regulations in the PRC. Should the Draft Cybersecurity Review Measures and the Draft Data Security Regulations become effective, we will seek guidance from the relevant regulator to ensure our measures adopted are appropriate. However, the PRC Legal Adviser of the Company cannot preclude the possibility that new rules or regulations promulgated in the future will impose additional compliance requirements on the Group.

Based on the facts that the Notice 78, 6 July Opinion and the Online Performance Brokerage Agencies Measures are subject to further guidance, the Draft Cybersecurity Review Measures has not been formally adopted, and we have not been subject to any penalties in connection with minor protection, monopoly or personal information protection, the Directors and our PRC Legal Adviser are of the view that the above changes in laws and regulations will not affect the Group's compliance with laws and regulations in any material aspects as of the date of this document. However, our Directors and PRC Legal Adviser cannot preclude the possibility that new rules or regulations promulgated in the future will impose additional compliance requirements on the Group.

Based on the facts and analysis mentioned above and having considered the due diligence conducted by the Joint Sponsors below, nothing has come to the attention of the Joint Sponsors that would cause them to cast doubt on the reasonableness of the Directors' and the PRC Legal Adviser's views that the above changes in laws and regulations, including the above changes in laws and regulations issued since July 2021, will not affect the Group's compliance with laws and regulations in any material aspects as of the date of this document. Such due diligence works included but were not limited to: (i) discussing with the management of the Company to understand, among others, the cybersecurity and data privacy control of the Company and imminent impact on the business of the Company caused by the current applicable PRC laws and the recent regulatory developments on cybersecurity; (ii) reviewing relevant supporting documents, and (iii) discussing with the PRC Legal Adviser and the Joint Sponsors' PRC legal adviser on, among other things, the potential impact and latest status of the aforementioned recent regulatory developments.

During the Track Record Period, we had certain non-compliance incidents with respect to (i) the Permit for Dissemination of Audio-Visual Programme via Information Network and related registrations; (ii) Internet Publishing Service Licence and (iii) administrative penalties relating to certain content on our platform. For details, see "Business — Non-compliance" and "Business — Quality Control and Content Moderation." Our PRC Legal Adviser is of the view that except as disclosed thereunder in this document, we had complied with the relevant PRC laws and regulations in all material respects during the Track Record Period.

IMPACT OF COVID-19 ON OUR OPERATIONS

The COVID-19 pandemic has severely affected China and the rest of the world.

We took a series of measures in response to the outbreak to protect our employees, including, among others, temporary closure of our offices, remote working arrangements for our employees, and travel restrictions or suspension. In particular, the travel restrictions also resulted in the reduction in size or even cancellation of our offline events, which temporarily adversely affected our marketing activities. We also provided our employees with masks, hand sanitisers and other protective equipment immediately after the outbreak, which had increased and may continue to increase our operations and support costs. In addition, our business operations could be disrupted if any of our employees is suspected of contracting COVID-19 or any other epidemic disease, since our employees could be quarantined, and our offices may have to be shut down for disinfection. As a result, in the first half of 2020, our operations to certain extent had been impacted by delays in business activities and commercial transactions, as well as general uncertainties surrounding the duration of the governments' extended business and travel restrictions.

In addition, the COVID-19 pandemic adversely affected our revenue generated from advertising services in the first half of 2020, as some of our advertisers reduced their expenditures and budgets. Our revenue generated from advertising services increased by 8.5% during the first half of 2020 compared to the first half of 2019, which could be higher without the negative impacts imposed by COVID-19 given that the revenue increase from advertising services from the year 2018 to 2019 is 42.5%. While the lockdown and various social distancing initiatives adopted by the governments during the outbreak of COVID-19 have caused people to turn to online social and entertainment activities in lieu of physical gatherings, these measures have led to reduced business activities in general. The general concerns and uncertainties about the pandemic and the economy and the overall weakening consumer sentiment may have negatively affected our business.

Many of the quarantine measures within China have since been relaxed, and we have resumed normal operations since the second half of 2020. We have continued to adopt a few measures to improve our financial performance since the second half of 2020, including enhancing our monetisation capabilities for social entertainment services, such as starting the online concert services, and developing new products, such as *Xin Yu*. The extent to which the COVID-19 pandemic may continue to affect our operations and financial performance will depend on future developments, which are highly uncertain and cannot be predicted. While we believe the impact on our business due to the outbreak of COVID-19 was limited, it is hard for us to quantify the impact and estimate the extent to which the COVID-19 outbreak impacts our long-term results. See "Risk factors – Risks related to our business and industry – The COVID-19 pandemic has adversely affected, and may continue to adversely affect, our business, operating results and financial condition."

SUBSTANTIAL INCREASE IN FORECAST LOSS FOR THE YEAR ENDING 31 DECEMBER 2021

We estimate that our unaudited consolidated net loss of our Group for the year ending 31 December 2021 will record a substantial increase compared to the year ended 31 December 2020. Our estimated net loss for the year ended 31 December 2021 will be substantially impacted by the changes in fair value of our convertible redeemable preferred shares, increase of selling and marketing expenses and increase in research and development expenses.

With the increasing valuation of our Company, fair value liabilities of our convertible redeemable preferred shares may continue to increase, and may continue to record fair value loss on our convertible redeemable preference shares. Our convertible redeemable preferred shares will be automatically converted into ordinary shares upon the Listing, after which we do not expect to recognise any further loss or gain on fair value changes from convertible redeemable preferred shares.

In line with our overall growth strategy, we expect our selling and marketing expenses and research and development expenses to increase in the absolute amount in 2021 compared to 2020 as we invested in selling and marketing to grow our user base and user engagement, and further enhance our brand recognition. We have also invested in various other areas including research and development capabilities to further advance our technology and infrastructure, which would in turn improve our user experience.

As a result, we expect our unaudited consolidated net loss for the year ending 31 December 2021 to substantially increase compared to the year ended 31 December 2020.

In this document, unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in "Glossary of technical terms."

"ADSs" American Depositary Shares of NetEase

"affiliate(s)" with respect to any specified person, any other person,

directly or indirectly, controlling or controlled by or under direct or indirect common control with such

specified person

"Anti-dilution Right" anti-dilution right granted by our Company on 31 March

2021 to NetEase and as set out in "History - Pre-IPO

Investment — Rights of the Pre-IPO Investors"

"Articles" or "Articles of

Association"

the articles of association of our Company conditionally adopted on 5 August 2021 with effect from the Listing Date, a summary of which is set out in "Summary of the Constitution of our Company and Cayman Islands

Company Law" in Appendix III

"associate(s)" has the meaning ascribed to it under the Listing Rules

"AVSP" the Permit for Dissemination of Audio-Visual

Programmes via Information Network (信息網絡傳播視

聽節目許可證)

"Board" the board of Directors

"business day" any day (other than a Saturday, Sunday or public holiday

in Hong Kong) on which banks in Hong Kong are

generally open for normal banking business

"BVI" the British Virgin Islands

"CAC" the Cyberspace Administration of China (國家互聯網信

息辦公室)

"Cayman Companies Act" the Companies Act, (As Revised) of the Cayman Islands

"CAGR" the compound annual growth rate

"CCASS" the Central Clearing and Settlement System established

and operated by HKSCC

"CCASS Clearing Participant" a person admitted to participate in CCASS as a direct

clearing participant or a general clearing participant

"CCASS Custodian Participant"

a person admitted to participate in CCASS as a custodian participant

"CCASS EIPO"

the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing Participant, **CCASS** Investor giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request

"CCASS Investor Participant"

a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

"CCASS Participant"

a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

"China" or "the PRC"

the People's Republic of China, and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan

"CIC"

China Insights Industry Consultancy Limited, an industry consultant

"CIC Report"

the report with respect to this Global Offering issued by CIC

"Class A Ordinary Share(s)"

Class A ordinary shares in the share capital of the Company with par value of US\$0.0001 each, conferring a holder of a class A ordinary share to one vote per share on any resolution tabled at the Company's general meeting

"Class B Ordinary Share(s)" Class B ordinary

Class B ordinary shares in the share capital of the Company with par value of US\$0.0001 each, conferring a holder of a class B ordinary share to ten votes per share on any resolution tabled at the Company's general meeting

"Companies Ordinance" the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

"Companies (Winding Up and Miscellaneous Provisions) Ordinance" the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong)

"Company", "our Company", or "the Company"

Cloud Village Inc., an exempted company with limited liability incorporated in the Cayman Islands on 2 February 2016

"connected person(s)" has the meaning ascribed to it under the Listing Rules

"connected transaction(s)" has the meaning ascribed to it under the Listing Rules

"Consolidated Affiliated Entities" the Onshore Holdcos and their respective subsidiaries and affiliated entities (if any), the financial accounts of which have been consolidated and accounted for as if they were subsidiaries of our Company by virtue of the

Contractual Arrangements

"Contractual Arrangement(s)" the series of contractual arrangements entered into by,

among others, the WFOE, the Onshore Holdcos and the Registered Shareholders, as detailed in "Contractual

arrangements"

"Controlling Shareholder" has the meaning ascribed to it under the Listing Rules and

unless the context otherwise requires, refers to the persons named in the "Relationship with our Controlling

Shareholder"

"Cornerstone Investor(s)" investor(s) which has/have entered into cornerstone

investment agreement(s) with our Company, as described

in "Cornerstone investors"

"Director(s)" the director(s) of our Company

"EIT" Enterprise income taxation

"Extreme Conditions" extreme conditions caused by a super typhoon as

announced by the government of Hong Kong

"GAPP" the General Administration of Press and Publication (新

聞出版總署)

"Global Offering" the Hong Kong Public Offering and the International Offering "Governmental Authority" governmental, regulatory, or administrative commission, board, body, authority, or agency, or any stock exchange, self-regulatory organisation, or other non-governmental regulatory authority, or any court, judicial body, tribunal, or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign, or supranational "Green Application Form(s)" the application form(s) to be completed by the White Form eIPO Service Provider designated by our Company, Computershare Hong Kong Investor Services Limited "Group", "our Group", the Company, its subsidiaries and the Consolidated "the Group", "we", "us", or Affiliated Entities (the financial results of which have "our" been consolidated and accounted for as subsidiaries of our Company by virtue of the Contractual Arrangements) from time to time, and where the context requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time

"Hangzhou Rege" Hangzhou Rege Culture Creativity Co., Ltd. (杭州熱歌文 化創意有限公司), a company established in the PRC on 20 July 2018, an Onshore Holdco and a Consolidated Affiliated Entity

"Hangzhou Yuedu"

"HK" or "Hong Kong"

"HKSCC Nominees"

"HKSCC"

Hangzhou Yuedu Technology Co., Ltd. (杭州樂讀科技有限公司), a company established in the PRC on 25 December 2014, an Onshore Holdco and a Consolidated Affiliated Entity

the Hong Kong Special Administrative Region of the People's Republic of China

Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

"Hong Kong dollars" or "HK\$" Hong Kong dollars, the lawful currency of Hong Kong

"Hong Kong Offer Shares"

the 1,600,000 Shares being initially offered for subscription in the Hong Kong Public Offering (subject to reallocation as described in "Structure of the Global Offering")

"Hong Kong Public Offering"

the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this document and the Application Form, as further described in "Structure of the Global Offering — The Hong Kong Public Offering"

"Hong Kong Share Registrar"

Computershare Hong Kong Investor Services Limited

"Hong Kong Underwriters"

the underwriters of the Hong Kong Public Offering as listed in "Underwriting — Hong Kong Underwriters"

"Hong Kong Underwriting Agreement"

the underwriting agreement, dated 22 November 2021, relating to the Hong Kong Public Offering, entered into by, among others, the Joint Global Coordinators, the Hong Kong Underwriters and our Company, as further described in "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement"

"IFRS"

International Financial Reporting Standards, as issued by the International Accounting Standards Board

"independent third party(ies)"

any entity or person, to our best knowledge, who is not a connected person of our Company or an associate of such person within the meaning ascribed to it under the Listing Rules

"International Offer Shares"

the 14,400,000 Shares being initially offered for subscription under the International Offering together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option (subject to reallocation as described in "Structure of the Global Offering")

"International Offering"

the conditional placing of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from the registration requirements under the U.S. Securities Act, as further described in "Structure of the Global Offering"

"International Underwriters"

the underwriters of the International Offering

"International Underwriting the international underwriting agreement, expected to be entered into on or about 26 November 2021, relating to Agreement" the International Offering, expected to be entered into by, others, our Company, the Joint Global Coordinators and the International Underwriters, as further described in "Underwriting — International Offering" "Joint Bookrunners", the joint bookrunners and the joint global coordinators as "Joint Global Coordinators" named in "Directors and parties involved in the Global Offering" "Joint Sponsors" the Joint Sponsors of the Listing as named in "Directors and parties involved in the Global Offering" "Latest Practicable Date" 15 November 2021, being the latest practicable date for ascertaining certain information in this document before its publication "Laws" laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, directives, requests, orders, judgements, decrees, or rulings of any Governmental Authority (including the Stock Exchange and the SFC) of all relevant jurisdictions "Listing" the listing of the Shares on the Main Board "Listing Committee" the Listing Committee of the Stock Exchange "Listing Date" the date, expected to be on or about 2 December 2021, on which the Shares are to be listed and on which dealings in the Shares are to be 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 "Main Board" the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange "MCT" or "MOC" the Ministry of Culture and Tourism of the PRC (中華人 民共和國文化和旅遊部), and its predecessor known as the Ministry of Culture of the PRC (中華人民共和國文化 部)

the Listing Date

"Memorandum" or

"Memorandum of Association"

the memorandum of association of our Company

conditionally adopted on 5 August 2021, with effect from

"MIIT" or "MII" the Ministry of Industry and Information Technology of

the PRC (中華人民共和國工業和信息化部), and its predecessor known as the Ministry of Information

Industry of the PRC (中華人民共和國信息產業部)

the Ministry of Finance of the PRC (中華人民共和國財政 "MOF"

部)

"MOFCOM" the Ministry of Commerce of the PRC (中華人民共和國

商務部)

"MPS" The Ministry of Public Security(中華人民共和國公安部)

"Mr. Ding" Mr. William Lei Ding, our executive Director, chairman

of the Board and chief executive officer

"NCAC" National Copyright Administration of the PRC(中華人民

共和國國家版權局)

"NDRC" National Development and Reform Commission of the

PRC (中華人民共和國國家發展和改革委員會)

"Negative List" Special Administrative Measures (Negative List) for the

Access of Foreign Investment (2020 Version)

"NetEase" NetEase, Inc., an exempted company incorporated in the

> Cayman Islands with limited liability on 6 July 1999 (Nasdaq: NTES; SEHK: 9999) and a Controlling

Shareholder

NetEase and its subsidiaries and consolidated affiliated "NetEase Group"

entities, and unless the context otherwise requires,

excluding our Group

"NetEase Share(s)" ordinary shares in the share capital of NetEase

"NetEase Shareholder(s)" holder(s) of NetEase Shares and ADSs

"NPC" National People's Congress (全國人民代表大會)

the National Radio and Television Administration (國家 "NRTA"

廣播電視總局)

"OCCAC" The Office of the Central Cyberspace Affairs

Commission (中共中央網絡安全和信息化委員會辦公室)

"Offer Price"

the final offer price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee), expressed in Hong Kong dollars, at which Hong Kong Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering and International Offer Shares are to be offered pursuant to the International Offering, to be determined as described in "Structure of the Global Offering - Pricing and allocation"

"Offer Share(s)"

the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional Shares to be sold by our Company pursuant to the exercise of the Over-allotment Option

"Onshore Holdcos"

Hangzhou Yuedu and Hangzhou Rege

"Over-allotment Option"

the option expected to be granted by our Company to the International Underwriters, exercisable by the Stabilising Manager on behalf of the International Underwriters for up to 30 days from the day following the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to 2,400,000 additional Shares (representing in aggregate 15% of the initial Offer Shares) to the International Underwriters to, among other things, cover overallocations in the International Offering, if any, details of which are described in "Structure of the Global Offering — Over-allotment Option"

"PBOC"

the People's Bank of China(中國人民銀行)

"PRC Legal Adviser"

JunHe LLP, our legal adviser on PRC law

"Pre-IPO Investment"

the investments in our Company undertaken by the Pre-IPO Investors, the details of which are set out in "History — Pre-IPO Investment"

"Pre-IPO Investor(s)"

the investors set out in "History — Shareholding of our

Company — Shareholding summary"

"Pre-IPO Share Incentive Plan"

the share incentive plan approved and adopted by our Company in 2016, and amended from time to time, the principal terms of which are set out in "Statutory and general information — Share Incentive Plan" in Appendix IV

"Pre-IPO Shareholders" Agreement"

the fourth amended and restated shareholder agreement dated 3 December 2019

"Preferred Share(s)" Series A Preferred Shares, Series B Preferred Shares,

Series B1 Preferred Shares and Series B2 Preferred

Shares

"Presumptions" assuming no new Shares are issued under the Over-

allotment Options, the Pre-IPO Share Incentive Plan, and that each Class B Ordinary Share and each Preferred Share is converted into one Class A Ordinary Share and

the Anti-dilution Right is not exercised

"Price Determination Agreement" the agreement to be entered into between our Company

and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) at or about the Price Determination Date to record and fix the Offer Price

"Price Determination Date" the date, expected to be on or about 26 November 2021

and in any event no later than 1 December 2021, on which the Offer Price is to be fixed for the purposes of

the Global Offering

"Principal Share Registrar" Maples Fund Services (Cayman) Limited

"QIB" a qualified institutional buyer within the meaning of Rule

144A

"Regulation S" Regulation S under the U.S. Securities Act

"Registered Shareholders" the registered shareholders of the Onshore Holdcos,

namely Mr. Ding, Yiwen Zhu (朱一聞) and Yong Peng (彭

勇)

"RMB" or "Renminbi" Renminbi, the lawful currency of China

"Rule 144A" Rule 144A under the U.S. Securities Act

"SAFE" the State Administration for Foreign Exchange of the

PRC (中華人民共和國國家外匯管理局)

"SAIC" or "SAMR" State Administration for Industry and Commerce of the

PRC (中華人民共和國國家工商行政管理總局), currently known as the PRC State Administration for Market Regulation (中華人民共和國國家市場監督管理總局)

"SAPPRFT" State Administration of Press, Publication, Radio, Film

and Television of the PRC (中華人民共和國國家新聞出版廣電總局), formerly known as the GAPP, the SARFT and since March 2018 was reformed and now known as

the NRTA

	DEFINITIONS
"SARFT"	State Administration of Radio, Film and Television of the PRC (中華人民共和國國家廣播電影電視總局)
"SCNPC"	the Standing Committee of the National People's Congress of the PRC(全國人民代表大會常務委員會)
"SEC"	the United States Securities and Exchange Commission
"Series A Preferred Share(s)"	the series A preferred shares of the Company with par value of US\$0.0001 each, conferring a holder of a series A preferred share to ten votes per share
"Series B Preferred Share(s)"	the series B preferred shares of the Company with par value of US\$0.0001 each, conferring a holder of a series B preferred share to one vote per share
"Series B1 Preferred Share(s)"	the series B1 preferred shares of the Company with par value of US\$0.0001 each, conferring a holder of a series B1 preferred share to one vote per share
"Series B2 Preferred Share(s)"	the series B2 preferred shares of the Company with par value of US\$0.0001 each, conferring a holder of a series B2 preferred share to one vote per share
"SFC"	Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	prior to the Listing, shall mean shares of the Company, and following the Listing, shall mean ordinary shares in the share capital of the Company with par value of US\$0.0001 each, as the case may be
"Shareholder(s)"	holder(s) of our Share(s)

"Spin-off" the separate listing of our Shares on the Main Board,

which is expected to be effected by way of the Global

Offering

"STA" State Taxation of Administration of the PRC (中華人民共

和國國家税務總局)

"Stabilising Manager" Merrill Lynch (Asia Pacific) Limited through its affiliates

"State Council" State Council of the PRC (中華人民共和國國務院)

DEFINITIONS "Stock Borrowing Agreement" the Stock Borrowing Agreement expected to be entered into on or about the Price Determination Date between the Stabilising Manager (or its affiliate) and NetEase, which the Stabilising Manager (or its affiliate) may borrow up to 2,400,000 Shares to settle the overallocation in the International Offering "Stock Exchange" or "Hong The Stock Exchange of Hong Kong Limited Kong Stock Exchange" "subsidiary" or "subsidiaries" has the meaning ascribed to it in section 15 of the Companies Ordinance "substantial shareholder(s)" has the meaning ascribed to it in the Listing Rules "Takeovers Code" Code on Takeovers and Mergers and Share Buy-backs issued by the SFC

"Track Record Period" the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021

"U.S. SEC" the Securities and Exchange Commission of the United States

"U.S. Securities Act"

United States Securities Act of 1933 and the rules and regulations promulgated thereunder

"Underwriters" the Hong Kong Underwriters and the International Underwriters

"Underwriting Agreements" the Hong Kong Underwriting Agreement and the International Underwriting Agreement

"United States", "U.S." or "US" the United States of America, its territories, its possessions and all areas subject to its jurisdiction

"U.S. dollars", "US\$" or "USD" United States dollars, the lawful currency of the United States

"U.S. GAAP" accounting principles generally accepted in the United States

"VAT" value-added tax

"WFOE" or "Hangzhou NetEase Cloud Music Technology Co., Ltd. Cloud Music" (杭州網易雲音樂科技有限公司), a company established in China on 18 May 2016 and a wholly-owned subsidiary of our Company

	DEFINITIONS
"White Form eIPO"	the application for Hong Kong Offer Shares to be issued in the applicant's own name, submitted online through the designated website of the White Form eIPO Service Provider, at www.eipo.com.hk
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"%"	per cent

Unless otherwise expressly stated or the context otherwise requires, all data in this document is as of the date of this document.

The English names of PRC entities, PRC laws or regulations, and PRC governmental authorities referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain technical terms used in this document in connection with us and our business. These may not correspond to standard industry definitions, and may not be comparable to similarly terms adopted by other companies.

"AT"

artificial intelligence

"DAUs of online music services"

refers to 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

"MAUs of online music services"

refers to 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"

refers to 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

"Monthly paying users of online music services"

refers to 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"

refers to the average of the number of users who contribute revenues to our social entertainment services for each month in a given period

"Monthly ARPPU of online music services"

refers to 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

GLOSSARY OF TECHNICAL TERMS

"Monthly ARPPU of social entertainment services"

refers to 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

"Registered Independent Artists"

refers to the artists who have registered on our platform to qualify for publishing their songs and have published

at least one song on our platform

"UGC" user-generated content

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events, or performance (often, but not always, through the use of words or phrases such as 'will', 'expect', 'anticipate', 'estimate', 'believe', 'going forward', 'ought to', 'may', 'seek', 'should', 'intend', 'plan', 'projection', 'could', 'vision', 'goals', 'aim', 'aspire', 'objective', 'target', 'schedules', and 'outlook') are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- our ability to control costs and expenses;
- our ability to identify and satisfy user demands and preferences;
- our ability to maintain good relationships with business partners;
- the actions and developments of our competitors;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate;
- all other risks and uncertainties described in "Risk factors."

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of, or references to, our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

An investment in our Shares involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in the Offer Shares. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our Shares could decline, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

We incurred gross and net losses and net operating cash outflow during the Track Record Period and may not be able to achieve or maintain profitability in the future.

We incurred gross losses and net losses during our Track Record Period, including gross losses in the amount of RMB1.3 billion, RMB1.1 billion, RMB595.3 million, RMB396.5 million and RMB12.9 million in 2018, 2019, 2020, and in the six months ended 30 June 2020 and 2021, respectively, and net losses in the amount of RMB2.0 billion, RMB2.0 billion, RMB3.0 billion, RMB1.0 billion and RMB3.8 billion in 2018, 2019, 2020, and in the six months ended 30 June 2020 and 2021, respectively. In addition, we have recorded net cash used in operating activities of RMB2.7 billion, RMB1.0 billion, RMB1.0 billion, RMB730.4 million and RMB748.0 million in 2018, 2019, 2020 and in the six months ended 30 June 2020 and 2021, respectively. Our abilities to achieve profitability and generate positive operating cashflow are affected by various factors including our ability to effectively monetise our product and service offerings and continuously grow revenues and our user base in a cost-effective way by improving our operational efficiency. Our ability to continue to improve operational efficiency will depend on, among other things, our ability to attract and retain users, to enhance the interactions among our users, to manage our content costs, to optimise our operation and to further achieve economies of scale.

Our abilities to achieve profitability and generate positive operating cashflow will also depend on various external factors, many of which are beyond our control. For example, our revenues depend on the increased number of subscribing members and advertising customers' allocation of more budget to online music platforms. Our users' willingness to pay and subscribe to our content depends on the quality and breadth of our content offerings and availability of alternative entertainment content offerings. The royalties paid to music labels and other content partners have historically accounted for the majority of our cost of revenue. We expect our costs to increase as we are committed to providing more high-quality and popular content to enrich user experience. In 2018, 2019, 2020 and the six months ended 30 June 2020 and 2021, we incurred RMB2.5 billion, RMB3.4 billion, RMB5.5 billion, RMB2.4 billion and RMB3.2 billion in cost of revenue. If we cannot successfully realise satisfactory returns on our content investment and generate sufficient revenues, our financial condition and results of operations may be materially and adversely affected.

Despite our continued increase in user base, we may continue to incur gross and net losses and net operating cash outflow in the foreseeable future, including for the year ended 31 December 2021, due to our continued investments in content, technologies, marketing initiatives as well as research and development. We may also continue to incur net losses in the foreseeable future due to changes in the macroeconomic and regulatory environment, competitive dynamics and our inability to respond to these changes in a timely and effective manner. It is not possible for us to accurately predict when we will be able to achieve profitability. We expect to remain loss-making for the years ending 31 December 2021, 2022 and 2023. Our net liabilities position after Listing may potentially further deteriorate. If we fail to ramp up scale, we may need further fundraising before reaching our adjusted net profit and/or net operating cash flow breakeven.

We operate in a rapidly evolving industry. If we fail to accurately predict and effectively cater to changing user preferences in terms of content and product offerings, we may fail to retain existing users and attract new users in sufficient numbers, and our business, results of operations and prospects may be materially and adversely affected.

We operate in a market characterised by rapidly evolving industry standards, frequent new service launches and updates and changing user demands and expectations. Constantly changing consumer preferences have affected and will continue to affect the music industry, in particular online music platforms. Given that we operate in a rapidly evolving industry, we need to anticipate user preferences and industry changes and respond to such changes in a timely and effective manner. If we fail to cater to the needs and preferences of our users and control our costs in doing so or fail to deliver compelling user experience, we may suffer from reduced user traffic, and our business, financial condition and results of operations may be materially and adversely affected.

Our success depends on our ability to maintain and grow user time spent on our platform. To attract and retain users and compete against our competitors, we must continue to offer high-quality content, including music content created by Registered Independent Artists, which provides our users with a compelling music listening and music-inspired social entertainment experience. We must stay abreast of emerging consumer preferences and anticipate product trends that will appeal to existing and potential users. We must also continue to encourage the production of music content and source new professionally produced or other music content. We have been making progress in leveraging AI technologies to generate personalised recommendations to users for products in which they may be interested. Our platform offers recommendations of music and music-inspired content. In addition, our products and services make recommendations to users according to a comprehensive dataset compiled based on users' listening behaviours. If we are unable to offer music and music-inspired content that meets user tastes and preferences, our user experience may be adversely affected, we may suffer from reduced user traffic and our business, financial condition and results of operations may be materially and adversely affected.

Our business and prospects depend on the strength of our brand and the appeal of our unique community culture, and failure to protect, maintain and enhance our brand and community culture would harm our ability to maintain and expand our base of users, content contributors, advertisers and other business partners.

Maintaining and enhancing the "NetEase Cloud Music" brand is critical to expanding our base of users, advertisers, content contributors and other partners. Maintaining and enhancing our brand will depend largely on our ability to continue to develop and provide an innovative and high-quality experience for our listeners and attract advertisers, content owners and other parties to work with us, which we may not do successfully. Our brand may be impaired by a number of other factors, including service outages, data privacy and security issues, listener perception of ad load and exploitation of our trademarks by others without permission. In addition, if our partners fail to maintain high standards for products that integrate our service, the strength of our brand could be adversely affected.

We have cultivated an interactive and vibrant community. We also strive for a compelling user experience by continuously improving our user interface and available features and encouraging active interactions among users, content contributors and business partners. As a result, our platform fosters a vibrant ecosystem in which our users, content contributors and business partners interact on the basis of our deep and diverse content base, giving rise to myriad user needs which we can address by continuously developing mobile apps. We believe that maintaining and promoting a vibrant community culture and ecosystem is critical to

retaining and expanding our user base. We have taken multiple initiatives to preserve our community culture, values and ecosystem. Despite our efforts, we may be unable to maintain our community culture and ecosystem and cease to be the preferred platform for our users, content creators and business partners.

Our business partners include music labels, advertisers, talent agencies and others. We help our advertisers reach and engage with their target users through the services and solutions we offer. Our ability to grow our revenues to a certain extent depends on our ability to retain and enhance our relationships with our existing business partners and attract new ones. Our success also depends on our ability to provide effective services and solutions that meet the expectations of our business partners. For instance, if we fail to develop new advertisement formats or effective marketing solutions that are appealing to our business partners, they may turn to our competitors for alternative services. Our business also relies on content, services and technologies provided by some business partners. If we fail to retain and enhance our business relationships with these business partners, or if these business partners choose to terminate or change the terms of our cooperation arrangements for strategic, financial or other reasons, we may suffer content loss, service interruptions or reduced revenues, which may have a material and adverse effect on our business, financial condition and results of operations.

We recorded net liabilities as of 31 December 2018, 2019, 2020 and 30 June 2021.

We recorded net liabilities of RMB0.9 billion, RMB2.9 billion, RMB5.3 billion and RMB8.9 billion, as of 31 December 2018, 2019, 2020 and 30 June 2021, respectively, primarily due to the significant amounts of convertible redeemable preferred shares and accruals and other payables recorded as liabilities.

Our convertible redeemable preferred shares will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing, after which we do not expect to recognise any further loss or gain on changes in fair value of convertible redeemable preferred shares and will return to a net assets position from a net liabilities position. However, there can be no assurance that we will not experience liquidity problems in the future.

Our business generates and processes a large amount of data, and we are required to comply with laws and regulations in the PRC and other jurisdictions relating to data privacy and security. The improper use or disclosure of data could have a material and adverse effect on our business and prospects.

1. Security Breaches and Attacks

We collect, process and store significant amounts of data concerning our users, business partners and employees, including personal and transaction data involving our users. While we have taken reasonable steps to protect such data, there is no guarantee that such steps will be successful. Techniques used to gain unauthorised access to data and systems, disable or degrade service or sabotage systems are constantly evolving, and we may be unable to anticipate, deter or prevent such techniques or otherwise implement adequate preventative measures to avoid unauthorised access to such data or our systems.

Our service may be vulnerable to security breaches and attacks, which could lead to system interruptions, delays or shutdowns and cause the loss of critical data or the unauthorised access to our data or our users' data. We experience cyberattacks of varying degrees on a regular basis, including hacking or attempted hacking into our user accounts and redirecting our user traffic to other internet platforms. Any functions that we use to facilitate interactivity with other internet platforms have the potential to increase the scope of access that hackers may have to our user accounts. Although it is difficult to

determine what, if any, harm may directly result from any specific interruption or attack, our failure to maintain performance, reliability, security and availability of our products and technical infrastructure to the satisfaction of our users may harm our reputation and ability to retain existing users and attract new users. Although we have in place systems and processes that are designed to protect our data and our users' data, prevent data loss, disable undesirable accounts and activities on our platform and prevent or detect security breaches, we cannot assure you that such measures will provide the necessary security. We may incur significant costs in protecting against cyberattacks, and if an actual or perceived breach of security occurs to our systems or a third party's systems, we could be required to expand significant resources to mitigate the breach of security and to address matters related to any such breach, including notifying users or regulators.

2. Regulatory Requirements on Security and Privacy of Data, Cybersecurity

(1) Collection, use and storage of personal information

We are subject to a variety of laws and other obligations relating to the security and privacy of data, including, among others, the PIPL which took effect on 1 November 2021, accentuating the importance of processors' obligations and responsibilities for personal information protection. Such laws and regulations include restrictions on the collection, use and storage of personal information and requirements to take steps to prevent personal data from being divulged, stolen or tampered with. If an internet service provider wishes to collect or use personal information, it may do so only if such collection is necessary for the services it provides. Further, it must disclose to its users the purpose, method and scope of any such collection or use, and must obtain consent from its users whose information is being collected or used. Internet service providers are also required to establish and publish their rules relating to personal information collection or use, keep any collected information strictly confidential and take technological and other measures to maintain the security of such information.

Internet operators who collect, store, use, transfer and disclose personal information of children under the age of 14 shall establish special rules and user agreements for the protection of children's personal information, inform the children's guardians in a noticeable and clear manner and obtain the consent of the children's guardians. For detailed information, please refer to "Regulations – Regulations on Internet Privacy."

(2) Data security and cybersecurity review

On 10 June 2021, the SCNPC issued the Data Security Law (《數據安全法》) to regulate data processing activities and security supervision in the PRC, which took effect on 1 September 2021. The Data Security Law provides a national data security review system, under which data processing activities that affect or may affect national security shall be reviewed. Any organisational or individual data processing activities that violate the Data Security Law shall bear the corresponding civil, administrative or criminal liabilities depending on specific circumstances. Furthermore, along with the promulgation of the 6 July Opinion, overseas-listed China-based companies (中概股公司) are experiencing a heightened scrutiny over their compliance with laws and regulations regarding data security, cross-border data flow and management of confidential information from PRC regulatory authorities. Such laws and regulations are expected to undergo further changes, which may require increased information security responsibilities and stronger

cross-border information management mechanism and process. On 10 July 2021, the CAC has publicly solicited opinions on the Draft Cybersecurity Review Measures, which stipulates that the Operators carrying out data processing activities that affect or may affect national security, shall conduct cyber security review. According to the Draft Cybersecurity Review Measures, an Operator who controls more than 1 million users' personal information must report to the cyber security review office for a cyber security review if it intends to be listed abroad (國外上市). In addition, on 14 November 2021, the CAC publicly solicited opinions on the Draft Data Security Regulations, which requires data processors to comply with certain requirements during their daily operation and further stipulates that data processors shall apply for cyber security reviews in certain situations including any data processor intending to be listed in Hong Kong that affects or may affect national security. However, neither the Draft Cybersecurity Review Measures nor the Draft Data Security Regulations provides any further explanation or interpretation for "listed abroad" or "affects or may affect national security." As of the Latest Practicable Date, neither the Draft Cybersecurity Review Measures nor the Draft Data Security Regulations has been formally adopted. We cannot guarantee whether we will be subject to the cyber security review for our future capital raising activities or if new rules or regulations promulgated in the future will impose additional compliance requirements on us.

On 29 October 2021, the CAC has publicly solicited opinions on the Measures for the Security Assessment of Data Cross-border Transfer (Draft for Comments) (《數據出境安全評估辦法(徵求意見稿)》), which requires that any data processor who provides to an overseas recipient important data collected and generated during operations within the territory of the PRC or personal information that should be subject to security assessment shall conduct security assessment. As of the Latest Practicable Date, the Measures for the Security Assessment of Data Cross-border Transfer (Draft for Comments) has not been formally adopted. For detailed information, please refer to "Regulations – Regulations on Information Security."

We may be subject to laws and regulations relating to the security and privacy of data, including the collection, use and storage of personal information, of jurisdictions other than the PRC. Any failure, or perceived failure, by us, or by our partners, to maintain the security of our user data or to comply with applicable PRC or foreign privacy, data security and personal information protection laws, regulations, policies, contractual provisions, industry standards and other requirements may result in civil or regulatory liability, including governmental or data protection authority enforcement actions and investigations, fines, penalties, enforcement orders requiring us to cease operating in a certain way, litigation or adverse publicity, and may require us to expend significant resources in responding to and defending allegations and claims. Moreover, claims or allegations that we have failed to adequately protect our users' data, or otherwise violated applicable privacy and data security laws, regulations, policies, contractual provisions, industry standards or other requirements, may result in damage to our reputation and a loss of confidence in us by our users or our partners, potentially causing us to lose users, advertisers, content providers, other business partners and revenues, which could have a material adverse effect on our business, financial condition and results of operations and could cause our stock price to drop significantly.

We face uncertainties with respect to the enactment, interpretation and implementation of Notice 78.

In November 2020, the NRTA promulgated the Notice 78, which requests the live broadcasting platforms for online shows to register in the National Internet Audio-visual Platforms Information Management System (全國網絡視聽平台信息管理系統) by 30 November 2020. The application for registration of our platforms, including NetEase Cloud Music (Ge Fang), Sheng Bo, LOOK Live Streaming, has been submitted to the national network audio-visual platform information registration management system, and is currently under review. Notice 78 also sets forth requirements for certain live streaming businesses with respect to real-name registration, limits on user spending on virtual gifting, prohibition on minors on virtual gifting, live streaming review personnel requirements, content tagging requirements, and other requirements. For more information on Notice 78, see "Regulations - Regulations Relating to Online Live Streaming Services." As advised by our PRC Legal Adviser, there is currently no explicit provisions as to what limits on virtual gifting will be imposed by the relevant competent authorities pursuant to Notice 78, and it is unclear how and to what degree any such limits would be imposed on different platforms. Given there is no explicit provisions on how to set the limit on virtual gifting, we have not been able to set such limit on our platform and we are currently not able to assess the impact this requirement under Notice 78 will have on the virtual gifting activities on our platform. Any such limits ultimately imposed may negatively impact our revenues derived from virtual gifting and our results of operations. Since Notice 78 has been issued quite recently and some of the requirements in Notice 78 are unclear and have no explicit provisions or implementation standards, we are still in the process of getting further guidance from regulatory authorities and evaluating the applicability and effects of the various requirements under Notice 78 on our business. Any further rule-making under Notice 78 or other intensified regulation with respect to live streaming may increase our compliance burden in the live streaming business, and may have an adverse impact on our business and results of operations.

We face uncertainties with respect to the interpretation and implementation of the Anti-monopoly Law and the Anti-Monopoly Guidelines for the Internet Platform Economy Sector.

According to Anti-monopoly Law of the PRC (《中華人民共和國反壟斷法》) which was released on 30 August 2007 and became effective from 1 August 2008, business operators that hold dominant market position shall not abuse their dominant market position to restrict trading counterparts to transact only with such business operators or only with designated business operators without a justifiable reason. Where a business operator has violated the Anti-monopoly Law of the PRC in abusing its dominant market position, the anti-monopoly enforcement agency shall order the business operator to stop the illegal act and confiscate the illegal income; a fine of 1% to 10% of the sales amount of the preceding year shall be imposed.

In February 2021, the Anti-Monopoly Committee of the State Council published the Guideline that aims at specifying some of the circumstances under which an activity of internet platforms may be identified as monopolistic act as well as setting out merger controlling filing procedures involving variable interest entities. The Guideline specified factors which should be taken into account, based on the characteristics of the internet platform, when determining cases of monopoly agreements, cases of abuse of dominant market positions, and centralised anti-monopoly review of business operators. To determine the abuse of dominant market positions in the field of platform economy, relevant markets shall be firstly defined, whether business operators have dominant positions in the relevant markets shall be analysed, and then whether abuse of dominant market positions has been constituted shall be analysed specifically on a case-by-case basis.

As of the Latest Practicable Date, we have not been subject to any administrative penalties or regulatory actions in connection with anti-monopoly. Recently, the SAMR imposed administrative penalties on a number of anti-monopoly cases in the internet industry, and the regulatory environment of anti-monopoly is tightening. Due to the uncertainties associated with the evolving legislative activities and varied local implementation practises of competition laws and regulations in the PRC, it may be costly to adjust some of our business practises in order to comply with these laws, regulations, rules, guidelines and implementations, and any incompliance or associated inquiries, investigations and other governmental actions may divert significant management time and attention and our financial resources, bring negative publicity, subject us to liabilities or administrative penalties, and materially and adversely affect our financial condition, operations and business prospects.

Moreover, regulators are increasingly paying attention to the exclusive licensing and sub-licensing arrangements for the Chinese online music market. In September 2017, NCAC had conversations with a number of record companies and online music platforms, requesting them not to enter into exclusive licensing agreements. Any exclusive licensing agreement that has the effect of eliminating or restricting competition will be strictly regulated in accordance with the Anti-monopoly Law of the PRC, the Guideline and other legal documents. In July 2021, certain other online music platform was required by the regulators to terminate exclusive licensing arrangements, and subsequently announced giving up the exclusive rights granted by the music labels in such licensing arrangements.

The approval of the CSRC or other PRC government authorities may be required in connection with this offering and our future capital raising activities under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.

The M&A Rules requires an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC persons or entities to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and this offering may ultimately require approval of the CSRC. If the CSRC approval is required, it is uncertain whether we can or how long it will take us to obtain the approval and, even if we obtain such CSRC approval, such CSRC approval could be rescinded. Any failure to obtain or delay in obtaining the CSRC approval for this offering if such approval is required, or a rescission of such CSRC approval if obtained by us, would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in the PRC, restrictions or limitations on our ability to pay dividends outside of the PRC, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations.

Our PRC Legal Adviser has advised us that, based on its understanding of the PRC laws and regulations currently in effect, we will not be required to submit an application to the CSRC for the approval of this offering because (i) the WFOE was not established through a merger or requisition of the equity or assets of a "PRC domestic company" as such term is defined under the M&A Rules, and (ii) no provision in this regulation clearly classifies contractual arrangements as a type of transaction subject to its regulation. However, our PRC Legal Adviser further advised that there is uncertainty as to how the M&A Rules will be interpreted or implemented, and new rules or regulations promulgated in the future may impose additional requirement on us. If it is determined that the CSRC approval is required for this offering, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory authorities.

Recently, the relevant PRC government authorities issued the 6 July Opinion, which called for the enhanced administration and supervision of overseas-listed China-based companies (中概 股公司), proposed to revise the relevant regulation governing the overseas issuance and listing of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities. As of the Latest Practicable Date, due to the lack of further clarifications or detailed rules and regulations, there are still uncertainties regarding the interpretation and implementation of the 6 July Opinion, including on China-based companies with a VIE structure. In addition, we cannot guarantee that new rules or regulations promulgated in the future pursuant to the 6 July Opinion will not impose any additional requirement on us. If it is determined that we are subject to any CSRC approval, filing, other governmental authorisation or requirements for this offering or future capital raising activities, we may fail to obtain such approval or meet such requirements in a timely manner or at all, or completion could be rescinded. Any failure to obtain or delay in obtaining such approval or completing such procedures for this offering or future capital raising activities, or a rescission of any such approval obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in the PRC, limit our ability to pay dividends outside of the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from this offering or future capital raising activities into the PRC, or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our shares.

The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt this offering or future capital raising activities before settlement and delivery of the shares offered hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for this offering or future capital raising activities, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval, filing or other requirements could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of the shares.

China's internet, music, live streaming and online entertainment industries are highly regulated. Any lack of requisite approvals, licences, permits, registrations or filings applicable to our business operation or any changes in applicable laws, regulations or government policies may materially and adversely impact our business, prospects and results of operations.

The PRC government regulates the internet industry extensively, including foreign ownership of companies in the internet industry and the licensing requirements pertaining to them. A number of regulatory authorities, such as MOFCOM, MCT, NCAC, MIIT, NRTA and CAC, regulate different aspects of the internet industry. Companies operating in the internet industry, including those providing internet information services, internet publishing services, network performance brokerage agencies services and online audio-visual products services, must comply with laws, regulations, policies and guidelines promulgated by PRC government authorities. Such laws, regulations, policies and guidelines cover, among others, entry requirements for the internet industry, scope of permitted business activities, licences and permits for various business activities and foreign investments into the internet industry. Companies operating in the internet industry, including us, are required to obtain various government approvals, licences and permits or make various registrations and filings to provide internet information services, internet culture services, internet publication services, online audio-visual products and other related value-added telecommunications services. If we fail to obtain and maintain approvals, licences or permits required for our business or fail to comply with applicable laws, regulations, policies and guidelines, we could be subject to liabilities, penalties, impediments in development of business models and disruptions to our operation, which could materially and adversely affect our business. In addition, any adverse change in applicable laws, regulations, policies and guidelines or introduction of new laws, regulations, policies or guidelines may impose additional requirements on us and materially and adversely affect our results of operations.

AVSP and registration

Applicable PRC laws and regulations require any entity that intends to engage in internet-based audio-visual programme services to obtain an Audio and Video Service Permission, or AVSP. As of the Latest Practicable Date, we did not hold an AVSP, which is likely required for our certain business activities such as providing online show live streaming services and video on-demand services, such as concerts, and might be required for our business activities of providing online music services. As of the date of this document, we have not been subject to any legal or regulatory penalties for the lack of an AVSP. We cannot guarantee that the regulatory authorities will not impose any penalties on us or forbid us from performing the relevant business activities.

In addition, under applicable PRC laws and regulations, platforms providing online show live streaming or e-commerce live streaming, including us, should have registered their information and business operations by 30 November 2020. Live streaming platforms that provide network audio-visual programme services must hold an AVSP or complete the registration in the national network audio-visual platform information registration management system. For more information, see "Regulations — Regulations relating to online live streaming services." The application for registration of *NetEase Cloud Music (Ge Fang)*, *Sheng Bo* and *LOOK Live Streaming* was submitted to the national network audio-visual platform information registration management system and is currently under review. We cannot assure you that such applications will be eventually approved or an AVSP will no longer be required once such registration is completed. Any further changes on applicable laws and regulations with respect to live streaming may increase our compliance burden and may adversely affect our business and results of operations.

Internet Publishing Service Licence

Applicable PRC laws and regulations require any entity that provides online publications to the public to hold an Internet Publishing Service Licence. As of the Latest Practicable Date, we did not hold and is not in the process of applying for the Internet Publishing Service Licence, which is likely required for our certain business activities such as online publication of our in-house developed original music content. As of the date of this document, we have not been subject to any legal or regulatory penalties for the lack of the Internet Publishing Service Licence. We will keep following up with relevant policies and apply for the Internet Publishing Service Licence once the total amount control policy is lifted. Our PRC Legal Adviser has advised us that the maximum potential penalty for operating without an Internet Publishing Service Licence includes shutting down the website, deletion of all relevant online publications, confiscation of income and major equipment and special tools relating to operation and imposition of fines or other penalties.

Use of live streaming services by minors

In addition, pursuant to applicable PRC laws and regulations, users who have not registered with real names or who are minors are prohibited from engaging in virtual gifting. Additionally, live broadcasting service providers, such as us, are not allowed to register online live broadcasting publisher accounts for minors under age 16, and must obtain the consent from parents or guardians and verify the identity of the minors before allowing minors aged 16 or above to register live broadcasting publisher accounts. On 30 August 2021, the MCT published the Online Performance Brokerage Agencies Measures. According to the Online Performance Brokerage Agencies Measures agencies shall not provide online performance brokerage services to minors under the age of 16 and if online performance brokerage services are provided to minors over the age of 16, identity information of the

minors shall be verified, and written consent shall be obtained from their guardians. We have implemented several account registration and identity verification measures to comply with the applicable laws and regulations. However, the PRC government may further tighten the account registration and identity verification requirements for minors or impose a higher standard with respect to the registration and identity verification for all users on our platform in the future, which may require us to upgrade our system, purchase additional services from third-party service providers and incur additional costs. Any such event may deter potential users from registering with our platform, which may in turn adversely affect the growth of our user base and business prospect.

Virtual Gifting in Live Streaming Service

The regulatory environment of virtual gifting in life streaming service is tightening. The Notice 78 and Online Performance Brokerage Agencies Measures set forth restrictions on conducts of inducing users to consume by means of false consumption, taking the lead in virtual gifting, etc., or promoting their online performers by encouraging virtual gifting with rankings and fake advertising, or inducing minor's tipping with fake identity information. For detailed information, please refer to "Risk Factors — Risks related to our business and industry — We face uncertainties with respect to the enactment, interpretation and implementation of Notice 78" and "Regulations — Regulations relating to online live streaming services." The Notice 78 and the Online Performance Brokerage Agencies Measures are relatively new, and the interpretation and enforcement of these regulations involve uncertainties. We cannot guarantee that new rules or regulations promulgated in the future will not impose any additional restrictions on virtual gifting. Any limits or restrictions on user spending on virtual gifting ultimately imposed may negatively impact activities of virtual gifting on our platform, as well as negatively impact our revenues derived from virtual gifting. Our business, financial conditions and results of operations may be adversely affected.

Negative media coverage

We may be subject to negative media coverage from time to time. In April 2021, Xinhua News Agency, a PRC's state-run press agency, published an article criticising a number of online music platforms, including us, for allowing the same user to make repeated purchases of the same digital album as a way of showing support to their favourite artists. We cannot assure you that we will not be subject to further negative media coverage in the future or regulatory investigation or penalty with respect to the incident. The occurrence of such event may materially and adversely affect our reputation and results of operations.

We may incur impairment charges for our prepaid content royalties.

During the Track Record Period, we continue to expand the licensed music content from music labels in order to grow our business and incurred significant prepaid content royalties. As of 31 December 2018, 2019 and 2020, and 30 June 2021, our prepaid content royalties amounted RMB1,632.1 million, RMB1,837.3 million, RMB2,256.8 million and RMB1,874.2 million, respectively. The continuous procurement of licensed content is critical for expanding our monetisation channels, such as advertising services, digital album sales and our social entertainment services, and increasing our equity value as a whole. Although we are still at gross loss position, our revenue growth was strong, our gross loss was gradually narrowing down, and our equity value was increasing during the Track Record Period. All these indicate that our strategies of expanding our sources of music content from music labels enabled us to drive our expansion of monetisation channels successfully in the right direction during the Track Record Period and within our expectation based on our business model. In addition, since majority of our prepaid contents royalties are expected to be utilised and amortised within

next twelve months after the respective balance sheet dates as of 31 December 2018, 2019 and 2020, and 30 June 2021, and given the continuous growing and improving trend of our business performance and increase in our equity value, we did not identify any events or changes in circumstances which indicate that the carrying amount of the prepaid content royalties may be impaired. Accordingly, no impairment has been recorded for our prepaid content royalties during the Track Record Period.

If we cannot successfully grow our business and continue developing our monetisation channels in order to realise satisfactory returns on our content investment and generate sufficient revenue, our financial position, results of operations and equity value be materially and adversely affected and our then prepaid content royalties may be impaired.

However, there can be no assurance that such events or changes in circumstances may not happen in the future, and if so happens and to the extent there are indications that the carrying amount may not be recoverable, the value of such prepaid content royalties may fall below its carrying amount, resulting in impairment charges, which in turn will adversely affect our financial positions.

Our results of operations, financial conditions and prospects have been adversely affected by fair value changes of our convertible redeemable preferred shares during the Track Record Period. The determination of the fair value changes requires the use of estimates that are based on unobservable inputs, and therefore inherently involves a certain degree of uncertainty. The effect of the fair value change may continue to adversely affect the result of the Group.

We use significant unobservable inputs, such as expected volatility, discount for lack of marketability, risk-free interest rate and discount rate, in valuing our convertible redeemable preferred shares. Changes in fair value of our convertible redeemable preferred shares may significantly affect our financial position and results of operations. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. For instance, we had changes in fair value of our convertible redeemable preferred shares of RMB0.2 billion, RMB0.4 billion, RMB1.4 billion and RMB3.1 billion in 2018, 2019, 2020 and six months ended 30 June 2021, respectively. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of such liabilities. These factors include, but are not limited to, general economic condition, changes in market interest rates and stability of the capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could materially and adversely affect our results of operations and financial condition. We expect continued fluctuation of the fair value of our convertible redeemable preferred shares after 30 June 2021 till the Listing Date, upon which all the convertible redeemable preferred shares will automatically convert into our Shares. After the automatic conversion of the convertible redeemable preferred shares into Shares upon the Listing, which may result in a net asset position, we do not expect to recognise any further loss or gain on fair value changes from the convertible redeemable preferred shares in the future.

Fluctuation of our financial assets at fair value through profit or loss, partially due to the use of unobservable inputs in their valuation, has affected our results of operations during the Track Record Period and may continue to affect our results of operations in the future.

Fluctuation of fair value change of our current financial assets at fair value through profit or loss, which primarily consist of the wealth management products we purchased, may affect our results of operations. We made investments in wealth management products during the Track Record Period and recorded a fair value of wealth management products of RMB162.8 million, RMB338.7 million, RMB971.3 million and RMB52.8 million as of 31 December 2018, 2019 and 2020, and 30 June 2021, respectively. The wealth management products we purchased were issued by major and reputable commercial banks without guaranteed returns. The expected rates of return for such wealth management products held by us as of 30 June 2021 range from 1.26% to 3.92%. We are exposed to credit risk in relation to our investments in wealth management products, which may adversely affect the net changes in their fair value. We cannot assure you that market conditions and regulatory environment will result in fair value gains on the wealth management products we invest in or we will not incur any fair value losses on our investments in wealth management products in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected.

We have devoted, and will continue to devote substantial efforts to monetising our user base. If we fail to effectively execute our monetisation strategies, our business prospects, financial condition and results of operations may be materially and adversely affected.

We have devoted substantial efforts to monetising our user base by increasing our number of paying users and cultivating our users' willingness to pay for music. Our MAUs of online music services increased significantly from 105.1 million in 2018 to 147.2 million in 2019, and further to 180.5 million in 2020, and up from 173.2 million in the six months ended 30 June 2020 to 184.5 million in the six months ended 30 June 2021. Meanwhile, our MAUs of social entertainment services have reached approximately 19.4 million in 2020, and 20.4 million and 19.1 million in the six months ended 30 June 2020 and 2021, respectively. We monetise our platform primarily through the sales of membership subscriptions for our online music services and sales of virtual items for our social entertainment services. At a strategic level, we plan to continue to optimise our existing monetisation strategies and explore new monetisation opportunities. It is crucial to balance, on the one hand, creating sufficient monetisation opportunities, which enhances the revenues of our platform, and, on the other hand, maintaining an enjoyable platform, which helps to maintain a sizable user base, high user engagement and associated network effects. In addition, a small portion of our revenue is generated from repeated purchases from the same user during a given period of the same digital album and single, which represents 2.5%, 5.1%, 2.7% and 1.4% of its total revenues in 2018, 2019, 2020 and the first half of 2021. However, if these efforts fail to achieve our anticipated results, we may not be able to increase or even maintain our revenue growth.

In order to increase the number of our paying users and cultivate our users' willingness to pay for music content and social entertainment services, we will need to address a number of challenges, including:

- providing consistently high-quality and user-friendly experience;
- continuing to curate a catalogue of engaging content;
- continuing to introduce new, appealing products, services and content that users are willing to pay for;

- continuing to innovate and stay ahead of our competitors;
- continuing to maintain and enhance the copyright protection environment; and
- maintaining and building our relationships with our content providers and other industry partners.

If we fail to address any of these challenges, especially if we fail to offer high-quality music content and superior user experience to meet user preferences and demands, we may not be successful in increasing the number of our paying users and cultivating our users' willingness to pay for music content, which could have a material adverse impact on our business, financial condition and results of operations.

We face intense competition for users, users' time and attention, content, talent, advertising customers and other resources. We may not be able to increase or maintain our market share if we fail to compete effectively.

We operate in a competitive industry. Although the Group, has achieved a user base of 180.5 million MAU and 8.8% average paying ratio of online music services in 2020, and second largest market share of 20.5% in terms of online music services revenue in 2020 in China, a significant gap currently still exists between the Group and the largest market player in scale. Other social entertainment apps are also entering into the online music entertainment market, though at a relatively early stage of development, according to CIC. Please refer to "Industry – Landscape of Online Music Entertainment Market" for detailed information. We face competition for users and their time and spending with other services providers of music and music-inspired content in China. We also face competition from online offerings of other forms of content, including karaoke services, live streaming, podcasts, literature, video provided by other social entertainment services providers. We compete with our competitors on the basis of a number of factors, including diversity and quality of experience, social interaction features, ease of use, price, accessibility, perception of advertising load, brand awareness and reputation, our mobile app functions and our ability to continuously attract, incentivize and retain live streaming performers and their agencies.

In China's online music services industry, we are one of the two online music platforms at scale in China with the highest average paying ratio in 2020, featuring a highly interactive content community for music enthusiasts in terms of user scale and engagement, according to CIC Report. In addition, in China, there are several social entertainment platforms that are built on audio- or music-inspired live streaming content. Due to different revenue contributions from different types of music-inspired social entertainment services offerings (e.g. online karaoke, audio live streaming), the monthly ARPPU for these platforms vary from each other in scale. Tencent Music Entertainment Group and us are the two online music platforms at scale in China, with 72.8% and 20.5% market share in terms of online music services revenue in 2020, respectively. We face competition mainly from Tencent Music Entertainment and other music service providers in China. We may not be able to increase or maintain our market share if we fail to compete effectively.

Some of our competitors may be able to respond more quickly to technological innovations or changes in user demands and preferences, acquire more attractive and diverse content, and act more effectively in the development, promotion and sale of products than we can. In addition, they may enter into more favourable relationships with content providers and provide their users with content that competes with our offerings. If any of our competitors achieves greater market acceptance or is able to provide more attractive content offerings than we do, our user

traffic and market share may decrease, which may result in a loss of users, a loss of current or potential advertisers, a reduced share of our advertisers' overall marketing budget, or diminished brand strength, which could adversely affect our business, financial condition and results of operations.

Our strategic focus on rapid innovation and long-term user engagement over short-term financial performance may yield results that do not align with the market expectations.

Our business is growing and becoming more complex, and our success depends on our ability to quickly develop and launch new and innovative products and services. This business strategy could result in unintended outcomes or decisions that are poorly received by our users, advertisers, or partners. We have made, and expect to continue to make, significant investments to develop and launch new products, services and initiatives, which may involve significant risks and uncertainties, including the fact that such offerings may not be commercially viable for an indefinite period of time or at all, or may not result in adequate return of capital on our investments. No assurance can be given that such new offerings will be successful and will not adversely affect our reputation, operating results and financial condition.

Our culture also prioritises our long-term user engagement over short-term results of operations. We frequently make decisions that may reduce our short-term revenue or profitability if we believe that the decisions benefit the aggregate user experience and will thereby improve our financial performance over the long term. These decisions may not produce the long-term benefits that we expect, in which case our user growth and engagement, our relationships with our partners, as well as our business, operating results and financial condition could be materially harmed.

If we fail to continually attract, support and retain independent artists, live streaming performers and other content contributors on our platform, or their productivity or quality of content declines, our business, results of operations and prospects may be materially and adversely affected.

The engagement level of our user base as well as the quality of our content offered on our platform are closely linked to the popularity and performance of Registered Independent Artists, live streaming performers and other content contributors. Although we have entered into cooperation agreements with certain independent artists, live streaming performers and talent agencies of live streaming performers, they may breach the agreement or decide not to renew their agreements upon expiration. In addition to Registered Independent Artists or live streaming performers, we must continue to attract and retain other content contributors such as talented and popular karaoke singers and other key opinion leaders in order to maintain and increase our social entertainment content offerings and ensure the sustainable growth of our online music user community.

We must identify and attract these independent artists, live streaming performers and other content contributors and provide them with sufficient resources. However, we cannot assure you that we can continue to maintain the same level of attractiveness to such content contributors. If we can no longer maintain our relationships with independent artists, live streaming performers and other content contributors or their appeal decreases, the popularity of our platform may decline and the number of our users may decrease, which could materially and adversely affect our business, financial condition and results of operations.

If we fail to continue to improve our technology systems or develop new technologies to provide new service offerings or adapt to changing user needs and market trends, our business, results of operations and prospects may be materially and adversely affected.

Our industry is rapidly evolving and subject to continuous technological changes. Our success will depend on our ability to keep up with the changes in technology and user behaviour resulting from the technological developments. As we make our services available across a variety of mobile operating systems and devices, we are dependent on the interoperability of our services with popular mobile devices and mobile operating systems that we do not control, such as Android and iOS. Any changes in such mobile operating systems or devices that degrade the functionality of our services or give preferential treatment to competitive services could adversely affect usage of our services. Further, if the number of platforms for which we develop our services increases, which is typically seen in a dynamic and fragmented mobile services market such as China, it will result in an increase in our costs and expenses. If we fail to adapt our products and services to such changes in an effective and timely manner, we may suffer from decreased user traffic, which may result in reduced member base and number of advertising customers using our online advertising services. Furthermore, changes in technologies may require substantial capital expenditures in product development as well as in modification of products, services or infrastructure. We may not execute our business strategies successfully due to a variety of reasons such as technical hurdles, misunderstanding or erroneous prediction of market demand or lack of necessary resources. Failure to keep up with technological development may result in our products and services being less attractive, which, in turn, may materially and adversely affect our business, results of operations and prospects.

We depend upon third-party licences for a significant portion of our music content, and any adverse changes to, or loss of, our relationships with these music content providers may materially and adversely affect our business, operating results, and financial condition.

Significant portions of our music offerings are licensed from our music content partners, including leading online music platforms and music publishers and labels in China and internationally with whom we have entered into licensing agreements. Some of these online music platforms who we obtain licence from compete with us in the same market. There is no assurance that the licences currently available to us will continue to be available in the future at royalty rates and on terms that are favourable, commercially reasonable or at all.

The royalty rates and other terms of these licences may change as a result of various reasons beyond our control, such as changes in our bargaining power, changes in the industry, or changes in the legal or regulatory environment. If our music content partners are no longer willing or able to license content to us on terms acceptable to us, the breadth or quality of our content offerings may be adversely affected or our content acquisition costs may increase. Likewise, increases in royalty rates or changes to other terms of our licences may materially and adversely affect the breadth and quality of our music content offerings and may, in turn, materially and adversely affect our business, financial condition and results of operations.

There is also no guarantee that we have all of the licences for the music content available on our platform, as we need to obtain licences from many copyright owners, some of whom are unknown, and there are complex legal issues such as open questions of law as to when and whether particular licences are needed. Additionally, there is a risk that copyright owners, talent agencies, or legislative or regulatory bodies may require or attempt to require us to enter into additional licence agreements with, and pay royalties to, newly defined groups of copyright owners, some of which may be difficult or impossible to identify.

Even when we are able to enter into licence agreements with content partners, we cannot guarantee that such agreements will continue to be renewed indefinitely. It is also possible that such agreements will never be renewed at all. The non-renewal or termination of one or more of our licence agreements, the renewal of licence agreements on less favourable terms, any deterioration in our relationships with content providers or the entry of licence agreements between our content providers and any of our competitors could have a material adverse effect on our business, financial condition and results of operations.

Our licence agreements impose complex obligations upon us, and any breach of these agreements could adversely affect our business, operating results and financial condition.

Many of our licence agreements are complex and impose numerous obligations on us, including obligations to:

- calculate and make payments based on complex royalty structures that involve a
 number of variables, including the revenue generated and size of user base, which
 requires tracking the usage of content on our platform that may have inaccurate or
 incomplete metadata necessary for such calculation;
- make minimum guaranteed payments;
- use reasonable efforts to convert as many freemium users as possible to paying users;
- adopt and implement effective anti-piracy and geo-blocking measures;
- monitor performance by our sublicensees of their obligations with respect to content distribution and copyright protections; and
- comply with certain security and technical specifications.

Many of our licence agreements grant the licensor the right to audit our compliance with the terms and conditions of such agreements. If we materially breach any of these obligations or any other obligations set forth in any of our licence agreements, we could be subject to monetary penalties and our rights under such licence agreements could be terminated, either of which could have a material adverse effect on our business, financial condition and results of operations.

Minimum guarantees required under certain of our licence agreements may materially and adversely affect our business, financial condition and results of operations.

Certain of our licence agreements for music require that we make minimum guarantee payments to copyright owners. Such minimum guarantees are not always tied to our number of users or the number of sound recordings used on our platform. Accordingly, our ability to achieve and sustain profitability and operating leverage in part depends on our ability to increase our revenue through increased sales of our music services to our users in order to maintain a healthy gross margin. To the extent our subscription revenue growth or advertising sales do not meet our expectations or our sales decline significantly during the term of our licence agreements, our liquidity and results of operations may be materially and adversely affected. To the extent our revenues do not meet our expectations, our business, financial

condition and results of operations also could be adversely affected as a result of such minimum guarantees. In addition, the fixed cost nature of these minimum guarantees may limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate.

We rely on estimates of the market value of licensable content controlled by each content partner, as well as our own user growth and forecasted revenue, to forecast whether such minimum guarantees could be recouped against our actual content acquisition costs incurred over the duration of the licence agreement. To the extent that our actual revenue or market share underperform relative to our expectations, and our content acquisition costs do not exceed such minimum guarantees, our margins may be materially and adversely affected.

We may not have obtained complete licences for certain copyrights with respect to a portion of the content available on our platform.

Under PRC law, to secure the rights to provide music content on the internet or for our users to download or stream music from our platform, or to provide other related online music services, we must obtain licences from the appropriate copyright owners for one or more of the economic rights, including the music publishing and musical recording rights, among others.

We may not have complete licences for the copyrights underlying a portion of the music content offered on our platform, and therefore we may be subject to assertions by third parties of infringement or other violations by us of their copyright in connection with such content. We have sought, and will continue to seek, licences to the remaining tracks to the extent we identify the relevant copyright owners and enter into agreements with them.

With respect to the musical compositions and lyrics we license from our content partners, there is no guarantee that such content partners have the rights to license the copyright underlying all music content covered by our agreements. With respect to any musical compositions and lyrics that such content partner is not authorised to sublicense to us, such unauthorised content partner undertakes to resolve such disputes and compensate the relevant copyright owners from infringement claims made by third-party rights owners against us for using their content on our platform. Despite such undertakings by such unauthorised content partner, there is no guarantee that we will not be subject to potential copyright infringement claims by third parties in relation to content licensed from the unauthorised content partners.

If we fail to obtain complete licence for all the content available on our platform, we might be held liable in accordance with the law. According to the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), Regulation on Protection of the Right to Network Dissemination of Information (《信息網絡傳播權保護條例》) and other regulations, implementing rules and notices, we may bear civil liabilities including ceasing the infringement, eliminating the influence, making an apology, and compensating for the loss of the copyright owner. In addition, we might be penalised by the relevant authority, including ceasing the tort, giving a warning, confiscating the illegal gains, disposing the infringing copies, and monetary penalties. For example, where the illegal business amount exceeds RMB50,000, a fine of one to five times the illegal business amount may be imposed; where there is no illegal business amount, or the illegal business amount is difficult to be calculated or is less than RMB50,000, a fine of not more than RMB250,000 may be imposed. In the worst case scenario, where a crime is constituted, the violator shall be held criminally liable in accordance with the law.

Our historical growth rate may not be indicative of our future performance and growth prospects. If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.

We began our services in 2013 and have grown rapidly since then. However, due to our limited operating history, our historical growth rate may not be indicative of our future performance. We generated revenues of RMB1.1 billion, RMB2.3 billion, RMB4.9 billion, RMB2.0 billion and RMB3.2 billion in 2018, 2019, 2020 and six months ended 30 June 2020 and 2021, respectively. We cannot assure you that our growth rate will be the same as in the past. In addition, we may in the future introduce new services or expand our existing services, including those that currently are of relatively small scale or with which we have little or no prior development or operating experience. If these new or enhanced services fail to engage users, our business and operating results may suffer as a result. We cannot assure you that we will be able to recoup our investments in introducing these new services or enhancing existing smaller business lines, and we may experience significant loss and impairment of asset value due to such efforts.

Furthermore, as a technology company, we frequently introduce innovative products and services to our users and advertising customers in order to capture new market opportunities. However, we cannot assure you that our products and services will be well received by our users and advertising customers.

In addition, it is possible that our users and advertising customers may find our products and services objectionable. We immediately suspended such service pending further modifications. If our existing or new products and services are not well received by our users, we may suffer damages to our brand image and may not be able to maintain or expand our user base, which in turn may have a material and adverse effect on our business, financial condition and results of operations. You should consider our prospects in light of the risks and uncertainties fast-growing companies with limited operating histories in a fast-evolving industry may encounter.

Any failure to obtain the information necessary to identify the copyright owners of the content available on our platform may result in content removal from our platform and may subject us to potential copyright infringement claims.

Comprehensive and accurate copyright owner information for musical compositions and musical recordings underlying our music content is sometimes unavailable to us or difficult or, in some cases, impossible for us to obtain. For example, such information may be withheld by the owners or administrators of such rights, especially with regards to UGC or content provided by independent artists. If we are unable to identify comprehensive and accurate copyright owner information for the music content offered on our platform, such as identifying which composers, publishers or collective copyright organisations own, administer, license or sublicense music works, or if we are unable to determine which music works correspond to specific musical recordings, it may be difficult for us to (i) identify the appropriate copyright owners to whom to pay royalties or from whom to obtain a licence, or (ii) ascertain whether the scope of a licence we have obtained covers specific music works. This also may make it difficult to comply with the obligations of any agreements with those rights holders.

If we do not obtain necessary and commercially viable licences from copyright owners, whether due to the inability to identify or verify the appropriate copyright owners or for any other reason, we may be found to have infringed on the copyright of others, potentially resulting in claims for monetary damages, government fines and penalties, or a reduction of

content available to users on our platform, which would adversely affect our ability to retain and expand our user base, attract paying users of online music services and generate revenues from our content library. Any such inability may also involve us in expensive and protracted copyright disputes.

If any users or content contributors, including live streaming performers, have not obtained the necessary intellectual property rights in connection with the content they generate, we may be subject to potential disputes and liabilities.

We allow users to upload UGC on our platform, which exposes us to potential disputes and liabilities in connection with third-party copyright. When users register on our platform, they agree to our standard agreement, under which they agree not to disseminate any content infringing on third-party copyright. However, our platform has over the years accumulated UGC for which users or performers may not have obtained proper and complete copyright licences. Given the large volume of such UGC available on our platform, it is challenging for us to accurately identify and verify the individual users or performers that uploaded such content, the copyright status of such content, and the appropriate copyright owners from whom copyright licences should be obtained.

Under PRC laws and regulations, online service providers, which provide storage space for users to upload works or links to other services or content, may be held liable or be penalised by relevant authority for copyright infringement under various circumstances, including situations where the online service provider knows or should reasonably have known that the relevant content uploaded or linked to on its platform infringes upon the copyright of others and the online service provider profits from such infringing activities. For example, online service providers are subject to liability if they fail to take necessary measures, such as deletion, blocking or disconnection, after being duly notified by the legal right holders. According to Copyright Law of the People's Republic of China (《中華人民共和國著作權 法》), the Notice of the National Copyright Administration on Ordering Online Music Service Providers to Stop Unauthorised Dissemination of Music Works (《國家版權局關於責令網絡音 樂服務商停止未經授權傳播音樂作品的通知》) and other relevant regulations and notices, online service providers shall stop the unauthorised dissemination of music content and remove all unauthorised music content. If we fail to identify and continue to disseminate those content, we might be penalised by the relevant authority, including ceasing the tort, giving a warning, confiscating the illegal gains and disposing the infringing copies, monetary penalties or criminal liabilities.

As an online service provider, we have adopted measures to reduce the likelihood of using, developing or making available any content without the proper licences or necessary consents. Such measures include (i) requiring users to acknowledge and agree that they will not upload or perform content which may infringe upon others' copyright; (ii) putting in place procedures to block users on our blacklists from uploading content; and (iii) implementing "notice and take-down" policies to be eligible for the safe harbour exemption for UGC. However, these measures may not be effective in preventing the unauthorised posting and use of third parties' copyrighted content or the infringement of other third-party intellectual property rights. Specifically, it is possible that such acknowledgments and agreements by users may not be enforceable against third parties who file claims against us. Furthermore, a plaintiff may not be able to locate users who generate content that infringes on the plaintiff's copyright and may choose to sue us instead. In addition, individual users who upload infringing content on our platform may not have sufficient resources to fully indemnify us, if at all, for any such claims. Also, such measures may fail or be considered insufficient by courts or other relevant governmental authorities. If we are not eligible for the safe harbour exemption, we may be

subject to joint infringement liability with the users, and we may have to change our policies or adopt new measures to become eligible and retain eligibility for the safe harbour exemption, which could be expensive and reduce the attractiveness of our platform to users.

We may not be able to prevent others from infringement and unauthorised use of our intellectual property, which could harm our business and competitive position.

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality provisions, invention assignment provisions and non-compete agreements with our employees and others, to protect our proprietary rights. Although we are not aware of any copycat mobile apps that attempt to cause confusion or diversion of traffic from us at the moment, we may become an attractive target to such attacks in the future because of our brand recognition in the music industry in China. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property may not be sufficient to provide us with competitive advantages. In addition, there can be no assurance that (i) our application for registration of trademarks, patents and other intellectual property rights will be approved, (ii) any intellectual property rights will be adequately protected, or (iii) such intellectual property rights will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable. Furthermore, because of the rapid pace of technological change in our industry, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licences and technologies from these third parties at all or on reasonable terms.

It is often difficult to register, maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality provisions, invention assignment provisions and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Policing any unauthorised use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the infringement or misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources, and could put our intellectual property at risk of being invalidated or narrowed in scope. We can provide no assurance that we will prevail in such litigation, and even if we do prevail, we may not obtain a meaningful recovery. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in maintaining, protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

Assertions or allegations, even not true, that we have infringed or violated intellectual property rights could harm our business and reputation.

Third parties, including artists, copyright owners and other online music platforms, have asserted, and may in the future assert, that we have infringed, misappropriated or otherwise violated their copyright or other intellectual property rights. As we face increasing competition in China and globally, the possibility of intellectual property rights claims against us grows.

We have adopted robust screening processes to filter out or disable access to potentially infringing content. We have also adopted procedures to enable copyright owners to provide us with notice and evidence of alleged infringement, and are generally willing to enter into licence agreements to compensate copyright owners for works distributed on our platform. However, given the volume of content available on our platform, it is not possible to identify and promptly remove all alleged infringing content that may exist. Third parties may take action against us if they believe that certain content available on our platform violates their copyright or other intellectual property rights. Moreover, while we use certain measures and technologies to prevent all or a portion of our services and content from being accessed outside of the PRC as required by certain licensing agreements with our content partners, these measures and technologies may be breached and the content available on our platform may be accessed from places where such access is restricted, in which case we may be subject to potential liabilities, regardless of whether there is any fault or negligence involved on our part.

We have been and may in the future be involved in litigations and allegations based on allegations of infringement of third-party copyright due to the music content available on our platform. We may, from time to time, be involved in similar litigation and disputes or subject to allegations, whether of civil or criminal liability, of infringement, misappropriation or other violations of intellectual property rights in China, as well as globally as we seek to expand our international footprint. If we are forced to defend against any infringement or misappropriation claims, whether they are with or without merit, are settled out of court, or are determined in our favour, we may be required to expend significant time and financial resources to defend such claims. Furthermore, an adverse outcome of a dispute may damage our reputation, force us to adjust our business practises, or require us to pay significant damages, cease providing content that we were previously providing, enter into potentially unfavourable licence agreements in order to obtain the right to use necessary content or technologies, take other civil and criminal liabilities, or take other actions that may have a material adverse effect on our business, operating results and financial condition.

We also sublicense some of our licensed music content to other platforms. Our agreements with such third-party platforms typically require them to comply with the terms of the licence and applicable copyright laws and regulations. However, there is no guarantee that the third-party platforms that we sublicense content to will comply with the terms of our licence arrangements or all applicable copyright laws and regulations. In the event of any breach or violation by such platforms, we may be held liable to the copyright owners for damages and be subject to legal proceedings as a result, in which case our business, financial condition and results of operations may be materially and adversely affected.

In addition, music, internet, technology and media companies are frequently subject to litigation based on allegations of infringement, misappropriation or other violations of intellectual property rights. Other companies in these industries may have larger intellectual property portfolios than we do, which could make us a target for litigation as we may not be able to assert counterclaims against parties that sue us for intellectual property infringement. Furthermore, from time to time, we may introduce new products and services, which could increase our exposure to intellectual property claims. It is difficult to predict whether assertions of third-party intellectual property rights or any infringement or misappropriation claims arising from such assertions will substantially harm our business, financial condition and results of operations.

Our brand image, business and results of operations may be adversely impacted by misconduct by users, business partners and content contributors.

We have built *NetEase Cloud Music* into a well-recognised brand, which is critical to our business operations and continuous efforts to expand the bases of our users and business partners. Our business and financial performance is highly dependent on the strength and the market perception of our brand and services.

We do not have full control over how users use our platform, whether through our social networking features such as commenting, virtual gifting or other forms of sharing or communication. We face the risk that our platform may be misused or abused by content contributors, network performance brokerage agencies or other users. We have a robust internal control system in place to review and monitor live streams and other forms of social interactions among our users, as well as require content contributors and other business partners to comply with applicable laws and regulations, and will shut down streams that are illegal or inappropriate and take other measures on content contributors and business partners that violate laws and regulations. However, we may not be able to identify all such streams and content, or prevent all such misconduct.

Moreover, we have limited control over the real-time behaviour of our content contributors such as live streaming performers and users, and behaviours of our business partners. To the extent such behaviour is associated with our platform, our ability to protect our brand image and reputation, and our ability to maintain and promote operation results may be limited. Our business and public perception of our brand may be materially and adversely affected by the misuse of our platform. In addition, in response to allegations of illegal or inappropriate activities conducted through our platform or any negative media coverage about us, PRC government authorities may intervene and hold us liable for non-compliance with PRC laws and regulations concerning the dissemination of information on the internet and subject us to administrative penalties, including correction, warning, confiscation of income and fines or other sanctions, such as requiring us to restrict or discontinue certain features and services, or revoking our licences. As a result, our business, financial condition and results of operations may be materially and adversely affected.

The content available on our platform may be found objectionable by the PRC government or considered inappropriate or offensive by the public, which may subject us to penalties and other regulatory or administrative actions.

As an internet content provider, we are subject to PRC regulations governing internet access and the distribution of music, music videos and other forms of content over the internet. These regulations prohibit internet content providers and internet publishers from posting on the internet any content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest or is obscene, superstitious, frightening, gruesome, offensive, fraudulent or defamatory. In particular, since the outset of 2018, the Chinese government has tightened its crackdown on content that it deemed to be "vulgar" offered by online and mobile live streaming and video services. Failure to comply with these requirements may result in monetary penalties, revocation of licences to provide internet content or other licences, suspension of the concerned platforms and reputational harm. In addition, these laws and regulations are subject to interpretation by the PRC government, and it may not be possible to determine in all cases the types of content that could cause us to be held liable for offering content that is found objectionable by the PRC government.

Internet content providers may be held liable for content displayed on or linked to their online platforms that is subject to certain restrictions. We allow our users to upload UGC, such as music, videos, comments, reviews and other forms of content. We also make it possible for selected professional producers to make their content available to users through our official music accounts and allow them a high level of control of the content offered through our music accounts. While we have in place internal rules and procedures to monitor all the content on our platform, due to the massive amount of such content, we may not be able to identify, in a timely manner or at all, the content that is illegal or inappropriate or that may otherwise be found objectionable by the PRC government. Additionally, we may not be able to keep our rules and procedures abreast of changes in the PRC government's requirements for content display. Failure to identify and prevent illegal or inappropriate content from being displayed on our platform may result in legal and administrative liability, government sanctions, fines, loss of licences and permits, or reputational harm. If the PRC regulatory authorities find any content displayed on our platform objectionable, they may require us to limit or eliminate the dissemination of such content on our platform. In the past, we have from time to time received phone calls and written notices from the relevant PRC regulatory authorities requesting us to delete or restrict certain content that the government deemed inappropriate or sensitive. Our app was once taken down temporarily from the app stores, and we were once asked to temporarily suspend registration of new users, during the regulatory authorities' crackdown on content management of platforms. We have also been subject to certain fines and penalties for failure to effectively manage information published by our platform users.

To the extent that PRC regulatory authorities, such as CAC, which has promulgated the Provisions on the Governance of Network Information Content Ecology (《網絡信息內容生態治理規定》) with effect from 1 March 2020, find any content displayed on our platform objectionable, they may require us to limit or eliminate the dissemination of such content on our platform in the form of takedown orders or otherwise. NRTA publishes from time to time lists of content that is objectionable, and we monitor content uploaded on to our platform and remove those referenced in the list. In addition, regulatory authorities may impose penalties on us for content displayed on or linked to our platform in cases of material violations or lacking proper licence, including a revocation of our operating licences or a suspension or shutdown of our online operations. In the event that the PRC regulatory authorities find any content on our platform objectionable and impose penalties on us or take other actions against us in the future, our business, results of operations and reputation may be materially and adversely affected. Moreover, the costs of compliance with these regulations may continue to increase as a result of more content uploaded by our users.

We may require additional capital to fund technology investments, content and talent acquisitions and other business objectives. If sufficient capital is not available to us, our business, financial condition and prospects may be materially and adversely affected.

We may require additional capital from sources such as external debt, which may not be available on terms favourable or commercially reasonable to us or at all. We may also require additional cash resources due to changed business conditions or other future developments, including any changes in our account payable policy, marketing initiatives or investments we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to obtain a credit facility or sell additional equity or debt securities. The sale of additional equity securities could result in dilution of our existing shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all. In addition, any difficulty or failure to meet our liquidity needs as and when needed can have a material adverse effect on our prospects. A large balance of indebtedness may require that we devote our financial

resources to servicing such debt rather than funding our operating activities, which constrains our capital flexibility and may in turn adversely affect our results of operations. It may also be a challenge for us to service our interest and principal repayments in a timely manner or at all, which could trigger cross-defaults with other debt, as applicable, as well as limit our ability to obtain further debt financing.

Any disruption to, or any programming errors in, our technologies and operation systems could adversely affect our ability to deliver consistent and satisfactory experience to our users and decrease market acceptance of our products and services.

Our platform, operating systems or content on our platform may contain programming errors that adversely affect our user experience and market acceptance of our content. We have from time to time received user feedback pertaining to programming errors, and such errors may also come to our attention during our monitoring process. While we generally have been able to resolve such errors in a timely manner, we cannot assure you that we will be able to detect and resolve all these programming errors effectively. Programming errors or defects may adversely affect user experience, cause users to refrain from subscribing or otherwise paying for our services, or cause our advertising customers to reduce their use of our services, any of which could materially and adversely affect our business and results of operations.

Security breaches and attacks against our systems and network could damage our reputation and negatively impact our business, as well as materially and adversely affect our financial condition and results of operations.

Security breaches, computer viruses and hacking attacks have become more prevalent in our industry. Because of our brand recognition in the music industry in China, we believe we are a particularly attractive target for such attacks. Although we have employed significant resources to develop our security measures against breaches, our cybersecurity measures may not detect or prevent all attempts to compromise our systems, including distributed denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardise the security of information stored in and transmitted by our systems or that we otherwise maintain. We may experience such attacks and unexpected interruptions.

Breaches of our cybersecurity measures could result in unauthorised access to our systems, misappropriation of information or data, deletion or modification of user information, or a denial-of-service or other interruption to our business operations. As techniques used to obtain unauthorised access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers, we may be unable to anticipate, or implement adequate measures to protect against, these attacks. Any such future occurrences could reduce user satisfaction, damage our reputation and result in a material decrease in our revenue.

Our success depends on the continuing efforts of our senior management and key employees. If our senior management is unable to work together effectively or efficiently or if we fail to hire, retain and motivate key employees, our business may be severely disrupted.

We believe that our future success depends significantly on our continuing ability to attract, develop, motivate and retain our senior management and a sufficient number of experienced and skilled employees. Qualified individuals are in high demand, particularly in the music industry, and we may have to incur significant costs to attract and retain them. In particular, we cannot ensure that we will be able to retain the services of our senior management and key

executive officers. The loss of any key management or executive could be highly disruptive and adversely affect our business operations and future growth. Moreover, if any of these individuals joins a competitor or forms a competing business, we may lose crucial business secrets, technological know-how and other valuable resources.

We cooperate with various talent agencies to manage and engage live streaming performers, and any adverse change in our relationships could materially and adversely impact our business.

We cooperate with talent agencies to manage and engage live streaming performers on our platform. As we are an open platform that welcomes all live streaming performers to register, cooperation with talent agencies substantially increases our operation efficiency in terms of discovering, supporting and managing live streaming performers in a more organised and structured manner.

We share a portion of the revenues generated from the sales of virtual items attributed to the live streaming performers and the talent agencies who manage these performers. If we cannot balance the interests between us, live streaming performers and the talent agencies and offer a revenue-sharing mechanism or economic arrangement that is attractive to live streaming performers and talent agencies, we may not be able to retain their services. If other platforms offer better revenue sharing incentives to talent agencies, such talent agencies may choose to devote more of their resources to live streaming performers who stream on such other platforms, or encourage their live streaming performers to use or even enter into exclusive agreements with such other platforms, all of which could materially and adversely affect our business, financial condition and results of operations.

Failure to continually attract new advertisers, the loss of existing advertisers or decreases in demand for advertising services may adversely affect our business, financial condition and results of operations.

Our ability to generate and maintain our advertising services revenue depends on a number of factors, including the effectiveness of our advertisements; our ability to target the right users; the scale, engagement and loyalty of our users; effectiveness of our products and services; and market competition on advertising prices. It is important for us to attract more advertisers to our platform with increased user traffic and engagement, or offer more variety in terms of advertisement products to encourage more spending from advertisers. We cannot assure you that we will be able to retain existing advertisers or attract new ones. If we fail to retain and enhance our relationships with advertisers or expand the base of our advertisers, the growth of our advertising services may be slowed and our business, financial condition, results of operations and prospects may be materially and adversely affected.

In addition, our advertising services revenue is affected by changes in advertising services industry in China and in particular as well as advertisers' advertising budget. If the size of the Chinese online advertising market does not increase, or if we are unable to capture and retain a sufficient share of that market, our ability to maintain or increase our advertising services revenue and our profitability and prospects could be adversely affected.

Any real or perceived inaccuracies in our operating metrics may harm our reputation and our business.

We regularly review our key metrics to evaluate growth trends, measure our performance and make strategic decisions. These metrics are calculated using our internal data and have not been validated by an independent third party. While these numbers are based on what we

believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring how our services are used across large populations in China. For example, individuals who have multiple accounts and devices registered with our platform could result in an overstatement of the number of our users. We are also subject to the risk associated with artificial manipulation of data. Any errors or inaccuracies in these metrics could result in less informed business decisions and operational inefficiencies. For example, if our user base is overstated by the user engagement metrics we track, we may fail to make the right strategic choices needed to expand our user base and achieve our growth strategies.

The COVID-19 pandemic has adversely affected, and may continue to adversely affect, our business, operating results and financial condition.

Since early 2020, Mainland China and certain other regions and countries where we operate have been affected by the COVID-19 outbreak, and in response, governments have implemented, among other measures, restrictions on mobility and travel and cancellation of public activities to contain the spread of the virus. As a result, in the first half of 2020, our operations had to a certain extent been impacted by delays in business activities, commercial transactions and general uncertainties surrounding the duration of the governments' extended business and travel restrictions.

We took a series of measures in response to the outbreak to protect our employees, including, among others, temporary closure of our offices, remote working arrangements for our employees, and travel restrictions or suspension. These measures temporarily reduced the capacity and efficiency of our operations. In particular, the travel restrictions also resulted in the reduction in size or even cancellation of our offline events, which temporarily adversely affected our marketing activities. We also provided our employees with masks, hand sanitisers and other protective equipment immediately after the outbreak, which had increased and may continue to increase our operations and support costs. In addition, our business operations could be disrupted if any of our employees is suspected of contracting COVID-19 or any other epidemic disease, since our employees could be quarantined, and our offices may have to be shut down for disinfection. Furthermore, as social and work gatherings were banned, mandatory quarantine requirements were imposed and public transportation was suspended in certain cities and countries where our offices and facilities were located, a portion of our employees have been working remotely and our operations in those regions have been interrupted to the extent that onsite services of our employees were required.

In addition, the COVID-19 pandemic adversely affected our revenue generated from advertising services in the first half of 2020, as some of our advertisers reduced their expenditures and budgets. Our revenue generated from advertising services increased by 8.5% during the first half of 2020 compared to the first half of 2019, which could be higher without the negative impacts imposed by COVID-19 given that the revenue increase from advertising services from the year 2018 to 2019 is 42.5%. While the lockdown and various social distancing initiatives adopted by the governments during the outbreak of COVID-19 have caused people to turn to online social and entertainment activities in lieu of physical gatherings, these measures have led to reduced business activities in general. The general concerns and uncertainties about the pandemic and the economy and the overall weakening consumer sentiment may have negatively affected our business.

Many of the quarantine measures within China have since been relaxed, and we have resumed normal operations since the second half of 2020. The extent to which the COVID-19 pandemic may continue to affect our operations and financial performance will depend on future

developments, which are highly uncertain and cannot be predicted. While we believe the impact on our business due to the outbreak of COVID-19 was limited, it is hard for us to quantify the impact and estimate the extent to which the COVID-19 outbreak impacts our long-term results.

User access to our platform may be affected by third-party interference beyond our control.

Access to our services may be affected by restrictions on the ability of our users to access our applications via the internet. Corporations, professional organisations and governmental agencies could block access to the internet or our online platforms as a competitive strategy or for other reasons, such as security or confidentiality concerns, or political, regulatory or compliance reasons. In any of these occurrences, users may not be able to access our services, and user engagement and monetisation of our services may be adversely affected.

Additionally, we offer our mobile apps via app stores operated by third parties. Some of these third parties are now, and others may in the future become, competitors of ours, and could stop allowing or supporting access to our mobile apps through app stores, increase access costs or change the terms of access in a way that makes our apps less desirable or harder to access. Furthermore, since the mobile devices that provide users with access to our services are not manufactured and sold by us, we cannot guarantee that such devices will perform reliably, and any faulty connection between these devices and our services may result in user dissatisfaction toward us. As a result, our brand and reputation, business, financial condition and results of operations may be materially and adversely affected.

We rely on third-party online payment service providers for payment processing on our platform. If these payment services are restricted or curtailed in any way or become unavailable to us or our users for any reason, our business may be materially and adversely affected.

All online payments for products sold on our platform are settled through third-party online payment service providers. Our business depends on the billing, payment and escrow systems of these payment service providers to maintain accurate records of payments of sales proceeds by users and collect such payments. If the quality, utility, convenience or attractiveness of these payment processing and escrow services declines, or we have to change the pattern of using these payment services for any reason, the attractiveness of our platform could be materially and adversely affected.

Business involving online payment services is subject to a number of risks that could materially and adversely affect third-party online payment service providers' ability to provide payment processing and escrow services to us, including:

- dissatisfaction with these online payment services or decreased use of their services by our users;
- increasing competition, including from other established PRC internet companies, payment service providers and companies engaged in other financial technology services;
- changes to rules or practises applicable to payment systems that link to third-party online payment service providers;

- breach of users' personal information and concerns over the use and security of information collected from users:
- service outages, system failures or failures to effectively scale the system to handle large and growing transaction volumes;
- increasing costs to third-party online payment service providers, including fees charged by banks to process transactions through online payment channels, which would also increase our cost of revenue; and
- failure to manage funds accurately or loss of funds, whether due to employee fraud, security breaches, technical errors or otherwise.

Certain commercial banks in China impose limits on the amounts that may be transferred by automated payment from users' bank accounts to their linked accounts with third-party online payment services. We cannot predict whether these and any additional restrictions that could be put in place would have a material adverse effect on our platform. The commercial banks and third-party online payment service providers that we work with are subject to the supervision of PBOC. PBOC may publish rules, guidelines and interpretations from time to time regulating the operation of financial institutions and payment service providers, which may in turn affect how they provide payment services to us. If required by PBOC or other relevant governmental authorities in the future, we may need to adjust or suspend our cooperation model with third-party payment service providers, and be subject to fines and other sanctions.

In addition, we cannot assure you that we will be successful in entering into and maintaining amicable relationships with these online payment service providers and commercial banks. Identifying, negotiating and maintaining relationships with these providers require significant time and resources. Our current agreements with these service providers also do not prohibit them from working with our competitors. They could choose to terminate their relationships with us or propose terms that we cannot accept. In addition, these service providers may not perform as expected under our agreements with them, and we may have disagreements or disputes with such payment service providers, any of which could adversely affect our brand and reputation as well as our business operations.

Our revenues and financial results may be adversely affected by any economic slowdown in China as well as globally.

The global macroeconomic environment is facing challenges. The growth rate of the Chinese economy has gradually slowed in recent years and the trend may continue. There is considerable uncertainty over the long-term effects of the monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns on the relationships among China and other countries, including the surrounding Asian countries, which may potentially have economic effects. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or PRC economy may materially and adversely affect our business, results of operations and financial condition. In addition, continued turbulence in the international markets may adversely affect our ability to access capital markets to meet liquidity needs.

We have been subject to claims, lawsuits and other legal and regulatory proceedings and may continue to be subject to these proceedings from time to time in the ordinary course of our business, which may adversely affect our business, results of operations and financial condition.

From time to time in the ordinary course of business, we have been, and may in the future be. subject to lawsuits brought by our competitors, individuals or other entities against us, as well as governmental investigations or proceedings, in matters primarily relating to intellectual property rights and competition claims. We cannot predict the outcomes of such lawsuits or governmental actions, which may not be successful or favourable to us. Lawsuits or governmental investigations against us may also generate negative publicity that significantly harms our reputation, which may adversely affect our user base and relationships with our content partners. In addition to the related cost, managing and defending litigation and governmental proceedings can significantly divert our management's attention from operating our business. We may also need to pay damages or settle lawsuits or governmental proceedings with a substantial amount of cash, or be required by the relevant governmental authorities to make substantive changes to our existing business model. While we do not believe that any such proceedings are likely to have a material adverse effect on us, if there were adverse determinations in legal proceedings against us, we could be required to pay substantial monetary damages or adjust our business practises, which could have an adverse effect on our reputation, business, financial condition and results of operations.

We rely on app stores to distribute our apps.

Users download our mobile apps through mobile application stores or platforms owned and operated by third parties. We rely on these third parties to distribute our mobile apps, record gross billings, maintain the security of their platforms to prevent fraudulent activities, provide certain user services and, in some instances, process payments from users. Further, we believe that our mobile apps benefit from the strong brand recognition, large user base and the stickiness of these mobile platforms.

We are subject to these third parties' standard terms and conditions for application developers, which govern the promotion, distribution and operation of mobile apps on their platforms. If we violate, or if a platform provider believes that we have violated, its terms and conditions, the particular platform provider may discontinue or limit our access to that platform, which could harm our business. Our business could also be harmed if these platforms decline in popularity with users, the communication channels available to developers, their terms of service or other policies or payment methods for in-app purchases.

Furthermore, a few of these third-party platforms dominate the mobile application distribution channels. Any changes in the revenue-sharing arrangements that we have with any of the major third-party application distribution platforms may materially impact our revenue and profitability. In addition, changes in the credit period or the settlement cycle terms of these third-party platforms may materially and adversely affect our cash flow. Disputes with third-party platforms, such as disputes relating to intellectual property rights, distribution fee arrangements and billing issues, may also arise from time to time and we cannot assure you that we will be able to resolve such disputes in a timely manner or at all. If our collaborations with major third-party platforms terminate for any reason, we may not be able to find a replacement in a timely manner or at all and the distribution of our mobile apps may be adversely affected.

We may be subject to a variety of detrimental conduct by third parties, including complaints to regulatory agencies, negative blog postings, and the public dissemination of malicious assessments of our business that could harm our reputation and negatively impact our business and results of operations.

We may be subject to allegations by third parties, including complaints to regulatory agencies. negative blog postings, and the public dissemination of malicious assessments of our business. We may also become the target of harassment or other detrimental conduct by third parties or disgruntled former or current employees. Such conduct may include complaints, anonymous or otherwise, to regulatory agencies, media or other organisations. We may be subject to government or regulatory investigations or other proceedings as a result of such third-party conduct and may be required to spend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, if at all. Additionally, direct or indirect allegations against us may be posted on the internet, including social media platforms, by anyone on an anonymous basis, regardless of whether they are related to us. Any negative publicity relating to us or our management can be quickly and widely disseminated. Social media platforms immediately publish the content to their users, often without filters or checks on the accuracy of the content. Information posted may be inaccurate and adverse to us, and it may harm our reputation, business operations and prospects. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of negative and potentially false information about our business, operations and management, which in turn may cause us to lose market share, users or advertising customers.

We depend on various service providers to provide services that are critical to our business, which exposes us to various risks that may materially and adversely affect our reputation, business, financial condition and results of operations.

We currently use numerous third-party or affiliated service providers to provide services that are critical to our businesses. We have engaged third-party or affiliated service providers, including NetEase, to provide online payment, content distribution, data support, advertising agency services and other services. If any of these service providers breaches its obligations under the contractual arrangements to provide such service to our platform, or refuses to renew these service agreements on terms acceptable to us, or at all, we may not be able to find a suitable alternative service provider. Similarly, any failure of or significant quality deterioration in such service provider's service platform or system could materially and adversely affect user perception of our platform and may also result in users reducing visits or cancelling their purchase of our services and content. In addition, our platform relies on these service providers' customer service representatives to serve our users. If any such service provider fails to address customer service requests properly and in a timely manner, our users may be unable to access our content or may attribute any unpleasant experience with their customer service to us. As a result, our reputation, business, financial condition and results of operations could be materially and adversely affected.

Our existing and future strategic alliances, investments or acquisitions may fail, which may materially and adversely effect on our business, reputation, results of operations and financial condition.

We may enter into strategic alliances, including joint ventures or equity investments, with various third parties to further our business purpose from time to time. These alliances could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the third parties and increased expenses in establishing new strategic

alliances, any of which may materially and adversely affect our business. We may have limited ability to monitor or control the actions of these third parties, and to the extent any of these strategic third-parties suffer negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with any such third parties.

In addition, when appropriate opportunities arise, we may acquire additional assets, products, technologies or businesses that are complementary to our existing business. We may also have to obtain approvals and licences from relevant government authorities for the acquisitions and to comply with any applicable PRC laws and regulations, which could result in increased delay and costs, and may derail our business strategy if we fail to do so. Furthermore, past and future acquisitions and the subsequent integration of new assets and businesses require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial results that we expect. Acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortisation expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant. Furthermore, our equity investees may generate significant losses, a portion of which will be shared by us in accordance with IFRS. Any such negative developments could have a material adverse effect on our business, financial condition and results of operations.

We have no experience operating as a stand-alone public company.

We have no experience conducting our operations as a stand-alone public company. After we become a stand-alone public company, we may face enhanced administrative and compliance requirements, which may result in substantial costs.

In addition, since we are becoming a public company, our management team will need to develop the expertise necessary to comply with the numerous regulatory and other requirements applicable to public companies, including requirements relating to corporate governance, listing standards and securities and investor relationships issues. As a stand-alone public company, our management will have to evaluate our internal controls system with new thresholds of materiality, and to implement necessary changes to our internal controls system. We cannot guarantee that we will be able to do so in a timely and effective manner.

Our results of operations are subject to fluctuations due to seasonality.

Seasonal variations in user and advertising behaviour may also cause fluctuations in our financial results. The number of our active users tends to be higher during summer and winter breaks when young users are more active on our platform. The increase of our active users during winter breaks tends to be offset by the decrease of our active users during the Chinese New Year holidays. In addition, the number of our monthly paying users and monthly ARPPU of social entertainment services tend to be higher during the fourth quarter, correlating with our marketing campaigns and promotional activities as well as significant live streaming events on our platform, which typically happen in the fourth quarter.

We also expect to experience some effects of seasonal trends in our results of operations due to higher advertising sales during the third and fourth quarters of each year and lower advertising sales in the first and second quarters of the following year. Expenditures by

advertisers tend to be cyclical and discretionary in nature, reflecting overall economic conditions, the economic prospects of specific advertisers or industries, budgeting constraints and buying patterns and a variety of other factors, many of which are outside our control.

We may not be able to fulfil our obligations in respect of contract liabilities, which may have a material and adverse impact on our results of operations and financial condition.

As of 31 December 2018, 2019 and 2020, and 30 June 2021, our contract liabilities amounted to RMB123.4 million, RMB183.6 million, RMB414.1 million and RMB573.9 million, respectively. Our contract liabilities primarily arose from the advance payments received from customers related to sales of membership subscriptions, sublicensing of copyright and sales of virtual items. See "Financial Information — Working Capital — Contract Liabilities." If we fail to fulfil our obligations under our contracts with customers, we may not be able to convert such contract liabilities into revenue, and our customers may also require us to refund the advance payments we have received, which may adversely affect our cash flow and liquidity condition. In addition, it may adversely affect our business, our relationship with such customers, which may also affect our reputation and results of operations in the future.

We have granted, and may continue to grant, share incentive awards under our Pre-IPO Share Incentive Plan, which may result in increased share-based compensation expenses.

We adopted our Pre-IPO Share Incentive Plan in 2016 for the purpose of incentivizing the performance of our employees and directors. The maximum number of shares which may be issued pursuant to all awards granted under the plan is 15,000,000. See "Statutory and General Information — Share Incentive Plan" in Appendix IV. We incurred share-based compensation payments of RMB17.2 million, RMB12.0 million, RMB21.9 million and RMB147.5 million in 2018, 2019, 2020 and the six months ended 30 June 2021, respectively. As of the Latest Practicable Date, options to purchase a total of 11,748,650 Shares have been granted under the Pre-IPO Share Incentive Plan. We believe the granting of share-based compensation is of significant importance to our ability to attract and retain key employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with equity-settled share-based compensation may increase, which may have an adverse effect on our results of operations and financial performance.

The current tensions in international trade and rising political tensions, particularly between the United States and China, may adversely impact our business, financial condition and results of operations.

International market conditions and the international regulatory environment have historically been affected by competition among countries and geopolitical frictions. Changes to trade policies, treaties and tariffs, or the perception that these changes could occur, could adversely affect the global financial and economic conditions. There have been political matters that resulted in increased tensions between U.S. and China. In addition, China has implemented, and may further implement, measures in response to new trade policies, treaties and tariffs initiated by the U.S. government. Such measures may further escalate the tensions between the countries or even lead to a trade war. Any further escalation in trade tensions between China and the U.S. or a trade war, or the perception that such escalation or trade war could occur, may have negative impact on the economies of not only the two countries concerned, but the global economy as a whole. As a result, our business, results of operations and prospects would be adversely affected.

We rely on proper operation and maintenance of our platform and internet infrastructure and telecommunications networks in China. Any malfunction, capacity constraint or operation interruption may have an adverse impact on our business.

Currently, substantially all of our sales of products are generated online through our internet platform. Therefore, the satisfactory performance, reliability and availability of our internet platform are critical to our success and our ability to attract and retain users. Our business depends on the performance and reliability of the internet infrastructure in China. The reliability and availability of our internet platform depends on telecommunications carriers and other third-party providers for communications and storage capacity, including bandwidth and server storage, among other things. If we are unable to enter into and renew agreements with these providers on acceptable terms, or if any of our existing agreements with such providers are terminated as a result of our breach or otherwise, our ability to provide products and services could be adversely affected. Access to internet in China is maintained through state-owned telecommunications carriers under administrative control, and we obtain access to end-user networks operated by such telecommunications carriers and internet service providers to give users access to our internet platform. The failure of telecommunications network operators to provide us with the requisite bandwidth could also interfere with the speed and availability of our internet platform. Service interruptions prevent users from accessing our internet platform and purchase services, and frequent interruptions could frustrate users and discourage them from attempting to purchase services, which could cause us to lose users and harm our operating results.

We are subject to anti-corruption, anti-bribery, sanctions and similar laws, and non-compliance with such laws can subject us to administrative, civil and criminal fines and penalties, collateral consequences, remedial measures and legal expenses.

We are subject to anti-corruption, anti-bribery, sanctions and similar laws and regulations in various jurisdictions in which we conduct activities. We have direct or indirect interactions with officials and employees of government agencies and state-owned affiliated entities in the ordinary course of business. These interactions subject us to an increased level of compliance-related concerns. We have implemented policies and procedures designed to ensure compliance by us and our Directors, officers, employees, representatives, consultants, agents and business partners with applicable anti-corruption and anti-bribery and similar laws and regulations. However, our policies and procedures may not be sufficient and our Directors, officers, employees, representatives, consultants, agents and business partners could engage in improper conduct for which we may be held responsible, or subject us to financial loss and sanctions or penalties imposed by governmental authorities while seriously damaging our reputation.

Non-compliance with anti-corruption or anti-bribery laws and regulations could subject us to whistle-blower complaints, adverse media coverage, investigations and severe administrative, civil and criminal sanctions, collateral consequences, remedial measures and legal expenses. If we or any of our associates fail to comply with economic sanctions or trade restrictions imposed by national or international authorities that are applicable to us or them, we may be exposed to potential legal liability and the costs associated with investigating potential misconduct, as well as potential reputational damage.

Any export controls or any economic or trade restrictions in the U.S. or elsewhere applicable to our businesses could be complex and may change frequently. The interpretation and enforcement of such laws and regulations involve uncertainties, which may be driven by political or other factors out of our control or heightened by national security concerns. Any potential restrictions imposed on us or our suppliers, as well as any associated inquiries or investigations or any other government actions, may be difficult or costly to comply with and

may cause disruptions to our service offerings and business operations, result in negative publicity, require significant management time and attention and subject us to fines, penalties or orders. Any of the foregoing events may have a material and adverse effect on our business, financial condition and results of operations.

Pandemics and epidemics, natural disasters, terrorist activities, political unrest and other outbreaks may disrupt our business operations, which could materially and adversely affect our business, financial condition, results of operations and prospects.

In recent years, there have been outbreaks of epidemics globally. In addition to the impact of COVID-19 as described above, our business could be materially and adversely affected by natural disasters, such as snowstorms, earthquakes, fires or floods; the outbreak of other widespread health epidemic, such as swine flu, avian influenza, severe acute respiratory syndrome, Ebola or Zika; or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. The occurrence of such a disaster or prolonged outbreak of an epidemic illness or other adverse public health developments in the countries and regions we operate in could materially disrupt our business and operations. Such events could also significantly affect our industry and cause a temporary closure of the facilities we use for our operations, which would severely disrupt our operations and have a material adverse effect on our business, financial condition, results of operations and prospects. Our operations could be disrupted if any of our employees were suspected of having any of the epidemic illnesses, since this could require us to quarantine some or all of such employees or disinfect the facilities used for our operations. In addition, our revenues could be materially reduced to the extent that a natural disaster, health epidemic or other outbreak harms the Chinese or global economy in general. Our operations could also be severely disrupted if our users, advertising customers, suppliers or other participants were affected by such natural disasters, health epidemics or other outbreaks.

We may be subject to social and natural catastrophic events that are beyond our control, such as natural disasters, health epidemics, riots, political and military upheavals and other outbreaks in the country or region where we have our operations or where a portion of our users are located. Such events could significantly disrupt our operations and negatively impact our business, financial condition, results of operations and prospects.

We have limited insurance coverage, which could expose us to significant costs and business disruption.

We maintain various insurance policies to safeguard against risks and unexpected events. 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. We also provide other benefits including commercial insurance. We do not maintain business interruption insurance, nor do we maintain product liability insurance. We cannot assure you that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

Advertisements shown on our platform may subject us to penalties and other administrative actions.

Under PRC advertising laws and regulations, we are obligated to monitor the advertising content shown on our platform to ensure that such content is true, accurate and in full compliance with applicable laws and regulations. See "Regulations — Regulations on Internet Advertisement." Violation of these laws and regulations may subject us to penalties, including fines, confiscation of our advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. A majority of the advertisements shown on our platform are provided to us by third parties. While we have implemented a combination of automated monitoring and manual review to ensure that the advertisements shown on our platform are in compliance with applicable laws and regulations, we cannot assure you that all the content contained in such advertisements is true and accurate as required by the advertising laws and regulations, especially given the uncertainty in the application of such laws and regulations. In addition, advertisers may, through illegal technology, evade our content monitoring procedures to show advertisements on our platform that do not comply with applicable laws and regulations. The inability of our systems and procedures to adequately and timely discover such evasions may subject us to regulatory penalties or administrative sanctions.

RISKS RELATED TO OUR RELATIONSHIP WITH NETEASE

If we are no longer able to benefit from our cooperation with NetEase, our business may be adversely affected.

We have benefited from during the Track Record Period, and expect to continue to benefit from, our cooperation with NetEase for various forms, such as advertising services, advertising agency services, bandwidth, server custody and rack services, information technology services, procurement services, rental services and licensing of intellectual property rights. In particular, we source certain of our end-advertising clients and campaigns through NetEase Group under advertising service and advertising agency service arrangements with NetEase Group. See "Connected transactions - NetEase Group Framework Agreement - Details of the transactions — Advertising Services by our Group to NetEase Group and Advertising Agency Services by NetEase Group to our Group." If NetEase fails to continue its cooperation with us, provide support to us, or conducts business in an unacceptable manner or takes other actions that are detrimental to our interests, we may have to renegotiate with NetEase for the cooperation or support or attempt to approach other business partners as replacements, which may be expensive, time-consuming and disruptive to our operations. See "Connected transactions" for further details. If we are unable to maintain our relationship with NetEase, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and financial condition.

NetEase, our controlling shareholder, has had and will continue to have effective control over the outcome of shareholder actions in our Company.

As at the Latest Practicable Date, NetEase controls more than 30% of the voting rights in our Company through beneficially owned Shares (as to 62.46% of the total issued share capital in our Company, assuming the Presumptions). Our Company will remain a subsidiary of NetEase, and NetEase will be our Controlling Shareholder after the Listing. After the Listing, NetEase will be the only Shareholder directly interested in more than 30% of our total issued share capital. Additionally, NetEase has been granted an Anti-dilution Right to acquire new Shares under the Global Offering up to such amount so as to maintain the same shareholding

percentage in the total issued share capital of our Company immediately before and after the Global Offering (assuming the Presumptions, but taking into account the exercise of the Anti-dilution Right). See "Relationship with our Controlling Shareholder" for further details.

NetEase's voting control may cause transactions to occur that might not be beneficial to you as a holder of the Shares and may prevent transactions that would be beneficial to you. For example, NetEase's voting control may prevent a transaction involving a change of control of us, including transactions in which you as a holder of the Shares might otherwise receive a premium for your securities over the then-current market price. If NetEase is acquired or otherwise undergoes a change of control, any acquirer or successor will be entitled to exercise the voting control and contractual rights of NetEase, and may do so in a manner that could vary significantly from that of NetEase. In addition, the significant concentration of share ownership may adversely affect the trading price of the shares due to investors' perception that conflict of interest may exist or arise. See "— Risks related to our relationship with NetEase — We may have conflict of interest with NetEase and, because of NetEase's controlling ownership interest in our Company, we may not be able to resolve such potential conflicts on terms favourable to us" in this section.

We may have conflict of interest with NetEase and, because of NetEase's controlling ownership interest in our Company, we may not be able to resolve such potential conflicts on terms favourable to us.

We may have conflict of interest with NetEase and, because of NetEase's controlling ownership interest in our Company, we may not be able to resolve such conflict on terms favourable to us. Conflict of interest may arise between NetEase and us in a number of areas relating to our ongoing relationships. Potential conflicts of interest that we have identified mainly include the following:

- Allocation of business opportunities. There may arise business opportunities in the future that both we and NetEase are interested in and which may complement the respective businesses. Due to the controlling interest of NetEase and its leading market position and brand in China, NetEase may decide to take up such opportunities itself, which would prevent us from taking advantage of those opportunities.
- Employee recruiting and retention. Because both NetEase and we are operating in the internet industry in China, we may compete with NetEase in the hiring of employees.
- Sale of shares in our Company. NetEase may decide to sell all or a portion of the shares in our Company that it holds to a third party, including to one of our competitors, thereby giving that third-party substantial influence over our business and our affairs. Such a sale could be contrary to the interests of our employees or our other Shareholders.
- Developing business relationships with NetEase's competitors. So long as NetEase remains our controlling shareholder, we may be limited in our ability to do business with its competitors. This may limit our ability to market our services for the best interests of our Company and our other Shareholders.

• Our Directors and employees may have conflicts of interest. Some of our Directors are also employees of NetEase. These relationships could create, or appear to create, conflicts of interest when these persons are faced with decisions with potentially different implications for NetEase and us.

Although the Company will become a stand-alone public company, we expect to operate, for as long as NetEase is our Controlling Shareholder, as an affiliate of NetEase. NetEase may from time to time make strategic decisions that it believes are in the best interests of its business and shareholders as a whole. These decisions may be different from the decisions that we would have made on our own. NetEase's decisions with respect to us or our business may be resolved in ways that favour NetEase and therefore the NetEase Shareholders, which may not coincide with our interests and the interests of our other Shareholders. After we become a stand-alone public company, we will have an audit committee, consisting of independent non-executive Directors, to review and approve all proposed connected transactions as defined in the Listing Rules. However, we may not be able to resolve all potential conflicts, and even if we do so, the resolution may be less favourable to us than if we were dealing with a non-controlling shareholder. For further details as to how we address such conflicts, see "Relationship with our Controlling Shareholder."

Any negative development in NetEase's market position and brand image may adversely affect the strength and integrity of our brand.

We have benefited significantly and expect to continue to benefit significantly from NetEase's strong brand recognition and broad user base, which provide us credibility and a broad marketing reach. If NetEase loses its market position, the effectiveness of our marketing efforts through our association with NetEase may be materially and adversely affected. In addition, any negative publicity associated with NetEase or any negative development with respect to NetEase's market position and brand image, it could have an adverse impact on our business, our marketing efforts, our relationships with strategic partners and users, our reputation and brand.

RISKS RELATED TO OUR CORPORATE STRUCTURE

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.

PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in internet and other related businesses, including the provision of internet content. For example, the internet cultural business (except for music), the internet audio-visual programme business, the radio and television programme production and operation business, and the production of audio-visual products and electronic publications remain as prohibited areas for foreign investment. Specifically, foreign ownership of a commercial internet information services provider may not exceed 50%, and the major foreign investor is required to have a record of good performance and operating experience in managing value-added telecommunications business. We are a company registered in the Cayman Islands and our WFOE is considered a foreign invested enterprise. To comply with PRC laws and regulations, we conduct our business in China mainly through our VIEs, including Hangzhou Yuedu, and their respective subsidiaries, based on a series of contractual arrangements by and among our WFOE, our VIEs, and their shareholders. As a result of these

contractual arrangements, we exert control over our consolidated affiliated entities and consolidate their financial results in our financial statements under U.S. GAAP. Our consolidated affiliated entities hold the licences, approvals and key assets that are essential for our operations.

In the opinion of our PRC Legal Adviser, based on its understanding of the relevant PRC laws and regulations, except as disclosed in this document, each of the contracts among our WFOE, our VIEs and their shareholders is valid and binding on the parties of the contracts in accordance with its terms. However, we have been further advised by our PRC Legal Adviser that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Thus, the PRC government may ultimately take a view contrary to the opinion of our PRC Legal Adviser. If we are found in violation of any PRC laws or regulations or if the contractual arrangements among our WFOE, our VIEs and their shareholders are determined as illegal or invalid by the PRC court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoking the business licences and operating licences of such entities;
- imposing fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- discontinuing or placing restrictions or onerous conditions on our operations;
- placing restrictions on our right to collect revenues;
- shutting down our servers or blocking our applications;
- requiring us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licences or relocate our businesses, staff and assets;
- imposing additional conditions or requirements with which we may not be able to comply; or
- taking other regulatory or enforcement actions against us that could be harmful to our business.

The imposition of any of these penalties may result in a material and adverse effect on our ability to conduct our business operations. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of our consolidated affiliated entities or the right to receive their economic benefits, we would no longer be able to consolidate their financial results.

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.

Due to PRC restrictions or prohibitions on foreign ownership of internet and other related businesses in China, we operate our business in China through our VIEs and their subsidiaries, in which we have no ownership interest. We rely on a series of contractual arrangements with

our VIEs and their shareholders, including the powers of attorney, to control and operate business of our consolidated affiliated entities. These contractual arrangements are intended to provide us with effective control over our consolidated affiliated entities and allow us to obtain economic benefits from them. See "Contractual arrangements" for more details about these contractual arrangements. In particular, our ability to control the consolidated affiliated entities depends on the shareholder voting right trust agreements and the powers of attorney, pursuant to which our WFOE can vote on all matters requiring shareholder approval in our VIEs. We believe the shareholder voting right trust agreements and these powers of attorney are binding on the parties of the contracts but may not be as effective as direct equity ownership.

Although we have been advised by our PRC Legal Adviser, JunHe LLP, that except as disclosed in this document, each of the contracts among our WFOE, our VIEs and their shareholders is valid and binding on the parties of the contracts under existing PRC laws and regulations, these contractual arrangements may not be as effective in providing control over our VIEs and their subsidiaries as direct ownership. If our VIEs or their shareholders fail to perform their respective obligations under the contractual arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. These contractual arrangements are governed by and interpreted in accordance with PRC law, and disputes arising from these contractual arrangements will be resolved through arbitration in China. However, it may be more difficult to predict the outcome of arbitration proceedings in China than in more developed legal systems. See "- Risks related to doing business in China - Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us." There are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of arbitration should legal action become necessary. In addition, although the Contractual Arrangements provide that the arbitrator may award interim remedies or order the winding-up of the Onshore Holdcos; and that the courts of Hong Kong, the Cayman Islands and the PRC also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies, our PRC Legal Adviser has advised that the tribunal normally would not grant such injunctive relief or order the winding-up of the Onshore Holdcos pursuant to current PRC laws, and that interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognisable in the PRC or enforceable under the current PRC laws. These uncertainties could limit our ability to enforce these contractual arrangements. In addition, arbitration awards are final and can only be enforced in PRC courts through arbitration award recognition proceedings, which could cause additional expenses and delays. In the event we are unable to enforce these contractual arrangements or we experience significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our VIEs and may lose control over the assets owned by our VIEs. As a result, we may be unable to consolidate the financial results of such entities in our consolidated financial statements, our ability to conduct our business may be negatively affected, and our operations could be severely disrupted, which could materially and adversely affect our results of operations and financial condition.

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.

Our VIEs hold assets that are material to our business operations. Under our contractual arrangements, the shareholders of our VIEs may not voluntarily liquidate our VIEs or approve them to engage in any transaction that may materially affect their assets, liabilities, rights or operations in any manner without our prior consent. However, in the event that the

shareholders breach this obligation and voluntarily liquidate our VIEs, or our VIEs declare bankruptcy, or all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our operations, which could materially and adversely affect our business, financial condition and results of operations. Furthermore, if our VIEs or their subsidiaries undergo a voluntary or involuntary liquidation proceeding, their shareholders or unrelated third-party creditors may claim rights to some or all of its assets, hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

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.

Pursuant to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by PRC tax authorities. We may be subject to adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our WFOE, our VIEs and their shareholders are not on an arm's-length basis and therefore constitute favourable transfer pricing. As a result, the PRC tax authorities could require that our VIEs adjust their taxable income upward for PRC tax purposes. Such an adjustment could increase our VIEs' tax expenses without reducing the tax expenses of our WFOE, subject our VIEs to late payment fees and other penalties for under-payment of taxes, and result in the loss of any preferential tax treatment our WFOE may have. As a result, our consolidated results of operations may be adversely affected.

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.

In China, a company chop or seal serves as the legal representation of the company towards third-parties even when unaccompanied by a signature. Each legally registered company in China is required to maintain a company chop, which must be registered with the local Public Security Bureau. In addition to this mandatory company chop, companies may have several other chops which can be used for specific purposes. The chops of our PRC subsidiaries, our VIEs and their subsidiaries are generally held securely by personnel designated or approved by us in accordance with our internal control procedures. To the extent those chops are not kept safe, are stolen or are used by unauthorised persons or for unauthorised purposes, the corporate governance of these entities could be severely and adversely compromised and those corporate entities may be bound to abide by the terms of any documents so chopped, even if they were chopped by an individual who lacked the requisite power and authority to do so.

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

Mr. Ding, a shareholder of Hangzhou Yuedu, who is also our shareholder and our director and officer. Conflicts of interest may arise between the roles of him as a shareholder, director or officer of our Company and as a shareholder of Hangzhou Yuedu. As our director and officer, we rely on him to abide by the laws of the Cayman Islands, which provide that directors and officers owe a fiduciary duty to our Company to act in good faith and in the best interest of our Company and not to use their positions for personal gain. The shareholders of our VIEs have executed powers of attorney to appoint our WFOE or a person designated by our WFOE to vote on their behalf and exercise voting rights as shareholders of our VIEs. We cannot assure you that when conflicts arise, these shareholders will act in the best interest of our Company or that conflicts will be resolved in our favour. If we cannot resolve any conflicts of interest

or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

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

SCNPC approved the PRC Foreign Investment Law (《中華人民共和國外商投資法》) (the "FIL") on 15 March 2019, effective from 1 January 2020, and the State Council approved the Implementation Rules to the Foreign Investment Law (《中華人民共和國外商投資法實施條 例》) (the "Implementation Regulations") on 26 December 2019, effective from 1 January 2020, which replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sinoforeign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-invested Enterprise Law (《外資企業法》), together with their implementation rules and ancillary regulations. The Supreme People's Court of China issued a judicial interpretation on the FIL in December 2019, effective from 1 January 2020, to ensure fair and efficient implementation of the FIL. The judicial interpretation clarifies the issues regarding the validity of the investment contract violating the restrictive or prohibitive requirements in the negative list. According to the judicial interpretation, courts in China shall not, among other things, support contracted parties to claim foreign investment contracts in sectors not on the Negative List (2020) as void because the contracts have not been approved or registered by administrative authorities. However, since PRC judicial and administrative authorities have significant discretion in interpreting and implementing statutory and contractual terms, it is difficult to predict the outcome of a judicial or administrative proceeding, and such unpredictability towards our contractual rights could adversely affect our business and impede our ability to continue our operations. The FIL and Implementation Regulations embody an expected PRC regulatory trend to rationalise its foreign investment regulatory regime in line with prevailing international practise and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments.

The FIL removes all references to the terms of "de facto control" or "contractual control" as defined in the draft published in 2015 by the MOFCOM. However, the FIL has a catch-all provision under the definition of "foreign investment" which includes investments made by foreign investors in China through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, the State Council may in the future promulgate laws and regulations that deem investments made by foreign investors through contractual arrangements as "foreign investment," and our contractual arrangements may be subject to and be deemed to violate the market entry requirements in China. The "variable interest entity" structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licences and permits in the industries that are currently subject to foreign investment restrictions in China. See "Contractual arrangements."

In addition, the FIL further specifies that foreign investments shall be conducted in line with the "negative list" to be issued or approved to be issued by the State Council. The commercial internet information service, internet audio-visual programme services, online cultural activities (except for music), the radio and television programme production and operation business, and the production of audio-visual products and electronic publications that we conduct through our consolidated affiliated entities are subject to foreign investment restrictions set forth in the Negative List. It is uncertain whether the industry of commercial internet information service, internet audio-visual programme services, online culture activities, the radio and television programme production and operation business, and the production of audio-visual products and electronic publications, in which our variable interest

entities operate, will be subject to the foreign investment restrictions or prohibitions under the then updated "negative list" to be issued. If the then updated "negative list" requires companies with existing VIE structure like us to take further actions, we will face uncertainties as to whether any clearance from the relevant governmental authorities can be timely obtained, or at all.

RISKS RELATED TO DOING BUSINESS IN CHINA

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

The PRC legal system is based on written statutes, and court decisions have limited precedential value. The PRC legal system is evolving rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC judicial and administrative authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of a judicial or administrative proceeding than in more developed legal systems. Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations.

Regulation and censorship of information disseminated over the mobile and internet in China may adversely affect our business and subject us to liability for content posted on our platform.

Internet companies in China are subject to a variety of existing and new rules, regulations, policies, and licence and permit requirements on the distribution of information over the mobile and internet. Under these rules and regulations, content service providers are prohibited from posting or displaying over the mobile or internet content that, among others, violates PRC laws and regulations, impairs the national dignity of China or the public interest, is obscene, superstitious, fraudulent or defamatory, or may be deemed by relevant government authorities as "socially destabilising" or leaking "state secrets" of China. For more information, see "Regulations — Regulations on information security" and "Regulations — Regulations on internet privacy."

In connection with enforcing these rules, regulations, policies and requirements, relevant government authorities may suspend services by, or revoke licences of, any internet or mobile content service provider that is deemed to provide illicit content online or on mobile devices, and such activities may be intensified in connection with any ongoing government campaigns to eliminate prohibited content online.

For example, in recent years, the National Office of Anti-Pornography and Illegal Publications, CAC, MIIT, MCT and MPS jointly have been launching a series of "Clean Up the Internet" campaigns. These campaigns aim to eliminate pornographic information and content in the internet information services industry by, among other things, holding liable individuals and corporate entities that facilitate the distribution of pornographic information and content.

During the campaigns, relevant government authorities have shut down websites, removed links and closed accounts. Certain major public internet companies voluntarily initiated self-investigations to filter and remove content from their websites and cloud servers.

In January 2019, China Netcasting Services Association issued the Regulations on Administration of Network Short-Form Video Platforms (《網絡短視頻平台管理規範》) and Censoring Criteria for Network Short-Form Video Contents (《網絡短視頻內容審核標準細則》) to tighten the censorship on short-form video contents. The regulatory authorities carried out a series of law enforcement actions against violation of personal information protection from January to December 2019.

On 23 January 2019, the OCCAC, the MIIT, the MPS, and the SAMR jointly issued the Notice on Special Governance of Illegal Collection and Use of Personal Information via Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》), which restates the requirement of legal collection and use of personal information, encourages APP operators to conduct security certifications, and encourages search engines and APP stores to clearly mark and recommend those certified APPs. At the same time, they announced a one-year special crackdown on the illegal collection and misuse of personal information by apps.

On 22 July 2020, MIIT issued the Notice on Carrying out Special Rectification Actions in Depth against the Infringement on Users' Rights and Interests by Apps (《關於開展縱深推進 APP侵害用戶權益專項整治行動的通知》) to urge app service providers, among others, to strengthen the protection of users' personal information in relation to the download and usage of apps. On 12 March 2021, CAC, MIIT, MPS and SAMR jointly issued the Rules on the Scope of Necessary Personal Information for Common Types of Mobile Internet Applications (《常 見類型移動互聯網應用程序必要個人信息範圍規定》) to further provide guidance over personal information security and privacy protection. As a result, a number of mobile apps were condemned publicly for their non-compliance with personal information protection policies, including, among other non-compliance actions, the failure to publish rules on the collection and improper use of users' personal information, the failure to provide channels for users to access and revise their information, the failure to provide functions for users to cancel accounts, the unauthorised collection of personal information, the unreasonable requests for access, and the unauthorised sharing of information with third parties. On 20 August 2021, the SCNPC promulgated the PIPL, which took effect on 1 November 2021. The PIPL further accentuates the importance of processors' obligations and responsibilities for personal information protection and sets out the basic rules for processing personal information and the rules for cross-border transfer of personal information. For more information, see "Regulations — Regulations relating to online transmission of audio-visual programmes," "Regulations — Regulations on information security" and "Regulations — Regulations on internet privacy."

We endeavour to eliminate illicit content from our platform. We have made substantial investments in resources to monitor content that users post on our platform and the way in which our users engage with each other through our platform. In the past, we have terminated certain user accounts in order to eliminate spam, fictitious accounts and indecent content from our platform. We use a variety of methods to ensure that our platform remains a healthy and positive experience for our users, including a designated content management team and our own data analytics software. Although we employ these methods to filter our users and content posted by our users, we cannot be sure that our internal content control efforts will be sufficient to remove all content that may be viewed as indecent or otherwise non-compliant with PRC law and regulations. Government standards and interpretations as to what constitutes illicit online content or behaviour are subject to interpretation and may change.

We have paid fines in connection with content posted on our platform, and government standards and interpretations may change in a manner that could render our current monitoring efforts insufficient. The PRC government has wide discretion in regulating online activities and, irrespective of our efforts to control the content on our platform, government campaigns and other actions to reduce illicit content and activities could subject us to negative press or regulatory challenges and sanctions, including imposition of fines, suspension or revocation of our licences to operate in China or a ban of our platform, including closure of one or more parts of or our entire business. Further, our senior management could be held criminally liable if we are deemed to be profiting from illicit content on our platform. Although our operations have not been materially adversely affected by government campaigns or any other regulatory actions in the past, we cannot assure you that our business and operations will be immune from government actions or sanctions in the future. If government actions or sanctions are brought against us, or if there are widespread rumours that government actions or sanctions have been brought against us, our reputation could be harmed, we may lose users and other customers, our revenues and results of operations may be materially and adversely affected.

In March 2018, the SAPPRFT issued the Notice on Further Regulating the Order of Online Audio-visual Programmes (《關於進一步規範網絡視聽節目傳播秩序的通知》) to further regulate the transmission of internet audio-visual programmes. Due to the lack of clarification and detailed implementation rules, it is unclear to us whether and how this notice would be applicable to the content posted on our platform by our users. In November 2019, the CAC, the NRTA and the MCT, jointly issued the Administrative Provisions on Online Audio-visual Information Services (《網絡音視頻信息服務管理規定》), which required the providers of internet audio-visual information services to have sufficient capacities to deal with cyber threats, prevent internet illegal and criminal activities, and defend the integrity, safety and availability of online data. We have conducted a review of the content that may be implicated on our platform and believe our current content monitoring measures in place are adequate. However, given the uncertainty in the interpretation and implementation of this notice, we may be required to subsequently implement further content monitoring measures, which could materially and adversely affect our business, financial condition and results of operations. For further information regarding this notice, see "Regulations - Regulations relating to online transmission of audio-visual programmes."

Adverse changes in economic and political policies of the PRC government could have a material and adverse effect on overall economic growth in China, which could materially and adversely affect our business.

A substantial majority of our revenues is sourced from China. Accordingly, our results of operations, financial condition and prospects are influenced by economic, political and legal developments in China. Economic reforms begun in the late 1970s have resulted in significant economic growth. However, any economic reform policies or measures in China may from time to time be modified or revised. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past years, growth has been uneven across different regions and among different economic sectors.

The PRC government exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Although the PRC economy has grown significantly in the past decade, that growth may not continue, as evidenced by the slowing of the growth of the PRC economy in the recent years. Any adverse changes in economic conditions in China, in the

policies of the PRC government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and operating results, lead to reduction in demand for our services and adversely affect our competitive position.

If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavourable tax consequences to us and our non-PRC shareholders.

Under the PRC Enterprise Income Tax Law (the "EIT Law") (《中華人民共和國企業所得税法》), promulgated on 16 March 2007, and came into effect on 1 January 2008, and was most recently amended on 29 December 2018, which became effective on the same date, and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a PRC resident enterprise. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise.

In 2009, the STA issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as the PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民 企業有關問題的通知》) which was most recently amended in December 2017, or the Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. The STA issued Chinese-Controlled Offshore Incorporated Resident Enterprises Income Tax Regulation (《境外註冊中資控股居民企業所得税管理辦法(試行)》), or the Bulletin 45, which took effect on 1 September 2011, and was most recently amended on 15 June 2018, to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of Chinese-controlled offshore incorporated resident enterprises. Bulletin 45 also provides procedures and administrative details for the determination of resident status and administration of post-determination matters, Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like us, the criteria set forth in the circular may reflect the STA's general position on how the "de facto management body" test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident enterprise by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) senior management and core management departments in charge of its daily operations function have their presence mainly in the PRC; (ii) decisions relating to the enterprise's financial matters (such as loan, financing, financial risk management, etc.) and human resource matters (such as appointment, dismissal and remuneration, etc.) are made or are subject to determination or approval by organisations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body." If the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we will be subject to the enterprise income tax

on our global income at the rate of 25% and we will be required to comply with PRC enterprise income tax reporting obligations. In addition, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises. In addition, non-resident enterprise shareholders may be subject to PRC tax at a rate of 10% on gains realised on the sale or other disposition of the shares, if such income is treated as sourced from within the PRC. Furthermore, if PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, dividends paid to our non-PRC individual shareholders and any gain realised on the transfer of the shares by such holders may be subject to PRC tax at a rate of 20% (which, in the case of dividends, may be withheld at source by us), if such gains are deemed to be from PRC sources. These rates may be reduced by an applicable tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise, but it is unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in our shares.

There are uncertainties with respect to value-added tax rates relating to the tax liabilities of our PRC subsidiaries.

During the Track Record Period, we were subject to value-added tax for goods sold or services provided at a rate varying from 0% to 17% depending on their categories in different periods. On 4 April 2018, the MOF and the STA issued the Notice on Adjustment of VAT Rates (《關 於調整增值税税率的通知》), which came into effect on 1 May 2018. According to this notice, the taxable goods previously subject to VAT rates of 17% and 11% respectively become subject to lower VAT rates of 16% and 10%, respectively starting from 1 May 2018. The MOF, the STA and the General Administration of Customs promulgated the Announcement on Policies for Deepening the VAT Reform (《關於深化增值税改革有關政策的公告》) (the "Announcement 39") on 20 March 2019, which provides that the value-added tax rate of 16% in manufacturing and other industries is reduced to 13%, the value-added tax rate of 10% in transportation and other industries is reduced to 9%, and the value-added tax rate in value-added telecommunication service and other industries stays at 6% from 1 April 2019. Our advertising and marketing revenues are subject to culture business construction fee at a rate of 3% in 2018, which was reduced to 1.5% from 1 July 2019 to 31 December 2024 and an exemption of cultural business construction fee from 1 January 2020 to 31 December 2020. We are also subject to surcharges on value-added tax payments in accordance with PRC law. It is uncertain whether the value-added tax rate will be raised in the future, which could have a material adverse effect on our financial condition and results of operations. If we fail to comply with these regulations, we may be subject to sanctions including corrective orders, imposition of fines and confiscation of illegal gains.

It may be difficult for overseas regulators to conduct investigations or collect evidence within China.

Shareholder claims or regulatory investigations that are common in the United States (including securities law class actions and fraud claims) generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator may directly conduct investigations or collect evidence and no entities or individuals may provide documents or materials in connection with securities activities without proper authorisation as stipulated under Article 177. While detailed interpretation of or implementation rules under

Article 177 have yet to be promulgated, the inability of an overseas securities regulator to directly conduct investigations or collect evidence within China may further increase difficulties faced by you in protecting your interests.

China's M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

On 8 August 2006, six PRC regulatory authorities, including the MOFCOM and other government authorities jointly issued the Rules on Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) which was effective as of 8 September 2006, and amended on 22 June 2009 (the "M&A Rules"). The M&A Rules, and other recently adopted regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if any important industry is concerned, such transaction involves factors that impact or may impact national economic security, or such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honoured brand. Moreover, the Anti-monopoly Law of the PRC (《中華人民共和國反壟斷法》) promulgated by the SCNPC effective in August 2008 and the Provisions of the State Council on the Thresholds for Declaring Concentration of Business Operators (《國務院關於經營者集中申報標準的規定》) require that transactions which are deemed concentrations and involve parties with specified turnover thresholds (meaning during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within China, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion, and at least two of these operators each had a turnover of more than RMB400 million within China) must be cleared by anti-monopoly enforcement authority before they can be completed. On 14 December 2020, the SAMR announced three cases of administrative penalties for the failures of acquirers to make proper concentration declarations to authorities about their past acquisitions. This is also the first time that the SAMR imposed administrative penalties for illegal concentration declarations on entities structured in a VIE arrangement.

In addition, in 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《國務院辦公廳關於建立外國投資者併購境內企業安全審查 制度的通知》), also known as Circular 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, MOFCOM promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內 企業安全審查制度的規定》), effective in September 2011, to implement Circular 6. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having "national defence and security" concerns and mergers and acquisitions by which foreign investors may acquire the "de facto control" of domestic enterprises with "national security" concerns. Under the foregoing MOFCOM regulations, MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If MOFCOM decides that a specific merger or acquisition is subject to a security review, it will submit it to the Inter-Ministerial Panel, an authority established under Circular 6 led by the NDRC, and MOFCOM under the leadership of the State Council, to carry out security review. The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans,

control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that the merging or acquisition of a company engaged in the internet content business requires security review, and there is no requirement that acquisitions completed prior to the promulgation of the Security Review Circular are subject to MOFCOM review.

On 19 December 2020, the NDRC and MOFCOM jointly promulgated the Measures on the Security Review of Foreign Investment (《外商投資安全審查辦法》), effective on 18 January 2021, setting forth provisions concerning the security review mechanism on foreign investment, including the types of investments subject to review, review scopes and procedures, among others. The Office of the Working Mechanism of the Security Review of Foreign Investment (外商投資安全審查工作機制辦公室) (the "Office of the Working Mechanism") will be established under NDRC, who will lead the task together with MOFCOM. Foreign investor or relevant parties in China must declare the security review to the Office of the Working Mechanism prior to the investments in, among other industries, important cultural products and services, important information technology and internet products and services, important financial services, key technologies and other important fields relating to national security, and obtain control in the target enterprise. See "Regulations — Regulations relating to foreign investment."

In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises national defence and security or national security concerns. However, MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in China, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinised or prohibited.

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us or otherwise expose us to liability and penalties under PRC law.

The SAFE promulgated the Notice of the State Administration of Foreign Exchange on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Roundtripping by Chinese Residents through Special Purpose Vehicles (《國家外匯管理局關於境內 居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) ("SAFE Circular 37") in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) February 2015 by SAFE, as amended in December 2019, or SAFE Circular 13, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 2015.

If our shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches or local banks, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We may not at all times be fully aware or informed of the identities of all our shareholders or beneficial owners that are required to make or update such registrations, and we cannot compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations or failure by us to amend the foreign exchange registrations of our PRC subsidiaries, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the proceeds of this offering to make loans to our PRC subsidiaries and our VIEs and their subsidiaries, or to make additional capital contributions to our PRC subsidiaries.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries, VIEs and their subsidiaries. We may make loans to our PRC subsidiaries, VIEs and their subsidiaries, or we may make additional capital contributions to our PRC subsidiaries, or we may establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, or we may acquire offshore entities with business operations in China in an offshore transaction.

Most of these ways are subject to PRC regulations and approvals. For example, loans by us to our wholly-owned PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE. If we decide to finance our wholly-owned PRC subsidiaries by means of capital contributions, these capital contributions are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System and registration with other governmental authorities in China. Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make such loans to our consolidated affiliated entities, which are PRC domestic company. Further, we are not likely to finance the activities of our consolidated affiliated entities by means of capital contributions due to regulatory restrictions relating to foreign investment in PRC domestic enterprises engaged in internet information services, online audio-visual programme services and related businesses.

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), or SAFE Circular 19, effective in June 2015 and amended in December 2019, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》). According to SAFE Circular 19, the flow and use of the RMB capital converted from foreign

currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third party. Although SAFE Circular 19 allows RMB capital converted from foreign currencydenominated registered capital of a foreign-invested enterprise to be used for equity investments within China, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in China in actual practise. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardising the Foreign Exchange Settlement Management Policy of Capital Account (《國家外匯管理局關於 改革和規範資本項目結匯管理政策的通知》), or SAFE Circular 16, effective on 9 June 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from our equity offering and notes offering and then to our PRC subsidiaries, which may adversely affect our liquidity and our ability to fund and expand our business in China. On 23 October 2019, SAFE issued Notice of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment (《國家外匯管理局 關於進一步促進跨境貿易投資便利化的通知》), or the Circular 28. Circular 28 allows noninvestment foreign-invested enterprises to use their capital funds to make equity investments in China; provided that such investments do not violate the Negative List and the target investment projects are genuine and in compliance with PRC laws. Since Circular 28 was issued only recently, its interpretation and implementation in practise are still subject to substantial uncertainties. According to the Circular on Optimising the Administration of Foreign Exchange to Support the Development of Foreign-related Business (《國家外匯管理 局關於優化外匯管理支持涉外業務發展的通知》) issued by the SAFE on 10 April 2020, eligible enterprises are allowed to make domestic payments using the income under their capital accounts generated from their capital, foreign debt and overseas listing, without providing materials evidencing the authenticity in advance; provided that the capital usage is authentic and compliant with the current capital account income usage management regulations. The concerned bank is required to conduct spot checks in accordance with the relevant requirements.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we received from our equity offering and notes offering and to capitalise or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Fluctuation in exchange rates could have a material and adverse effect on our results of operations and the value of your investment.

The conversion of RMB into foreign currencies, including Hong Kong dollars and U.S. dollars, is based on rates set by the PBOC. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollars, the U.S.

dollar or other currencies in the future. The value of RMB against the Hong Kong dollars, U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. We cannot assure you that RMB will not appreciate or depreciate significantly in value against Hong Kong dollars and the U.S. dollar in the future. Any significant appreciation or depreciation of RMB may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our Shares. For example, to the extent that we need to convert Hong Kong dollars and U.S. dollars we receive into RMB to pay our operating expenses, appreciation of RMB against the Hong Kong dollars and the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, a significant depreciation of RMB against the Hong Kong dollars and the U.S. dollar may significantly reduce the Hong Kong dollars or the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our Shares.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

During the Track Record Period, substantially all of our revenues and expenditures were denominated in Renminbi, while the net proceeds from the Global Offering will be in Hong Kong dollars. Fluctuations in the exchange rate between the Renminbi and the Hong Kong dollar will affect the relative purchasing power in Renminbi terms of the proceeds from the Global Offering. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our subsidiaries. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar would affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business or results of operations. During the Track Record Period, we recorded currency translation loss of RMB35.9 million, RMB55.5 million and RMB77.0 million in 2018, 2019 and the six months ended 30 June 2020, respectively; and recognised currency translation gains of RMB524.0 million and RMB79.4 million in 2020 and the six months ended 30 June 2021, respectively, as other comprehensive income/(loss) in our consolidated statements of comprehensive loss which is primarily a result of translation of financial statements of the companies within the Group into the presentation currency of the Group, which is RMB.

Governmental control of currency conversion may limit our ability to utilise our revenues effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of SAFE by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay

dividends to our Company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval or registration to use cash generated from the operations of our PRC subsidiaries and VIEs to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi.

In light of the flood of capital outflows of China in 2016 due to the weakening RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement including overseas direct investment. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. If any of our shareholders regulated by such policies fails to satisfy the applicable overseas direct investment filing or approval requirement timely or at all, it may be subject to penalties from the relevant PRC authorities. The PRC government may at its discretion further restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

RISKS RELATED TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile.

Prior to the completion of the Global Offering, there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the Global Offering. The Offer Price is the result of negotiations between our Company and Joint Global Coordinators (for themselves and on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following the completion of the Global Offering. The market price of our Shares may drop below the Offer Price at any time after completion of the Global Offering.

The trading price of our Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performances of and fluctuations in the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatilities in the price and trading volumes of our Shares. A number of China-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards China-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and substantial shareholders, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and substantial shareholders, or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by or to be held by our shareholders are subject to certain lock-up periods beginning on the date on which trading in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

You will incur immediate and substantial dilution and may experience further dilution in the future.

As the Offer Price of our Shares is higher than the net tangible book value per Share immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert reports, contained in this document.

This document, particularly "Industry," contains information and statistics relating to the online music entertainment market. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners and the Hong Kong Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practise, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

We cannot assure you that we will declare and distribute any amount of dividends in the future and you may have to rely on price appreciation of our Shares for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we have not yet adopted a dividend policy with respect to future dividends. Therefore, you should not rely on an investment in our Shares as a source for any future dividend income.

Our board of directors has discretion as to whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our Company may only pay dividends either out of profits or share premium account, and provided always that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts at they fall due in the ordinary course of business. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiary, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our Shares will likely depend entirely upon any future price appreciation of our Shares. There is no guarantee that our Shares will appreciate in value or even maintain the price at which you purchased the Shares. You may not realise a return on your investment in our Shares and you may even lose your entire investment in our Shares.

You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering.

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this document, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorised the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and you should not rely on such information.

There will be a time gap of several business days between pricing and trading of our Shares offered in the Global Offering. Holders of our Shares are subject to the risk that trading prices of our Shares could fall during the period before trading of our Shares begins.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of unfavourable market conditions, or other adverse developments, that could occur between the time of sale and the time trading begins.

In preparation for the Listing, we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Listing Rules, the SFO and the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

No.	Rules	Subject matter		
1	Rule 8.12 of the Listing Rules	Management Presence		
2	Chapter 14A of the Listing Rules	Continuing Connected Transactions		
3	Rule 17.02(1)(b) and Paragraph 27 of Part A of Appendix 1 to the Listing Rules and Paragraph 10(d) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure Requirements of Pre-IPO Share Incentive Plan		
4	Rules 10.03(1), 10.03(2) and 10.04 and Paragraph 5(2) of Appendix 6 to the Listing Rules	Subscription for Shares by Existing Shareholders		
5	Paragraphs 41(4) and 45 of Appendix 1A to and Practise Note 5 of the Listing Rules and Part XV of the SFO	Disclosure of Interests Information		

WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not have sufficient management presence in Hong Kong for the purposes of Rule 8.12 of the Listing Rules.

Our Group's management headquarters, senior management, business operations and assets are primarily based outside Hong Kong. The Directors consider that the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, our Group and therefore would not be in the best interests of our Company or the Shareholders as a whole.

Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between the Stock Exchange and us by way of the following arrangements:

(a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorised representatives who shall act at all times as the principal channel of communication with the Stock Exchange. Each of our authorised representatives will be readily contactable by the Stock Exchange by telephone and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorised representatives are authorised to communicate on our behalf with the Stock Exchange. At present, our two authorised representatives are Mr. Yong Li and Ms. Wong Wai Yee Ella;

- (b) pursuant to Rule 3.20 of the Listing Rules, each Director will provide their contact information to the Stock Exchange and to the authorised representatives. This will ensure that the Stock Exchange and the authorised representatives should have means for contacting all Directors promptly at all times as and when required;
- (c) we will endeavour to ensure that each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period;
- (d) pursuant to Rule 3A.19 of the Listing Rules, we have retained the services of China International Capital Corporation Hong Kong Securities Limited as compliance adviser (the "Compliance Adviser"), who will act as an additional channel of communication with the Stock Exchange. The Compliance Adviser will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Adviser has prompt access to our Company's authorised representatives and Directors. In turn, they will provide the Compliance Adviser with such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of the Compliance Adviser's duties. The Compliance Adviser will also provide advice to our Company when consulted by our Company in compliance with Rule 3A.23 of the Listing Rules; and
- (e) meetings between the Stock Exchange and the Directors can be arranged through the authorised representatives or the Compliance Adviser, or directly with the Directors within a reasonable time frame. We will inform the Stock Exchange as soon as practicable in respect of any change in the authorised representatives and/or the Compliance Adviser in accordance with the Listing Rules.

WAIVER IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We have entered into, and expect to continue, certain transactions that will constitute partially-exempt and non-exempt continuing connected transactions of our Company under the Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from strict compliance with Chapter 14A of the Listing Rules, the details and conditions of which are set out in the sub-sections headed "Advertising Services CCTs and Advertising Agency Services CCTs", "Transactions under the NetEase Group Framework Agreement (other than Intellectual Property Licensing CCTs, Advertising Services CCTs, Advertising Agency Services CCTs", and "Contractual Arrangements" in "Connected transactions — Waivers." See "Connected transactions" for further details.

WAIVER AND EXEMPTION IN RESPECT OF THE PRE-IPO SHARE INCENTIVE PLAN

The Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance prescribes certain disclosure requirements in relation to the share options granted by our Company:

(a) Rule 17.02(1)(b) of the Listing Rules stipulates that all the terms of a scheme must be clearly set out in this document. Our Company is also required to disclose in this document full details of all outstanding shares and their potential dilution effect on the shareholdings upon listing as well as the impact on the earnings per share arising from the exercise of such outstanding shares.

- (b) Paragraph 27 of Part A of Appendix 1 to the Listing Rules requires our Company to set out in this document particulars of any capital of any member of our Group that is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee.
- (c) Paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires our Company to set out in this document, among other things, details of the number, description and amount of any shares in or debentures of our Company which any person has, or is entitled to be given, an option to subscribe for, together with the certain particulars of the option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it was given.

As of the Latest Practicable Date, we had granted outstanding options under the Pre-IPO Share Incentive Plan to 632 grantees to subscribe for an aggregate of 11,748,650 Shares, representing 5.65% of the total number of Shares in issue immediately after completion of the Global Offering (assuming the Presumptions). See "Statutory and general information — Share Incentive Plan — Pre-IPO Share Incentive Plan" in Appendix IV for details.

Our Company has applied to the Stock Exchange and the SFC respectively for: (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules and the condition to make available a full list of grantees with all the particulars required under paragraph 10(d) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Rule 17.02(1)(b) of, and paragraph 27 of Part A of Appendix 1 to, the Listing Rules in relation to the options granted under the Pre-IPO Share Incentive Plan (the "ESOP Waiver"); and (ii) a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting the Company from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to the options granted under the Pre-IPO Share Incentive Plan (the "ESOP Exemption"), on the ground that strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

(a) as of the Latest Practicable Date, (i) our Company has granted outstanding options under the Pre-IPO Share Incentive Plan to 632 grantees, including Directors and senior management of our Company, employees of our Group and NetEase Group; (ii) 3 Directors, 4 members of senior management and 2 other connected persons of our Company held an aggregate of 2,117,000 Shares underlying the outstanding granted options; and (iii) 623 grantees who are not Directors, members of senior management and other connected person of our Company held an aggregate of 9,631,650 Shares underlying the outstanding granted options. Strict compliance with such disclosure requirements in setting out full details of all the grantees under the Pre-IPO Share Incentive Plan in this document would be costly and unduly burdensome for our Company in light of a significant increase in cost and timing for information compilation, prospectus preparation and printing;

- (b) the disclosure of the personal details of all the grantees and/or making this information available for public inspection would require our Company obtaining consent from each of the 623 grantees, in order to comply with personal data privacy laws and principles and to ensure that each grantee is comfortable with the number of options granted to him/her and others, which would be significantly time consuming, and administratively burdensome;
- (c) the grant and exercise in full of the shares under the Pre-IPO Share Incentive Plan would not cause any material adverse impact in the financial position of our Company;
- (d) non-compliance with the above disclosure requirements would not prevent our Company from providing its potential investors with an informed assessment of the activities, assets, liabilities, financial position, management and prospects of our Company; and
- (e) material information relating to the options (and underlying shares) under the Pre-IPO Share Incentive Plan will be disclosed in this document, including the total number of Shares subject to the Pre-IPO Share Incentive Plan, the exercise price per Share, the potential dilution effect on the shareholding and impact on earnings per Share upon full exercise of the share options granted under the Pre-IPO Share Incentive Plan. Our Directors consider that the information that is reasonably necessary for the potential investors to make an informed assessment of our Company in their investment decision making process has been included in this document.

In light of the above, the Directors are of the view that the grant of the ESOP Waiver and the ESOP Exemption will not prejudice the interests of the investing public.

The Stock Exchange has granted the ESOP Waiver on the conditions that:

- (a) for grants under the Pre-IPO Share Incentive Plan to our Directors and the senior management and other connected persons of our Group, disclosure be made on an individual basis, including all the particulars required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules;
- (b) in respect of the options granted under the Pre-IPO Share Incentive Plan to other grantees (being other than those set out in (a) above), disclosure be made, on an aggregate basis, according to the ranges of number of Shares underlying outstanding options in: (i) 0 Share to 19,999 Shares, (ii) 20,000 Shares to 99,999 Shares, and (iii) 100,000 Shares or above, of (1) their aggregate number of grantees; (2) the date of grant of the options and number of Shares underlying the options under the Pre-IPO Share Incentive Plan; (3) the consideration (if any) paid for the grant of the options under the Pre-IPO Share Incentive Plan; and (4) the exercise period and the exercise price of the options granted under the Pre-IPO Share Incentive Plan;
- (c) the aggregate number of Shares underlying the options granted under the Pre-IPO Share Incentive Plan and the percentage of our Company's total issued share capital represented by such number of Shares as of the Latest Practicable Date be disclosed in this document:
- (d) the dilution effect and impact on earnings per Share upon the full exercise of the options granted under the Pre-IPO Share Incentive Plan be disclosed;
- (e) a summary of the major terms of the Pre-IPO Share Incentive Plan be disclosed;

- (f) the particulars of the waiver be disclosed in this document; and
- (g) the grant of a certificate of exemption under the Companies (Winding Up and Miscellaneous Provisions) Ordinance from the Securities and Futures Commission exempting the Company from the disclosure requirements provided in paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

The SFC has granted the ESOP Exemption on the conditions that:

- (a) for grants under the Pre-IPO Share Incentive Plan to our Directors and the senior management and other connected persons of our Company, disclosure be made on an individual basis, including all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) in respect of the options granted under the Pre-IPO Share Incentive Plan to other grantees (being other than those set out in (a) above) which remained outstanding and unexercised as of the Latest Practicable Date, disclosure be made on an aggregate basis, categorised into lots based on the number of Shares underlying each individual grant, being: (i) 0 Share to 19,999 Shares, (ii) 20,000 Shares to 99,999 Shares, and (iii) 100,000 Shares or above. For each lot of Shares, the following disclosures will be made on the aggregate basis: (1) the aggregate number of grantees and number of Shares underlying the outstanding and unexercised options under the Pre-IPO Share Incentive Plan; (2) the dates of grant of the options under the Pre-IPO Share Incentive Plan; and (4) the exercise period and exercise price of the options granted under the Pre-IPO Share Incentive Plan; and
- (c) the particulars of the exemption will be disclosed in this document and this document will be issued on or before 23 November 2021.

WAIVER IN RELATION TO SUBSCRIPTION FOR SHARES BY EXISTING SHAREHOLDERS

Rule 10.04 of the Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rules 10.03(1) and (2) of the Listing Rules are fulfilled. The conditions in Rules 10.03(1) and (2) of the Listing Rules are that (1) no securities are offered to the existing shareholders on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and (2) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Listing Rules is achieved.

Paragraph 5(2) of Appendix 6 to the Listing Rules provides that, unless with the prior written consent of the Stock Exchange, no allocations will be permitted to directors or existing shareholders of the applicant or their close associates, whether in their own names or through nominees unless the conditions set out in Rules 10.03 and 10.04 of the Listing Rules are fulfilled.

Subscription for shares by NetEase pursuant to the exercise of Anti-dilution Right

NetEase holds approximately 62.46% of the Company's total issued share capital as at the date of this document. On 31 March 2021, we granted an Anti-dilution Right to NetEase (the "Anti-dilution Right Grant"). The Anti-dilution Right allows NetEase to subscribe for additional new Shares, to the extent permitted by the Listing Rules, in order to reduce the dilutive effect of the Global Offering on NetEase's aggregate percentage interest in our Company. Please see "History — Pre-IPO Investment — Rights of Pre-IPO Investors" for more information on the effects of the Anti-dilution Right on NetEase's shareholding and voting percentages in the Company.

NetEase has confirmed that it will exercise the Anti-Dilution Right by subscribing as a cornerstone investor upon the following conditions:

- (a) the subscription for additional new Shares by NetEase will be conducted at the Offer Price on the same terms and conditions as other investors pursuant to the Global Offering;
- (b) the subscription by NetEase will form part of the International Offering, and will not have an impact on the Shares to be offered to public investors in Hong Kong under the Hong Kong Public Offering;
- (c) the subscription of the additional new Shares by NetEase is a pre-existing arrangement between NetEase and the Company and was agreed on an arm's length basis, and the subscription is for the purpose of giving effect to such pre-existing arrangement;
- (d) the subscription by NetEase will not result in NetEase's aggregate percentage interest in the Company that is held currently through NetEase increasing above their aggregate percentage interest immediately prior to the Global Offering. Such right was granted in the best interests of our Company to reduce the dilutive effects on NetEase from the removal of our existing weighted-voting rights structure and the Global Offering and to increase the likelihood of our Company's financials remaining consolidated into NetEase's accounts after the Listing; and
- (e) the allotment results announcement will contain details of any allocation made to NetEase.

On the basis of the above, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 10.04 and Paragraph 5(2) of Appendix 6 to the Listing Rules in respect of the allocation of shares to NetEase, which has taken into account of the specific circumstance of the Company, subject to the following conditions:

- (a) full disclosure of the pre-existing arrangement between NetEase and the Company contained in the Anti-dilution Right Grant and the number of new Shares that may be subscribed by NetEase;
- (b) the proposed subscription of new Shares by NetEase will form part of the International Offering and will not have an impact on the Shares to be offered to public investors in Hong Kong under the Hong Kong Public Offering;

- (c) the proposed subscription of new Shares by NetEase will be conducted at the Offer Price and, in any event, will not result in NetEase increasing its aggregate percentage interest in the Company above its aggregate percentage interest in the Company immediately prior to the Global Offering;
- (d) the Company and the Joint Global Coordinators will confirm to the Stock Exchange in writing that no preferential treatment, other than the assured allocation, will be given to NetEase as placees in the International Offering; and
- (e) information on the amount of new Shares actually allocated to NetEase will be disclosed in the allotment results announcement and the placees lists to be submitted to the Stock Exchange before the Listing.

Subscription of shares by Participating Shareholders and/or their close associates

As part of the International Offering, we may also allocate additional Offer Shares at the Offer Price to certain of our existing shareholders (excluding NetEase, Taobao China Holding Limited and Novel Entertainment) ("Participating Shareholders") and/or their close associates, each of which holds less than 5% of our voting rights as at the date of this document and before the Listing, or their respective affiliates, as cornerstone investors or places (the "Allocation to Participating Shareholders"), and in compliance with all applicable requirements under the Listing Rules and guidance letters issued by the Stock Exchange.

We have applied to the Stock Exchange for, the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 10.04 and the consent under paragraph 5(2) of Appendix 6 to the Listing Rules in respect of the restriction on Participating Shareholders and/or their close associates to subscribe for Shares in the Global Offering, subject to the following conditions:

- (a) each Participating Shareholder is interested in less than 5% of the Company's voting rights immediately before the Listing;
- (b) each Participating Shareholder is not a core connected person of the Company or its close associate:
- (c) the allocation to the Participating Shareholders or their close associates will not affect the Company's ability to satisfy the public float requirement;
- (d) the Participating Shareholders do not have the power to appoint directors of the Company or any other special rights in the Company;
- (e) the Participating Shareholders and/or their close associates do not have influence over the offering process and will be treated the same as other applicants and places in the Global Offering other than guaranteed allocations as cornerstone investors (where applicable);
- (f) in the case of participation as placees, the Participating Shareholders and their close associates will be subject to the same book-building and allocation process as other investors in the Global Offering; and

- (g) no preferential treatment has been, nor will be given to the Participating Shareholders and their close associates in the allocation process either as cornerstone investors or placees by virtue of their relationship with the Company, other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13 and in the case of participation as cornerstone investors, the Participating Shareholders or their close associates' cornerstone investment agreement does not contain any material terms which are more favourable to the Participating Shareholders or their close associates than those in other cornerstone investment agreements;
- (h) the Company, the Joint Sponsors and the joint bookrunners (if applicable) will provide a written confirmation in accordance with the requirements set out in HKEX-GL85-16 as following:
 - (i) the Joint Sponsors shall confirm that, based on (i) their discussions with the Company and the joint bookrunners; and (ii) the confirmations provided to the Stock Exchange by the Company and the joint bookrunners (confirmation (ii) and/or (iii) mentioned below), and to the best of their knowledge and belief, they have no reason to believe that the Participating Shareholders or their close associates received any preferential treatment in the allocation either as a cornerstone investor or as a placee by virtue of their relationship with the listing applicant other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13, and details of the allocation will be disclosed in the listing document and/or the allotment results announcement, as the case may be;
 - (ii) the Company shall confirm that:
 - (1) in the case of participation as cornerstone investors, no preferential treatment has been, nor will be, given to the Participating Shareholders or their close associates by virtue of their relationship with the Company other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13, that none of the Participating Shareholders or their close associates' cornerstone investment agreement contains any material terms which are more favourable to the Participating Shareholders or their close associates than those in other cornerstone investment agreements; or
 - (2) in the case of participation as places, no preferential treatment has been, nor will be, given to the Participating Shareholders or their close associates by virtue of their relationship with the Company in any allocation in the placing tranche; and
 - (iii) in the case of participation as placees, the joint bookrunners shall confirm, to the best of their knowledge and belief, to the Stock Exchange in writing that no preferential treatment has been, nor will be, given to the Participating Shareholders or their close associates by virtue of their relationship with the Company in any allocation in the placing tranche; and
- (i) details of the allocation to the Participating Shareholders and their close associates will be disclosed in this document and/or the allotment results announcement of the Company, as the case may be.

WAIVER AND EXEMPTION IN RELATION TO DISCLOSURE OF INTERESTS INFORMATION

As disclosed in the prospectus of NetEase dated 2 June 2020 (the "NetEase Prospectus"), NetEase is subject to the U.S. Exchange Act, which requires any person (including directors and officers of the company concerned) who acquires beneficial ownership, as determined in accordance with the rules and regulations of the U.S. SEC, of more than 5% of a class of equity securities registered under Section 12 of the U.S. Exchange Act, to file beneficial ownership reports with the U.S. SEC. These persons must also promptly report any material change in the information provided (including any acquisition or disposition of 1% or more of the class of equity securities concerned), unless exceptions apply.

NetEase applied for, and was granted, (a) a partial exemption by the SFC under section 309(2) of the SFO from the provisions of Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO); and (b) a waiver by the Stock Exchange from strict compliance with Practice Note 5 and paragraphs 41(4) and 45 of Part A of Appendix 1 to the Listing Rules (the "NetEase Disclosure Exemption and Waiver") subject to the conditions that:

- (a) the bulk of trading in the shares of NetEase is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Listing Rules;
- (b) all disclosures of interests filed with the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosures in the same manner as disclosures made under Part XV of the SFO; and
- (c) NetEase shall advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the United States and any significant changes in the volume of NetEase's worldwide share turnover that takes place on the Hong Kong Stock Exchange.

We have applied for, and the SFC has granted a certificate of exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) to the directors or chief executives of the Company who is/are also a director or chief executive of NetEase from time to time (the "Common Director(s)/Chief Executive(s)") with respect to their disclosure of interest, and short positions, in any shares in NetEase and associated corporations of the Company which are subsidiaries of NetEase ("Associated Corporations"), subject to the conditions that:

- (i) NetEase maintains its secondary listing on the Stock Exchange pursuant to Chapter 19C of the Listing Rules;
- (ii) the Company continues to be a subsidiary of NetEase;
- (iii) the Common Director(s)/Chief Executive(s) must file with the Hong Kong Stock Exchange all disclosure of interests notices filed with the SEC in respect of interests in NetEase and the Associated Corporations as soon as practicable on the basis that the Hong Kong Stock Exchange will publish these disclosures in the same way as those it receives from other listed corporations pursuant to Part XV;
- (iv) the Company shall advise the SFC if there is any change to the Common Director(s)/Chief Executive(s) set out in the Company's Part XV exemption application to the SFC; and

(v) the Company shall advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the United States or any material change to the facts set out in the Company's Part XV exemption application to the SFC.

For the avoidance of doubt, this exemption does not apply to disclosure obligations of: (i) the Company's directors or chief executives in respect of their interests, and short positions, in any shares in the Company (or any of its subsidiaries or 20%-owned corporations) and their interests in any debentures of the Company (or any of its subsidiaries or 20%-owned corporations); and (ii) the Common Director(s)/Chief Executive(s) who are already subject to disclosure requirements under Part XV of the SFO in relation to their respective interest in the Associated Corporations, which are or become "listed corporations" as defined under Part XV of the SFO, and the disclosure obligations of which have not been waived by the SFC.

The exemption is given based on the particular circumstances of the Company and should not be regarded as a precedent for other applications. This exemption may be reconsidered by the SFC in the event there is any material change in the information provided to the SFC.

We have also applied for, and the Stock Exchange has granted, a waiver from strict compliance with Practice Note 5 and paragraphs 41(4) and 45 of Part A of Appendix 1 to the Listing Rules such that the Common Director(s)/Chief Executive(s) will not be required to disclose their interests and short positions in any shares or underlying shares in the Associated Corporations in accordance with Part XV of the SFO, subject to the conditions that: (i) the SFC granting the Common Director(s)/Chief Executive(s) a partial exemption from strict compliance with Part XV of the SFO; and (ii) NetEase maintains its secondary listing on the Stock Exchange under Chapter 19C of the Listing Rules.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document, for which our Directors (including any proposed director who is named as such in this document) collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters the omission of which would make any statement herein or this document misleading.

GLOBAL OFFERING

This document is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this document and the Green Application Form contain the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this document and the Green Application Form, and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this document and the Green Application Form, and any information or representation not contained herein and therein must not be relied upon as having been authorised by (i) our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and any of the Underwriters, (ii) any of their respective directors, agents, employees or advisers, or (iii) any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement.

The Offer Price is expected to be fixed among the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around 26 November 2021 and, in any event, not later than 1 December 2021 (unless otherwise determined between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company). If, for whatever reason, the Offer Price is not agreed between the Joint Global Coordinators and our Company on or before 1 December 2021, the Global Offering will not become unconditional and will lapse immediately.

See "Underwriting" for further information about the Underwriters and the underwriting arrangement.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedures for the Hong Kong Offer Shares are set forth in "How to apply for Hong Kong Offer Shares" and on the Green Application Form.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in "Structure of the Global Offering."

SELLING RESTRICTIONS ON OFFER AND SALE OF SHARES

Each person acquiring Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by their acquisition of Offer Shares to, confirm that they are aware of the restrictions on offers of the Offer Shares described in this document and the Green Application Form.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this document in any jurisdiction other than Hong Kong. Accordingly, this document may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this document and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue, to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued pursuant to the Pre-IPO Share Incentive Plan.

Dealings in the Shares on the Stock Exchange are expected to commence on 2 December 2021. No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All the Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

OVER-ALLOTMENT OPTION AND STABILISATION

Details of the arrangements relating to the Over-allotment Option and stabilisation are set out in "Structure of the Global Offering." Assuming that the Over-allotment Option is exercised in full, our Company may be required to allot and issue up to an aggregate of 2,400,000 additional Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance, and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

SHARE REGISTRAR AND STAMP DUTY

Our principal register of members will be maintained in the Cayman Islands by our Principal Share Registrar, Maples Fund Services (Cayman) Limited. Our Hong Kong branch register of members will be maintained in Hong Kong by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited.

All Offer Shares issued pursuant to applications made in the Global Offering will be registered in our Hong Kong register of members. The current and valorem rate of Hong Kong stamp duty of 0.13% on the higher of the consideration for or the market value of the Shares and it is charged to the purchaser on every purchase and to the seller on ever sale of the Shares. In other words, a total of 0.26% is currently payable on a typical sale and purchase transaction of the Shares. Dealings in the Shares registered in our Hong Kong register of members will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding, and dealing in the Shares or exercising any rights attached to them. It is emphasised that none of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, any of our/their respective affiliates, directors, supervisors, employees, agents or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, holders of the Shares resulting from the subscription, purchase, holding, or disposal of the Shares or exercising any rights attached to them.

EXCHANGE RATE CONVERSION

Solely for convenience purposes, this document includes translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the Renminbi amounts could actually be converted into another currency at the rates indicated, or at all.

Unless otherwise indicated, (i) the translation between Renminbi and Hong Kong dollars was based on the rate of RMB1 to HK\$1.2194, and (ii) the translation between U.S. dollars and Hong Kong dollars was based on the rate of US\$1 to HK\$7.7921.

TRANSLATION

If there is any inconsistency between the English version of this document and the Chinese translation of this document, the English version of this document shall prevail unless otherwise stated. However, the English names of any Laws, Governmental Authorities, institutions, natural persons or other entities for which no official English translation exists are unofficial translations for your reference only and their names in the original language shall prevail.

ROUNDING

Certain amounts and percentage figures included in this document have been subject to rounding adjustments, or have been rounded to a set number of decimal places. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart in this document between total and sum of amounts listed therein are due to rounding.

DIRECTORS

Name Address		I.D issuing country/ territory			
Executive Directors					
Mr. William Lei Ding	No. 16 Keyun Road, Tianhe District Guangzhou, Guangdong China	China			
Mr. Yong Li	Room 801, No. 58, Lane 97, Yuanjing Road, Putuo District, Shanghai, China	China			
Ms. Yanfeng Wang	Room 604, Building 10, Bo Jin Ming Zhu, No. 38 Ping'an Road, Binjiang District, Hangzhou, Zhejiang Province, China	China			
Non-executive Directors					
Mr. Yat Keung Li	46C, Tower 7, Phase 4, Bel-Air, Pokfulam, Hong Kong	China (Hong Kong)			
Mr. Dewei Zheng	1507, No. 93 Zhanyi Straight Street, Tianhe District, Guangzhou, Guangdong Province, China	China			
Mr. Feng Yu	7-2-401, Qiu Zhi Lane, Xihu District, Hangzhou, China	China			
Independent non-executive Directors					
Mr. Ying Kit Caleb Lo	House No. 9, 3rd Street, Section I, Fairview Park, Yuen Long, New Territories, Hong Kong	China (Hong Kong)			
Mr. Xianfeng Gu	1 Newcastle Ave, Plainview, NY 11803, USA	China			
Mr. Zhong Xu	Room 1003, No. 661, Zhaojiabang Road, Shanghai, China	China			

See "Directors and senior management" for further details.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors, Joint Global Coordinators and Joint Bookrunners

(in alphabetical order)

China International Capital Corporation Hong Kong Securities Limited, or CICC

29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong

Credit Suisse (Hong Kong) Limited, or Credit Suisse

88/F, International Commerce Centre 1 Austin Road West Kowloon, Hong Kong

Merrill Lynch (Asia Pacific) Limited, or BofA Securities

55/F, Cheung Kong Center 2 Queen's Road Central Central, Hong Kong

Other Joint Bookrunners

(in alphabetical order)

ABCI Capital Limited, or ABCI

11/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong

BOCI Asia Limited, or BOCI

26/F, Bank of China Tower 1 Garden Road Central, Hong Kong

CCB International Capital Limited, or CCBI

12/F, CCB Tower3 Connaught Road Central Central, Hong Kong

Citigroup Global Markets Asia Limited, or Citigroup

(Joint Bookrunner in relation to the Hong Kong Public Offering only) 50/F, Champion Tower 3 Garden Road Central, Hong Kong

Citigroup Global Markets Limited, or Citigroup

(Joint Bookrunner in relation to the International Offering only) 33 Canada Square Canary Wharf London E14 5LB United Kingdom

CMB International Capital Limited, or CMBI

45-46/F, Champion Tower 3 Garden Road Central, Hong Kong

The Hongkong and Shanghai Banking Corporation Limited, or HSBC

1 Queen's Road Central Hong Kong

Huatai Financial Holdings (Hong Kong) Limited, or HTSC

62/F, The Center 99 Queen's Road Central Hong Kong

ICBC International Capital Limited, or ICBCI

37/F, ICBC Tower 3 Garden Road Hong Kong

US Tiger Securities, Inc., or Tiger Brokers

(Joint Bookrunner in relation to the International Offering only) 437 Madison Ave 27th Floor New York, NY 10022 USA

Legal advisers to our Company

As to Hong Kong and U.S. laws **Skadden, Arps, Slate, Meagher & Flom and affiliates** 42/F, Edinburgh Tower, The Landmark 15 Queen's Road Central Hong Kong

As to PRC law JunHe LLP

20th Floor, China Resources Building 8 Jianguomenbei Avenue

Beijing 100005, China

As to Cayman Islands law

Maples and Calder (Hong Kong) LLP

26/F, Central Plaza 18 Harbour Road Wan Chai, Hong Kong

Legal advisers to the Joint Sponsors and the Underwriters As to Hong Kong and U.S. laws Freshfields Bruckhaus Deringer

55/F, One Island East

Taikoo Place

Quarry Bay, Hong Kong

As to PRC law

Jingtian & Gongcheng

34/F, Tower 3

China Central Place, 77 Jianguo Road

Beijing 100025, China

Reporting accountant and independent auditor

 ${\bf Price water house Coopers}$

Certified Public Accountants

Registered Public Interest Entity Auditor

22/F, Prince's Building Central, Hong Kong

Industry consultant

China Insights Industry Consultancy

Limited

10/F, Block B, Jing'an International Center

88 Puji Road, Jing'an District

Shanghai, China

Receiving banks

Hang Seng Bank Limited

83 Des Voeux Road Central

Central Hong Kong

China Construction Bank (Asia)

Corporation Limited

26/F, CCB Tower

3 Connaught Road Central

Central, Hong Kong

CORPORATE INFORMATION

Headquarters Room 1201, Block A

Hangzhou International Expo Center

No. 353 Benjing Avenue Qianjiang Century City Xiaoshan District, Hangzhou Zhejiang Province, China

Principal place of business in

Hong Kong

54/F, Hopewell Centre 183 Queen's Road East

Hong Kong

Registered office in the

Cayman Islands

P.O. Box 309, Ugland House Grand Cayman KY1-1104

Cayman Islands

Company website http://ir.music.163.com

(the information contained on this website does not form part of this document)

Company secretary Ms. Wong Wai Yee Ella

54/F, Hopewell Centre 183 Queen's Road East

Hong Kong

Authorised representatives Mr. Yong Li

NetEase Building

No. 399 Wangshang Road

Binjiang District Hangzhou, China

Ms. Wong Wai Yee Ella

54/F, Hopewell Centre 183 Queen's Road East

Hong Kong

Audit committee Mr. Ying Kit Caleb Lo (Chairperson)

Mr. Xianfeng Gu Mr. Zhong Xu

Remuneration committee Mr. Zhong Xu (Chairperson)

Mr. Xianfeng Gu Mr. Ying Kit Caleb Lo

Nomination committee Mr. Xianfeng Gu (*Chairperson*)

Mr. Ying Kit Caleb Lo

Mr. Zhong Xu

CORPORATE INFORMATION

Principal share registrar and

transfer office

Maples Fund Services (Cayman) Limited

P.O. Box 1093, Boundary Hall

Cricket Square

Grand Cayman KY1-1102

Cayman Islands

Hong Kong Share Registrar Computershare Hong Kong

Investor Services Limited Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai Hong Kong

Compliance adviser China International Capital Corporation

Hong Kong Securities Limited

29/F, One International Finance Centre

1 Harbour View Street Central, Hong Kong

Principal bank Industrial and Commercial Bank of China

Hangzhou Branch

No. 90, Qingchun Road Xiacheng District, Hangzhou

Zhejiang, China

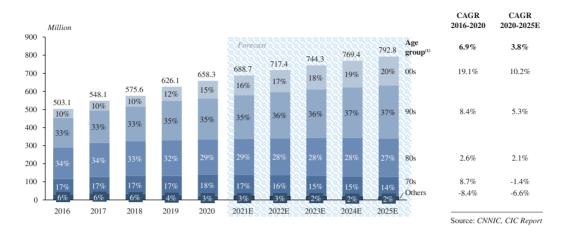
The information and statistics set out in this section and other sections of this document were extracted from different official government publications, available sources from public market research and other sources form independent suppliers, and from the independent industry report prepared by CIC (the "CIC Report"). We engaged CIC to prepare the CIC Report, an independent industry report, in connection with the Global Offering. The information from official government sources has not been independently verified by us, the Joint Global Coordinators, Joint Sponsors, Joint Bookrunners, Joint Lead Managers, any of the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Accordingly, the information from official government sources contained herein may not be accurate and should not be unduly relied upon.

Overview of Online Music Entertainment Market in China

Music has always been a powerful form of expression and entertainment since the advent of human civilisation. Users seek beauty in music, and yearn to share their passion for music and to interact with other music enthusiasts. Despite the emergence of various other forms of expression and entertainment, the influence and reach of music made it everlasting and impactful, which have in turn also enriched other forms of entertainment.

Compared with music offered in traditional forms, 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 other music enthusiasts. The user base of China's online music entertainment market continues to grow, benefiting from the continuous popularisation of mobile internet, the rising demand of online entertainment and the enhancement of copyright awareness. According to the China Internet Network Information Center (CNNIC), the number of users in China's online music entertainment market has reached 658.3 million in 2020, and, according to the CIC Report, will reach 792.8 million in 2025. 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. young users have more monetisation potential due to their greater demand for interacting with others and expressing themselves. As a result, such needs of young users have stimulated the innovation and development of the social networking features of online music entertainment services, leading to the next stage of the industry.

China's Online Music Entertainment Market Number of Users for Online Music Services and Proportion of Age Groups



Note:

(1) "00s" refers to users born in 2000 or later; "90s" refers to users born between 1990 and 1999; "80s" refers to users born between 1980 and 1989; "70s" refers to users born between 1970 and 1979; and "others" refers to users born before 1970.

Users are usually attracted to online music entertainment platforms by the online music services offered, and would also enjoy various other entertainment services provided by those platforms, including online karaoke and live streaming services. The number of users for the online music services as shown in the chart above generally represents the user base of the broader online music entertainment market.

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). The large and growing user base of online music entertainment platforms in China has created a flourishing market. The market size increased from RMB6.7 billion in 2016 to RMB41.4 billion in 2020 with a CAGR of 57.9%, and is expected to reach RMB167.0 billion in 2025 with a CAGR of 32.2%. The monetisation channels of the online music entertainment market in China are more diverse than those in many developed countries, such as the United States, which mainly monetises through membership subscriptions and advertising services.

Online Music Services

Online music services' monetisation methods mainly include membership subscriptions, sales of digital albums, advertising services and licensing business. The market size of online music services increased from RMB2.8 billion in 2016 to RMB12.8 billion in 2020 with a CAGR of 46.3%, and is expected to reach RMB49.5 billion in 2025 with a CAGR of 31.0%. The main factor that contributes to this growth is the rapid increase in the membership paying ratios, which has grown from 2% in 2016 to 8% in 2020 and is expected to reach 27% in 2025. There is still huge room for growth in China when compared to the 40% membership paying ratios in the United States in 2020. At the same time, the average monthly payment per user has steadily increased from RMB8 in 2016 to RMB9 in 2020 and is expected to further increase.

Market Size of China's Online Music Services by Revenue



Source: CIC Report

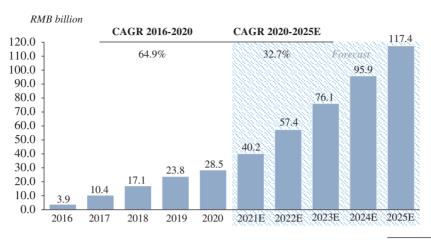
Music-Inspired Social Entertainment Services

Music enthusiasts need to share their passion and interaction with their peers through music, inspiring the innovation and development of music-inspired social entertainment services. Monetisation methods of such services mainly include sales of virtual items for online karaoke and audio live streaming services. As young users' demand for music-inspired social entertainment services increase, user activities and paying ratios are increasing rapidly. China's music-inspired social entertainment services market increased from RMB3.9 billion in 2016 to RMB28.5 billion in 2020 with a CAGR of 64.9%. The PRC authorities have promulgated or proposed the regulations of the live streaming business in recent years, such as Notice 78 issued in November 2020 and the Law of the PRC on the Protection of Minors last revised in October 2020 and effective from 1 June 2021, which many live streaming platforms had already taken steps to comply with. Taking into account the impact from relevant regulations, the CAGR of the China's music-inspired social entertainment services is expected to slow down approximately 2%, still reaching 32.7% during 2020-2025, leading to a market size of RMB117.4 billion in 2025.

Among them, audio live streaming services have become an emerging and fast-growing form of entertainment. Its market size increased from RMB0.9 billion in 2016 to RMB8.3 billion in 2020 with a CAGR of 76.0%, and is expected to reach RMB68.4 billion in 2025 with a CAGR of 52.4% under the same consideration for the impact from relevant regulations. This entertainment format focuses on building and enhancing emotional interactions between users. There are also other formats emerging, such as social clubs.

Music-inspired social entertainment services mainly comprise audio live streaming services and online karaoke services. As latest estimated by CIC, the average monthly ARPPU for audio live streaming services of well-operated platforms in China generally ranges from RMB400 to RMB600 in 2020 and is expected to further increase in the foreseeable future. As latest estimated by CIC, the average monthly ARPPU for online karaoke services of well-operated platforms in China ranges from approximately RMB100 to RMB200 in 2020.

Market Size of China's Music-Inspired Social Entertainment Services by Revenue



Source: CIC Report

Landscape of Online Music Entertainment Market

In China, there are several entertainment platforms offering music content, with other diversified music-inspired services and monetisation channels. Our platform comprises online music services and music-inspired social entertainment services.

In China's online music services industry, we are one of two online music platforms at scale in China with the highest average paying ratio in 2020, featuring a highly interactive content community for music enthusiasts in terms of user scale and engagement, according to CIC Report. In addition, we are the most popular online music platform in China among people who were born in 1990 or later, the rapidly growing age group that accounts for nearly 50% of the online music entertainment market, according to a survey conducted by CIC⁽¹⁾. NetEase Cloud Music had attracted more than 300,000 Registered Independent Artists as of 30 June 2021, making it the largest online incubator for independent artists in China. Due to various reasons such as regulation constraint, different music tastes by users from different regions and cultures, some of the foreign market players are not in direct competition with us in the regions where our Group operates. It is also noticed that other social entertainment platforms may enter into or are already in the online music entertainment market, though at a relatively early stage of development. However, the online music services are usually the add-on services for those social entertainment platforms to enrich their entertainment content and features, rather than their core services, while the online music services has been our core business since inception. In addition, online music services platforms may cooperate with social entertainment platforms, as the music components in various entertainment formats offered by those social entertainment platforms may help increase the popularity of certain music. Therefore, these social entertainment platforms are not in direct competition with us in the online music services market at current stage. See "Risk factors - Risks related to our business and industry - We face intense competition for users, users' time and attention, content, talent, advertising customers and other resources. We may not be able to increase or maintain our market share if we fail to compete effectively."

⁽¹⁾ The survey was conducted in April 2021 with approximately 1,000 randomly sampled users of online music platforms in China, among which 560 users were born in 1990 or later. The question contained in the survey was "Which online music platform (PC or APP) are you using currently (favourite) for the most of your time? (Single selection)."

In China, there are several social entertainment platforms that are built on audio- or music-inspired live streaming content. Due to different revenue contributions from different types of music-inspired social entertainment services offerings (e.g., online karaoke, audio live streaming), the monthly ARPPU for these platforms vary from each other in scale. According to the CIC Report, we are one of the largest music-inspired social entertainment services providers in China, with the highest monthly ARPPU in 2020. The industry average revenue-sharing ratio with the live streaming performers and talent agencies charged by audio live streaming industry players generally falls in the range between 40% - 90%.

The table below sets forth key operating metrics of online music entertainment market in China for the periods:

Key Operating Metrics of Online Music Entertainment Market in China in 2020

			Our Group	Company A
Online music services				
Average MAU (millions)			181	644
Average paying ratio (%)			8.8%	7.7%
Revenue (RMB billions)			2.6	9.3
Market share in terms of revenu	ne (%)		20.5%	72.8%
Number of independent artists (as of 30 June 2021)			Over 300,000	Over 230,000
	Our Group	Company A	Company B	Company C
Music-inspired social entertainment services				
Monthly ARPPU (RMB)	573.8	141.1	N.A.	N.A.
Revenue (RMB billions)	2.3	19.8	1.5	0.7
Market share in terms of				
revenue (%)	8.0%	69.4%	5.3%	2.5%
Ranking	2	1	3	4

Source: CIC report

Note: Company A is a U.S.-listed online music entertainment platform.

Company B is a U.S.-listed online audio platform.

Company C is a privately owned online audio platform.

Company B and C have not publicly disclosed the monthly ARPPU for music-inspired social entertainment services.

Each company has its own calculation methods of the operating metrics, which may have materially different indications of operating performance. These figures may not be directly comparable and are for your reference only.

Online music entertainment platforms, are different from short-form video or live streaming platforms, in terms of formats and types of content offered, and the degree the content is relevant to music. As a result, the live streaming content offered on these platforms are different. The content formats of live streaming on online music entertainment platforms are mainly audio-based, while those on short-form video or live streaming platforms are mainly video-based. In addition, the content offerings of online music entertainment platforms are mainly music or music-inspired, while those on short-form video or live streaming platforms are less relevant to music. Therefore, online music entertainment platforms and short-form video or live streaming platforms satisfy users' different social entertainment needs with

different formats of live streaming. Our social entertainment services are mainly music-inspired and audio-based as a natural extension of our online music community to further satisfy our users' need for social interactions, therefore not in direct competition with short-form video or live streaming platforms.

The Rise of the Chinese Music Community

Although online music platforms satisfy users' demand for listening to music, a number of pain points still exist in the industry. In the past, most music platforms mainly served as "music players" and were unable to meet users' needs for personalised music offerings and social interactions. At the same time, the low efficiency of distribution on these online music platforms resulted in many works of music being unable to breakthrough into the mainstream.

Emerging music platforms today address these pain points through continuous innovations in product offerings. They provide ingenious product features such as playlists, personalised recommendations, comments and personalised music reports, which have become the key characteristics of the Chinese music community. Taking playlists and personalised recommendations as examples, the Chinese music community has amassed a large number of music enthusiasts who are both passionate about and understand music. With technological advances, these platforms offer users personalised music products, helping users create their playlists and personalised recommendations. According to a survey conducted by CIC in April 2021, 88.2% of users believe that playlists and personalised recommendations can effectively help them explore new music and improve the efficiency of music distribution.

These innovative functions create a warm and interactive music community that guides users to discover music, encourages sharing and expression, and at the same time boosts streaming time, promotes user stickiness, and improves the efficiency of music distribution. These characteristics increase the value of these music platforms for copyright owners and fully encourage users to engage in secondary creations. In this way, users become both content consumers and content creators, laying a solid foundation for the creation of music content.

According to the CIC Report, NetEase Cloud Music is a highly creative innovator in China's online music community, having pioneered the successful development and extensive utilisation of a number of innovative functions such as *playlists*, *daily recommendations* and *comments section*. NetEase Cloud Music has one of the largest reservoirs of personalised playlists in the industry and the highest degree of user participation among online music platforms in China. In addition, leveraging the product innovations, deep understanding of the users and advanced technologies, NetEase Cloud Music maintains its leadership in three dimensions — daily usage per capita, retention rate of new users, and retention rate of active users.

The music community can better meet young users' demands of social interaction and self-expression, and thus is very popular among them. According to the CIC Report, among all music platforms, NetEase Cloud Music has the highest proportion of users who were born in 1990 or later, and its penetration rate among users who were born in 1990 or later is above the industry average. At the same time, NetEase Cloud Music is the most popular online music platform in China among young users represented by those who were born in 1990 or later, according to a survey conducted by CIC.

Online Music Content in China

Online music platforms in China enjoy various supply channels. Primary sources of music content include the "big three" major music labels (i.e., Sony Music Entertainment, Universal Music Group and Warner Music Group), as well as other music labels, independent artists and studios. In addition, there are other music publishers that focus on the supply of copyrights of lyrics and music for secondary creations.

The music copyright market in China exhibits the following characteristics:

- *Music labels are diversified.* From 2018 to 2020, the number of copyright partners and labels cooperating with top online music platforms has increased from approximately 200 to more than 400; and
- Music copyright sources are diversified. From 2018 to 2020, the copyright owners of the total 100 digital albums in terms of sales volume on top online music platforms increased from 41 to 50. The number of songs in Chinese newly released increased by approximately 200% from 2019 to 2020, and the number of singers who have released these new songs increased by approximately 80% from 2019 to 2020, according to the CIC Report.

In addition, music content created by independent artists is fast-growing. In the past, independent artists could only share their craft through limited distribution channels, such as introducing self-made demo CDs to music labels or playing in public spaces. Due to such limited distribution channels and technologies, music content created by independent artists was only enjoyed by small communities and could not effectively reach the majority of users in online music entertainment market. Without a professional marketing team, it was difficult for independent artists to promote their music to audiences of different groups. However, benefiting from technological advances, music distribution has become more efficient and diversified, allowing music content created by independent artists to reach a much wider scope of audience. Music content created by independent artists further enriches content libraries of online music platforms, reduces content costs, encourages content creation, and promotes the long-term development of the online music entertainment industry. According to the CIC Report, there were approximately 400,000 independent artists on online music platforms in 2020, and the number is expected to reach approximately 800,000 by 2025. This also highlights the popularity of original music content creation. NetEase Cloud Music has attracted more than 300,000 Registered Independent Artists as of 30 June 2021, making it the largest online incubator for independent artists in China.

The Development Trends of Online Music Entertainment Industry in China

With the gradual increase in user scale, the overall industry is undergoing significant changes at both the supplier and consumer level in order to better meet user demands, especially the needs of young users. Development trends of the online music entertainment industry include:

• Decentralisation of consumption and supply of music content. Music content creation and distribution mechanisms are rapidly evolving, which have given content purchasers and users an increasing number of choices. As a result, both consumption and supply of music content are under way.

- Fall of the exclusive licensing wall. In the past, the industry used to rely on exclusive copyrights. In the recent years, China's National Copyright Administration (NCAC) and SAMR have been paying close attention to the exclusive licences of music. In 2020, Warner Chappell Music and Universal Music announced multi-year licencing agreements with NetEase Cloud Music, and extended their licencing agreements with Tencent Music Entertainment Group. In 2021, Sony Music signed direct China digital distribution deals with both NetEase Cloud Music and Tencent Music Entertainment. In the third quarter of 2021, NetEase Cloud Music reached a direct agreement with Warner Music Group, and as a result, NetEase Cloud Music has direct digital distribution contracts with all three of the world's largest recording label groups. On 24 July 2021, the SAMR issued an Administrative Penalty Decision against a Chinese internet giant, or the Decision, requiring the internet giant and its affiliated music company to implement a rectification plan to, among other things, terminate its exclusive music copyright licensing agreements within 30 days from the date of the Decision. As exclusive copyrights historically granted by labels gradually phase out, platforms are searching for alternative content sources, which serve to optimise the cost structure and promotes the long-term healthy development of the industry.
- Diversity in music content increasingly favoured by users. Users, especially young users, increasingly favour more diversity in music content in terms of genre, style and taste. Long-tail content and content creators provide valuable resources for platform to leverage to attract users.
- Higher demand for more personalised content. User demand for personalised content is increasing, requiring platforms to have a deeper understanding of user tastes, interests, needs and preferences and intelligent recommendation functions supported by advanced technological capabilities and large-scale and long-term data accumulation.
- Awareness of copyright protection is constantly strengthened, and competition becomes more reasonable and orderly. With heightened regulation and elevated industry standards, users' awareness of copyright protection continues to strengthen. According to an user survey conducted by CIC in April 2021, 83.3% of the surveyed users were willing to pay for music copyrights. Public's awareness of copyright protection is expected to be further strengthened in the near future, thereby incentivising independent artists to create and share music.
- Increased variety in music-inspired UGC. Users desire more freedom and empowerment in content creation for self-expression and social interaction. Various forms of music-inspired content, such as comments, playlists, short-form videos and multi-media creations, serve to continually drive user engagement.
- Ample monetisation possibilities. New monetisation channels have emerged in the online music entertainment market, such as music inspired live streaming programmes, podcasts, online karaoke and online live music events. Platforms are encouraged to leverage their established user base, content and brand appeal to further innovate products and services to improve paying user conversion.

Source of Information

We commissioned CIC to conduct research, provide an analysis of, and to produce the CIC Report on the markets in which we operate. CIC is an independent market research and consulting company that provides industry consulting services, commercial due diligence, and strategic consulting services to both institutional investors and corporations. We incurred a total of USD110,000 in fees and expenses for the preparation of the CIC Report. CIC undertook both primary and secondary research using a variety of resources. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analysing data from various publicly available data sources, including the National Bureau of Statistics of China, Chinese Government releases, annual reports published by relevant industry participants, industry associations, CIC's own internal database and other relevant sources. CIC's projection on the size of each of the related markets in China takes into consideration various factors, including (i) that the overall global social, economic, and political environment is expected to maintain a stable trend over the next decade; (ii) that related key industry drivers are likely to continue driving growth in the aforementioned markets during the forecast period, including increasing per capita expenditure on entertainment and culture activities, and the development of digitalisation; and, (iii) that there is no extreme force majeure or industry regulations by which the market situation may be affected either dramatically or fundamentally.

HISTORY

OVERVIEW

Our music streaming business was introduced by NetEase in 2013 and our innovative music entertainment application, NetEase Cloud Music, has been operating as a stand-alone business by our Company since October 2016.

KEY BUSINESS MILESTONES

The following table sets out our key business development milestones:

Year	Event					
2013	NetEase introduced music streaming and extensively utilised and popularised the iconic <i>playlists</i> function					
2016	We began operating NetEase Cloud Music on a stand-alone basis					
	We initiated <i>Project Cornerstone</i> and started initiatives to support independent artists and to encourage content creation					
2018	We introduced live streaming and launched <i>LOOK Live Streaming</i> , our live streaming mobile app for content creators to showcase their musical talents and interact directly with their audience					
2019	We introduced the <i>village</i> , a multimedia, content-based social function allowing our users to post and discover various forms of music and music-inspired content					
2020	We launched Yin Jie, our karaoke mobile app, for music enthusiasts to sing, chat and interact with each other					
	We launched Xin Yu, a music-inspired social mobile app					
	We introduced <i>cloud circle</i> , a way for music fans to form groups based on various themes, topics, interest and need, and share content with their groups					

MAJOR SUBSIDIARIES

The principal business activities and date of establishment of each of our major subsidiaries are shown below:

Name of company	Principal business activities	Date and jurisdiction of establishment
Hangzhou NetEase Cloud Music .	Our wholly foreign-owned entity and subsidiary that primarily provides technology related services	18 May 2016, PRC
Hangzhou Yuedu	Our Onshore Holdco that primarily engages in music streaming	25 December 2014, PRC

HISTORY

SHAREHOLDING OF OUR COMPANY

Major shareholding changes

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February 2016 with an authorised share capital of US\$10,000 that was subdivided into 100,000,000 shares with par value of US\$0.0001 each, and subsequently issued one ordinary share with a par value of US\$0.0001 to Mapcal Limited, which was transferred to NetEase on the same date.

On 1 August 2017, our Company issued ordinary shares with a par value of US\$0.0001 each to NetEase.

On 23 August 2017, our Company increased its share capital by 900,000,000 shares, following which, our authorised share capital became US\$100,000 divided into 1,000,000,000 shares with a par value of US\$0.0001 each. On the same date, all shares held by NetEase were redesignated on a one-to-one basis to class B ordinary shares, with each share entitled to ten votes.

See "- Pre-IPO Investment" for further information about the Pre-IPO Investments.

For changes in our Company's share capital within the two years immediately before the date of this document, see "Statutory and general information — Further information about our Group — Changes in share capital of our Company."

Shareholding summary

The table below sets out a summary of the shareholding structure of our Company as at the date of this document and immediately prior to the Global Offering (assuming the Presumptions):

Type of Shares ⁽³⁾	Shareholder	Number	Voting percentage as at the date of this document and immediately before the Global Offering	Shareholding percentage as at the date of this document and immediately before the Global Offering	Shareholding and voting percentage immediately after the Global Offering (assuming the Presumptions)
Class A Ordinary Shares .	LVC Cloudy Paradise	1,470,100	0.11%	0.77%	0.71%
Class B Ordinary Shares ⁽¹⁾	NetEase ⁽²⁾⁽¹⁰⁾	119,770,118	88.00%	62.46%	57.65% ⁽²⁾
Series A Preferred	Skycus Music Limited ⁽⁵⁾	886,513	0.65%	0.46%	0.43%
Shares ⁽¹⁾	SMG-CMI Soaring Limited ⁽⁶⁾	483,298	0.36%	0.25%	0.23%
	CMC Y3 Holdings Limited ⁽⁷⁾	5,555,387	4.08%	2.90%	2.67%
	CMC Y3 Investors Holdings Limited ⁽⁷⁾	171,326	0.13%	0.09%	0.08%
	Clover Creek Limited ⁽⁸⁾	1,616,519	1.19%	0.84%	0.78%
	Houwei Mango Dimension Fund I, L.P. (9)	681,888	0.50%	0.36%	0.33%
	LVC Cloudy Paradise LP ⁽⁴⁾	756,498	0.56%	0.39%	0.36%

HISTORY

Type of Shares ⁽³⁾	Shareholder	Number	Voting percentage as at the date of this document and immediately before the Global Offering	Shareholding percentage as at the date of this document and immediately before the Global Offering	Shareholding and voting percentage immediately after the Global Offering (assuming the Presumptions)
Series B Preferred Shares ⁽¹⁾	Baidu (Hong Kong) Limited ⁽⁷⁾	8,165,252	0.60%	4.26%	3.93%
Series B1 Preferred Shares ⁽¹⁾	General Atlantic Singapore CV Pte. Ltd. (7)	6,648,848	0.49%	3.47%	3.20%(2)
	Symphonic Alliance Limited ⁽⁷⁾	6,648,848	0.49%	3.47%	3.20%
	HIM International Music Inc. (11)	443,257	0.03%	0.23%	0.21%
	Alpha Flair Limited ⁽¹²⁾	1,773,026	0.13%	0.92%	0.85%
	Sincere Jovial Limited ⁽⁴⁾	1,329,770	0.10%	0.69%	0.64%
	Skycus Music Limited ⁽⁵⁾	1,329,770	0.10%	0.69%	0.64%
	Oceanwide Sigma Limited ⁽¹³⁾	443,257	0.03%	0.23%	0.21%
	Keynes Dragon Investment Management Co., Limited ⁽¹⁴⁾	265,954	0.02%	0.14%	0.13%
	Tulando Holdings Limited ⁽¹⁵⁾	209,894	0.02%	0.11%	0.10%
	Buchkana Holdings Limited ⁽¹⁵⁾	209,894	0.02%	0.11%	0.10%
	Konder Limited ⁽¹⁵⁾	466,726	0.03%	0.24%	0.22%
	BAI GmbH ⁽¹⁶⁾	1,329,770	0.10%	0.69%	0.64%
Series B2 Preferred Shares ⁽¹⁾	Taobao China Holding Limited ⁽⁷⁾	20,733,975	1.52%	10.81%	9.98%
	Novel Entertainment Limited ⁽⁷⁾	10,366,988	0.76%	5.41%	4.99%

⁽¹⁾ Each of the Class B Ordinary Shares, Series A Preferred Shares, Series B Preferred Shares, Series B1 Preferred Shares and Series B2 Preferred Shares will automatically convert to Class A Ordinary Shares on a one-to-one basis upon the Listing. Each of these shareholders have entered into the Pre-IPO Shareholders' Agreement, pursuant to which, the shareholders have been granted certain special rights in relation to our Company; the Pre-IPO Shareholders' Agreement (together with the special rights granted thereunder) will terminate upon the Listing.

⁽²⁾ NetEase has been granted an Anti-dilution Right. As at Latest Practicable Date, NetEase has confirmed that it shall exercise its Anti-dilution Right up to a maximum of US\$200 million, which would increase its shareholding percentage immediately after the Global Offering to 61.31%, being up to 7,602,000 new Shares based on the mid-point of the Offer Price range, representing 47.51% of the total Offer Shares (not including any exercise of the Over-allotment Option). See "— Pre-IPO Investment — Rights of the Pre-IPO Investors" and note 2 to the corporate structure chart in "— Corporate Structure — Corporate structure immediately after the Global Offering" for more information.

⁽³⁾ As at the date of this document and immediately prior to the automatic conversion upon the Listing, each Class B Ordinary Share and Series A Preferred Share entitles its holder to ten votes, while each Class A Ordinary Share, Series B Preferred Share, Series B1 Preferred Share and Series B2 Preferred Share entitles its holder to one vote. See "— Corporate structure — Corporate structure immediately before the Global Offering."

- (4) Sincere Jovial Limited is an investment holding company incorporated under the laws of BVI, and LVC Cloudy Paradise LP is a limited partnership incorporated under the laws of Cayman Islands. Both entities are investment vehicles established by Loyal Valley Capital, a private equity firm that mainly focuses on the following segments: new consumer (media, entertainment and education), healthcare and advanced manufacturing. Sincere Jovial Limited and LVC Cloudy Paradise LP are ultimately controlled by Mr. Lijun Lin.
- (5) Skycus Music Limited is an exempted company established in the Cayman Islands, 100% owned by Skycus China Fund, L.P. Skycus China Fund, L.P. is a limited partnership established in the Cayman Islands with more than US\$500 million in assets under management. Skycus China Fund, L.P. is managed by its general partner, Parallel Universes Asset Management Limited. No ultimate beneficial owner of any limited partner or general partner holds more than 30% equity of Skycus China Fund, L.P. Skycus China Fund, L.P. focuses on investment opportunities being created in emerging industries driven by innovations, and traditional industries being transformed and upgraded. Skycus China Fund, L.P. intends to primarily invest in strategic emerging industries (including TMT, culture, sports and healthcare industries), covering growth-stage and mature-stage portfolios, and in leading enterprises with a vision to collectively lead or participate in depth in the integration and expansion of industry value chain.
- (6) SMG-CMI Soaring Limited is an investment holding company incorporated under the laws of British Virgin Islands. It is 91.72% owned by Rich Giant Investments Limited as a controlling shareholder. Rich Giant Investments Limited is a limited company incorporated under the laws of the Republic of Seychelles, whose ultimate beneficial owner is Mr. Wanqing Chen.
- (7) See "— Pre-IPO Investment Information on the principal Pre-IPO Investors."
- (8) Clover Creek Limited is an investment holding company incorporated under the laws of British Virgin Islands, funded by professional investors and entrusted to Ezy Capital for management. Ezy Capital is a private equity fund mainly focusing in cultural media and Internet investments, aiming to develop as a leading investment institution in the TMT sector.
- (9) Houwei Mango Dimension Fund I, L.P. (the "Fund") is an exempted limited partnership incorporated under the laws of Cayman Islands. It is ultimately beneficially owned by 3 owners, each of which control between 30%-40%. Chenbang Capital Limited is the general partner of the Fund that ultimately manages the Fund. The Fund is specially established wholly for investment in the Company.
- (10) The Shares held by NetEase (including Shares acquired under the Anti-dilution Right) will be locked-up according to Rule 10.07 of the Listing Rules.
- (11) HIM International Music, Inc. ("HIM") is a company incorporated in Taiwan and is an independent record label and artist management company and the only listed music company in Taiwan, listed on the Taipei Exchange (stock code: 8446). HIM's core value lies in the discovery of the uniqueness of its potential artists and the development of their one-of-a-kind entertainment identity to create a win-win situation between itself and its artists. HIM has developed top-line groups S.H.E, Power Station, F.I.R., and Fahrenheit; individual artist like Hebe, Yoga Lin, Where Chou, Yisa Yu, Janice Yan, Olivia, Boon Hui Lu and KarenCici. HIM owns all copyright of songs and specialises in developing and promoting songwriters and their songs/lyrics.
- (12) Alpha Flair Limited is a limited liability company incorporated in the British Virgin Islands and is a special purpose vehicle wholly-owned by CEL New Economy Fund, L.P., an exempted limited partnership established in the Cayman Islands with CEL New Economy Partners acting as its general partner. CEL New Economy Partners is a limited liability company incorporated in the Cayman Islands and is wholly owned by China Everbright Limited. China Everbright Limited (a company incorporated in Hong Kong whose shares are listed on the Main Board of the Stock Exchange, stock code: 165) is principally engaged in the provision of financial services through its subsidiaries and associates, and persistently pursues the cross-border macro asset management strategy, with specific focuses on fund and investment business.

- (13) Oceanwide Sigma Limited is a company incorporated in the Cayman Islands, operating investment holding businesses. It is 100%-owned by private equity fund Oceanwide Pioneer Limited Partnership, the general partner of which is Oceanwide Millenium Limited. Oceanwide Millenium Limited indirectly wholly-owned by China Oceanwide International Investment Co., Ltd (a Hong Kong company) and is ultimately controlled by Tonghai Holdings Co, Ltd.. Tonghai Holdings Co, Ltd., a PRC company, is 77.14%-owned by an individual Independent Third Party and 22.86%-owned by Oceanwide Foundation.
- (14) KEYNES DRAGON INVESTMENT MANAGEMENT CO., LIMITED is a company incorporated in the Hong Kong, whose ultimate beneficial owner is Liu Yuwu. KEYNES DRAGON INVESTMENT MANAGEMENT CO., LIMITED is a comprehensive investment holding company focusing on technology, entertainment, consumer, health care and AI sectors.
- (15) Tulando Holdings Limited, Buchkana Holdings Limited and Konder Limited, respectively incorporated in BVI, Cyprus and the Cayman Islands, are controlled by Russia-China Investment Fund ("RCIF"). RCIF is a private equity fund mainly invested by the sovereign funds of China and Russia Federation.
- (16) BAI GmbH is a limited liability company incorporated under the laws of Germany. It is wholly owned by Reinhard Mohn GmbH. BAI GmbH primarily invests in sectors including Urbanisation and Demographic Change, Financial Services, Social/Media/Content, Tech & Infrastructure and China Based International Company.

PRE-IPO INVESTMENT

Overview

We have entered into four rounds of Pre-IPO Investments since our incorporation. The table below sets out a summary of the financing founds.

	Round 1	Round 2	Round 3	Round 4
Date of agreements	May 2018, June 2018	9 July 2018	September 2018, October 2018 and November 2018	6 September 2019
Date of completion	17 April 2019	18 September 2018	21 January 2019	4 December 2019
Total number of shares under the investment agreement	12,204,407 Series A Preferred Shares	8,165,252 Series B Preferred Shares	21,099,014 Series B1 Preferred Shares	31,100,963 Series B2 Preferred Shares
Cost per share paid by investors	US\$10.83 per Series A Preferred Share	US\$18.37 per Series B Preferred Share	US\$22.56 per Series B1 Preferred Share	US\$22.56 per Series B2 Preferred Share
Total consideration	US\$132,121,625	US\$150,000,000	US\$476,000,000	US\$701,647,059
Implied valuation of	US\$1.59 billion	US\$2.85 billion	US\$3.98 billion	US\$4.68 billion
each round of investment ⁽¹⁾				
Discount to the Offer Price ⁽²⁾	58.8%	30.2%	14.2%	14.2%

	Round 1	Round 2	Round 3	Round 4
Use of proceeds from the Pre-IPO Investments	1	Group and general water approximately 64.4	ents were used for the corking capital purpo % of the funds raise	ses. As of the Latest
Benefits of the Pre-IPO Investors	Our directors were additional capital Investors, particul operate (being in would also benefit with their investry	of the view that I and knowledge a larly in their strategi ternet technology ar t from the Pre-IPO ment in our Compar es as an endorsemen	our Company woul nd expertise broug ic investments in ind nd music entertainm Investors' commitme by demonstrates thei nt of our Group's pe	th by the Pre-IPO dustries in which we ent). Our Company ent to our Company, r confidence in our

Notes:

- (1) On a fully-diluted basis, and calculated by multiplying the cost per share by the number of shares immediately upon completion of corresponding round of financing.
- (2) Based on the mid-point of the Offer Price range.

The consideration for each of the Pre-IPO Investments set out above was determined based on arm's length negotiations between our Company and the Pre-IPO Investors after taking into account the timing of the subscription and the illiquidity of the shares as a private company when the Pre-IPO Investments were entered into.

Rights of the Pre-IPO Investors

The Pre-IPO Investors have been granted certain special rights in relation to our Company. These special rights will terminate upon the Listing.

On 31 March 2021, the Company granted an Anti-dilution Right to NetEase. The Anti-dilution Right was granted to minimise the dilutive effects on NetEase from the removal of the weighted voting rights structure and the Global Offering. To illustrate the dilutive effects on NetEase: (a) prior to the Global Offering and the Listing, NetEase would hold Shares representing 62.46% of the total shareholding percentage, and 88.00% of the total voting percentage, of our Company; (b) without the Anti-dilution Right, NetEase's shareholding and voting percentage in our Company would be diluted to 57.65% (both shareholding and voting percentage) and 56.99% (both shareholding and voting percentage), immediately following the Global Offering and assuming no exercise of the Over-allotment Option and full exercise of the Over-allotment Option, respectively; and (c) please see the table below for the shareholding and voting percentages of NetEase upon the exercise of the Anti-dilution Right. The Anti-dilution Right will terminate upon the Listing.

The table below sets out the details of NetEase's shareholding position according to the low, middle and high points of the Offer Price range.

Assuming the Offer Prices of HK\$190 (low-point), HK\$205 (mid-point) and HK\$220 (high-point) of the Offer Price range at the subscription amount of US\$200 million

Offer Price	Number of Offer Shares to be acquired ⁽¹⁾		Over-Allotment ot exercised	Assuming the Over-Allotment Option is fully exercised		
		Approximately % of the Offer Shares	Approximately % of the issued share capital ⁽²⁾	Approximately % of the Offer Shares	Approximately % of the issued share capital (2)	
HK\$190 NetEase's aggregate shareholding	8,202,200	51.26%	3.95%	44.58%	3.90%	
position ⁽²⁾	127,972,318	_	61.60%	_	60.89%	
HK\$205 NetEase's aggregate shareholding	7,602,000	47.51%	3.66%	41.32%	3.62%	
position ⁽²⁾	127,372,118	_	61.31%	-	60.61%	
HK\$220 NetEase's aggregate shareholding	7,083,700	44.27%	3.41%	38.50%	3.37%	
position ⁽²⁾	126,853,818	-	61.06%	-	60.36%	

Note:

Upon the Listing, all of NetEase's shareholding in the Company (including those acquired under the Anti-dilution Right) will be subject to lock-up requirements pursuant to Rule 10.07 of the Listing Rules.

Lock-up Undertakings of the Pre-IPO Investors

The Shares held by NetEase upon the Listing are subject to a lock-up period required under Rule 10.07 of the Listing Rules as further elaborated under "Underwriting — Lock-up Undertakings — (B) Undertakings by the Controlling Shareholder" section, subject to customary exceptions such as pledging to an authorised financial institution or with the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and in compliance with or permitted under the Listing Rules and the Stock Borrowing Agreement, or with the prior written consent of the Stock Exchange.

⁽¹⁾ Rounded down to the nearest whole board lot of 50 Shares. Calculated based on the exchange rate set out in the section headed "Information about this document and the Global Offering — Exchange rate conversion."

⁽²⁾ Including the 119,770,118 existing Shares (on a fully-converted basis). Assuming that no Shares are issued under the Pre-IPO Share Incentive Plan.

The Shares held by Taobao China Holding Limited upon the Listing are subject to a lock-up period of 180 days commencing from the Listing Date, subject to customary exceptions such as pledging to an authorised financial institution or with the written consent of the Company, the Joint Sponsors and the Joint Global Coordinators.

The Shares held by other existing Pre-IPO investors upon the Listing are subject to a lock-up period of 180 days commencing from the Listing Date, subject to customary exceptions such as pledging to an authorised financial institution or with the written consent of the Company.

Public float

To the best knowledge of our directors, each of the Pre-IPO Investors (other than NetEase) are independent third parties and their Shares (on a full-converted basis) will be counted towards public float for the purpose of the Listing Rules.

Information on the principal Pre-IPO Investors

We set out below a description of our principal Pre-IPO Investors, being private equity funds or corporations that have made meaningful investments in our Company and each holding more than 2% of our total issued share capital as at the date of this document (on a fully-converted basis).

CMC Y3 Holdings Limited and CMC Y3 Investors Holdings Limited are investment holding companies incorporated under the laws of the Cayman Islands. They are respectively wholly-owned by CMC Y3, L.P, and CMC Y3 Parallel, L.P., both of which are incorporated under the laws of the Cayman Islands. The general partner of CMC Y3, L.P, and CMC Y3 Parallel, L.P. is CMC Y3 GP, L.P., which is incorporated under the laws of the Cayman Islands. The general partner of CMC Y3 GP, L.P. is CMC Capital Partners GP II, Ltd., which is ultimately wholly-owned by Mr. LI Ruigang, the founding partner of CMC Capital Partners. The principal investment areas of CMC Capital Partners are media, consumer and TMT (technology, media and telecommunications).

Baidu (Hong Kong) Limited is a private company incorporated under the laws of Hong Kong. It is ultimately wholly-owned by Baidu, Inc. (Nasdaq: BIDU; SEHK: 9888), a leading AI company with a strong Internet foundation, which was incorporated under the laws of the Cayman Islands.

General Atlantic Singapore CV Pte. Ltd. is a special purpose investment vehicle incorporated under the laws of Singapore. It is wholly-owned by General Atlantic Singapore Fund Pte. Ltd., which is managed by General Atlantic Singapore Fund Management Pte. Ltd. ("GASFM"), a company incorporated under the laws of Singapore. GASFM is wholly-owned by General Atlantic Service Company, L.P., an investment adviser registered with the United States Securities and Exchange Commission.

Symphonic Alliance Limited ("Symphonic Alliance") is an exempted company with limited liability incorporated under the laws of the Cayman Islands as an investment holding company. Symphonic Alliance is 100% owned by Boyu Capital Fund III, L.P., the general partner of which is Boyu Capital General Partner III, L.P. ("BCGPIII"). The general partner of BCGPIII is Boyu Capital General Partner III, Ltd.. Boyu Capital Group Management Ltd. ("Boyu Capital") acts as the management company of Boyu Capital Fund III, L.P.. Boyu Capital provides investment advisory services to various China-focused investment funds which aim at providing growth and transformational capital for fast-growing businesses in Greater China.

Taobao China Holding Limited is a private company incorporated under the laws of Hong Kong that is ultimately wholly-owned by 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. Alibaba Group's businesses are comprised of core commerce, cloud computing, digital media and entertainment, and innovation initiatives.

Novel Entertainment Limited is a private company incorporated under the laws of the BVI that is indirectly controlled by Yunfeng Investment III, Ltd. ("Yunfeng GP"), an exempted company incorporated under the laws of Cayman Islands, and solely managed by Yunfeng Capital Limited ("Yunfeng Capital"), an exempted company incorporated under the laws of Cayman Islands, which in turn is ultimately controlled by Mr. Yu Feng. Yunfeng Capital is a leading private equity firm in China founded by successful entrepreneurs and industry leaders. Yunfeng Capital is committed to creating financial, operational and strategic value for its portfolio companies by assisting in designing strategies, improving operations, enhancing corporate governance, building brand value and acquiring business resources. Yunfeng Capital currently manages multiple USD and RMB funds. Yunfeng Capital has formed deep sector expertise and industry insights in their focused sectors, including internet & new consumption, technology & business services, and healthcare.

Compliance with Stock Exchange guidance letters

On the basis that: (i) the consideration for the Pre-IPO Investments was settled, and the Anti-dilution Right was granted, more than 28 clear days before the date of our first submission of the listing application to the Stock Exchange in relation to the Listing; and (ii) no special rights to the Pre-IPO Investors will exist after the Listing, the Joint Sponsors have confirmed that the Pre-IPO Investments are in compliance with the Guidance Letter HKEX-GL29-12 issued by the Stock Exchange in January 2012 (and last updated in March 2017) and the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 (and last updated in March 2017).

SPIN-OFF

Subsequent to the secondary listing of NetEase, and having considered, among other things, that our music streaming business has grown to a sufficient size that justifies a separate listing on the Stock Exchange and the current market conditions in respect of the online entertainment industry, NetEase submitted a spin-off proposal to the Stock Exchange pursuant to Practice Note 15 and applicable requirements under the Listing Rules. The Stock Exchange has confirmed that NetEase may proceed with the proposed spin-off. With respect to the spin-off, our Company will comply with the requirements under Practice Note 15 and the Listing Rules, save for paragraph 3(f) of Practice Note 15, which NetEase has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement for our Company to provide existing shareholders of NetEase with an assured entitlement to apply for Shares pursuant to the Global Offering. See also "Waivers and Exemptions."

NetEase considers the spin-off to be in the best interests of NetEase and its shareholders as a whole, for the following key reasons:

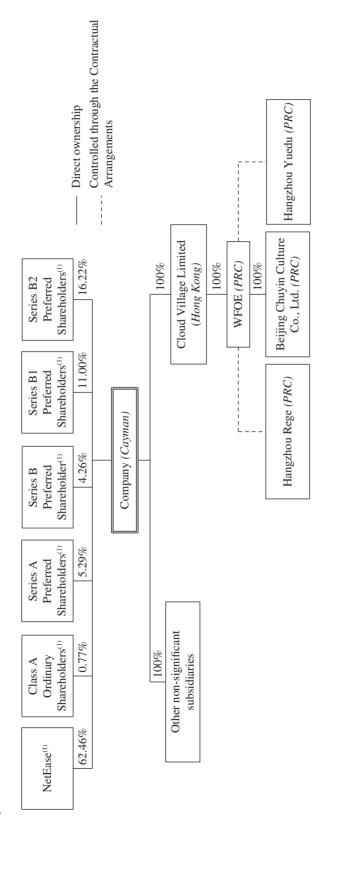
(a) the spin-off would enable investors to better value NetEase and NetEase Group separately and independently from our Company and our Group.

- (b) the spin-off would better reflect the value of our Group on its own merits and increase its operational and financial transparency through which investors would assess the performance and potential of our Group separately and independently from the NetEase Group.
- (c) with our business separately listed from the NetEase Group, our Company would have greater access to, and flexibility in, fundraising activities and investor capital.
- (d) NetEase Group and our Group could each individually focus on, and deploy its own funds towards, its own group without considering the business development and financial needs of the other group.
- (e) the value of our Group is expected to be enhanced through the spin-off, which will in turn benefit NetEase Group as our controlling shareholder and parent, particularly considering that a listing on the Stock Exchange would:
 - enhance our Group's profile among its users, independent artists, suppliers and other stakeholders, and enhance our ability to attract talent independently of NetEase;
 - (ii) enable us to independently and directly access equity and debt capital markets in the future on a stand-alone basis should the need arise, and further enhance our ability to secure credit facilities and provide a clearer credit profit for credit rating agencies and financial institutions;
 - (iii) lead to a more direct alignment of our management's responsibilities and accountability with our operating and financial performance, which is expected to result in enhanced management focus, improved decision-making processes, heightened investor focus and broader shareholder base that would in turn lead to more efficient operations and improved corporate governance to better address greater stakeholders' needs; and
 - (iv) generate more attractive and liquid incentives that could be directly linked to management and employee performance, which would in turn increase talent motivation and commitment.

CORPORATE STRUCTURE

Corporate structure immediately before the Global Offering

The following chart is a simplified depiction of the shareholding structure of our Group immediately before the Global Offering, assuming the Presumptions.

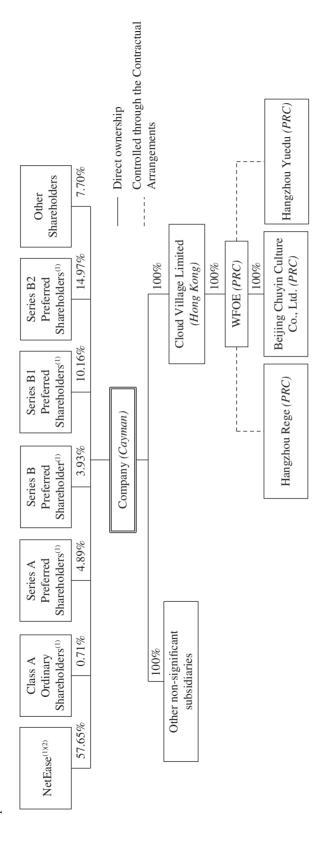


Note:

— Information on the principal Pre-IPO Investors" for further information on the shareholders. The aggregate voting interest attributable to each type of shares, immediately before the Global Offering and prior to the automatic conversion of each Class B Ordinary Share and Preferred Share to one Class A Ordinary Shares, is: (i) 88.00% for NetEase (holder of Class B Ordinary Shares, with each Class B Ordinary Share entitling the holder to ten votes); (ii) 0.11% for Class A Ordinary Shareholders (with each Class A Ordinary Share entitling the holder to one vote); (iii) 7.46% for Series A Preferred Shareholders (with each Series A Preferred Share entitling the holder to to no vote); (iv) 0.60% for the Series B Preferred Shareholders (with each Series B Preferred Share entitling the holder to one vote); (v) 1.55% for Series B1 Preferred Shareholders (with each Series B1 Preferred Share entitling the holder to one vote); and (vi) 2.29% for Series B2 Preferred Shareholders (with each Series B2 Preferred Share entitling the holder to one vote). These percentages relate to shareholding interests in the Company in aggregate. See "— Shareholding of our Company — Shareholding summary" and "— Pre-IPO Investment \Box

Corporate structure immediately after the Global Offering

The following chart is a simplified depiction of the shareholding structure of our Group immediately after the Global Offering, assuming the Presumptions.



Notes:

- Please see the notes to the chart above in "— Corporate Structure Corporate structure immediately before the Global Offering." For a detailed breakdown of the shareholding percentages, see "— Shareholding of our Company Shareholding summary." Upon the Listing, each Class B Ordinary Share and Preferred Share will be automatically and immediately converted to Class A Ordinary Shares, following which, all Class A Ordinary Shares will be re-designated and re-classified as ordinary shares of the Company with a par value of US\$0.0001 each (and with one voting right attached to each share).
- NetEase has an Anti-dilution Right to subscribe for new Shares under the Global Offering up to US\$200 million at the Offer Price. Assuming full exercise of NetEase's Anti-dilution Right, NetEase will hold 61.31% (based on the mid-point of the Offer Price range) and the Other Shareholders will hold 4.04% of the total issued share capital of our Company immediately after the Global Offering (assuming the Presumptions, other than the exercise of the Anti-dilution Right). Based on the Form 20-F filed by NetEase with the SEC on 28 April 2021, Mr. Ding beneficially owns 43.2% of NetEase through Shining Global International Limited and the entities controlling it; see "Statutory and general information Further information about our Directors Disclosure of interests" in Appendix IV. 5
- After the Listing, each of the Pre-IPO Investors' shareholdings in our Company (other than that of NetBase) will be counted towards public float for the purpose of the Listing (3)

SAFE REGISTRATION

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外融資及返程投 資外匯管理有關問題的通知) (the "SAFE Circular 37"), promulgated by SAFE and which became effective on 14 July 2014, which replaced the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過境 外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the "SAFE Circular 75"), (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the "Overseas SPV") that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the "SAFE Circular 13"), promulgated by SAFE and which became effective on 1 June 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

As advised by our PRC Legal Adviser, as of the Latest Practicable Date, Mr. Ding has completed the required registration with the local SAFE branch under the SAFE Circular 37.

WHAT WE ASPIRE TO ACHIEVE

Inspiring and connecting people through the power of music — with this aspiration engraved in our hearts, we began offering our services in 2013.

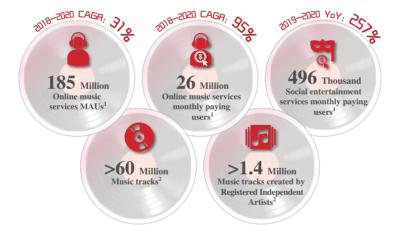
With the power of technology and innovation, we envisaged a more immersive, liberating music experience that brings music enthusiasts closer to each other and to their loved content.

WHO WE ARE

Today we are one of the leading online music platforms 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. Leveraging our iconic cornerstone product, *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 accomplishments in terms of user base, content reserve, brand appeal, technology and financial profile are illustrated in the below highlights.

Scale and rapid growth

We experienced rapid growth during the Track Record Period in terms of our user base and content reserve, which is illustrated by the following metrics:

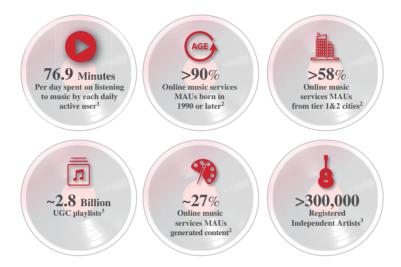


Notes:

- 1. For the six months ended 30 June 2021.
- 2. As of 30 June 2021.

Brand appeal

Our brand appeals to and resonates with the spirit of young, highly engaged music enthusiasts. The swarms of fans, artists, critics, opinion leaders and other forces in the music industry that our platform has rallied over the years have allowed us to provide compelling music experience to users in China, according to the CIC Report. Our brand appeal can be manifested by the following metrics:



Notes:

- 1. For the six months ended 30 June 2021.
- 2. In June 2021.
- 3. As of 30 June 2021.

Monetisation and financial profile

We monetise our platform primarily through the sales of membership subscriptions for our online music services and sales of virtual items for our social entertainment services. To diversify our revenue streams, we have been actively developing other monetisation channels, such as the provisioning of advertising services, sales of digital albums and music-inspired services. See "Business — Our Monetisation Model" for more details on our platform's monetisation.

The following table sets forth our revenues by business line in absolute amounts and as percentages of our total revenues for the periods indicated, respectively:

		Ye	ar ended 31	Decembe	er		Six M	onths er	ided 30 June	:
	2018		2019		2020		2020		2021	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
							(unaudited)			
			(i	in thousa	ands, except	for perc	centages)			
Revenues:										
Online music services Social entertainment	1,026,168	89.4	1,776,970	76.6	2,622,685	53.6	1,073,826	54.3	1,604,325	50.4
services and others	121,869	10.6	541,420	23.4	2,273,046	46.4	904,760	45.7	1,579,349	49.6
Total revenues	1,148,037	100.0	2,318,390	100.0	4,895,731	100.0	1,978,586	100.0	3,183,674	100.0

- Our revenue grew rapidly during the Track Record Period, from RMB1.1 billion in 2018 to RMB2.3 billion in 2019, and further to RMB4.9 billion in 2020, and up from RMB2.0 billion in the six months ended 30 June 2020 to RMB3.2 billion in the six months ended 30 June 2021.
- Our negative gross margin significantly narrowed during the Track Record Period, from 114.7% in 2018 to 45.6% in 2019, and further to 12.2% in 2020 and from 20.0% in the six months ended 30 June 2020 to 0.4% in the six months ended 30 June 2021.
- Our net loss remained at RMB2.0 billion in both 2018 and 2019, and then increased to RMB3.0 billion in 2020. For the six months ended 30 June 2020 and 2021, our net loss increased from RMB1.0 billion to RMB3.8 billion.
- Adjusted net profit/(loss) is a non-IFRS measure. We had adjusted net loss of RMB1.8 billion, RMB1.6 billion, RMB1.6 billion, RMB0.8 billion and RMB0.5 billion, in 2018, 2019 and 2020, and six months ended 30 June 2020 and 30 June 2021, respectively. For more details, see "Financial information — Non-IFRS measures."

We strive to further diversify our monetisation channels and improve our financial profile. See "Financial information" for more details on our operating results.

Technological prowess

We ensure that we can deliver a satisfying music experience consistently at scale by continuously innovating and improving our platform and heavily investing in research and development. Our industry-leading AI and data analytics capabilities lay the foundation for our platform's personalised content recommendations, assisted content creation, interactive social functions and other powerful features that optimise user experience and realise the unique value of our diverse content. For example, our NetEase Music Audio Lab developed an audiomelody extraction solution that broke three world records at the Music Information Retrieval Evaluation eXchange ("MIREX") in 2020. Meanwhile, with its strong music

recognition ability, the lab's "robust fingerprinting algorithm" achieved the second best performance in the task of "audio fingerprinting" since the MIREX launched this competition in 2014, representing a significant improvement in recognition rate.

HOW WE ARE DIFFERENT

Upholding our aspiration in the past eight years, we have opened new possibilities for the exploration and creation of music and music-inspired content, as well as social interactions surrounding them. We believe what sets us apart from our competition primarily includes the following factors:

A young generation of music enthusiasts

We have been a widely recognised and appreciated cultural symbol among the young generation of music enthusiasts in China. According to the CIC Report, among all music platforms, we have the highest proportion of users who were born in 1990 or later, and our penetration rate among users who were born in 1990 or later is above the industry average. At the same time, we are the most popular online music platform in China among people who were born in 1990 or later, the rapidly growing age group that accounts for nearly 50% of the online music entertainment market, according to a survey conducted by CIC. Our deep understanding of the young demographic enables us to adapt to their evolving tastes and preferences and to broaden their musical horizons. With their profound passion and curiosity for diverse music content, our young users constitute the fabric of our vibrant community, actively contributing new content and initiating interactions and introducing new perspectives that continuously vitalise our platform.

A new breed of talented independent artists

We believe that independent artists are a driving force of the music industry's future, and we are well-positioned to help them realise their artistic and commercial potential in the digital era. With a large base of young music enthusiasts who tend to be more receptive to, and interested in, new voices, works and styles, we continuously attract emerging independent artists to join our platform to express their creative visions. We have systematically developed a comprehensive suite of instruments for independent artists to utilise in the key aspects of their career development. Having served over 300,000 Registered Independent Artists, we were the largest online incubator for independent artists in China as of 30 June 2021, according to the CIC Report. Independent artists have become a pillar of community engagement and content creation on our platform. The music content contributed by Registered Independent Artists constituted over 47% of all music streams on our platform in June 2021.

A lively community cultivated by innovations

We believe that music should be shared, enjoyed together and created by more people. Sharing this belief, music enthusiasts have gravitated towards us to fulfil their innate desire to hear and serenade others with music. Guided by this belief, we have innovated a number of product features to encourage user interactions and content creation, which, according to the CIC Report, have influenced the habits of many music platform users in China. When immersed in their favourite music and music-inspired content, our users can connect with others who share their passion for music and empathise with them — contributing to our vigorous, engaging community culture.

OUR COMMUNITY

When we started to amass a stable, loyal user base in the earliest years of our development, our users came up with an endearing nickname for our community — the *cloud village*. The nickname has since become the sign of our iconic community. With an average age of 29 years old, our young and devoted team members have been tirelessly developing the infrastructure and amenities of our *cloud village* to enhance the experience of its participants. Our community's individual participants include an active base of music enthusiasts with diverse and evolving needs. For each of 2018, 2019, 2020 and six months ended 30 June 2021, our average DAUs of online music services accounted for over 30% of the average MAUs of online music services in the respective periods. The institutional participants consist of various valuable partners with whom we have formed synergetic business relationships in strengthening and broadening our community.

Individual participants

We offer our users a wide range of functions that facilitate them in playing various roles as they wish when participating in our community.

A radio to explore your passion

We personalise the fascination with music. We offer our users various tools to search, browse and discover music and music-inspired content, such as *playlists*, *personal FM*, *daily recommendations* and *private radar*. Throughout their musical exploration using these tools, we have accumulated a deep understanding of their personal preferences, tastes and habits in specific scenarios. As a result, we are able to make content recommendations that address their needs and expand their interests. This creates a satisfying yet refreshing music experience, which, in turn, encourages users to continually use our platform and further deepens our understanding of them. Bearing testimony to our strong recommendation ability and positive user feedback, in June 2021, 3.0 out of every 10 music streams were attributable to our platform's recommendations.

A space to share your feelings

We orchestrate the emotional resonance evoked by music. To facilitate the dynamic and engaging interactions within our community, we offer a variety of channels for users to freely express themselves among their fellow music enthusiasts. For example, in our *comments section* under each music track, users can share their appreciation and critiques of the music, as well as personal anecdotes, reminiscences and memories rekindled by the music. The *comments section* has become a source of UGC and a symbol of our community spirit. In June 2021, over 48% of our listeners also browsed the *comments section*, seeking relatedness and inspiration from fellow music enthusiasts. The *village*, a content-based social function, also encourages our users to build connections with each other through posting and reacting to multimedia, music-inspired content and to join user groups with shared interests and needs.

A stage to showcase your talents

We foster the creativity inspired by music. To many music enthusiasts, listening is only part of the pleasure. We enable our users to create a diverse array of music-inspired content on our platform at different participation levels as they please, from compiling playlists, posting comments, and producing podcasts and music videos to broadcasting live-streaming sessions and karaoke performances. In June 2021, approximately 27% of our MAUs of online music services had generated content on our platform, which bears attestation to our user engagement

efforts and helps enrich our platform's content. To embolden active contributors in their creative endeavours for various content categories, we launched a number of talent support projects for increasing their exposure, developing their creative skills and providing incentives for their contribution.

An incubator to unleash your potential

We nurture the originality rooted in music. We equip independent artists with our time-tested tools and services to pursue their aspiration, from talent discovery and content creation to promotion and monetisation of their works. Leveraging our market insight, data technologies and user feedback, we are able to efficiently discover promising artists. To support their production efforts, we offer AI-enabled creative assistance to locate suitable musical resources for their inspiration. Our multi-channel community features help independent artists reach more fans and interact with them in an efficient and engaging manner. Based on the massive amount of granular data on our platform, our analytics help independent artists gain valuable insight into their performance and their fan base. We also regularly sponsor online and offline music events and campaigns to promote their profile and content. Independent artists can generate income from their works in a variety of easily accessible, incentivising ways through our platform, such as performance-based licensing fees.

Institutional participants

Institutional participants play important roles in developing our *cloud village*, actively helping us in improving our user experience, enriching our content and commercialising our platform.

Music labels

Music labels have helped us build a vast reservoir of music content for our users to enjoy and utilise as inspiration for creating music-inspired content. We have established long-term relationships with many leading music labels in China and around the world. Our large, active user base, on the other hand, provides music labels rewarding opportunities to capitalise on their content assets.

Talent agencies

As major contributors of music-inspired content on our platform, talent agencies are our important partners in discovering, training and supporting live streaming performers. We seek to continuously strengthen our relationships with them to provide diverse, engaging content for our users and to help monetise our platform.

Advertisers

Our platform has attracted many advertisers seeking to target the young user demographic on our platform. We strive to create more value for advertisers and users, believing that advertisements that are compatible with our community culture and relevant to our users can enhance our users' experience and increase returns for advertisers.

As we continue to extend the boundaries of our *cloud village*, we look forward to forming more win-win collaborations with stakeholders in the music, entertainment and internet industries to make our community more valuable and enjoyable.

OUR PLAN FOR NEXT STEPS

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 in the next three years. In the longer term, we strive to continue to be a driving force behind improving quality, rising standards, evolving tastes and other positive changes in the music industry.

Relentlessly innovating our products and services

We aim 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 willingness to pay for our products and services, thereby improving our financial performance. We will also continue to enrich and diversify our music and music-inspired content such as user-generated playlists, comments and music blogs ("Mlogs"), and social entertainment services offerings such as audio live streaming and online karaoke, to deepen our connection with our users and strengthen our leading market position. At the same time, we will actively explore new business models to be more nimble and adaptive to the trends in the online music entertainment industry.

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.

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 accordingly. In particular, we will make investments 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 also continue to invest in and upgrade AI-enabled creative assistance technologies, such as automated composition, 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 for those music-inspired social entertainment services such as live streaming, Mlogs and online karaoke.

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.

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.

In addition, we will explore new monetisation channels such as improving our existing advertising services to further strengthen our monetisation capabilities. Meanwhile, we will also make efforts to offer on-demand music services and online live concerts to expand our monetisation channels.

As our products and services continue to expand and user engagement continues to deepen, we will attract more users, advertisers and other stakeholders to join us, thereby creating a flywheel that continuously stimulates the expansion of our user base, innovation in our products and services and development of our monetisation capabilities.

TAKING OUR USERS ON A MUSIC JOURNEY

In our *cloud village* community, music enthusiasts are empowered with a wide variety of technology-driven tools to freely discover, enjoy, share and create diverse music and music-inspired content and to interact with those with similar tastes and interests.

Our cornerstone product, *NetEase Cloud Music*, is an innovative music entertainment application that delivers diverse music and music-inspired content and provides highly interactive community features. Our users may begin their adventure with a sightseeing tour provided by the *daily recommendations* and *personal FM* functions, and then take a ride on the carousel that is the iconic *playlists* function. The central square decorated with bulletin boards, the *comments section*, as well as the courtyard nearby, the *village*, provide a haven for users to unreservedly express themselves and to immerse themselves in their favourite content. Users can access *NetEase Cloud Music* through mobile and PC devices. In addition, we also offer *NetEase Cloud Music* through smart speakers, in-car smart devices and other IoT devices. *NetEase Cloud Music* also serves as a source to attract users and drive user engagement for our other applications.

Homepage of NetEase Cloud Music



LOOK Live Streaming is a live streaming mobile app for content creators to showcase their musical talents and interact directly with their audience. Its unique Musicians LIVE tab allows Registered Independent Artists to hold online concerts, upload recordings of their performances and connect with their fans. It also organises professional singing competitions for Registered Independent Artists and offers them additional live performing opportunities, helping them promote and distribute their music works through live streaming. This is the first live streaming tab in China that is dedicated to music performers, according to the CIC Report.

We also provide other mobile apps to further enrich our users' music-inspired social experience, including *Sheng Bo*, an audio-chat mobile app for users to chat with strangers in virtual rooms on diverse topics, *Yin Jie*, a karaoke mobile app for music enthusiasts to sing, chat and interact with each other, and *Xin Yu*, a music-inspired social mobile app. *Xin Yu* allows users to set up their profiles with information including their photos and music preference, and provides interacting and chatting functions in settings such as group chatroom and offers our users personalised and superior online social networking experiences.

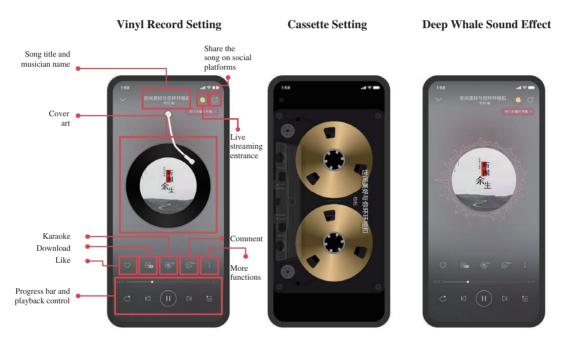
Exploring Your Passion for Music

We offer music enthusiasts a variety of thoughtfully designed, user-friendly methods to browse and stream premium music content, enabling them to soundtrack their daily life with *NetEase Cloud Music*.

Basic music streaming features

Supreme music player

Our music player, with our symbolic picture of vinyl record in the centre, offers a premium listening experience to our users. Our users may switch between vinyl record and cassette settings and choose among various sound quality and sound effect option. These combinations of visual and auditory effects enrich our users' music listening experience.



Our members may enjoy further enhanced sound quality options, such as our classic lossless sound quality. Our various sound effect options, including electronic music, 3D, rock and roll, bass and live house, add heightened flavours to the unique listening experience. Our users may customise sound effects by manually adjusting various settings through the equaliser. We also allow users to make personalised videos and posts with lyrics using a variety of different background settings.



In addition, our shuffle play and music caching functions allow our users to further customise their listening experience, and our cloud-based services enable users to synchronise their playlists on different devices.

Membership privileges

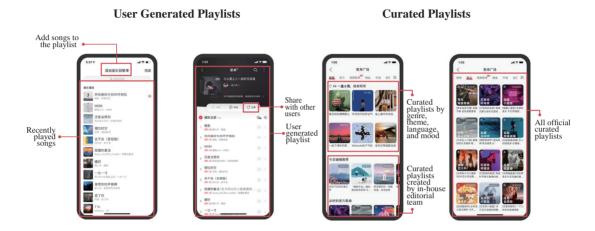
Our membership provides subscribing members additional high-quality streaming access and sound quality to our catalogue of songs. We offer a variety of subscription plans with different packages of membership privileges and benefits that cater to our users varied needs. Our classic *vinyl VIP membership* offers music with premium quality and allows members to download a certain number of high-quality songs and enjoy advertisement-free experience. Other privileges include premium sound effects, personalised background settings, live streaming virtual items and radio selections for members.





Iconic playlists function

Our iconic *playlists* function is a major driving force behind music discovery on our platform. In 2013, we were one of the first online music platforms to extensively utilise and popularise the *playlists* function in China, according to the CIC Report. As of 30 June 2021, our platform had almost 2.8 billion user-generated playlists, being one of the largest among online music platforms in China, according to the CIC Report. Thanks to our highly active users and our deep content reservoir, we have amassed a large number of high-quality, diverse user-generated and editorially curated playlists to help millions of music enthusiasts with distinct tastes and preferences explore their passion for music.



User generated playlists

We have created user-friendly tools that enable music enthusiasts to efficiently create, save and share their playlists. Users can create a playlist and browse lists of our recommended music tracks based on their past listening habits. They can also search and add any music track in our database. We allow users to keep their playlists private.

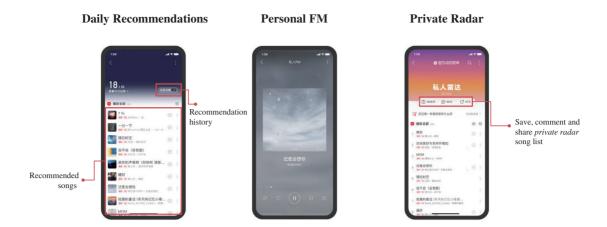
For many users, their playlists are like diaries that reflect their life stories and experience in a musical form, and they are eager to share their diaries with other users through the power of music. Users may create playlists for working, sleeping, exercising and many other themes and occasions, which have become sources of background music for their daily life.

Curated playlists

We selectively curate playlists for our users to discover music in various genres or styles or for a variety of occasions or mood. Our professional in-house editorial team selects high-quality music content, and creates and recommends playlists to our users catering to their diverse preferences and tastes.

Discovering Your Personalised Music Experience

Personalised recommendations provide efficient ways for music enthusiasts to discover their loved songs and expand their interests and tastes. We have developed and refined our recommendation algorithm to help users easily find more songs through various recommendation functions.



Daily recommendations

With the large amount of data accumulated over the years and our advanced artificial intelligence and machine-learning technologies, we also curate and continuously update a featured playlist named *daily recommendations* to thoughtfully expand the horizon of our users' musical interests. We recommend a few songs daily based on our analysis of a user's tastes and preferences, and offer different options such as listening, skipping and saving to a playlist. Certain members have the option to browse recommended music in the past as well.

Personal FM

Leveraging our strong data analytics capabilities, our platform also automatically creates and continually refreshes a highly personalised music radio, *personal FM*, to accurately cater to each user's unique tastes and preferences. Different from listening to traditional music radio, users can skip any songs they do not like by clicking the *next* button. They may also save any songs played by the radio to their playlists. This responsive and intelligent radio streaming service grows and evolves along with users' tastes and choices.

Private radar

Private radar generates a completely personalised playlist based on users' historical tastes and real-time preferences. Users can use the same "radar" to explore different music spaces, share or comment on the *private radar* playlist, and download or save songs to their playlists.

Other recommendation functions

Other recommendation functions on our platform include *heartbeat mode* that recommends songs based on a user's liked songs in history, and recommendations of playlists, radios and other music and music-inspired content.

Connecting with Other Music Enthusiasts

We offer various ways for users to connect and communicate with each other. Listening to music becomes an interactive experience on our platform. Users share, communicate and connect with each other. All these interactions in turn allow us to obtain data-driven insight and provide a more personalised user experience.

Phenomenal comments section

We were one of the first online music platforms in China to extensively and successfully develop, utilise and popularise comments sections, according to the CIC Report, which has been an important source of UGC and a symbol of our community spirit.

Our users come to our platform not only to listen to music, but also to connect and share their feelings for their favourite music and music performers with other music enthusiasts. This function has changed the habits of many music platform users in China, according to the CIC Report. Our *comments section* has become one of the most popular functions for users to communicate and connect with others. In June 2021, over 48% of our listeners also browsed the *comments section*, seeking relatedness and inspiration from fellow music enthusiasts. Many of our users' comments became big hits on our platform and went viral all over the internet in China.

"Everything will be fine; flowers are blooming in the south." Cheng Nan Hua Yi Kai (城南花已開) is a beautiful song written by a Registered Independent Artist on our platform, San Mu Di (三畝地). The song is named after a user who was a long-time fan of San Mu Di. Receiving a cancer diagnosis and realising that he had only six months left to live, Cheng Nan Hua Yi Kai asked whether San Mu Di could write a song for him. San Mu Di then wrote the song at the user's request. Within only a few days of the song's publication on our platform, thousands of music enthusiasts left encouraging messages in the comments section under the song Cheng Nan Hua Yi Kai. Although he passed away in March 2018, this comments section has become a haven in our cloud village for users to share their personal stories and encourage each other through difficulties.

In 2017, to showcase our unique community culture, we launched a marketing campaign named "Special Train of Music Comments: Discover the Power of Music," in Hangzhou, China. We selected 85 out of the millions of comments posted on our platform and displayed them in a metro station and subway cars on Hangzhou's Metro Line 1. This marketing campaign won the Golden Prize and Top Award in the media (integration) category of 2018 Jin Tong Award (金 疃獎).

Phenomenal Comments Section



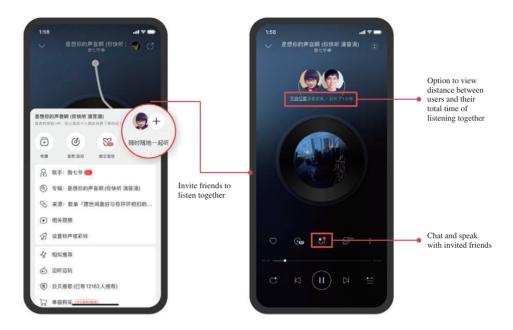
Special Train of Music Comments: Discover the Power of Music





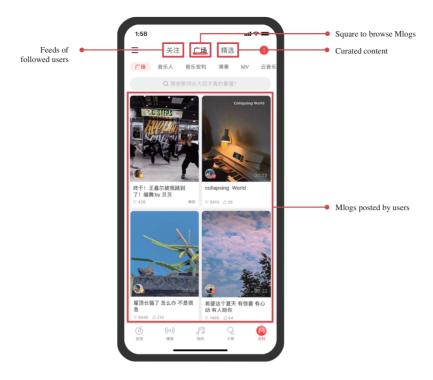
Sharing and listening together

We believe that music is a bridge that connects people emotionally. Our music player allows users to easily share their music with other music enthusiasts on our platform or through other social media apps. Users can make their own lyric posters, cards and videos. Users may also share the music through a function named *listening together*, where users can invite others to listen to the same song together, experiencing the moments of musical wonder while transcending physical distance. This function is inspired by the need of couples in long-distance relationships to maintain their emotional connection, and it is especially popular among them.



The village

The *village* is a multimedia, content-based social function allowing our users to post and discover various forms of music and music-inspired content. While listening to songs or watching music videos, users can exchange comments with each other. The *village*, in turn, makes personalised recommendations to users based on these comments and the popularity of the content. The *village* also features a *cloud circle* that enables users to form groups based on various themes, topics, interest and need, and share content within their groups. Users are also enjoying our newly launched *music gift box* function, which allows individual users to distribute customised content to friends. In addition, we recently launched an event called *village citizenship card*, creating a new tag that is extending our brand influence and giving users a fresh sense of belonging.



Enjoying Your Music-Inspired Social Entertainment Experience

Podcast

Our *podcast* function covers a broad range of themes and topics, such as stories about music, cover songs, music for stress relief and talk shows. They are hosted by various broadcasters, including Registered Independent Artists on our platform. Our curated and user-generated podcast lists allow users to discover podcast content with different themes.

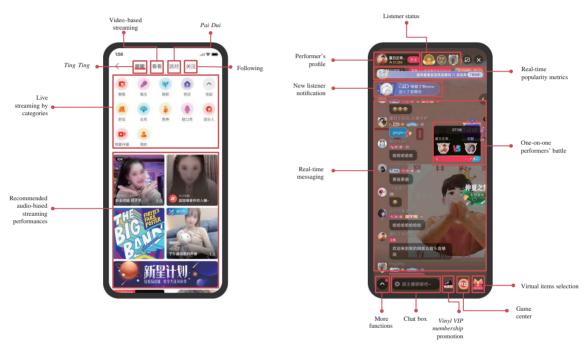


Live streaming

The live streaming functions of *NetEase Cloud Music* further extend the boundaries of our platform's music-inspired social entertainment experience in both audio-based and video-based forms. Performers and users interact in various formats, such as voice or text chatting, sharing the live streaming, rating the performances and gifting virtual items.

Audio-based streaming

Our audio-based live streaming functions, *Ting Ting* and *Pai Dui*, have attracted a large number of premium performers to offer a broad range of content, including singing, storytelling, talk shows and other conversational, interactive sessions.



Other popular topics of audio-based live streaming sessions include relationships advice and discussion, sleep-aid audio programmes, online audio-based theatrical programmes featuring spontaneous dubbing on animation, and comics and games content.

Video-based streaming

Our video-based live streaming function features a variety of music and music-inspired content, including concerts, dancing, music lessons, live shows and music festivals. We are also continually developing other innovative online events.



LOOK Live Streaming

In 2018, we launched a music-inspired live streaming mobile app, LOOK Live Streaming, to further enrich our users' music-inspired social entertainment experience and create more opportunities for content generation. LOOK Live Streaming allows users to log in with their NetEase Cloud Music accounts and make recommendations partially based on their browsing history on the NetEase Cloud Music. LOOK Live Streaming has a unique musicians LIVE page, allowing Registered Independent Artists to hold online live concerts and interact directly with music enthusiasts, which is the first live streaming page in China that is reserved for music performers only, according to the CIC Report. In particular, this page presents music performers' live performances and recordings of their past performances, and allows users to attend their live streaming sessions. It also organises professional singing competitions for Registered Independent Artists and offers them additional live performing opportunities, helping them promote and distribute their music works through live streaming.



Mlog

In our *village* function, our users can view and create music blogs ("**Mlogs**"), and music-inspired short audio or video clips. Users may upload written texts, pictures or videos and edit them in-app and add songs from the content library, while allowing others to respond with their own Mlogs, creating a chain story. The trending content is shown to everyone with personalised and curated feeds. Users can find new music, meet other users and comment on their favourite videos.

Karaoke

Our *karaoke* function allows users to sing along with the music accompaniment in our content library and share their performances with other users. It allows friends to sing, chat and have fun together. Users can also sing together in our virtual karaoke rooms, where they can sing and interact with each other by chatting, sending virtual items and rating each other's performances.

In 2020, we launched our karaoke mobile app, Yin Jie, providing a dedicated stage for users to showcase their singing talent. To offer a seamlessly synchronised experience, Yin Jie allows users to log in with their NetEase Cloud Music accounts and, after obtaining user consent, makes content recommendations based on their browsing history and behaviours on NetEase Cloud Music. It also recommends songs based on a user's mood selection on the unique mood diary page and allows users to sing together with their friends. In addition, Yin Jie provides a selection of editing tools for users to embellish and enhance their recorded performances.

EMPOWERING INDEPENDENT ARTISTS

We believe that independent artists are the driving force of the music industry's future, and we are uniquely positioned to help them realise their artistic and commercial potential in the digital era. With a large base of young music enthusiasts who tend to be more receptive to, and interested in, new voices, works and styles, we continuously attract emerging independent artists to join our platform to express their creative visions.

We believe all those who aspire to create music with their talent and passion deserve respect and support, regardless of their fame or life circumstances. Our platform provides an inclusive, egalitarian and open environment for the lesser-known artists to grow. Having served over 300,000 Registered Independent Artists, we are the largest online incubator for independent artists in China as of 30 June 2021, according to CIC. As of 30 June 2021, our content library had over 60 million music tracks in total, and, among them, 1.4 million are music tracks created by Registered Independent Artists. The music content contributed by Registered Independent Artists constituted over 47% of all music streams on our platform in June 2021. Such music content covers a broad range of genres, topics, themes and styles. We look forward to assisting more and more of them at different stages of their endeavours, thereby helping us provide increasingly diverse content and vibrant engagement to our users.

We provide independent artists with a variety of tools and services to utilise as they wish in pursuing their aspiration, from talent discovery, content creation to promotion and monetisation of creative works.

Talent Discovery

We have been focusing deeply on supporting the development of music content and fostering originality. In 2016, we launched the *Independent Artists Support Project* as the cornerstone to fulfil our commitment to elevate independent artists. Since then, we have invested significantly in discovering and engaging independent artists through our *Project Cornerstone* and two series of the *Project Cloud Ladder*. We continually conduct and organise wide-reaching studies, research and industry initiatives to understand, shed-light on and communicate with independent artists. For example, we published the *Report on Independent Artists* in 2016, providing a full picture of and raising public attention to the status of independent artists in China. Leveraging our market insight, data technologies and user feedback, we are also able to efficiently discover promising artists, as well as high-quality long-tail content created by them.

Content Creation and Promotion

Our platform provides technology-driven tools to make music creation easier and more efficient. Our AI-powered music composition programmes collect a large amount of musical materials as sources of artistic inspiration, providing independent artists with intelligent creative assistance.

We have harnessed the unique advantages of our community to attract a large number of young, urban users. These users are keen to share diverse, high-quality music content created by independent artists and have a willingness to pay for such content. Such effects are strengthened with the socialising functions on our platform. For example, in *cloud circle*, fans create groups based on various topics and interests — in this way, they can easily support and recommend their favourite artists through such peer-to-peer networks.

In addition, we hold online and offline music events, campaigns and seminars to promote their profile and content. We feature certain performances of Registered Independent Artists on our front page or playlists. The unique *musicians LIVE* page on our *LOOK Live Streaming* mobile app allows Registered Independent Artists to hold online live concerts with music enthusiasts — this is the first live streaming page in China that is reserved for music performers only.

Content Monetisation

Helping independent artists living off their art is an important part of our service. Our platform provides a number of ways for independent artists to monetise their works, such as performance-based licensing fees. Our support also includes helping artists diversify their income sources through a variety of easily accessible ways. For example, our *Project Cornerstone* and *Project Cloud Ladder* provide easily accessible ways for independent artists to benefit from membership subscriptions, advertisements and virtual item gifting on our platform. For more details, see "— How we source our content — Independent artists."

Case Studies

Prominent examples of independent artists that we served include the following:

- Ge Bi Lao Fan (隔壁老樊) stood out as a talented independent artist after joining our platform in 2017. His big hit Wo Ceng (我曾) was among the top three most popular songs on our platform in the first quarter of 2019. He was later selected as one of the top 10 most popular Registered Independent Artists on our platform in the same year.
- The Landlord's Cats (房東的貓) started their music career in 2015 by uploading their first song Autumn Brewing on our platform. They have been active on our platform in the past six years and became one of the top independent artists with their songs on our various ranking charts over 4,000 times.
- Ele Yan (顏人中) transitioned from an amateur demo singer to an independent artist on our platform after being discovered and invited by our staff. In April 2019, we helped produce his first single Good Night, which ranked first on our NetEase Cloud Music New Hits Chart once released. As of 30 June 2021, the single had been streamed over 1.9 billion times and Ele Yan had amassed over 2.8 million fans on our platform.
- Omnipotent Youth Society (萬能青年旅店), an independent rock band in China, in 2020 released on our platform their first album in the past ten years. Approximately 300,000 copies of this album were sold within 24 hours of its release on our platform with total sales value of more than RMB6.0 million.

OUR CONTENT LIBRARY

We have one of China's most comprehensive libraries of music and music-inspired content, in both audio and video formats, according to the CIC Report. As of 30 June 2021, our content library had over 60 million music tracks in total, and, among them, 1.4 million are music tracks created by Registered Independent Artists. The music tracks are from a broad range of genres, languages, styles and themes, catering to diverse user interests and needs, and help users develop or discover new interests as well. Some examples of popular genres of our music content include folk music, country music, indie rock, hip-hop, electronic dance music, and traditional Chinese music. Our music tracks feature a variety of themes in different languages including Mandarin, Cantonese, English, Korean and Japanese. We also categorise our music content by listening habits, settings, and moods, such as workout, travel, study and work, relaxation, and many more. Users also enjoy diverse forms of video-based content, such as music videos, live and recorded concert and music shows.

Our content also includes a vast and continually expanding reservoir of UGC, including online karaoke performances, short-form videos, Mlogs, posts, podcasts, live streaming sessions, playlists, comments and reviews and articles. This content further expands the breadth of our music content offering, enhancing our user experience and engagement. We leverage our data analytics and AI technologies to recommend high-quality UGC generated to our users. In June 2021, approximately 27% of our MAUs of online music services had generated content on our platform, which bears attestation to our user engagement efforts and helps enrich our platform's content. To assist active contributors in their creative endeavours for various content categories, such as playlists and Mlogs, we launched a number of talent support projects for increasing their exposure, developing their creative skills and providing incentives for their contribution.

As a result, we have developed a robust cycle of value creation — our comprehensive music content attracts more users and enhances their engagement, which in turn allows us to offer a growing and more engaged audience for our content partners. We are dedicated to building the most comprehensive and up-to-date library covering our users' favourite music content across various genres and formats.

OUR MONETISATION MODEL

We generate revenue primarily from online music services and social entertainment services. The following table sets forth our key arrangements with customers.

Monetisation models	Our customers	Key arrangements with customers
Online music services Membership services	Paying users	• We offer both classic <i>vinyl VIP</i> memberships typically priced at RMB18 per month and basic music subscription packages typically priced at RMB8 per
		 we also offer joint membership packages at a discount in cooperation with other platforms. Users may choose to purchase the membership for a fixed term or
Advertising services	Advertisers	 automatic renewal. We offer advertising services in various formats, including brand advertising and performance-based advertising. We support a variety of pricing models, such as billing based on impressions and clicks. Payments are typically made periodically, such as quarterly or semiannually.
Sales of digital albums and singles	Digital album and single	 One of NetEase's subsidiaries, Beijing NetEase Media Co., Ltd., acts as our exclusive agent from 1 January 2020 to 31 December 2022. We sell digital music albums and singles on our platform typically priced at
Sublicensing	purchasers Copyright licensees	 RMB2 to RMB25 per single or album. We charge either by minimum guarantee or revenue-sharing incentive royalties, or both. Payments are made upon each transaction. Our licensing agreements with copyright licensees are typically renewable by mutual agreement of both parties.

Monetisation models	Our customers	Key arrangements with customers
Social entertainment service Live streaming services		 We generate revenue from live streaming services primarily from sales of virtual items, which are typically priced at RMB0.1 to RMB5,200 per item. Our virtual items, once purchased, cannot be converted into cash by our users and have to be consumed by them on our platform.

Online Music Services

Membership Services

We provide a number of membership subscription packages for users to enjoy high-quality streaming access to our catalogue of music tracks. Our basic music subscription packages are typically priced at RMB8 per month for a fixed amount of downloads of music tracks per month and access to our premium music content. Users can also subscribe to our classic *vinyl VIP membership*, which is typically priced at RMB18 per month, to access a range of additional features and privileges, including various sound effects and audio settings, historical daily recommendations, advertisement-free experience and additional personalised app themes. Besides in-app purchase channels, we also offer our membership subscriptions at a discount in the form of joint membership packages in cooperation with other platforms, including e-commerce, entertainment and sports/lifestyle platforms, to broaden the reach of our services. The subscription fees for these membership 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. We satisfy our performance obligations throughout the subscription period, and our revenue from the membership subscriptions is recognised over time.

Advertising Services

We offer advertising services for both brand advertisers and performance-based advertisers. Brand advertisements are mainly in the forms of open screen and top banner. Performance-based advertisements are mainly in the forms of top banner and content feeds. Our advertisement revenue comes mostly from open screen, with a lesser portion contributed by top banner and content feeds. Other forms of advertisements, such as search banners, are also available. We support a variety of payment models, such as billing based on impressions and clicks. The innovation of combining streaming music with advertisements has great appeal to advertisers.

One of our subsidiaries, Hangzhou Yuedu, has engaged one of NetEase's subsidiaries, Beijing NetEase Media Co., Ltd., to act as its exclusive agent from 1 January 2020 to 31 December 2022. Our end-advertising clients mainly include e-commerce companies, cosmetics manufacturers, fast-moving consumer goods manufacturers and internet service providers.

We have adopted a number of advertising strategies to improve the effectiveness and efficiency of our advertisement services. We have established a comprehensive user database with data authorised by our users, through which we desensitise and analyse data, create user profiles and identify advertising targets. We also continue to focus on analytics and measurement tools, including algorithm methods to evaluate, demonstrate and improve the effectiveness of advertising campaigns on our platforms.

Sales of Digital Albums and Singles

We provide our users with services that allow them to purchase access to certain new digital music albums and singles, which include a broad range of languages, genres and themes. We create ranking charts to show the big hits in our digital album and single sales and make recommendations for the best sellers. We also present selected reviews for popular albums and singles to help our users select music products.

Sublicensing

We sublicense certain of our licensed music content to other parties, including other online music platforms, in accordance with the terms of the relevant licence agreements, which are typically renewable by mutual agreement of both parties. These licence agreements are typically for a fixed period of one to three years, which generally falls within the original licence period. Sublicense fees are normally collected upfront and is initially recognised as contract liabilities upon receipt. We determine sublicense of contents as a single performance obligation, and the revenue from sublicensing of contents is recognised over time throughout the sublicense period.

Social Entertainment Services and Others

Social Entertainment Services

As the size and engagement level of our online music services' user base continued to grow, we strive to provide more music-inspired social entertainment services to them, which primarily include our live streaming services.

We launched our live streaming services in the second half of 2018, which accounted for substantially all of the revenues of social entertainment services during the Track Record Period. Our vibrant community culture that encourages content creation, as well as our diverse content offerings in live streaming formats, contributed to the robust growth of our live streaming business.

We generate revenue from live streaming services primarily from sales of virtual items. Users purchase virtual items to gift to live streaming performers as a way for them to show support and appreciation for their performance. Some virtual items will be displayed on the screen when these gifts are bought and sent to the performers. We also offer users the option to purchase virtual items that provide them with certain privileges or recognised status over a period of time, such as badges displayed for a certain period of time on the users' profile pages. While purchasing and using these virtual items is not a prerequisite for using the features in our products, it provides a way for users to participate in live streaming sessions, which drives user engagement and stickiness. Such virtual items, once purchased, cannot be converted into cash by our users and have to be consumed by them on our platform. In addition, we also generate revenue from live streaming services by selling memberships. Memberships provide privileges including free virtual items, enhanced status and visibility when users interact with live streaming performers and other users.

We also generate revenue from providing membership and value-added services on our music-inspired social mobile app, Xin Yu.

Other Services

Our other revenue sources primarily include movie soundtrack production and ticketing services for offline music events.

HOW WE SOURCE OUR CONTENT

We have adopted a number of methods to create, protect and expand our content library. The following table sets forth our key arrangements with content partners.

Our content partners	Key arrangements with content partners
Music labels and other institutional sources	 We pay music labels for licensed music content based on minimum guaranteed licensing fees and on performance-based licensing fees or both. Minimum guaranteed licensing fees are made upon each transaction. Performance-based licensing fees are made periodically, such as monthly. The licensing agreements between music labels or other institutional sources and us are currently either on an exclusive or non-exclusive basis.
	 The agreements generally expire upon the end of their terms, unless terminated earlier in accordance with the relevant provisions under certain circumstances, such as a breach of contract which gives a right to terminate as stipulated therein. Whether we can sublicense what we source from music labels and other institutional sources will be determined in the relevant licensing agreements.
Registered Independent Artists	 We typically pay these artists performance-based licensing fees. We may also make prepayments or pay fixed fees to certain artists, depending on their popularity and performance. The licensing agreements between Registered Independent Artists and us are currently either on an exclusive or non-exclusive basis.
	 The agreements generally expire upon the end of their terms, unless terminated earlier in accordance with the relevant provisions under certain circumstances, such as a breach of contract which gives a right to terminate as stipulated therein. Whether we can sublicense what we source from Registered Independent Artists will be determined in the
Live streaming performers and their agencies	relevant licensing agreements. • Under our arrangements with live streaming performers and talent agencies, we allow them to have a percentage share of revenue from sales of virtual items that were presented to the corresponding live streaming performers. We have generally kept such revenue sharing ratio comparable to the range by industry players.
	 We set qualitative and quantitative requirements for performers and agencies, which they need to meet under the relevant revenue sharing arrangements. Payments are typically made periodically, such as monthly. The agreements between live streaming performers or their agencies and us are currently either on an exclusive or non-exclusive basis. The agreements generally expire upon the end of their terms, unless terminated earlier in accordance with the

stipulated therein.

relevant provisions under certain circumstances, such as a breach of contract which gives a right to terminate as

Music Labels and Other Institutional Sources

We have strong partnerships with a wide range of music labels and studios and were licensed with music recording rights and music publishing rights underlying music content on terms from domestic and international music labels.

We pay music labels for licensed music content based on minimum guaranteed licensing fees and on performance-based licensing fees. Under such fee arrangements, the amounts of the minimum guaranteed licensing fees and performance-based licensing fees depend on factors that include the type of content and the popularity of the performers, as well as our relationships with the licensors. Payments under the licences are generally made in instalments throughout the duration of the licences. Such licensing agreements are currently either on an exclusive or non-exclusive basis depending on the relevant commercial considerations, including user preferences and value of the brand and content. The agreements generally expire upon the end of their terms, unless terminated earlier in accordance with the relevant provisions under certain circumstances, such as a breach of contract which gives a right to terminate as stipulated therein.

We have arrangements with several online music platforms in China to obtain their licensed content.

Independent Artists

Artists may apply to register as Registered Independent Artists on our platform. We review their applications, which require the submission of a song, based on a number of criteria, including their personal information, their role in producing the submitted song (e.g., whether and to what degree the melody and lyrics are created by the applicant) and the related copyright information. After we approve the application, they will be recognised as a Registered Independent Artist and qualified to publish their songs on our platform.

We enter into licensing agreements with certain Registered Independent Artists to secure high-quality original content and increase user engagement on our platform. Registered independent Artists usually own copyrights of the music created by them. We generally obtain rights to both the sound recordings and the musical compositions and lyrics embodied therein. Such licensing agreements are currently either on an exclusive or non-exclusive basis, depending on relevant commercial considerations including the popularity and potential of Registered Independent Artists. Under these agreements, we typically pay these artists performance-based licensing fees according to their levels of contribution in a number of areas, including, but not limited to, streams of their works, sales of digital album and singles, membership subscriptions and advertisements attributable to them and their works, and sales of virtual items. In addition, we may make prepayments or pay fixed fees to certain artists, depending on their popularity and performance. The agreements generally expire upon the end of their terms, unless terminated earlier in accordance with the relevant provisions under certain circumstances, such as a breach of contract which gives a right to terminate as stipulated therein.

Live Streaming Performers and Their Agencies

We cooperate with live streaming performers by entering into service agreements with them or their talent agencies. Such agreements are currently either on an exclusive or non-exclusive basis a case-by-case basis depending on the relevant commercial considerations, including user preferences and value of the brand and content. Under our arrangements with live streaming performers and talent agencies, we allow them to have a percentage share of revenue from sales

of virtual items that were presented to the corresponding live streaming performers. We set qualitative and quantitative requirements for performers and agencies, including the length of each live stream and the number of the live streams during a period of time, which they need to meet under the relevant revenue sharing arrangements. The agreements generally expire upon the end of their terms, unless terminated earlier in accordance with the relevant provisions under certain circumstances, such as a breach of contract which gives a right to terminate as stipulated therein. Under the relevant agreements, live streaming performers uploading UGC on our platform generally agree to grant us the associated copyright of such content.

BUSINESS SUSTAINABILITY

We have incurred gross losses, net losses and net operating cash outflow throughout the Track Record Period, as we have been focused on growing our user base via investing in our brand and high-quality content, rather than seeking immediate financial returns or profitability, in order to lay a solid foundation for long-term development. We are at a relatively early stage of our monetisation efforts. Our future profitability is uncertain and subject to various factors, including our ability to effectively monetise our product and service offerings and continuously grow revenues in a cost-effective way by improving our operational efficiency. Despite our continued increase in user base, we may continue to incur gross and net losses and net operating cash outflow in the foreseeable future, including for the year ending 31 December 2021, due to our continued investments in content, technologies, marketing initiatives as well as research and development. We expect to remain loss-making for the years ending 31 December 2021, 2022 and 2023. We expect to return to or become consolidated net asset position upon listing. However, we may turn to net liabilities position if our profitability further deteriorates after listing. If we fail to ramp up the scale of our operation and if we do not achieve our satisfactory future growths, we may have funding shortfall which may require us to raise funds further before reaching our adjusted net profit and/or net operating cash flow breakeven. See "Risk factors — We incurred gross and net losses and net operating cash outflow during the Track Record Period and may not be able to achieve or maintain profitability in the future."

We are focused on offering the right services to the users, which incurs higher expenses in the short-term but is crucial to lay a solid foundation for long-term success. We intend to achieve profitability primarily by further (i) growing our user base and deepening our user engagement; (ii) enhancing our monetisation capabilities by offering new features, products and services, including more music-inspired social entertainment functions and products, such as the Listening Together function and audio live streaming content to increase the paying ratio of our online music services and social entertainment services. We are also making efforts to increase our revenue from advertising services by offering more service options for advertisers, such as immersive marketing options in our classic Vinyl record setting and personalised playlist or music for a certain brand; (iii) enriching our music content offerings and managing related content costs; (iv) enriching our social entertainment content offerings and managing related costs; (v) increasing our operating leverage, and (vi) enhancing our technological capabilities. As demonstrated during the Track Record Period, the above measures have proven to be generally effective in improving our profitability. With our improving profitability, we also expect our operating cash flow to improve concurrently. That being said, due to the fast evolving business environment and competitive landscape, we are not able to predict when we will be able to start generating positive operating cash flow and profits and may continue to incur gross and net losses and net operating cash outflow in the foreseeable future.

Our Strong and Robust Historical Growth

Since we began offering our services in 2013, we continuously attract users with diversified music and music-inspired content, retain users with vibrant community and curate the right content to satisfy their consumption needs. We have built a highly engaged and loyal user base, and our ever-growing content ecosystem continues to satisfy our users' evolving needs, providing us with multiple levers and avenues for user-centric monetisation. We began cooperating with advertising agencies since 2017 to explore our advertising business and launched *vinyl VIP membership* since June 2018.

We witnessed strong and robust growth in our business operation and financial condition during the Track Record Period. Our revenues increased from RMB1.1 billion in 2018 to RMB2.3 billion in 2019 and further to RMB4.9 billion in 2020, and up from RMB2.0 billion in the six months ended 30 June 2020 to RMB3.2 billion in the six months ended 30 June 2021. as both the online music services and social entertainment services and others demonstrated rapid growth.

- Online music services: Our MAUs of online music services increased significantly from 105.1 million in 2018 to 147.2 million in 2019, and further to 180.5 million in 2020, and up from 173.2 million in the six months ended 30 June 2020 to 184.5 million in the six months ended 30 June 2021. Our monthly paying users of online music services expanded from 4.2 million in 2018 to 8.6 million in 2019, and further to 16.0 million in 2020, and up from 13.0 million in the six months ended 30 June 2020 to 26.1 million in the six months ended 30 June 2021. Monthly ARPPU of online music services has been relatively stable at RMB8.9 in 2018, RMB9.3 in 2019, RMB8.4 in 2020, and RMB9.3 and RMB6.8 in the six months ended 30 June 2020 and 2021, respectively. Our monthly ARPPU of online music services decreased from RMB9.3 for the six months ended 30 June 2020 to RMB6.8 for the six months ended 30 June 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. The growth in MAUs of online music services was primarily due to our continued efforts in improving user experience, innovating interactive features and enriching our content offerings. Consequently, our revenue from online music services grew from RMB1.0 billion in 2018 to RMB1.8 billion in 2019, and further to RMB2.6 billion in 2020, and up from RMB1.1 billion in the six months ended 30 June 2020 to RMB1.6 billion in the six months ended 30 June 2021
- Social entertainment services and others: Our monthly paying users of social entertainment services expanded from 5.8 thousand in 2018 to 91.7 thousand in 2019, and further to 327.1 thousand in 2020, and up from 270.2 thousand in the six months ended 30 June 2020 to 496.4 thousand in the six months ended 30 June 2021. Our MAUs of social entertainment services have reached approximately 19.4 million in 2020, and 20.4 million and 19.1 million in the six months ended 30 June 2020 and 2021, respectively. Monthly ARPPU of social entertainment services increased from RMB477.6 in 2019 to RMB573.8 in 2020. For the six months ended 30 June 2020 and 2021, monthly ARPPU of social entertainment services was RMB551.9 and RMB526.5, respectively. Our social entertainment services' monthly paying users and monthly ARPPU experienced robust growth due to the rapid development of our live streaming services since its launch in the second half of 2018. Consequently, with immaterial revenue contribution in 2018, our revenue

from social entertainment services and others grew from RMB0.5 billion in 2019 to RMB2.3 billion in 2020, and up from RMB0.9 billion in the six months ended 30 June 2020 to RMB1.6 billion in the six months ended 30 June 2021.

Our Growth Strategies and Path to Profitability

Through further improving user experience, enriching music and music-inspired content and cultivating our community culture, we believe that we are able to continue the growth in MAUs of online music services and monthly paying users of online music services and social entertainment services and improve paying user conversion. These operating metrics represent key drivers of the growth of our revenues, as well as our profitability as a result of operating leverage.

The large and growing user base of online music and entertainment platforms in China has created a flourishing market. The market size increased from RMB6.7 billion in 2016 to RMB41.4 billion in 2020 with a CAGR of 57.9%, and is expected to reach RMB167.0 billion in 2025 with a CAGR of 32.2%, according to the CIC Report. We believe that our diverse content and highly engaged community represent ample opportunities for continued growth and user penetration. We believe our effective monetisation strategies based on our increasing MAU will benefit our financial performance. With the rapid growth of our MAU, we have demonstrated our success in monetisation by encouraging users to pay for online music and social entertainment services while maintaining robust user growth. Our revenues from online music services such as sales of membership subscriptions and our social entertainment services such as live streaming services were increasing rapidly during the Track Record Period. In particular, we generated substantial revenue from our live streaming services since its launch in the second half of 2018. In addition, we have been striving to develop other monetisation channels. For instance, our revenues from advertising services have been increasing during the Track Record Period. We will seek to continue to attract more advertisers and increase their spending on our platform. We are also actively exploring new monetisation opportunities in both music as well as music-inspired social entertainment products and services, leveraging our strong brand appeal, vast and highly engaged user base, diverse content and strong relationships with partners in the music, entertainment and internet industries.

To better capture and capitalise on these opportunities, we have made a strategic decision to focus on growing our user base and user engagement via cultivating our *cloud village* community to pave the way for long-term profitability. We have invested in content licensing to enrich our content library, focusing on valuable content that could most effectively address our users' needs. We will also continue to develop our in-house content by matching artists, melodies, lyrics and other resources effectively in order to further enrich our content library. Our unique community culture, strong brand and leading market position have made us an attractive partner for music labels. We are committed to further strengthening our relationships with music labels, availing us of more favourable terms in music content sourcing. On the other hand, according to the CIC Report, the music industry in China is witnessing increased diversification of supply sources and music genres favoured by users and fall of the exclusive licensing wall.

To better cater to user needs against the backdrop of these trends, we also seek to continually encourage and empower independent artists to create more high-quality, diverse music content, which could, in turn, help us improve our cost structure with respect to music content sourcing. In addition, we incurred more revenue sharing costs paid to live streaming performers and other content partners, further strengthening the interactive atmosphere of our community and encouraging more users to share, interact, and create content. We invested in selling and marketing to grow our user base and user engagement, and further enhance our brand

recognition. We have also invested in various other areas including research and development capabilities to further advance our technology and infrastructure, which would in turn improve our user experience. As a result, we have incurred gross losses and net losses during the Track Record Period.

Leveraging our deep understanding of users' interests and preferences from their engagement on our platform, we are well positioned to create more consumption scenarios around users' evolving demands. We believe it would naturally lead to larger user scale, greater user engagement, higher paying conversion from active users, an expanding paying user base, and increased average spending per user. This will enable us to increase our revenues through various monetisation channels.

Capitalising our engaged user base, expanding content ecosystem and vibrant community, we are well positioned to understand users' demand as we evolve and capture the lifetime value of our users by satisfying such demand to further drive revenue growth, as well as manage our cost and expenses in order to reach profitability and positive operating cash flow. As shown by some of our peers who benefit from their market positions with lower content cost and revenue sharing cost as percentage of revenue, we have confidence that with continuous growth of user base and revenue scale, we can further improve our bargaining power, hence better control costs and achieve profitability.

Working Capital Sufficiency

The Company believes that it possesses sufficient working capital, including sufficient cash and liquidity assets, supplemented by strong fund-raising capability to meet our present requirements and for the next 12 months from the date of this document, estimated based on our improving cash flow conditions during the Track Record Period. In addition, as evidenced by four rounds of historical fund-raising activities, the Company has a good track record in being able to raise money from renowned investors to finance its business. The Company believes that the Global Offering and other potential external financing sources will provide additional funding to its operation including the time until it achieves profitability and positive operating cash flow.

	Round 1	Round 2	Round 3	Round 4
Date of completion	17 Apr 2019	18 Sept 2018	21 Jan 2019	4 Dec 2019
Total consideration	US\$132,121,625	US\$150,000,000	US\$476,000,000	US\$701,647,059

OUR TECHNOLOGY AND INFRASTRUCTURE

We focus on continually improving our technology to deliver superior user experience and enhance our operating efficiency. Over the years, we have been innovating and improving our technologies to help users discover and enjoy content and help artists find their target audience and realise greater value.

We have a dedicated team of highly skilled engineers, computer scientists and technicians whose expertise spans a wide range of areas. As of 30 June 2021, we had 627 research and development employees. As of 30 June 2021, almost half of our research and development personnel held degrees of master level or above.

We have made significant investments into our research and development efforts and technology infrastructures. Our research and development expenses amounted to RMB266.0 million, RMB363.2 million and RMB576.5 million in 2018, 2019 and 2020, and up from RMB247.2 million in the six months ended 30 June 2020 to RMB420.3 million in the six months ended 30 June 2021, respectively, representing approximately 23.2%, 15.7%, 11.8%, 12.5%, and 13.2% of our total revenue, respectively, during the same periods.

Big Data Analytics

We own a large and diversified data set that provides us with significant insight into content consumption and user behaviour. We track a range of user behaviours, such as playing, liking, sharing, skipping or saving songs, selecting recommended music and following artists on our platform. More than 100 billion of these kinds of events are logged daily on our service. Our data monitoring system collects, stores, processes and analyses data in real time.

We devote substantial resources to analysing and handling user data in order to obtain useful insights with our machine learning and artificial intelligence capabilities. We are gradually applying deep learning technologies to establish user profiles, which may enable us to provide more accurate recommendations of content to our users to maximise consumer satisfaction. We measure static parameters such as demographics as well as dynamic parameters such as past listening behaviour. We can also combine situational context, such as time of day, to make better recommendations for appropriate content to an individual user based on his or her current activity. In addition, we have a large music database with relevant information, such as the composer and lyricist of each song and the relationships among different songs, for independent artists, to improve their performance.

AI-Powered Content Creation Tools

Our machine learning, computer vision and computer graphics capabilities have enabled us to offer a wide array of content creation tools. For example, we are developing automated music composition capabilities to assist the creative endeavour of artists and users. We establish *NetEase Music Audio Lab* in 2018. For example, the lab developed an audio melody extraction solution that broke three world records at the MIREX in 2020. Meanwhile, with its strong music recognition ability, the lab's "robust fingerprinting algorithm" achieved the second best performance in the task of "audio fingerprinting" since the MIREX launched this competition in 2014, representing a significant improvement in recognition rate. We are also working with our international partners to further improve our AI-enabled content creation technology offerings. These carefully designed innovative features have fostered a highly interactive and enjoyable experience for motivated users to create more vibrant and inspirational content that attracts more users, which in turn fuels further growth in creative content on our platform.

Real-Time Monitoring Technologies

Our data centre servers automatically report any detected malfunction on a real-time basis to our network control centre. This allows us to quickly respond to and resolve network and other malfunction issues. We have a network operation support team responsible for the stability and security of our network on a 24-hour, seven-day-a-week basis. The primary responsibilities of the team members consist of monitoring system performance, data storing and processing, troubleshooting, detecting system errors, random sample testing on servers, maintaining equipment, and testing, evaluating and installing hardware and software.

Infrastructure

We designed our data and network infrastructure for scalability and reliability to support the rapid growth in our user base and to handle multi-party audio and video-enabled real-time online interactions. As of the Latest Practicable Date, we had more than 6,000 servers hosted in six internet data centres across China, which contribute significantly to our fast streaming speed and reliable services. We use cloud services provided by NetEase, including cloud server, cloud hardware and service video cloud management, as well as external service providers such as Alibaba Cloud. Due to the use of cloud computing technology, the amount of bandwidth we lease is flexible and expandable to handle a surge in the number of concurrent users in our mobile apps at peak times.

INTELLECTUAL PROPERTY

We highly value our intellectual property rights, which are fundamental to our success and competitiveness. We rely on a combination of copyright, trademark and other intellectual property laws as well as employment and confidentiality agreements with employees to protect our intellectual property rights. We have a copyright management team and copyright protection professionals within our legal department. As of the Latest Practicable Date, we had registered 95 patents, 69 trademarks, 116 copyrights, 52 software copyrights and 20 domain names.

During the Track Record Period and up to the Latest Practicable Date, no material claims or disputes were brought against us in relation to any infringement of trademarks, copyrights or other intellectual property. However, unauthorised use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorised use may adversely affect our business and results of operations.

In addition, under the employment agreements that we enter into with our employees, they acknowledge that the intellectual property developed by them in connection with their employment with us, including our in-house developed content, are our property.

We continuously monitor, identify and report piracy and unauthorised recordings or use of our proprietary content.

PROCEDURES AND POLICIES ON COPYRIGHT PROTECTION

Our platform contains a large amount of UGC. According to a "safe harbour" provided by relevant PRC laws, we are required to take down the relevant content uploaded by users within a reasonable period of time after receiving a complaint regarding copyright infringement accompanied with the evidence required under relevant PRC laws. We employ effective internal control procedures to ensure that we comply with the relevant PRC laws with respect to copyright protection. We have established an internal control process to manage the purchase of copyright, including purchase approval, copyright acceptance and infringement monitoring. We apply rigorous qualification examination of copyright suppliers before initiating cooperation with them. The relevant cooperation scheme and pricing information are reviewed by dedicated personnel before they are approved to be implemented. After receiving the song information from the copyright provider, we will check whether the song is consistent with the authorised content before they are uploaded to our platform. If there is any dispute in relation to the copyright licensed to us, our legal team will follow up and take appropriate remedial measures.

We enforce a copyright protection and takedown policy consistent with the relevant legal requirements and standard industry practice. Our policy requires us to take down content on the basis of alleged copyright infringement when we receive a request to do so provided that such request satisfies the relevant legal requirements.

We have set up a reporting and rights protection channels on our platform through which users can report content uploaded on our platform in violation of copyrights. We have dedicated personnel to review and process any such reports and remove violating content when necessary. Once repeated violations on the part of a user have been determined, we may suspend or terminate such user's account. We have also established smooth communication mechanism with some other platforms to quickly respond to and deal with each other's complaints to reduce litigation risks and costs.

In addition, we maintain and enforce the procedures to ensure that we have the right to use the music in our content library. We also have implemented procedures to reduce the likelihood that any music might be used without proper licence or third-party consents. For example, we have implemented a system that tags licensed music with copyright ownership or licensing information through which we can keep track of licensed music in our content library. We leverage technology to monitor and shield infringing content on our platform.

QUALITY CONTROL AND CONTENT MODERATION

We leverage technology to help ensure copyright compliance and monitor and remove inappropriate or illegal content from our platform. For example, our real-time content moderation system scans our platform to detect inappropriate or illegal content. Text, images and videos are screened by our content moderation team, aided by systems that periodically filter our platform. We also maintain a system that tags licensed music with copyright ownership or licensing information through which we can keep track of licensed music in our content library.

We are focused on the moderation and screening of UGC. We require live streaming performers and users to register on a real-name basis to upload content to our platform and require them to agree not to distribute content in violation of any third-party rights or any applicable laws or regulations. In particular, we monitor the live streaming sessions and online karaoke performances delivered on our platform using a combination of human and machine screening.

We have also implemented a set of rules and procedures to maintain a healthy-content community on our platform. All participants on our platform are required to abide by our terms of service and community regulations, which strictly prohibit inappropriate content across our platform, especially those accessible to underage individuals. Our terms of service set forth in detail prohibited content and actions, including, but not limited to, those violating laws and regulations; promoting terrorism, or inciting terrorist activities; spreading obscenity, pornography, gambling, violence, murder, terror or abetting crime; spreading rumours, or disturbing economic and social order; and insulting or slandering others, or infringing upon the legitimate rights and interests of others.

During the Track Record Period and up to the date of this document, Hangzhou NetEase Cloud Music was fined on a few occasions for failure to effectively manage information published by platform users including certain illegal and harmful information in the comments section and certain music content on our platform. We have paid the fines in a timely manner and completed rectification of such administrative penalties. Our Directors are of the view that the above-mentioned penalties did not and will not have a material adverse effect on our business, financial condition or results of operations and none of which is material to our Group as a whole. Our Directors, as advised by our PRC Legal Adviser, confirm that except as disclosed hereunder in this document, we had complied with the relevant PRC laws and regulations in all material respects during the Track Record Period. See "Risk factors – Risks related to our

business and industry – The content available on our platform may be found objectionable by the PRC government or considered inappropriate or offensive by the public, which may subject us to penalties and other regulatory or administrative actions."

In order to avoid similar non-compliances in the future, we will continue to enhance our internal control risk management system by improving our content moderation procedures for user registration and content publishing. Specifically, these measures include adopting stricter standards of review, increasing investments in content moderation department, and improving the training of relevant personnel. Following the non-compliance incidents, we have increased the manpower of the moderation team, and strengthened the internal cross-checking mechanism to prevent harmful information from appearing on the platform, including setting up specialised sub-groups within the moderation team, improving the cross-checking and inspection procedures, re-checking the contents with high popularity with extra efforts. A special inspection team has been set up to identify any weaknesses in the content moderation procedure. Each of the content moderation personnel is assigned with specific duties and will be accountable for non-compliance issues in their charge.

CUSTOMERS

We have a broad base of customers, including advertisers, copyright licensees and paying users. Our top five customers, which are primarily media and internet companies, accounted for 37.4%, 21.9%, 14.6% and 15.6% of our total revenue for each of the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, and revenue from our largest customer accounted for 21.8%, 11.8%, 9.9% and 8.8% of our total revenue during each of these periods.

The following tables set forth a summary of top five customers during the Track Record Period.

For the year ended 31 December 2018

No.	Customers	Services or products provided by us	Business profiles and backgrounds	Years of relationship	% total revenues
1	Customer A	Advertising ⁽¹⁾	Advertising services with a focus on online advertising	From 2017 to 2019	21.8%
2	Customer B	Copyrights sublicensing ⁽¹⁾	Online music, online karaoke and music live streaming services	Since 2015	6.5%
3	NetEase Group	Advertising and other services ⁽¹⁾	Advertising services, artists promotion services, sublicencing services and sales of virtual items	Since 2014	4.0%
4	Customer G	Copyrights sublicensing ⁽¹⁾	B2B commerce, online retail, shopping search engines, third-party payment and cloud computing services	Since 2018	3.0%
5	Customer C	Joint services of mobile data package ⁽¹⁾⁽⁴⁾	Social entertainment platform based on music-inspired content and related services	Since 2016	2.1%

For the year ended 31 December 2019

No.	Customers	Services or products provided by us	Business profiles and backgrounds	Years of relationship	% total revenues
1	Customer A	Advertising ⁽¹⁾	Advertising services with a focus on online advertising	From 2017 to 2019	11.8%
2	Customer B	Copyrights sublicensing and advertising ⁽¹⁾	Online music, online karaoke and music live streaming services	Since 2015	4.7%
3	NetEase Group	Advertising and other services ⁽¹⁾	Advertising services, artists promotion services, sublicencing services and sales of virtual items	Since 2014	2.8%
4	Customer G	Copyrights sublicensing ⁽¹⁾	B2B commerce, online retail, shopping search engines, third-party payment and cloud computing services	Since 2018	2.0%
5	Customer C	Joint services of mobile data package ⁽¹⁾⁽⁴⁾	Social entertainment platform based on music-inspired content and related services	Since 2016	0.6%

For the year ended 31 December 2020

No.	Customers	Services or products provided by us	Business profiles and backgrounds	Years of relationship	% total revenues
1	NetEase Group	Advertising and other services ⁽¹⁾	Advertising services, artists promotion services, sublicensing services and sales of virtual items	Since 2014	9.9%
2	Customer B	Copyrights sublicensing ⁽¹⁾	Online music, online karaoke and music live streaming services	Since 2015	2.8%
3	Customer G	Joint membership services and copyrights sublicensing ⁽¹⁾	B2B commerce, online retail, shopping search engines, third-party payment and cloud computing services	Since 2018	1.0%
4	Customer D	Live streaming ⁽²⁾	N/A ⁽³⁾	Since 2020	0.5%
5	Customer E	Live streaming ⁽²⁾	N/A ⁽³⁾	Since 2019	0.4%

For the six months ended 30 June 2021

No.	Customers	Services or products provided by us	Business profiles and backgrounds	Years of relationship	% total revenues
1	NetEase Group	Advertising and other services ⁽¹⁾	Advertising services, artists promotion services, sublicensing services and sales of virtual items	Since 2014	8.8%
2	Customer B	Copyrights sublicensing ⁽¹⁾	Online music, online karaoke and music live streaming services	Since 2015	3.1%
3	Customer G	Joint membership services and copyrights sublicensing ⁽¹⁾	B2B commerce, online retail, shopping search engines, third-party payment and cloud computing services	Since 2018	3.0%
4	Customer H	Online music membership services ⁽¹⁾	Technology development in terms of technologies relating to internet, computers and IoT, etc.	Since 2020	0.4%
5	Shanghai Langlang Network Technology Limited Company (上海琅琅 網絡科技 有限公司)	Online music membership services ⁽¹⁾	Technology development in terms of technologies relating to internet, computers and IoT, etc.	Since 2020	0.3%

Notes:

- (1) Online music services
- (2) Social entertainment services
- (3) We do not collect such information relating to these customers because they are individual end users of our live-streaming service.
- (4) The mobile network operator cooperates with us in offering mobile data packages. The purchasers of such packages are allowed to play and download content on our platform without using their mobile data.

NetEase is one of our five largest customers for each of the years ended 31 December 2018, 2019 and 2020, the revenue from which accounted for 4.0%, 2.8% and 9.9% of our total revenue during each of these periods. As of the Latest Practicable Date, NetEase owned 62.46% of our total issued share capital. Alibaba Group Holding Limited is one of our five largest customers for each of the years ended 31 December 2018, 2019 and 2020. Taobao China Holding Limited ("Taobao China", our Shareholder as to more than 5% shareholding interest) and certain customer entities with which we transact over the Track Record Period are ultimately commonly controlled by, and are subsidiaries of, Alibaba Group Holding Limited. See "History — Pre-IPO Investment — Information on the principal Pre-IPO Investors" and "Substantial Shareholders" for further information on the relationship between Taobao China

and Alibaba Group Holding Limited. To the best of our knowledge, all of the other three largest customers during the Track Record Period were independent third parties as of the Latest Practicable Date. As of the Latest Practicable Date, (i) Mr. Ding, an executive Director and chief executive officer of our Company and chairperson of the Board of our Company, held approximately 43.2% of the voting rights in NetEase through shares capable of being exercised on resolutions in general meetings; and (ii) all of the other Directors in aggregate held less than 1% of the beneficial ownership in NetEase.

Except as disclosed above, based on publicly available information, none of our other Directors, their respective associates or any shareholder who, to the knowledge of such Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has a 5% or more shareholding interest in any of our top five customers during the Track Record Period.

SUPPLIERS

Our suppliers primarily include copyright licensors, agencies of live streaming performers and providers of technology service, advertising agency service and other services. Our top five largest suppliers accounted for 56.6%, 48.1%, 28.8% and 21.9% of our cost of revenue respectively for each of the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, and our cost of revenue from the largest supplier accounted for 36.8%, 27.6%, 14.4% and 7.7% of our total cost of revenue during each of these periods.

The following tables set forth a summary of our top five suppliers during the Track Record Period.

For the year ended 31 December 2018

No.	Suppliers	Services or products provided to us	Business profiles and backgrounds	Years of relationship	% total purchases
1	Supplier A	Copyrights sublicensing and payment channel services	Online music, online karaoke and music live streaming services	Since 2015	36.8%
2	Supplier G	Copyrights licencing and custody services	B2B commerce, online retail, shopping search engines, third-party payment and cloud computing services	Since 2018	5.4%
3	Supplier B	Copyrights licencing	Music label	Since 2014	5.0%
4	Supplier C	Copyrights licencing	Music production and talent agency services	From 2018 to February 2021	4.9%
5	NetEase Group	Technology services, public services and others	Technology services, public services	Since 2013	4.5%

For the year ended 31 December 2019

No.	Suppliers	Services or products provided to us	Business profiles and backgrounds	Years of relationship	% total purchases
1	Supplier A	Copyrights sublicensing and payment channel services	Online music, online karaoke and music live streaming services	Since 2015	27.6%
2	Supplier D	Copyrights licensing	Music agency services	Since 2018	6.8%
3	NetEase Group	Technology services, public services and others	Technology services and public services	Since 2013	4.8%
4	Supplier B	Copyrights licensing	Music label	Since 2014	4.5%
5	Supplier C	Copyrights licensing	Music production and talent agency services	From 2018 to February 2021	4.4%

For the year ended 31 December 2020

No.	Suppliers	Services or products provided to us	Business profiles and backgrounds	Years of relationship	% total purchases
1	Supplier A	Copyrights sublicensing and payment channel services	Online music, online karaoke and music live streaming services	Since 2015	14.4%
2	Supplier E	Copyrights licensing	Music entertainment services, including copyrights sublicensing	Since 2013	3.7%
3	Supplier D	Copyrights licensing services	Music agency services	Since 2018	3.7%
4	Supplier F	Payment channel services	Online app store	Since 2013	3.6%
5	Beijing Jiutian XingGuang Cultural Media Company Limited (北京九天 星光文化 傳媒有限 公司)	Agency services of live streaming performers	Live streaming services and performers training	Since 2019	3.4%

For the six months ended 30 June 2021

No.	Suppliers	Services or products provided to us	Business profiles and backgrounds	Years of relationship	% total purchases
1	Supplier A	Copyrights sublicensing and payment channel services	Online music, online karaoke and music live streaming services	Since 2015	7.7%
2	Supplier E	Copyrights licensing	Music entertainment services, including copyrights sublicensing	Since 2013	5.0%
3	Supplier F	Payment channel services	Online app store	Since 2013	3.5%
4	Supplier D	Copyrights licensing	Music agency services	Since 2018	3.0%
5	Supplier B	Copyrights licensing	Music label	Since 2014	2.7%

NetEase is one of our five largest suppliers for each of the years ended 31 December 2018 and 2019, the cost of revenue from which accounted for 4.5% and 4.8% of our total cost of revenue during each of these periods. Alibaba Group Holding Limited is one of our five largest suppliers for the year ended 31 December 2018. As mentioned above, Taobao China (our Shareholder as to more than 5% shareholding interest) and certain supplier entities with which we transact over the Track Record Period are ultimately commonly controlled by, and are subsidiaries of, Alibaba Group Holding Limited. See "History — Pre-IPO Investment — Information on the principal Pre-IPO Investors" and "Substantial Shareholders" for further information on the relationship between Taobao China and Alibaba Group Holding Limited. To the best of our knowledge, all of the other three largest suppliers during the year ended 31 December 2019, and all of our five largest suppliers during the year ended 31 December 2020, respectively, were independent third parties as of the Latest Practicable Date.

Except as disclosed above, as of the Latest Practicable Date, (i) Mr. Ding, an executive Director and chief executive officer of our Company and chairperson of the Board of our Company, held approximately 43.2% of the voting rights in NetEase through shares capable of being exercised on resolutions in general meetings; and (ii) all the other Directors in aggregate held less than 1% of the beneficial ownership in NetEase. Based on publicly available information, none of our other Directors, their respective associates or any shareholder who, to the knowledge of such Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has a 5% or more shareholding interest in any of our top five suppliers during the Track Record Period.

We believe we have sufficient alternative suppliers for NetEase that can provide us with substitutes of comparable quality and prices. During the Track Record Period, we did not experience any disruption to our business as a result of any significant shortage or delay in the supply of the products we sourced from our suppliers.

SALES AND MARKETING

Word-of-Mouth Referrals

We primarily rely on word-of-mouth referrals and benefit from our high-quality music content, social networking functions and strong brands to attract users to our platforms.

Our Marketing Initiatives

Besides word-of-mouth, we engage in various marketing and promotional initiatives to promote our brand and increase our user base.

We acquire users by partnering with key opinion leaders on the short-form video platforms with a large user base. By using our music in their short-form videos, we effectively promote our music content and increase our platform traffic. We implement a number of entertainment marketing measures, such as running our campaigns in TV shows and other entertainment shows. For example, the main character in the hot drama *Go Go Squid* was inspired by an independent artist on our platform. Our brand and the functions on our platform were mentioned throughout the show, which converted its fans into users of platform.

In addition, we hold various marketing campaigns through various online and offline advertisements, including cooperating with search engines such as *Baidu* to increase our exposure online, advertising music films, collaborating with certain brands for peripheral products, organising singing competitions and distributing free samples. We also attract new users through advertisements on various app stores.

We continue to implement new technologies and introduce new features on our platforms to improve user experience. The focus of our marketing efforts is to further strengthen our brands and deliver high-quality music content and services.

Our Marketing Professionals

We primarily reply on three marketing teams to promote our products: (i) the brand and public relations team that arranges online and offline events to increase awareness of our brand; (ii) the strategic cooperation team that establishes strategic relations with third parties, including financial institutions, telecommunication companies and advertising agencies; and (iii) the content marketing team that promotes our content and creates content strategies to support marketing activities.

COMPETITION

In China's online music services industry, Tencent Music Entertainment Group and us are the two online music platforms at scale in China, with 72.8% and 20.5% market share in terms of revenue in 2020, respectively. We have the highest average paying ratio in 2020, featuring a highly interactive content community for music enthusiasts in terms of user scale and engagement, according to CIC Report. In addition, we are the most popular online music platform in China among people who were born in 1990 or later, the rapidly growing age group that accounts for nearly 50% of the online music entertainment market, according to a survey conducted by CIC. NetEase Cloud Music has attracted more than 300,000 Registered Independent Artists as of 30 June 2021, making it the largest online incubator for independent artists in China. In China, there are several social entertainment platforms that are built on

audio or music-inspired live streaming content. According to the CIC Report, we are one of the largest music-inspired social entertainment services providers in China, with the highest monthly ARPPU in 2020.

We face competition mainly from Tencent Music Entertainment and other online music service providers in China. We also face competition from other online content platforms. We compete mainly over copyrights, user time spent, user retention rate, number of active users, market share and other financial metrics, such as paying ratio and revenue. Some of our competitors may have greater financial, marketing or technology resources than we do, which could enable them to respond more quickly to technological innovations or changes in user demands and preferences, obtain more licences of attractive content, and devote greater resources towards the development, promotion and sale of products than we can. For a discussion of risks related to competition, see "Risk factors — Risks related to our business and industry — We face intense competition for users, users' time and attention, content, talent, advertising customers and other resources. We may not be able to increase or maintain our market share if we fail to compete effectively."

DATA SECURITY

Infrastructure

We are committed to protecting the large amount of data that we collect, process, store and use on a daily basis. We have implemented advanced data encryption measures to ensure secured storage and transmission of data and prevent any unauthorised access or use of our data.

- Data centre and server. Our data centre and server use the cloud server provided by NetEase in Hangzhou, China. We have taken security measures based on the international standards, including UPS dual power supply and precision air conditioning.
- Internet security. We have security equipment for data centre network exit settings to respond to DNS tunnelling attacks. Users cannot access our internet equipment through external networks. We allow access to our network through bastion hosts and have capabilities to continuously monitor and maintain internet security. We have also taken other measures for server security, including regular inspection and syslog collection and auditing.
- Data disaster recovery. Data centre malfunctioning can be automatically recovered. We regularly back up our data offline and retain at least two copies.

Information Management System

We have established a standardised information management system. Our information security committee, headed by our vice president of technology, is a cross-disciplinary group comprised of personnel from multiple departments responsible for devising information security strategies and decision-making regarding major information security issues. We have also set up a data security team that works closely with other departments to jointly establish and enforce procedures regarding the management of data security, including security with respect to data collection, storage and processing. Our dedicated privacy protection team is formed from the security group of our systems operations department and other departments and it analyses industry trends, designs privacy protection protocols, conducts privacy trainings, assists in the

formulation of feasible compliance work assessments and provides relevant risk control suggestions. All our personnel are required to strictly follow our detailed internal rules, policies and protocols to ensure the privacy of our data.

- Data access. We strictly control our employees' data access and delineate the types and scope of data that each employee is allowed to access.
- Software usage. The software on our internal platform has received and maintained valid IT and safety certificates.
- Internal training. We provide regular trainings to our staff on internal policies and procedures for data security, on software technical skills to prevent data leakage, and on other aspects that are relevant to their day-to-day work.
- Data protection software. Our data protection software is updated timely and efficiently to prevent data leakage and cyber-attack.
- Cyber security monitoring. We have established a comprehensive system to detect and prevent data breaches, cyber threats, and other system vulnerabilities.
- Data encryption and penetration testing. Sensitive business information is routinely encrypted and we conduct system-wide vulnerability scanning to continually improve our data security measures.

OUR EMPLOYEES

We had a total of 1,192 employees as of 30 June 2021. As of 30 June 2021, substantially all of our employees were based in China. The following table sets forth the numbers of our full-time employees in each department as of 30 June 2021.

Function	Number of Employees
Research and development	627
Platform and content operations	456
Sales and marketing	63
General administration	46
Total	1,192

Our compensation system is well-structured and consists of a basic salary, a performance-based bonus and long-term incentives. We distribute options to core talent each year based on reviews and their levels. 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. We are required under PRC law to make contributions from time to time to employee benefit plans for our PRC-based full-time employees at specified percentages of the salaries, bonuses and certain allowances of such employees, up to a maximum amount specified by the local governments in China. We also provide other benefits, including commercial insurance. We review our employees' performance based on various factors on a quarterly and annual basis.

Our training sessions mainly focus on three groups: campus recruiting personnel, management personnel and professional technology personnel. We enter into standard labour contracts with our full-time employees. We also enter into non-compete and confidentiality agreements with certain employees. Such non-compete provisions apply based on the importance of the positions and other relevant factors.

We believe that we maintain a good working relationship with our employees.

PROPERTIES

Our headquarters are based in Hangzhou and we have offices in three cities in China. As of the Latest Practicable Date, we did not own any properties and leased five properties in China with a total gross floor area of approximately 43,050 square metres. Our leased properties are mainly used as offices, which are the non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our headquarters and offices. We believe that our existing facilities are generally adequate to meet our current needs, but we expect to seek additional space as needed to accommodate future growth.

As of 30 June 2021, none of the properties leased by us had a carrying amount of 15% or more of our combined total assets. According to Chapter 5 of the Hong Kong Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempt from the requirements of section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance to include all interests in land or buildings in a valuation report as described under paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

CORPORATE SOCIAL RESPONSIBILITY

We believe the best approach to corporate social responsibility is through embedding elements of social responsibility in our business. Since our founding, we have been upholding our commitment to corporate social responsibility through engaging public interest initiatives as well as by extending the benefits of our ecosystem to the community at large. For example, we invited psychologists to join our *Music to Heal* project. If users search words that indicate a pessimistic or depressed mood, they are directed to a page that contains healing music to help ease their stress. Our commitment to, and efforts in, discovering and empowering independent artists, helping them live off their works and realising their dream are not only a form of social good in and of itself, but also a way to promote cultural and artistic diversity and elevate the standards of artistic appreciation among our users as well as the music industry and the public in general.

Partnering with non-profit organisations, artists and other community stakeholders, we conducted various events to increase public awareness of a wide range of social public health, animal rights, biodiversity, children's wellbeing and other social causes. For example, to support the fight against the COVID-19 pandemic, we organised an online benefit concert, *Hello, Tomorrow*, in cooperation with a number of leading media and social platforms in China. Through our technology, innovation and resources, we dedicated the concert to pay tribute to all those health professionals, social workers and volunteers in the fight through our unique way. The concert amassed a number of renowned artists for the performance of many popular, healing songs on our platform, and attracted approximately 4 million viewers. In partnership with charity funds, including *I Hear U Charity Fund*, we have launched campaigns to raise public awareness regarding care for children with hearing disabilities, inviting influential artists to release songs and donate the sales to help children in need for cochlear implant surgery.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

We do not operate any production facilities. We are not subject to significant health, work safety, social or environmental risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary, adjust our human resources policies to accommodate material changes to relevant labour and work safety laws and regulations.

During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any fines or other penalties due to non-compliance in relation to health, work safety, social or environmental regulations and have not had any accident, or claim for personal or property damage made by our employees, that has materially and adversely affected our business, financial condition or results of operations.

INSURANCE

We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by Chinese laws and regulations and in accordance with the commercial practices in the industries in which we operate. We provide social security insurance, including pension insurance, unemployment insurance, work-related injury insurance, maternity insurance and medical insurance for our employees. Additionally, we provide group accident insurance and supplementary medical insurance and critical illness insurance for all employees.

LEGAL PROCEEDINGS

We may from time to time become a party to various legal or arbitral proceedings arising in the ordinary course of our business. We are involved in legal and other disputes in the ordinary course of our business. Most of the legal proceedings involve intellectual property claims initiated by us to protect intellectual properties owned by or licensed to us, as well as legal proceedings against us, including claims brought by third-party platforms and writers relating to intellectual property infringement.

During the Track Record Period and up to the Latest Practicable Date, we had not been a party to, and were not aware of any threat of, any legal or arbitral proceeding, which, in our opinion, would likely have a material and adverse effect on our business, financial condition or results of operations.

LICENCES AND REGULATORY APPROVALS

Licences, Permits and Approvals

During the Track Record Period and up to the Latest Practicable Date, we had obtained all requisite licences, approvals and permits from relevant regulatory authorities that are material to our operations in China, other than as disclosed in this section below.

The following table sets out a list of material licences and permits currently held by us:

Licence/Permit	Entity Holding the Licence/Permit	Expiration Date
Internet Cultural Business Licence	Hangzhou Yuedu	17 March 2024
Value-added Telecommunications Business Operating Licence	Hangzhou Yuedu	14 June 2025
Radio and Television Production Operation Licence	Hangzhou Yuedu	31 March 2023
Commercial Performance Licence	Hangzhou Yuedu	15 December 2022
Commercial Performance Licence	Beijing Chuyin Culture Co., Ltd	2 February 2023

Non-compliance

During the Track Record Period and up to the Latest Practicable Date, we had a few incidents of non-compliance, none of which we believe could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. These incidents relate to the lack of the Permit for Dissemination of Audio-Visual Programmes via Information Network (《信息網絡傳播視聽節目許可證》) ("AVSP") and the Internet Publishing Service Licence (《網絡出版服務許可證》).

AVSP and Registration

Applicable PRC laws and regulations require any entity that conducts certain audio-visual programme services via internet to hold an AVSP.

As of the Latest Practicable Date, we did not hold an AVSP for providing audio-visual programme services via internet. This is because only state wholly owned or state-controlled enterprises are eligible to apply for the AVSP according to the Audio-Visual Regulations, and we are not state wholly owned or state-controlled enterprise. For more information, see "Regulations — Regulations relating to online transmission of audio-visual programmes."

• Video On-demand Services (for example, concerts)

We are likely required to hold an AVSP for our video on-demand services (for example, concerts). Our PRC Legal Adviser has advised that the maximum potential penalty for operating without an AVSP includes an order to suspend relevant services, the seizure of related equipment used for such operating activities and a fine of one to two times the relevant entity's total investment in the business. Considering our revenue attributable to such services accounted for only a very

small proportion of our total revenue in each of 2018, 2019, 2020 and the six months ended 30 June 2021, our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations.

• Online Show Live Streaming Services

As required by applicable PRC laws and regulations, (i) live streaming platforms that carry out business-oriented network performance activities such as ourselves, must hold an ICB Licence and complete ICP filing; and (ii) live streaming platforms that carry out network audio-visual programme services such as ourselves, must hold an AVSP (or complete the registration under the national network audio-visual platform information registration management system) and complete ICP filing. For more information, see "Regulations — Regulations relating to online live streaming services."

We have obtained the ICB Licence and completed the ICP filing. Our application for registration of NetEase Cloud Music (Ge Fang), Sheng Bo, LOOK Live Streaming, was submitted to the national network audio-visual platform information registration management system, and is currently under review. As of the Latest Practicable Date, we have not been informed of any material impediment in completing the registration. Based on consultation conducted by our PRC Legal Adviser with the Internet Audio-Visual and Media Convergence Department of the Radio and Television Administration Bureau of Zhejiang Province (浙江省廣播電視 局網絡視聽與媒體融合處) which is the competent authority, if the registration under the national network audio-visual platform information registration management system could be completed, the possibility for an enterprise being requested to obtain AVSP, or being penalised for conducting online show live streaming services without an AVSP, is very low. While there is still possibility that the interpretation of laws and regulations by the relevant authorities may change in the future, which may lead to the requirement on us to obtain AVSP or the imposition of other requirements on us by the competent authority, as advised by our PRC Legal Adviser, if the registration could be completed, the possibility for the competent authority requiring us to obtain AVSP for our online show live streaming services is very low. See "Risk factors — Risks related to our business and industry — China's internet, music, live streaming and online entertainment industries are highly regulated. Any lack of requisite approvals, licences, permits, registrations or filings applicable to our business operation or any changes in applicable laws, regulations or government policies may materially and adversely impact our business, prospects and results of operations."

Online Music Services

As advised by our PRC Legal Adviser, the relevant regulations and rules do not explicitly provide whether "online music services" belong to the category of "audio-visual programmes via the internet" or whether "music and songs" belong to the category of "audio-visual programmes." Based on consultations with the Internet Audio-Visual and Media Convergence Department of the Zhejiang Bureau of Radio and Television Administration (浙江廣播電視局網絡視聽與媒體融合處) which is the competent authority, (i) music and songs are not deemed as audio-visual programmes, (ii) relevant services shall be administrated by local department for culture administration, and (iii) an AVSP is therefore not required for providing online music services. We have obtained the ICB Licence from the relevant local

culture administrative authority for our online music service. While interpretation of laws and regulations by the relevant authorities may change, as advised by our PRC Legal Adviser, the possibility of us being required to obtain an AVSP for providing online music services and imposed any administration penalties for the online music services provided during the Track Record Period is very low. Since the interpretation of laws and regulations by the competent authority may change, the competent authority may require us to obtain AVSP, or impose other requirements on us in the future. See "Risk factors — Risks related to our business and industry — China's internet, music, live streaming and online entertainment industries are highly regulated. Any lack of requisite approvals, licences, permits, registrations or filings applicable to our business operation or any changes in applicable laws, regulations or government policies may materially and adversely impact our business, prospects and results of operations."

Our Directors have confirmed that we have not been subject to any regulatory notice, fines, penalties or enforcement actions on account of such licensing status as of the Latest Practicable Date. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. On the basis set out above and the due diligence works conducted, nothing has come to the Joint Sponsors' attention that caused them to disagree with the Directors' view mentioned above.

Internet Publishing Service Licence

Applicable PRC laws and regulations require any entity that provides online publications to the public to hold an Internet Publishing Service Licence. See "Regulations — Regulations relating to online publication."

We are likely required to hold an Internet Publishing Service Licence for our certain business activities such as online publication of our in-house developed original music content. As of the Latest Practicable Date, we do not hold, and we are not applying for an Internet Publishing Service Licence.

Our PRC Legal Adviser has advised us that the maximum potential penalty for operating without an Internet Publishing Service Licence includes shutting down of the website, deletion of all relevant online publications, confiscation of income and major equipment and special tools relating to operation and imposition of fines or other penalties.

Nevertheless, the quantity of our in-house developed original music for online publication accounted for a very small proportion of the total quantity of music in our platform in each of 2018, 2019, 2020 and the six months ended 30 June 2021.

According to PRC Legal Adviser's consultation with the Hangzhou Cultural Market Comprehensive Administrative Enforcement Team, which is the competent authority for law enforcement of internet publishing service in Hangzhou, the possibility for us to be punished for the lack of the Internet Publishing Service Licence is very low.

Our Directors have confirmed that we have not been subject to any regulatory notice, fines, penalties or enforcement actions for our lack of an Internet Publishing Service Licence. Our Directors are of the view that our lack of an Internet Publishing Service Licence did not and will not have a material adverse effect on our business, financial condition or results of operations. On the basis set out above and the due diligence works conducted, nothing has come to the Joint Sponsors' attention that caused them to disagree with the Directors' view mentioned above. The Company intends to follow up with relevant policies and to apply for the

Internet Publishing Service Licence once the total amount control policy with respect to such licence is lifted. As advised by our PRC Legal Adviser, subject to the requirements stipulated in the relevant laws and of the competent authorities in its discretion, at the time when the total amount control policy is lifted, there will be no substantial legal impediment for us to obtain the Internet Publishing Service Licence.

The Directors are of the view that the aforementioned non-compliance does not reflect negatively on the Directors' competency or their ability to manage our Company in compliance with relevant laws and regulations because such non-compliance did not and will not have a material adverse effect on our business, financial conditions and results of operations.

Our Directors, as advised by our PRC Legal Adviser, confirm that except as disclosed hereunder in this document, we had complied with the relevant PRC laws and regulations in all material respects during the Track Record Period.

RISK MANAGEMENT AND INTERNAL CONTROL

Financial Reporting Risk Management

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial reporting management policies, budget management policies, financial statement preparation policies and staff management policies. We have various procedures in place to implement accounting policies, and our finance department reviews our management accounts based on such procedures. We also provide regular training to our finance department staff to ensure that they understand our financial management and accounting policies and implement them in our daily operations.

Information System Risk Management

Sufficient maintenance, storage and protection of our data and other related information are critical to our success. We have implemented relevant internal procedures and controls to ensure that our data is protected and that leakage and loss of such data are avoided.

The user privacy policy of each of our product describes our data use practices and how privacy works on our platform. Specifically, we collect personal information and data from users only with their prior consent and only to the extent necessary for ensuring the relevant functions or services, including the data on user behaviour such as liking, sharing and saving, and music data such as composer, lyricist and comments. We provide users with adequate notice as to the data being collected, undertake to manage and use the data collected in accordance with applicable laws and make reasonable efforts to prevent the unauthorised use, loss or leak of user data. When a user opens our product for the first time, registers an account or logs into his/her account, there will be a notice requiring this user to read and consent to the user privacy policy. The user privacy policy of each of our product has clearly specified the type of user information that will be collected under different scenarios in the relevant service. For a registered user, we may collect the user name and the phone number to facilitate the registration and login of such user's account, the user's past listening behaviours such as listening, liking, sharing and skipping, the device information such as device model, operating system version and unique device identifier, and the relevant weblogs generated by the user in the process of using our products. If a user attempts to become registered as a Registered Independent Artist or a live streaming performer, the user needs to provide his/her real identity information and go through the real-name registration procedure.

We have set up information security and access control management system, and strictly control employee's access to our user data. Our employees are granted access to the minimum extent that is necessary to fulfil their job responsibilities and are required to go through strict internal approval procedure before operating on such data. We have also entered into confidentiality agreements with our employees and organise trainings to strengthen our employees' awareness for data protection. We enter into agreements containing data confidentiality terms with relevant business partners. If such business partner fail to process the data in accordance with legal requirements or the contract terms, we will require them to stop the violation and take effective remedial measures to protect the data.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of our data, nor have we been subject to any penalty in relation to data security. The PRC Legal Adviser is of the view that the procedures and policies we adopted in relation to data security are in compliance with the relevant PRC laws and regulations in all material aspects. See "— Data security" in this section for more information about our information security procedures and policies.

Compliance and Intellectual Property Rights Risk Management

Compliance with laws and regulations in the PRC or other jurisdictions, especially laws and regulations governing the online music platforms, as well as the protection of our intellectual property rights and the prevention of liabilities resulting from the violation of third-party intellectual property rights, are major areas of focus in our management of operational risk.

Our legal team is responsible for reviewing and approving contracts, conducting legal trainings on intellectual properties, protecting our legal rights, including intellectual property rights, monitoring updates and changes in laws and regulations in the PRC or other jurisdictions and ensuring the ongoing compliance of our operations with these laws and regulations.

We avoid the infringement of other prior patents in the early stage through patent warning analysis, patent research and product design patent investigation. We assess the risk of relevant trademarks and materials before using them in the market to avoid infringement of trademarks. Our legal department also assists our business department in ensuring that all necessary applications or filings for trademark, copyright and patent registrations have been timely made to the competent authorities, and that our intellectual properties are under the protection of relevant laws and regulations.

We have a sound internal control system for managing the risk of intellectual property right infringement. We have relevant rules and polices in place. Please refer to "Business — Intellectual Property — Procedures and Policies on Copyright Protection."

Internal Control Risk Management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. 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.

To comply with the rapidly evolving laws and regulations in the Internet industry, we have professional teams in the 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.

To comply with the laws and regulations relating to live-streaming entertainment business including those set forth in "Regulations-Regulations Relating to Online Live Streaming Services", 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:

First, 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.

Second, 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.

Human Resources Risk Management

We have in place an employee handbook and a code of conduct approved by our management and have distributed them to all our employees. We set out a variety of internal rules and guidelines in our employee handbook, including the best commercial practice, work ethics and prevention mechanism to avoid fraud, negligence and corruption.

We provide employees with regular training and resources relating to work ethic, working procedures, internal policies, management, technical skills and other aspects to keep them abreast of the guidelines contained in the employee handbook. Through these trainings, we ensure their skill set is up-to-date and meets our requirements. We have formulated a recruitment plan for the upcoming year based on the current turnover rate and our future business plan, and we continuously improve our recruitment process with the aid of information technology.

We also have a rigorous background check process for our incoming employees. Each of our executive officers and key employees has entered into an employment agreement with confidentiality, intellectual property and non-competition provisions with us.

Investment Risk Management

Our investment department is responsible for investment project sourcing, screening, execution and portfolio management. The department sources investment projects in accordance with our investment strategy, and conducts thorough pre-investment due diligence to assess the risks and potential of the investment projects.

BACKGROUND

Certain businesses currently operated or will be operated by us in the PRC are subject to foreign investment restrictions and licence requirements (the "Relevant Businesses"). We operate our Relevant Businesses through our Onshore Holdcos. We do not directly own any equity interest in the Onshore Holdcos, which is held by the respective Registered Shareholders.

The agreements underlying the Contractual Arrangements provide a mechanism through which: (a) economic benefits of the Onshore Holdcos are able to be transferred to us through the Cooperation Agreements and Operation Agreements; (b) we are able to control the Onshore Holdcos through the Exclusive Purchase Option Agreements, the Equity Pledge Agreements, and the Shareholders' Voting Right Trust Agreements and Powers of Attorney; and (c) we may inject economic benefits to support the Onshore Holdcos through the Loan Agreements. Pursuant to this arrangement, all substantial and material business decisions of the Onshore Holdcos will be instructed and supervised by our Group, through the WFOE, and all risks arising from the businesses of the Onshore Holdcos are also effectively borne by our Group as a result of the Onshore Holdcos being treated as our controlled subsidiaries. Accordingly, our Directors consider that it is fair and reasonable for the WFOE to be entitled to all economic benefits generated by the business operated by the Onshore Holdcos through the Contractual Arrangements as a whole.

During each of the financial years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, the revenue contribution of Hangzhou Yuedu accounted for substantially all of our Group's total revenue.

PRC LAWS RELATING TO FOREIGN INVESTMENT RESTRICTIONS

Foreign investment activities in the PRC are mainly governed by the Negative List and the Catalogue of Industries for Encouraging Foreign Investment (2020 Version) (the "Encouraging Catalogue"), which were promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and the Encouraging Catalogue divide industries into "encouraged", "restricted", "prohibited" and "permitted" (the last category of which includes all industries not listed under the "encourage", "restricted" and "prohibited" categories).

A summary of our businesses that are subject to foreign investment restriction or prohibition are set out below:

Prohibited Business

Radio and television programme production

The Relevant Businesses involve or will involve video and audio content operation and production, which falls within the scope of radio and television programme production and operation business (廣播電視節目製作經營業務) under the Regulations on the Administration of Production of Radio and Television Programmes (《廣播電視節目製作經營管理規定》 "Radio and Television Programmes Regulations"). Under the Radio and Television Programmes Regulations, any entity that engages in the production of radio and television programmes are required to apply for a Radio and Television Production Operation Licence (《廣播電視節目製作經營許可證》). Hangzhou Yuedu holds a Radio and Television Production Operation Licence for production and release of radio and television programmes issued by the Zhejiang Bureau of Radio and Television Administration. According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in radio and television programme production and operation business.

Commercial Internet cultural activities

Hangzhou Yuedu engages in the music entertainment businesses through the internet and involves the production, distribution and streaming of online music, online programme and online performance, which fall within the scope of commercial internet cultural activities (互聯網文化活動) under the Interim Administrative Provisions on Internet Culture (《互聯網 文化管理暫行規定》, the "Internet Culture Provisions"). The Internet Culture Provisions provide that internet cultural activities are classified into non-commercial internet cultural activities and commercial internet cultural activities. Under the Internet Culture Provisions, an internet cultural business licence (《網絡文化經營許可證》) (the "ICB Licence") is required for conducting commercial internet cultural activities. Hangzhou Yuedu holds an ICB Licence for provision of music entertainment products and programmes through the information network and performances issued by the Zhejiang Provincial Department of Culture and Tourism. According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business (except for music).

Restricted Business

Value-added telecommunication services

Hangzhou Yuedu requires a value-added telecommunications business operation licence (《增值電信業務經營許可證》) (the "ICP Licence") to operate the portion of the Relevant Businesses that involves online video and audio content operation, distribution and streaming of online music, online programme and online performance. Hangzhou Yuedu holds an ICP Licence.

According to the Negative List, foreign investors are not allowed to hold more than 50% of the equity interests in an enterprise holding an ICP Licence like us.

OUR ONSHORE HOLDCOS

Hangzhou Yuedu

Hangzhou Yuedu operates a mixture of prohibited and restricted businesses. In particular, Hangzhou Yuedu operates online programmes, online performances and live streaming businesses, which: (a) falls within the scope of commercial internet cultural activities and requires an ICB Licence to operate (which is a "prohibited business"); and (b) is fully integrated into and cannot be delineated from the business of providing internet information services under an ICP Licence (which is a "restricted business").

Based on the above, we believe that to maintain the business operations and effectiveness of the licences and permits held by Hangzhou Yuedu, this company must be controlled by the Company through the Contractual Arrangements. Furthermore, since Hangzhou Yuedu operates both "prohibited business" and "restricted businesses" under the Negative List, we are unable to set up any alternative structure that would allow us to partially hold equity interests in and control the economic benefits of Hangzhou Yuedu other than through the Contractual Arrangements. In particular, the businesses carried on by Hangzhou Yuedu that require an ICP Licence cannot be separated from the businesses that require an ICB Licence.

Hangzhou Rege and minority investments

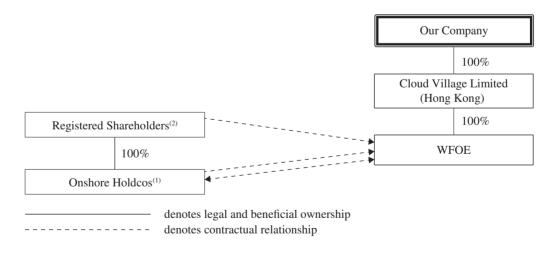
In our ordinary course of business, we make minority investments in a number of companies through Hangzhou Rege. These investments generally operate broader businesses related to our business and provide products, services and/or resources that we believe are synergistic with us and that can help us efficiently expand our product and service offerings to our users. These investments may also provide opportunities for us to invest in technologies and services complementary to ours or may be of use to our business as we develop and enter into new markets. All investments made through Hangzhou Rege are passive, non-controlling interests that are each classified as an investment in an associate accounted for using the equity method and are neither consolidated in our financial statements nor form part of our Group's consolidated entities or subsidiaries; none of the investments are material to us. By way of illustration, Hangzhou Rege represented less than 0.2% of the total assets and revenue of our Group for each year over the Track Record Period. Given their immateriality and the fact that we do not consolidate or control them, our Directors consider that our Contractual Arrangements are narrowly tailored.

To the extent that we acquire control over an investee company in the future, and depending on the nature of the business conducted by the investee company, we will consider restructuring the ownership of the investee company to a direct or indirect subsidiary of our Company if legally permissible under the PRC Laws.

Based on the above reasons, we are of the view that the Contractual Arrangements are narrowly tailored. We will unwind and terminate the Contractual Arrangements wholly or partially once our businesses are no longer prohibited or restricted from foreign investment.

CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of economic benefits from our Onshore Holdcos to our Group under the Contractual Arrangements:



Notes:

- (1) The Onshore Holdcos are Hangzhou Yuedu and Hangzhou Rege.
- (2) The Registered Shareholders of Hangzhou Yuedu are Mr. William Lei Ding as to 99% and Mr. Yiwen Zhu as to 1%. 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.

Summary of the material terms of the Contractual Arrangements

Cooperation Agreements

Under the amended and restated cooperation agreements entered into by the Onshore Holdcos and WFOE dated on 18 May 2021 (the "Cooperation Agreements"), the Onshore Holdcos have agreed to engage the WFOE as their exclusive cooperation partner, providing users, among other things and as the case may be, with technical services, including software development, technical support and maintenance, network technology services, server maintenance, relevant software development and update, and technology development, technical assistance and support in relation to electronic publication and telecommunication, in exchange for service fees.

Under the Cooperation Agreements, the Onshore Holdcos and the WFOE shall share the income generated from their cooperation. The distributable income shall consist of the total income of the Onshore Holdcos, after deduction of any relevant operating costs, expenses, taxes and other statutory contributions, and profits to be retained by the Onshore Holdcos. The WFOE shall be entitled to receive the entire portion of the distributable income, or if applicable, to share the distributable income with other entities who are affiliates of the WOFE of our Group according to the service statements confirmed by the WFOE and these entities. The relevant payment details, including but not limited to the sharing ratio, payment method, payment amount, payment time and amount of profits to be retained by the Onshore Holdcos will also be confirmed by the parties through the service statements. The Onshore Holdcos and the WFOE shall settle the service fees on a regular basis.

In addition, without the prior written consent of the WFOE, during the term of the Cooperation Agreements, with respect to the services subject to the Cooperation Agreements and other matters, the Onshore Holdcos shall not establish cooperation relationships similar to those formed by the Cooperation Agreements with any third party. With the prior written consent of the WFOE, the Onshore Holdcos may cooperate with other entities who are cooperation partners of the Group in accordance with the Cooperation Agreements.

The Cooperation Agreements also provide that the WFOE has exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the WFOE during the performance of the Cooperation Agreements.

The Cooperation Agreements remain in effect unless terminated by written notice from the WFOE. The Onshore Holdcos shall not terminate the Cooperation Agreements without the written consent from the WFOE.

Operating Agreement

Under the amended and restated operating agreements entered into by the Onshore Holdcos, their respective Registered Shareholders and the WFOE dated 18 May 2021 (the "Operating Agreements"), the WFOE agreed to be the guarantor of the Onshore Holdcos in, and provide full guarantees for the performance of, the contracts, agreements or transactions entered into between the Onshore Holdcos and any third-party in connection with the Onshore Holdcos' businesses and operations. The Onshore Holdcos, in return, agreed to pledge the accounts receivable in their operations and all of their assets to the WFOE.

Under the Operating Agreements, the Onshore Holdcos and their respective Registered Shareholders also jointly agreed that without the WFOE's prior written consent, the Onshore Holdcos would not engage in any transaction that may materially affect their assets, liabilities, rights or operations, except that the Onshore Holdcos may enter into business contracts or agreements, sell or purchase assets and create liens in favour of relevant counter parties as required by law in the ordinary course of business. The Onshore Holdcos and their respective Registered Shareholders also agreed to accept and comply, in all respects, with advice and guidance provided by the WFOE from time to time relating to its corporate policies on matters such as employee and dismissal of employees, daily operations and management and financial management. The Registered Shareholders shall appoint candidates recommended by the WFOE as directors of the Onshore Holdcos, and the Onshore Holdcos shall appoint the WFOE's senior executive officers recommended by the WFOE as the Onshore Holdcos' senior management.

Exclusive Purchase Option Agreements

Under the amended and restated exclusive purchase option agreements entered into by the Onshore Holdcos, their respective Registered Shareholders and the WFOE dated 18 May 2021 (the "Exclusive Purchase Option Agreements"), the Registered Shareholders irrevocably granted the WFOE an option, exercisable in one or more times, to purchase or cause any person(s) designated by the WFOE to purchase, to the extent permitted under any applicable PRC laws, a portion of or all of the Registered Shareholders' equity interests in the respective Onshore Holdco at any time and from time to time, for a consideration equals to, as applicable, the outstanding loan amounts under the Loan Agreements for Hangzhou Yuedu, the original or any paid-in capital paid by the Registered Shareholder of Hangzhou Rege, or otherwise for the minimum amount of consideration permitted by applicable PRC laws, under circumstances in which the WFOE or its designated third party is permitted under PRC laws to acquire all or part of the assets of the respective Onshore Holdco, subject to adjustments.

We have the sole discretion to decide when to exercise the option, and whether to exercise the option in part or in full. The key factor for us to decide whether to exercise the option is whether the applicable foreign investment restrictions in relation to the Relevant Businesses will be removed in the future, the likelihood of which we were not in a position to know or comment on, as of the Latest Practicable Date. In the case of Hangzhou Yuedu, where such foreign investment restrictions have been relaxed and there exist clear procedures and guidance for our Group to directly hold the maximum permitted interest in Hangzhou Yuedu, our Group will unwind or modify (as the case may be) the Contractual Arrangements such that our Company (or our subsidiary(ies) of which we hold equity interest) will directly hold the maximum percentage of ownership interests permissible in Hangzhou Yuedu, under relevant PRC laws and regulations, through either sino-foreign equity joint ventures or wholly-owned foreign investment entities.

To prevent the flow of the assets and value of the Onshore Holdcos to its shareholders, pursuant to the Exclusive Purchase Option Agreements, none of the material assets of the Onshore Holdcos are to be sold, transferred or otherwise disposed of without the written consent of the WFOE. In addition, under the Exclusive Purchase Option Agreements, the Registered Shareholders may not transfer or permit the encumbrance of or allow any guarantee or security to be created on any of its equity interest in the Onshore Holdcos without the WFOE's prior written consent.

In the event that the Registered Shareholders have the right to receive any profit distribution or dividend from the Onshore Holdcos, the Registered Shareholders undertake to immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to the WFOE (or its designated third party). If the WFOE exercises this option, all or any part of the equity interests in the Onshore Holdcos acquired would be transferred to the WFOE and the benefits of equity ownership would flow to the WFOE and its shareholders.

Equity Pledge Agreements

Under the amended and restated pledge agreements entered into by the WFOE and the Registered Shareholders dated 18 May 2021 (the "Equity Pledge Agreements"), the Registered Shareholders agreed to pledge all their respective equity interests in the Onshore Holdcos that they legally own to the WFOE as a first security interest to guarantee the timely and complete payment and performance of contractual obligations under the relevant Contractual Arrangements.

Under the Equity Pledge Agreements, the Registered Shareholders have agreed that, without prior written consent of the WFOE, they will not transfer or dispose the pledged equity interests or create or allow any third party to create any encumbrance on the pledged equity interests that would prejudice the WFOE's interest. The pledge in respect of the Onshore Holdcos take effect upon completion of registration with the relevant administration for market regulation and shall remain valid until the satisfaction of all contractual obligations of the Onshore Holdcos and the Registered Shareholders in full. The equity pledges under the Equity Pledge Agreements have been duly registered with the relevant PRC authority pursuant to the relevant PRC laws.

Shareholder Voting Right Trust Agreements and Powers of Attorney

Under the amended and restated shareholder voting right trust agreements entered into by the WFOE and the Registered Shareholders dated 18 May 2021 (the "Shareholder Voting Right Trust Agreements"), and the irrevocable powers of attorney executed by each of the Registered Shareholders on the same date (the "Powers of Attorney"), the Registered Shareholders have appointed the WFOE and the person designated by the WFOE director or his/her successor (including a liquidator replacing the person designated by the WFOE) as their agent and attorney to act on their behalf on all matters concerning the relevant Onshore Holdco and to exercise all of their rights as a registered shareholder of the relevant Onshore Holdco, including: (i) the right to propose to convene and attend shareholders' meetings; (ii) the right to exercise voting rights on all matters that require discussion and resolution at shareholders' meeting, approve and sign resolutions on behalf of the relevant Registered Shareholder; (iii) the right to submit any required documents to the relevant authorities; (iv) the right to exercise all shareholder rights and shareholder voting rights under applicable PRC laws and the articles of association; (v) the right to sign the relevant equity transfer agreement and other relevant documents on behalf of the relevant Registered Shareholder and handle the relevant procedures required for the equity transfer in accordance with the relevant Exclusive Purchase Option Agreement and Equity Pledge Agreement; and (vi) the right to instruct the directors and senior managers of the relevant Onshore Holdco to act in accordance with the instructions of the trustee company and its designated person without violating the applicable PRC laws, regulations and the articles of association.

The Shareholder Voting Right Trust Agreements also provides that, in order to avoid potential conflicts of interest, where the Registered Shareholders are officers or directors of our Group, the Powers of Attorney are granted in favour of other unrelated officers or Directors of our Company.

Loan Agreements

Under the amended and restated loan agreements entered into by the WFOE and the Registered Shareholders of Hangzhou Yuedu dated 18 May 2021 (the "Loan Agreements"), the WFOE agreed to provide loans to the Registered Shareholders of Hangzhou Yuedu, to be used exclusively as investment in Hangzhou Yuedu. The loans must not be used for any other purposes without the lender's prior written consent.

The term of each loan shall be ten years from the date of the agreement and will be automatically extended for another ten years unless otherwise indicated by the lender. The borrower shall not make any repayment of the loan prior to the expiration of the term or termination of the relevant loan without the lender's prior written consent. The loan shall terminate on the date the lender exercises its exclusive purchase option under the relevant Exclusive Purchase Option Agreement, or when certain defined termination events occurs, such as when the lender sends a written notice demanding repayment to the borrower, or upon the default of the borrower, whichever is earlier.

After the lender exercises its exclusive purchase option, the borrower shall repay the loan by transferring all of his equity interest in Hangzhou Yuedu to the lender, or persons designated by the lender. If the transfer price for the equity interest in Hangzhou Yuedu is higher than the principal of the loan under the relevant Loan Agreement, any surplus would be considered interest for the loan under the Loan Agreement.

Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution clause, pursuant to which, (a) in the event of any dispute arising under or in connection with the Contractual Arrangements, the parties thereto shall negotiate to settle the dispute; and (b) in the event of the parties failing to reach an agreement within 30 days after the relevant dispute arises, the relevant dispute shall be submitted to the China International Economic and Trade Arbitration Commission for arbitration in Beijing by three arbitrators in accordance with the then effective arbitration rules. The arbitration award shall be final and binding on all parties. Any party shall have the right to apply to courts with competent jurisdiction for enforcement of arbitration awards after the relevant arbitration award comes into effect. During the dispute settlement period, except for the matters in dispute, the parties shall continue to exercise their respective rights and perform their respective obligations under the Contractual Arrangements.

The dispute resolution clause also provides that: (i) the tribunal may award remedies over the shares or assets of the Onshore Holdcos, injunctive relief (e.g., for the conduct of business or to compel the transfer of assets) or order the winding-up of the Onshore Holdcos; and (ii) the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of establishment of the Onshore Holdcos and the place where the main assets of the Onshore Holdcos are located) also have jurisdiction to grant interim remedies and/or enforce an arbitral award or interim remedies against the shares or properties of the Onshore Holdcos.

However, our PRC Legal Adviser has advised that the tribunal normally would not grant such injunctive relief or order the winding up of the Onshore Holdcos pursuant to current PRC laws. In addition, interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognisable or enforceable under the current PRC laws.

As a result of the above, if the Onshore Holdcos or the Registered Shareholder breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over the Onshore Holdcos and conduct our business could be materially and adversely affected. See "Risk factors — Risks related to our corporate structure" for further details.

Spousal Consents

The spouse of each of the Registered Shareholders, where applicable, has undertaken: (i) not to take any action with the intent to interfere with the arrangements mentioned above, including making any claim that such equity interest constitutes the property or community property; and (ii) to unconditionally and irrevocably waive any and all rights or entitlements whatsoever to such equity interest that may be granted to the spouse according to any applicable laws.

Conflict of Interests

Each of the Registered Shareholders has entered into a Shareholder Voting Right Trust Agreements, which addresses potential conflict of interests that may arise in connection with the Contractual Arrangements. See "Shareholder Voting Right Trust Agreements and Powers of Attorney" above.

Loss Sharing

Under the relevant PRC laws and regulations, none of our Company nor the WFOE is legally required to share the losses of, or provide financial support to, our Onshore Holdcos. Further, our Onshore Holdcos are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. The WFOE intends to continuously provide to or assist our Onshore Holdcos in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our Onshore Holdcos, which hold the requisite the PRC operational licences and approvals, and that their financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if our Onshore Holdcos suffer losses.

However, as provided in the Exclusive Purchase Option Agreements, without the prior written consent of the WFOE, the Onshore Holdcos shall not, among others: (a) sell, transfer, pledge or dispose of in any manner any of its assets; (b) create, succeed to, guarantee or permit any liability except (i) liabilities arising from the normal course of business, but not arising from loans; and (ii) liabilities disclosed to the WFOE and approved by the WFOE in writing; (c) provide loans or credit to any person (other than in the normal course of business); (d) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; and (e) increase or reduce its registered capital, or alter the structure of the registered capital in any other way.

Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOE and our Company in the event of any loss suffered from the Onshore Holdcos can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Purchase Option Agreements, in the event of a mandatory liquidation required by the PRC laws, the shareholders of our Onshore Holdcos shall give the proceeds they received from liquidation as a gift to the WFOE or its designee(s) to the extent permitted by the PRC laws.

Insurance

We do not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Our confirmation

Our Directors confirm that, as of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Onshore Holdcos under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

We believe that the Contractual Arrangements are narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations.

In addition, our PRC Legal Adviser is of the opinion that:

- (a) parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder, and each of the agreements is binding on the parties thereto;
- (b) the Contractual Arrangements would not fall within the circumstances as stipulated in the PRC Civil Code which will lead the arrangements as invalid act under the PRC Civil Code;
- (c) none of the Contractual Arrangements violates any provisions of the articles of association of our Onshore Holdcos or our WFOE;
- (d) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorisations from the PRC governmental authorities, except that:
 - (i) the exercise of the option by our WFOE of their rights under the Exclusive Purchase Option Agreements to acquire all or part of the equity interests in our Onshore Holdcos are subject to the approvals of, consent of, filing with and/or registrations with the PRC governmental authorities;
 - (ii) any share pledge contemplated under the Equity Pledge Agreements are subject to the registration with competent administration bureau for market regulation;

- (iii) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognised by the PRC courts before compulsory enforcement; and
- (e) each of the Contractual Arrangements is valid and binding on the parties thereto under the PRC laws, except in relation to the dispute resolution clause under these agreements. These agreements provide that any dispute shall be submitted to the China International Economic and Trade Arbitration Center for arbitration, in accordance with the then effective arbitration rules. They also provide that the arbitrator may award interim remedies over the shares or assets of the Onshore Holdcos or injunctive relief (e.g., for the conduct of business or to compel the transfer of assets) or order the winding-up of the Onshore Holdcos; and the courts of Hong Kong, the Cayman Islands and the PRC also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies. However, our PRC Legal Adviser has advised that the tribunal normally would not grant such injunctive relief or order the winding-up of the Onshore Holdcos pursuant to current PRC laws. In addition, interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognisable or enforceable under the current PRC laws.

Our PRC Legal Adviser also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations and accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion. See "Risk factors — Risks related to our corporate structure — 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" and "Risk factors — Risks related to our corporate structure — 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."

Nevertheless, based on the above analysis and advice from our PRC Legal Adviser, our Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations.

DEVELOPMENT IN PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On 15 March 2019, the National People's Congress approved the Foreign Investment Law which became effective on 1 January 2020. On 26 December 2019, the State Council promulgated the Regulations on the Implementation of the Foreign Investment Law, which came into effect on 1 January 2020. The Foreign Investment Law replaced the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Ventures Enterprise Law and the Wholly Foreign-Invested Enterprises Law to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements. As advised by our PRC Legal Adviser, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law and the Regulations on the Implementation of the Foreign Investment

Law, and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties with an exception, for which, see "Contractual Arrangements — Legality of the Contractual Arrangements."

Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRCbased companies, including our Group. We use the Contractual Arrangements to establish control of our Onshore Holdcos, by the WFOE, through which we operate our business in the PRC. The Foreign Investment Law stipulates that foreign investment includes "foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council" without elaboration on the meaning of "other methods." There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our Onshore Holdcos will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See "Risk factors — Risks related to our corporate structure — Substantial uncertainties exist with respect to how the Foreign Investment Law may impact the viability of our current corporate structure and operations."

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and
- (d) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of the WFOE and our Onshore Holdcos to deal with specific issues or matters arising from the Contractual Arrangements.

CONTRACTUAL ARRANGEMENTS

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Under the Cooperation Agreements, it was agreed that, in consideration of the services provided by the WFOE, the Onshore Holdcos shall pay service fees to the WFOE. The service fee shall equal the Onshore Holdcos' consolidated profit before tax excluding the service fee thereunder, after deducting any accumulated losses of the Onshore Holdcos from the preceding fiscal year, and any costs, expenses, tax and other statutory contribution in relation to the respective fiscal year. The WFOE has the right to periodically receive or inspect the accounts of the Onshore Holdcos.

In addition, under the Exclusive Purchase Option Agreements, the WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders as the WFOE's prior written consent is required before any distribution can be made. If the Registered Shareholders receive any income, profit distribution or dividend, they shall promptly transfer or pay, as part of the service fee under the Cooperation Agreements, such income, profit distribution or dividend to the WFOE or any other person designated by the WFOE to the extent permitted under applicable PRC laws.

As a result of the Contractual Arrangements between the WFOE, the Onshore Holdcos and the Registered Shareholders, the WFOE is able to effectively control, recognise and receive substantially all the economic benefit of the business and operations of the Onshore Holdcos. Accordingly, the Onshore Holdcos are treated as controlled structured entities of our Company and consolidated by our Company. The basis of consolidating the results of the Onshore Holdcos is disclosed in Note 2.2(b) to the Accountant's Report set out in Appendix I to this document.

This section sets forth a summary of the most significant laws and regulations that affect our business activities in the PRC.

REGULATIONS ON VALUE-ADDED TELECOMMUNICATIONS SERVICES

Licences for Value-added Telecommunications Services

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the "Telecommunications Regulations"), promulgated by the State Council on 25 September 2000 and last amended with immediate effect on 6 February 2016, provide the regulatory framework for telecommunications service providers in the PRC. The Telecommunications Regulations classifies telecommunications services into basic telecommunications services and value-added telecommunications services. Providers of value-added telecommunications services. According to the Catalog of Telecommunications Services (《電信業務分類目錄》), attached to the Telecommunications Regulations and last amended by the MIIT on 6 June 2019, information services provided via public communication network or the internet are value-added telecommunications services.

As a subcategory (B25 Information Service) of the value-added telecommunications services, internet information services are regulated by the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the "Internet Measures"), which was promulgated by the State Council on 25 September 2000 and last amended with immediate effect on 8 January 2011. Internet information services are defined as "services that provide information to online users through the internet." The Internet Measures classifies internet information services into non-commercial internet information services and commercial internet information services. Commercial internet information service providers shall obtain a value-added telecommunications business operating licence for internet information service (增值電信業務經營許可證) (the "ICP Licence") from appropriate telecommunications authorities. An ICP Licence has a term of five years and can be renewed 90 days prior to its expiration, according to the Administrative Measures for Telecommunications Businesses Operating Licensing (《電信業務經營許可管理辦法》), which was promulgated by the MIIT on 1 March 2009, amended on 3 July 2017 and came into effect on 1 September 2017.

Restrictions on Foreign Investment in Value-Added Telecommunications Services

The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), promulgated by the State Council on 11 December 2001 and last amended with immediate effect on 6 February 2016, requires foreign-invested value-added telecommunications enterprises in the PRC to be established as Sino-foreign joint ventures, and foreign investors shall not acquire more than 50% of the equity interest of such an enterprise. In addition, the main foreign investor who invests in such an enterprise shall demonstrate a good track record and experience in such industry. Moreover, the joint ventures must obtain approvals from the MIIT and the MOFCOM, or their authorised local counterparts, before launching the value-added telecommunications business in the PRC.

The Negative List was promulgated by the NDRC and MOFCOM jointly on 23 June 2020 and came into effect on 23 July 2020. According to the Negative List, the proportion of foreign investments in an entity engages in value-added telecommunications business (except for e-commerce, domestic multi-party communications, storage-forwarding and call centres) shall not exceed 50%.

Pursuant to the Ministry of Information Industry Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Services (《信息產業部關於加強外商投資經營增值電信業務管理的通知》) (the "MII Notice"), issued by the MII on 13 July 2006, domestic value-added telecommunications enterprises were prohibited to rent, transfer or sell licences for value-added telecommunications services to foreign investors in any form, or provide any resources, premises, facilities or other assistance in any form to foreign investors for their illegal operation of any value-added telecommunications business in the PRC.

REGULATIONS RELATING TO INTERNET CULTURE ACTIVITIES

The Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the "Internet Culture Provisions"), promulgated by the MOC on 10 May 2003 and last amended with immediate effect on 15 December 2017, provides that internet culture activities are classified into non-commercial internet cultural activities and commercial internet cultural activities. Under the Internet Culture Provisions, internet culture activities include: (i) the production, reproduction, importation, distribution or streaming of internet culture products (such as online music, online game, online programme, online series, online performance, online cartoon, etc.); (ii) the dissemination of culture products via internet or sending cultural products via information network such as the internet and mobile communication network to computers, mobile telephones and other internet access service business places for users to browse, enjoy, use or download; and (iii) the exhibitions, competitions and other similar activities concerning internet culture products. To conduct commercial internet culture activities, the internet cultural business licence (《網絡文化經營許可證》) (the "ICB Licence") is a prerequisite.

On 13 April 2005, the State Council promulgated Decisions on the Entry of the Non-state-owned Capital into the Cultural Industry (《關於非公有資本進入文化產業的若干決定》). On 6 July 2005, five PRC regulatory agencies, namely, the MOC, the SARFT, the GAPP, the NDRC and the MOFCOM, jointly adopted Opinions on Introducing Foreign Investments to the Cultural Sector (《關於文化領域引進外資的若干意見》). According to the above-mentioned regulations, non-state-owned capital and foreign investors are generally not allowed to conduct the business of transmitting audio-visual programmes via information network. In addition, internet cultural business (except for music) remains a prohibited area for foreign investment on the Negative List.

On 12 August 2013, the MOC issued the Administrative Measures for Content Self-Review by Internet Culture Business Entities (《網絡文化經營單位內容自審管理辦法》), requiring the entities that engage in the internet cultural business to review the content of products and services to be provided before providing such content and services to the public. These entities shall establish content management system, set up departments for content management and employ proper personnel to ensure the legality of content. The content management system of an internet cultural business entity is required to specify the responsibilities, standards and processes for content review as well as accountability measures, and is required be filed with the provincial level counterpart of the MOC.

On 25 August 2021, the Secretary Bureau of the OCCAC promulgated the Notice on Further Strengthening the Governance of "Fans Group" Disorder (《關於進一步加強"飯圈"亂象治理 的通知》("Fans Group Notice"). According to the Fans Group Notice, online platforms are required to cancel all ranking lists of individual entertainers or groups of entertainers, and cannot add or provide online personal ranking lists and related products or functions in disguise. Only the ranking list of music works, films and television works can be retained, but the names of the entertainers and other personal logos shall not appear. When ranking the music

works, films and television works, the weight of indicators such as check-in, "be liked" and comments shall be reduced, and the weight of indicators such as work orientation and professional evaluation shall be increased. Also, it is not allowed to encourage fans' consumption, among others, by displaying information such as fans' personal purchase amount and contribution value, or ranking the amount of products purchased by fans. According to the Company's confirmation, the Company has made corresponding adjustments to its business model in accordance with the requirements under the notice, such as cancelling the entertainer ranking lists including singer rankings and popularity rankings, removing the display of personal purchase amount and contribution value in the selling sage of digital albums and singles, and adjusting the methods of marketing and promotion activities. Furthermore, the Company adopted restriction rules on the purchase of digital albums and singles. The Company confirms that such adjustments have no significant effects on the Company's financial revenue. On the basis of the above, the PRC Legal Adviser is of the view that the above-mentioned regulation will not affect the Company's compliance with laws and regulations in any material aspects as of the date of this document.

REGULATIONS RELATING TO ONLINE MUSIC

On 20 November 2006, the MOC issued the Several Opinions of the Ministry of Culture on the Development and Administration of Online Music (《網絡音樂發展和管理的若干意見》, the "Online Music Opinions"), which became effective on the same date. The Online Music Opinions provide that, among other things, an internet music service provider must obtain an Online Culture Operating Permit. On 23 October 2015, the MOC promulgated the Circular on Further Strengthening and Improving the Content Administration of Online Music (《關於進一步加強和改進網絡音樂內容管理工作的通知》), effective as of 1 January 2016, which provides that internet culture operating entities shall report to a nationwide administrative platform the details of its self-monitoring activities on a quarterly basis.

In 2010 and 2011, the MOC greatly intensified its regulations on online music products by issuing a series of circulars regarding online music industry, such as the Circular on Regulating the Market Order of Online Music Products and Renovating Illegal Conducts of Online Music Websites (《關於規範網絡音樂市場秩序整治網絡音樂網站違規行為的通告》) and the Circular on Investigating Illegal Online Music Websites (《關於查處違法網絡音樂網站的通知》) in 2010. In addition, the MOC issued the Circular on Clearing Illegal Online Music Products (《關於清理違規網絡音樂產品的通告》) on 7 January 2011, which clarified that entities engaging in any of the following conducts will be subject to relevant penalties or sanctions imposed by the MOC: (i) providing online music products or relevant services without obtaining corresponding qualifications; (ii) importing online music products that have not been reviewed by the MOC; or (iii) providing domestically developed online music products that have not been filed with the MOC.

On 8 July 2015, the NCAC issued the Circular regarding Ceasing Transmitting Unauthorised Music Products by Online Music Service Providers (《關於責令網絡音樂服務商停止未經授權傳播音樂作品的通知》), which requires that (i) all unauthorised music products on the platforms of online music services providers shall be removed prior to 31 July 2015, and (ii) the NCAC investigate and punish the online music services providers who continue to transmit unauthorised music products following 31 July 2015.

REGULATIONS RELATING TO ONLINE TRANSMISSION OF AUDIO-VISUAL PROGRAMMES

According to the Administrative Regulations on Internet Audio-Visual Programme Service (《互聯網視聽節目服務管理規定》) (the "Audio-Visual Regulations"), promulgated by the SARFT and the MII on 20 December 2007, as amended on 28 August 2015, internet audio-visual programme service refers to activities of making, editing and integrating audio-visual programmes, providing them to the general public via internet, and providing such services to other people by uploading. An internet audio-visual programme service provider shall obtain an AVSP issued by the SARFT or complete certain registration procedures with the SARFT. On 17 March 2010, the SARFT further promulgated the Catalogue of Internet Audio-Visual Programme Services(《互聯網視聽節目服務業務分類目錄》), which was amended on 10 March 2017. On 30 March 2009, the SARFT promulgated the Notice on Strengthening the Administration of the Content of Internet Audio-Visual Programmes(《關於加強互聯網視聽節目內容管理的通知》), which reiterates the pre-approval requirements for the internet audio-visual programmes, including those on mobile network (if applicable), and prohibits internet audio-visual programmes containing violence, pornography, gambling, terrorism, superstition or other prohibited elements.

Pursuant to the Audio-Visual Regulations, providers of internet audio-visual programme services are generally required to be either state-owned or state-controlled. According to the Official Answers to Press Questions Regarding the Internet Audio-Visual Programme Regulations (《就<互聯網視聽節目服務管理規定>答記者問》) published on the SARFT's website on 3 February 2008, the SARFT and MII clarified that providers of internet audio-visual programme services who had legally engaged in such services prior to the adoption of the Audio-visual Regulations shall be eligible to re-register their businesses and continue their operations of internet audio-visual programme services so long as those providers have not been in violation of the laws and regulations. This exemption will not be granted to internet audio-visual programme service providers established after the adoption of the Audio-Visual Regulations. These policies have later been reflected in the Notice on Relevant Issues Concerning Application and Approval of Audio-Visual Permit (《關於做好<信息網絡傳播視聽節目許可證>申報審核工作有關問題的通知》), issued by SARFT on 21 May 2008 and amended on 28 August 2015.

According to the Administrative Provisions on Online Audio-visual Information Services (《網絡音視頻信息服務管理規定》), promulgated jointly by the CAC, the MCT and the NRTA on 18 November 2019 and came into effect on 1 January 2020, online audio-visual information service providers shall authenticate user's real identity information based on organisation code, identity card number, mobile phone number, etc. Online audio-visual information service providers shall not serve users who fail to provide their real identity information. Online audio-visual information service providers shall strengthen the management of the audio-visual information posted by users, deploy and apply identification technologies for illegal and non-real audio and video; if any user is found to produce, post or disseminate content prohibited by laws or regulations, the transmission of such information shall be ceased, and disposal measures such as deletion shall be taken to prevent the information from spreading, and such service providers shall save relevant records, and report to the CAC, the MCT, the NRTA, etc.

Under the Regulations on the Administration of Production of Radio and Television Programmes (《廣播電視節目製作經營管理規定》), promulgated by the SARFT on 19 July 2004, as amended on 29 October 2020, any entities that engage in the production of radio and television programmes are required to apply for a Radio and Television Production Operation Licence (《廣播電視節目製作經營許可證》) from the NTRA or its local level counterparts.

Entities with the Radio and Television Production Operation Licence shall conduct their operations strictly within the approved scope of production and operation. Except for radio and television broadcasting institutions, the abovementioned permit holders shall not produce radio and television programmes concerning current political news or special topics, columns and other programmes of the same kind.

REGULATIONS RELATING TO ONLINE LIVE STREAMING SERVICES

On 4 November 2016, the CAC issued the Administrative Regulations on Online Live Streaming Services (《互聯網直播服務管理規定》) (the "Online Live Streaming Regulations") which came into effect on 1 December 2016. According to the Online Live Streaming Regulations, all online live streaming service providers shall take various measures during operation of live streaming services, including but not limited to: (i) establish platforms for reviewing live streaming content, conducting classification and grading management according to the online live streaming content categories, user scale and others, add tags to graphics, video, audio or broadcast tag information for platforms; (ii) conduct verification on online live streaming users with valid identification information (e.g., authentic mobile phone numbers) and validate the registration of online live streaming publishers based on their identification documents (such as identity documents, business licences and organisation code certificates); (iii) examine and verify the authenticity of the identification information of online live streaming service publishers, classify and file such identification information records with the internet information offices at the provincial level where they are located and provide such information to relevant law enforcement departments upon legal request; (iv) enter into a service agreement with the users of online live streaming services of which the essential clauses shall be under guidance of internet information offices at the provincial level, to clarify the rights and obligations of the parties and require them to comply with the laws, regulations and platform conventions; and (v) establish a credit-rating system and a blacklist system, to provide management and services according to such credit rating, prohibit re-registration of accounts by online live streaming service users on the black list and promptly report such users to relevant internet information offices.

According to the Online Live Streaming Regulations, online live streaming service providers and online live streaming publishers that provide internet news information services without licences, or exceed the scope of their licences, shall subject to punishment by the CAC and its provincial counterparts which may include an order to cease such services and a fine of RMB10,000 to RMB30,000. Other violations of the Online Live Streaming Regulations are subject to punishment by the national and local internet information offices; if such violations constitute crime offence, criminal investigations or penalties may be imposed.

On 2 September 2016, the SAPPRFT issued the Circular on Issues concerning Strengthening the Administration of Online Live Streaming of Audio-Visual Programmes (《關於加強網絡視聽節目直播服務管理有關問題的通知》) (the "Online Live Streaming Circular"). According to the Online Live Streaming Circular, appropriate AVSP is a prerequisite for online audio-visual live streaming of general cultural events of social communities, sports events, important political, military, economic, social, and cultural events. Relevant information about specific activities to be streamed shall be filled in advance to the provincial counterparts of the SAPPRFT. Online audio-visual live streaming service providers shall censor and tape such programmes and retain them for at least 60 days for future check by the administrative departments; and they shall have emergency plan in place to replace programmes in violation of laws and regulations. Bullet-screen comments shall be forbidden in the live streaming of important political, military, economic, social, sports and cultural events. Special censor shall be appointed for bullet-screen comments in the live streaming of general cultural events of social communities and sports events. Hosts, guests and targets hired or invited by online

audio-visual live streaming programmes shall meet following requirements: (i) patriotic and law-abiding; (ii) good public reputation and social image, no scandals and misdeeds; (iii) dress, hairstyle, language and actions are consistent with public order and good morals, and not drawing topics with vulgar contents or contents inappropriate to discuss in public.

According to the Measures for the Administration of Cyber Performance Business Operations (《網絡表演經營活動管理辦法》), promulgated by the MOC on 2 December 2016 and became effective on 1 January 2017, a cyber-performance business entity engaging in cyber performance business operations shall, in accordance with the Internet Culture Provisions, apply to the cultural administrative department at the provincial level for an ICB Licence, and the licence shall specify the scope of its cyber performance. A cyber-performance business entity shall indicate the number of its ICB Licence in a conspicuous position on its homepage. According to the Negative List, foreign investors are prohibited from investing in an entity holding an ICB Licence (except for music). Consequently, foreign investors are prohibited from investing in businesses that carry out and operate the short-form video and live streaming and online game via platform(s), as these businesses are deemed as businesses subject to foreign-investment prohibition by virtue of the platform's need to obtain an ICB Licence (except for music).

According to the Notice on Strengthening the Management of Internet Live Streaming Service (《關於加強網絡直播服務管理工作的通知》) issued by Office of the National "Anti-pornography and Anti-illegal" Working Group, MIIT, the MPS, MCT, NRTA and CAC on 1 August 2018, live streaming service providers shall perform website ICP filing procedures with the competent telecommunication department according to law, and live streaming service providers involved in operating telecommunication business and internet news and information, online performance, live streaming of audio-visual programmes and other businesses shall apply to the relevant departments to obtain licences for telecommunication business operation, internet news and information services, network culture operation, information network dissemination of audio-visual programmes, etc., and within 30 days of the live streaming service going online, shall carry out public security registration procedures in accordance with relevant regulations with the public security authorities.

According to Notice 78 (《關於加強網絡秀場直播和電商直播管理的通知》) issued by the NRTA on 12 November 2020, platforms providing online show live streaming or e-commerce live streaming services shall register their information and business operations by 30 November 2020. The overall ratio of front-line content analysts to live streaming rooms shall be 1:50 or higher on such platforms. The training for content analysts shall be strengthened and content analysts who have passed the training shall be registered in the system. A platform shall report the number of its live streaming rooms, performers and content analysts to the provincial branch of the NRTA on a quarterly basis. Online show live streaming platforms shall tag content and performers by category. A performer cannot change the category of the programmes offered in his or her live streaming room without prior approval from the platform. Users that are minors or without real-name registration are forbidden from virtual gifting, and platforms shall limit the maximum amount of virtual gifting per time, per day, and per month. When the virtual gifting by a user reaches half of the daily/monthly limit, a consumption reminder from the platform and a confirmation from the user by text messages or other means are required before the next transaction. When the amount of virtual gifting by a user reaches the daily/monthly limit, the platform shall suspend the virtual gifting function for such user for that day or month. To host any e-commerce promotion events such as E-commerce Festival, E-commerce Day or Promotion Day in the forms of live streaming, live performances, live variety shows and other live programmes, the platforms shall register the information of guests, performers, content and settings with the local branch of NRTA 14 business days in advance. Online e-commerce live streaming platforms shall conduct relevant qualification examination

and real-name authentication on businesses and individuals providing live-streaming marketing services and keep complete examination and authentication records, and shall not enable imposters or businesses or individuals without qualification or real-name registration to conduct live-streaming marketing services.

According to the Guiding Opinions on Strengthening the Standardised Management of Network Live Broadcasting (《關於加強網絡直播規範管理工作的指導意見》) issued by CAC, Office of the National "Anti-pornography and Anti-illegal" Working Group, MIIT, SAPPRFT, the Ministry of Public Security, MCT, SAMR and NRTA on 9 February 2021, live streaming platforms that carry out business-oriented online performance activities must hold the internet cultural business licence and carry out ICP filing; live streaming platforms that carry out network audio-visual programme services must hold the AVSP (or complete the registration in the national network audio-visual platform information registration management system) and carry out ICP filing; live streaming platforms that carry internet news information service must hold internet news information service licence. Live streaming platforms shall file with local cyberspace administration office in a timely manner, and shall cancel its filing immediately after it ceases to provide live streaming services.

According to the Law of the PRC on the Protection of Minors (2020 Revision) (《未成年人保護法(2020修訂)》), which took effect on 1 June 2021, among others, live broadcasting service providers are not allowed to provide minors under age 16 with online live broadcasting publisher account registration service, and must obtain the consent from parents or guardians and verify the identity of the minors before allowing minors aged 16 or above to register live broadcasting publisher accounts. On 30 August 2021, the MCT published the Online Performance Brokerage Agencies Measures, which provides that the online performance brokerage agencies should not induce users to consume by means of false consumption, taking the lead in virtual gifting, etc., or to promote their online performers by encouraging virtual gifting with rankings and fake advertising. According to the Online Performance Brokerage Agencies Measures, online performance brokerage agencies shall not provide online performance brokerage services are provided to minors over the age of 16 and if online performance brokerage services are provided to minors over the age of 16, identity information of the minors shall be verified, and written consent shall be obtained from their guardians.

REGULATIONS RELATING TO MOBILE INTERNET APPLICATIONS INFORMATION SERVICES

In addition to the Telecommunications Regulations and other regulations above, mobile internet applications (the "APPs") are specially regulated by the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》) (the "APP Provisions"), which was promulgated by the CAC on 28 June 2016 and became effective on 1 August 2016. The APP Provisions sets forth the relevant requirements on the APP information service providers and the APP Store service providers. The CAC and its local branches shall be responsible for the supervision and administration of nationwide and local APP information respectively.

App providers shall strictly fulfil their responsibilities of information security management, and perform the following duties: (i) in accordance with the principles of "real name at background, any name at foreground", verify identities with the registered users through mobile phone numbers etc.; (ii) establish and improve the mechanism for user information security protection, follow the principles of "legality, appropriateness and necessity" in collection and use of personal information, expressly state the purpose, methods and scope of information collection, and obtain the users' consent; (iii) establish and improve the verification and management mechanism for the information content; adopt proper sanctions

and measures such as warning, limiting functions, suspending updates, and closing accounts, for releasing illegal information content, as appropriate; keep records and report to the competent department; (iv) according to the law, protect and safeguard users' "rights to know and rights to choose" during installation or use; do not turn on the functions of collecting geographic location, reading address books, or using cameras or recordings, without express statement to the users and the consent of the users; do not turn on functions irrelevant to the services; do not tie up and install irrelevant Apps; (v) respect and protect intellectual property rights; do not produce or release Apps which violate others' intellectual property rights; and (vi) keep records of user log information for 60 days.

REGULATIONS RELATING TO ONLINE PUBLICATION

On 4 February 2016, the SAPPRFT and the MIIT jointly promulgated the Regulations on the Administration of Online Publishing Services (《網絡出版服務管理規定》) (the "Online Publishing Regulations"), which came into effect on 10 March 2016. The Online Publishing Regulations define "online publications" as digital works that are edited, produced, or processed to be published and provided to the public through the internet, including (a) original digital works, such as pictures, maps, games and comics; (b) digital works with content that is consistent with the type of content that, prior to being released online, typically was published in offline media such as books, newspapers, periodicals, audio-visual products and electronic publications; (c) digital works in the form of online databases compiled by selecting, arranging and compiling other types of digital works; and (d) other types of digital works identified by the SAPPRFT. In addition, foreign-invested enterprises are not allowed to engage in the foregoing services. Under the Online Publishing Regulations, internet operators distributing online publications via internet are required to obtain an Internet Publishing Service Licence.

REGULATIONS ON INTERNET ADVERTISEMENT

The Advertisement Law of the PRC (《中華人民共和國廣告法》), which was promulgated by the SCNPC on 27 October 1994 and last amended on 29 April 2021, requires advertisers to ensure that the content of the advertisements is true. The content of advertisements shall not contain prohibited information, including but not limited to: (i) information that harms the dignity or interests of the State or divulges the secrets of the State, (ii) information that contains wordings such as "national level", "highest level" and "best", and (iii) information that contains ethnic, racial, religious, sexual discrimination. Advertisements posted or published through the internet shall not affect normal usage of network by users. Advertisements published in the form of pop-up window on the internet shall display the close button clearly to make sure that the viewers can close the advertisement by one-click.

On 4 July 2016, the SAIC since March 2018 known as the State Administration for Market Regulation) promulgated The Internet Advertisement Management Measures (《互聯網廣告管理暫行辦法》) which became effective on 1 September 2016. The Internet Advertisement Management Measures regulates any advertisement published on the internet, including but not limited to, those on websites, webpage and APPs, those in the forms of word, picture, audio and video. According to The Internet Advertisement Management Measures, internet information service providers must stop any person from using their information services to publish illegal advertisements if they are aware of, or should reasonably be aware of, such illegal advertisements even though the internet information service provider merely provides information services and is not involved in the internet advertisement businesses. The following activities are prohibited under The Internet Advertisement Management Measures: (i) providing or using applications and hardware to block, filter, skip over, tamper with, or cover up lawful advertisements provided by others; (ii) using network access, network

equipment and applications to disrupt the normal transmission of lawful advertisements provided by others or adding or uploading advertisements without permission; or (iii) harming the interests of others by using false statistics or traffic data.

REGULATIONS ON INFORMATION SECURITY

Internet content in the PRC is also regulated and restricted from a state security point of view. The Decision Regarding the Safeguarding of Internet Security (《關於維護互聯網安全的決定》), enacted by the SCNPC on 28 December 2000 and amended with immediate effect on 27 August 2009, makes it unlawful to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights.

The Administrative Measures for the Security Protection of International Connections to Computer Information Network (《計算機信息網絡國際聯網安全保護管理辦法》), issued by the Ministry of Public Security on 16 December 1997 and amended on 8 January 2011, prohibits the use of the internet in ways that, among other things, result in a leakage of state secrets or the distribution of socially destabilising content. Socially destabilising content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumours or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC's national defence affairs, state affairs and other matters as determined by the PRC authorities.

In addition, the State Secrecy Bureau is authorised for the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets.

On 1 July 2015, the SCNPC issued the National Security Law (《國家安全法》), which came into effect on the same day. The National Security Law provides that the state shall safeguard the sovereignty, security and cyber security development interests of the state, and that the state shall establish a national security review and supervision system to review, among other things, foreign investment, key technologies, internet and information technology products and services, and other important activities that are likely to impact the national security of the PRC.

On 7 November 2016, the SCNPC issued the Cyber Security Law (《網絡安全法》), which came into effect on 1 June 2017. The Cyber Security Law provides that network operators must set up internal security management systems that meet the requirements of a classified protection system for cyber security, including appointing dedicated cyber security personnel, taking technical measures to prevent computer viruses, network attacks and intrusions, taking technical measures to monitor and record network operation status and cyber security incidents, and taking data security measures such as data classification, backups and encryption. The Cyber Security Law also imposes a relatively vague but broad obligation to provide technical support and assistance to the public and state security authorities in connection with criminal investigations or for reasons of national security. The Cyber Security Law also requires network operators that provide network access or domain name registration services, landline or mobile phone network access, or that provide users with information publication or instant messaging services, to require users to provide a real identity when they sign up. The Cyber Security Law sets high requirements for the operational security of facilities deemed to be part of the PRC's "critical information infrastructure." These requirements include data localisation, i.e., storing personal information and important business data in the PRC, and national security review requirements for any network products

or services that may impact national security. Among other factors, "critical information infrastructure" is defined as critical information infrastructure, that will, in the event of destruction, loss of function or data leak, result in serious damage to national security, the national economy and people's livelihoods, or the public interest. Specific reference is made to key sectors such as public communication and information services, energy, transportation, water-resources, finance, public services and e-government.

The Provisions on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), promulgated by the MPS on 13 December 2005 and became effective on 1 March 2006, requires internet service providers to keep records of certain information about their users (including user registration information, log-in and log-out times, IP addresses, content and time of posts by users) for at least 60 days. Under the Cyber Security Law, network operators must also report any instances of public dissemination of prohibited content. If a network operator fails to comply with such requirements, the PRC government may revoke its ICP Licence and shut down its websites.

On 13 March 2019, the OCCAC and the SAMR jointly issued the Notice on App Security Certification (《關於開展App安全認證工作的公告》) and the Implementation Rules on Security Certification of Mobile Internet Application (《移動互聯網應用程序(App)安全認證實施規則》), which encourages mobile application operators to voluntarily obtain app security certification, and search engines and app stores are encouraged to recommend certified applications to users.

On 10 June 2021, the SCNPC issued the Data Security Law (《數據安全法》) to regulate data processing activities and security supervision in the PRC, which took effect on 1 September 2021. According to the Data Security Law, data processing activities shall be carried out in accordance with PRC laws and regulations, establishing and improving the data security management system of the whole process, organising and carrying out data security education and training, and taking corresponding technical measures and other necessary measures to guarantee data security. Where data processing activities are carried out through the Internet and other information networks, the above-mentioned data security protection obligations shall be fulfilled on the basis of the hierarchical network security protection system. In carrying out data processing activities, risk monitoring shall be strengthened, and remedial measures shall be taken immediately when data security defects, loopholes and other risks are found. In the event of a data security incident, the processors of data shall take immediate measures to deal with it, inform the user in time and report to the competent authorities in accordance with relevant provisions. The processors of important data shall, in accordance with relevant provisions, carry out regular risk assessments of their data processing activities and submit risk assessment reports to the competent authorities. The Data Security Law provides a national data security review system, under which data processing activities that affect or may affect national security shall be reviewed. Any organisation or individual carrying out data processing activities that violates the Data Security Law shall bear the corresponding civil, administrative or criminal liability depending on the specific circumstances.

Along with the promulgation of the 6 July Opinion, overseas-listed China-based companies (中概股公司) are experiencing a heightened scrutiny over their compliance with laws and regulations regarding data security, cross-border data flow and management of confidential information from PRC regulatory authorities. Such laws and regulations are expected to undergo further changes, which may require increased information security responsibilities and stronger cross-border information management mechanism and process.

On 10 July 2021, the CAC has publicly solicited opinions on the Draft Cybersecurity Review Measures, which stipulates that operators of critical information infrastructure purchasing network products and services, and data processors (together with the operators of critical information infrastructure, the "Operators") carrying out data processing activities that affect or may affect national security, shall conduct cyber security review and stipulates that "the operator of critical information infrastructure" in the measures refers to the operator identified by the critical information infrastructure protection authorities. According to the Draft Cybersecurity Review Measures, an Operator who controls more than 1 million users' personal information must report to the cyber security review office for a cyber security review if it intends to be listed abroad (國外上市). However, the Draft Cybersecurity Review Measures provides no further explanation or interpretation for "listed abroad." As of the Latest Practicable Date, the Draft Cybersecurity Review Measures has not been formally adopted. On 30 July 2021, the State Council issued the Regulations for the Security Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》) (the "CII Regulations"), which came into effect on 1 September 2021. Pursuant to the CII Regulations, "critical information infrastructures" refers to important network facilities and information systems of important industries and sectors such as public communications and information services, energy, transport, water conservation, finance, public services, e-government, and science and technology industry for national defense, as well as other important network facilities and information systems that may seriously endanger national security, national economy and citizen's livelihood and public interests if they are damaged or suffer from malfunctions, or if any leakage of data in relation thereto occurs. Competent authorities as well as the supervision and administrative authorities of the above-mentioned important industries and sectors are responsible for the security protection of critical information infrastructures (the "Protection **Authorities**"). The Protection Authorities will establish the rules for the identification of critical information infrastructures based on the particular situations of the industry and report such rules to the public security department of the State Council for record. The following factors must be considered when establishing identification rules: (i) the importance of network facilities and information systems to the core businesses of the industry and the sector; (ii) the harm that may be brought by the damage, malfunction or data leakage of, the network facilities and information systems; and (iii) the associated impact on other industries and sectors. The Protection Authorities are responsible for organising the identification of critical information infrastructures in their own industries and sectors in accordance with the identification rules, promptly notifying the operators of the identification results and reporting to the public security department of the State Council. These provisions were newly issued, and detailed rules or explanations may be further enacted with respect to the interpretation and implementation of such provisions, including rules on identifying critical information infrastructures in different industries and sectors. As of the date of this document, the Company had not received any notification from the critical information infrastructure protection authorities about being identified as "an operator of critical information infrastructure." Based on the above, the PRC Legal Adviser is of the view that, as of the date of this document, the Company has not been identified as "an operator of critical information infrastructure", and according to the current laws and regulations, the likelihood that the Company will be classified as "an operator of critical information infrastructure" in the near future upon the Listing is relatively remote. Therefore, our PRC Legal Adviser is of the view that above-mentioned regulation will not affect the Company's compliance with laws and regulations in any material aspects as of the date of this document. However, there exists uncertainties in the future changes and interpretations of the relevant regulatory regime.

The Administrative Provisions on Security Vulnerability of Network Products (《網絡產品安全漏洞管理規定》) (the "Provisions") was jointly promulgated by the MIIT, the CAC and the MPS on 12 July 2021 and took effect on 1 September 2021. Network product providers, network operators as well as organisations or individuals engaging in the discovery, collection, release and other activities of network product security vulnerability are subject to the Provisions and shall establish channels to receive information of security vulnerability of their respective network products and shall examine and fix such security vulnerability in a timely manner. Network product providers are required to report relevant information of security vulnerability of network products with the MIIT within two days and to provide technical support for network product users. Network operators shall take measures to examine and fix security vulnerability after discovering or acknowledging that their networks, information systems or equipment have security loopholes. According to the Provisions, the breaching parties may be subject to administrative penalty as regulated in accordance with the Cyber Security Law. Since the Provisions is relatively new, uncertainties still exist in relation to its interpretation and implementation.

On 26 October 2021, the CAC issued the Provisions on the Management of Account Names Information of Internet Users (Draft for Solicitation of Comments) (《互聯網用戶賬號名稱信 息管理規定(徵求意見稿)》), which stipulates that the Internet user account service platform shall perform the main responsibility of Internet user account name information management, be equipped with management personnel and technical capabilities in corresponding with its business scale, establish a sound and strictly implement account names information management, authentic identity information verification, account professional qualification certification management, information content security, ecological governance, emergency response, personal information protection and credit evaluation management systems. If the Internet user account service platform provides account registration services to minors, the platform shall obtain the consent of their guardians and verify the true identity information of the minors based on their resident ID numbers and verify the true identity information of their guardians. As of the date of this document, this regulation is still in the stage of soliciting comments and has not formally taken effect, and the Company has not received any notification about any associated inquiries, investigations and rectification requirements in respect of the regulation. Based on the above, the PRC Legal Adviser is of the view that the above-mentioned regulation will not affect the Company's compliance with laws and regulations in any material aspects as of the date of this document.

On 29 October 2021, the CAC has publicly solicited opinions on the Measures for the Security Assessment of Data Cross-border Transfer (Draft for Comments) (《數據出境安全評估辦法(徵 求意見稿)》), which requires that any data processor providing important data collected and generated during operations within the territory of the PRC or personal information that should be subject to security assessment according to law to an overseas recipient shall conduct security assessment. The Measures for the Security Assessment of Data Cross-border Transfer (Draft for Comments) provides five circumstances, under any of which data processors shall, through the local cyberspace administration at the provincial level, apply to the national cyberspace administration for security assessment of data cross-border transfer. These circumstances include: (i) where the data to be transferred to an overseas recipient are personal information or important data collected and generated by operators of critical information infrastructure; (ii) where the data to be transferred to an overseas recipient contain important data; (iii) where a personal information processor that has processed personal information of more than one million people provides personal information overseas; (iv) where the personal information of more than 100,000 people or sensitive personal information of more than 10,000 people are transferred overseas accumulatively; or (v) other circumstances under which security assessment of data cross-border transfer is required as prescribed by the national cyberspace administration. As of the Latest Practicable Date, the Measures for the Security Assessment of Data Cross-border Transfer (Draft for Comments) has not been formally adopted.

On 27 August 2021, the CAC has publicly solicited opinions on the Administrative Provisions on Internet Information Service Algorithm Recommendation (Draft for Comments) (《互聯網 信息服務算法推薦管理規定(徵求意見稿)》), which implements classification and hierarchical management for algorithm recommendation service providers based on varies criteria, and stipulates that algorithm recommendation service providers with public opinion attributes or social mobilisation capabilities shall submit the relevant information within ten business days from the date of providing such services and go through the record-filing formalities. Pursuant to the Administrative Provisions on Internet Information Service Algorithm Recommendation (Draft for Comments), Algorithmic recommendation service providers are required to provide users with options that are not specific to their personal characteristics, or provide users with convenient options to cancel algorithmic recommendation services. If the users choose to cancel the algorithm recommendation service, the algorithm recommendation service provider shall immediately stop providing relevant services. Algorithmic recommendation service providers shall provide users with the function to select, modify or delete user labels which are used for algorithmic recommendation services. As of the Latest Practicable Date, the Administrative Provisions on Internet Information Service Algorithm Recommendation (Draft for Comments) has not been formally adopted. On 17 September 2021, the CAC, Publicity Department of CPC Central Committee, Ministry of Education, Ministry of Science and Technology, MIIT, MPS, MCT, SAMR and the NRTA jointly issued the Guiding Opinions on Strengthening the Comprehensive Governance of Network Information Service Algorithms (《關於加強互聯網信息服務算法綜合治理的指導意見》), with the aim to, within three years, gradually establish a comprehensive governance pattern for algorithm security with a complete governance mechanism, a refined regulatory system and a standardized algorithm ecosystem. According to the Guiding Opinions on Strengthening the Comprehensive Governance of Network Information Service Algorithms, enterprises shall establish an algorithm security accountability system and a system for the review of scientific and technological ethics, enhance the organizational structure for algorithm security, intensify efforts in the prevention of risks and the handling of hidden dangers, and increase the capacity and level in handling algorithm security emergencies. Enterprises shall raise their awareness of responsibility and assume primary responsibilities for outcomes caused by the application of algorithms.

the Administrative Provisions on Internet Information Service Algorithm Recommendation (Draft for Comments) and the Guiding Opinions on Strengthening the Comprehensive Governance of Network Information Service Algorithms aim to regulate the application of algorithm technology in Internet information service. Pursuant to the Administrative Provisions on Internet Information Service Algorithm Recommendation (Draft for Comments), algorithmic recommendation service providers are required to, among others, (i) disclose operation mechanism service, including its principle, purpose and operation mechanism; (ii) provide users with options that are not specific to their personal characteristics, or provide users with convenient options to cancel algorithmic recommendation services; and (iii) conduct algorithmic filing through Internet information service algorithm filing system. As of the date of this document, the Company has already provided an option for users to deactivate algorithm-driven recommendation function for content and advertisements, and it is ready to disclose its operation mechanism when the Administrative Provisions on Internet Information Service Algorithm Recommendation (Draft for Comments) becomes effective. Moreover, the Internet information service algorithm filing system has not been formally established by the regulators yet, and the Company will file its algorithm when required. Pursuant to the Guiding Opinions on Strengthening the Comprehensive Governance of Network Information Service Algorithms, enterprises are required to, among others, establish an algorithm security accountability system and a system for the review of scientific and technological ethics, enhance the organizational structure for algorithm security, intensify efforts in the prevention of risks and the handling of hidden dangers, and increase the capacity and level in handling algorithm security emergencies. As of the date of this document, the Company has established a security system and content moderation team and has adopted effective risk control measures related to algorithm security, such as preventing inappropriate or illegal content from being recommended by setting prohibitions. Moreover, the Company

has been investing resources to spread positive attitude and optimism and will continue to improve algorithm security in accordance with relevant laws and regulations and further guidance from the relevant authorities. Based on the above and the Administrative Provisions on Internet Information Service Algorithm Recommendation (Draft for Comments) has not been formally adopted as of the date of this document yet, the PRC Legal Adviser is of the view that the Internet Information Service Algorithm Recommendation (Draft for Comments) and the Guiding Opinions on Strengthening the Comprehensive Governance of Network Information Service Algorithms will not affect the Group's compliance with laws and regulations in any material aspects as of the date of this document.

For the purposes of further pushing websites and platforms to fulfil their primary responsibility for information content management, fully leveraging the role of websites and platforms as the primary entity in charge of information content management, the CAC issued the Opinions on Further Pushing Websites and Platforms to Fulfil Their Primary Responsibility for Information Content Management (《關於進一步壓實網站平台信息內容管理主體責任的意見》) on 15 September 2021. According to the Opinions on Further Pushing Websites and Platforms to Fulfil Their Primary Responsibility for Information Content Management, websites and platforms shall improve the algorithm-based recommendation approach, specify key areas for recommendation, refine standards for recommendation, evaluate the outcomes of recommendation, and file algorithms as required.

REGULATIONS ON INTERNET PRIVACY

In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorised disclosure. PRC law does not prohibit internet content provision operators from collecting and analysing personal information from their users. However, the Internet Measures prohibits an internet content provision operator from insulting or slandering a third party or infringing the lawful rights and interests of a third party.

The Several Provisions on Regulating the Market Order of Internet Information Services (《規 範互聯網信息服務市場秩序若干規定》), promulgated by the MIIT on 29 December 2011 and became effective on 15 March 2012, stipulates that internet content provision operators must not, without user consent, collect user personal information, which is defined as user information that can be used alone or in combination with other information to identify the user, and may not provide any such information to third parties without prior user consent. Internet content provision operators may only collect user personal information necessary to provide their services and must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information. In addition, an internet content provision operator may only use such user personal information for the stated purposes under the internet content provision operator's scope of service. Internet content provision operators are also required to ensure the proper security of user personal information, and take immediate remedial measures if user personal information is suspected to have been disclosed. If the consequences of any such disclosure are expected to be serious, ICP operators must immediately report the incident to the telecommunications regulatory authority and cooperate with the authorities in their investigations.

On 16 July 2013, the MIIT issued the Order for the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息保護規定》). Most requirements under the order that are relevant to internet content provision operators are consistent with pre-existing requirements but the requirements under the order are often more stringent and have a wider scope. If an internet content provision operator wishes to collect or use personal information, it may do so only if such collection is necessary for the services it provides. Further, it must disclose to its users the purpose, method and scope of any such collection or use, and must obtain consent from its users whose information is being collected or used. Internet content provision operators are also required to establish and publish their rules relating to personal information collection or use, keep any collected information strictly

confidential, and take technological and other measures to maintain the security of such information. Internet content provision operators are required to cease any collection or use of the user personal information, and de-register the relevant user account, when a given user stops using the relevant internet service. Internet content provision operators are further prohibited from divulging, distorting or destroying any such personal information, or selling or providing such information unlawfully to other parties.

The Cyber Security Law imposes certain data protection obligations on network operators, including that network operators may not disclose, tamper with, or damage users' personal information that they have collected, and are obligated to delete unlawfully collected information and to amend incorrect information. Moreover, internet operators may not provide users' personal information to others without consent. Exempted from these rules is information irreversibly processed to preclude identification of specific individuals. Also, the Cyber Security Law imposes breach notification requirements that will apply to breaches involving personal information.

On 23 January 2019, the OCCAC, the MIIT, and the MPS, and the SAMR jointly issued the Notice on Special Governance of Illegal Collection and Use of Personal Information via Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》), which restates the requirement of legal collection and use of personal information, encourages APP operators to conduct security certifications, and encourages search engines and APP stores to clearly mark and recommend those certified APPs.

On 22 August 2019, the CAC issued the Regulation on Cyber Protection of Children's Personal Information (《兒童個人信息網絡保護規定》), effective on 1 October 2019. Network operators are required to establish special policies and user agreements to protect children's personal information, and to appoint special personnel in charge of protecting children's personal information. Network operators who collect, use, transfer or disclose personal information of children are required to, in a prominent and clear way, notify and obtain consent from children's guardians.

On 28 November 2019, the CAC, MIIT, the MPS and SAMR jointly issued the Measures to Identify Illegal Collection and Usage of Personal Information by APPs (《App違法違規收集使用個人信息行為認定方法》), which lists six types of illegal collection and usage of personal information, including "not publishing rules on the collection and usage of personal information" and "not providing privacy rules."

Pursuant to the Ninth Amendment to the Criminal Law of the PRC (《中華人民共和國刑法修 正案(九)》), issued by the SCNPC on 29 August 2015 and became effective on 1 November 2015, any internet service provider that fails to fulfil its obligations related to internet information security administration as required under applicable laws and refuses to rectify upon orders shall be subject to criminal penalty. In addition, Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Personal Information (《關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》), issued on 8 May 2017 and effective as of 1 June 2017, clarified certain standards for the conviction and sentencing of the criminals in relation to personal information infringement. In addition, on 28 May 2020, the National People's Congress adopted the Civil Code, which came into effect on 1 January 2021. Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organisation or individual shall legally obtain such personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others.

On 20 August 2021, the SCNPC promulgated the PIPL, which took effect on 1 November 2021. Pursuant to the PIPL, "personal information" refers to any kind of information related to an identified or identifiable individual as electronically or otherwise recorded but excluding the anonymized information. The processing of personal information includes the collection, storage, use, processing, transmission, provision, disclosure and deletion of personal information. The PIPL applies to the processing of personal information of individuals within the territory of the PRC, as well as personal information processing activities outside the territory of PRC, for the purpose of providing products or services to natural persons located within China, for analysing or evaluating the behaviours of natural persons located within China, or for other circumstances as prescribed by laws and administrative regulations. A personal information processor may process the personal information of this individual only under the following circumstances: (i) where consent is obtained from the individual: (ii) where it is necessary for the execution or performance of a contract to which the individual is a party, or where it is necessary for carrying out human resource management pursuant to employment rules legally adopted or a collective contract legally concluded; (iii) where it is necessary for performing a statutory responsibility or statutory obligation; (iv) where it is necessary in response to a public health emergency, or for protecting the life, health or property safety of a natural person in the case of an emergency; (v) where the personal information is processed within a reasonable scope to carry out any news reporting, supervision by public opinions or any other activity for public interest purposes; (vi) where the personal information, which has already been disclosed by an individual or otherwise legally disclosed, is processed within a reasonable scope; or (vii) any other circumstance as provided by laws or administrative regulations. In principle, the consent of an individual must be obtained for the processing of his or her personal information, except under the circumstances of the aforementioned items (ii) to (vii). Where personal information is to be processed based on the consent of an individual, such consent shall be a voluntary and explicit indication of intent given by such individual on a fully informed basis. If laws or administrative regulations provide that the processing of personal information shall be subject to the separate consent or written consent of the individual concerned, such provisions shall prevail. In addition, the processing of the personal information of a minor under 14 years old must obtain the consent by a parent or a guardian of such minor and the personal information processors must adopt special rules for processing personal information of minors under 14 years old.

Furthermore, the PIPL stipulates the rules for cross-border transfer of personal information. Any cross-border transfer of personal information is subject to the condition that it is necessary to provide the personal information to a recipient outside the territory of the PRC due to any business need or any other need, as well as the satisfaction of at least one of the following conditions: (i) where a security assessment organised by the national cyberspace administration has been passed; (ii) where a certification of personal information protection has been passed from a professional institution in accordance with the provisions issued by the national cyberspace administration; (iii) where a standard contract formulated by the national cyberspace administration has been entered into with the overseas recipient; or (iv) any other condition prescribed by laws, administrative regulations or any other requirements by the national cyberspace administration. Critical information infrastructure operators and personal information processors who have processed personal information in an amount reaching a threshold prescribed by the national cyberspace administration, must store in the territory of the PRC the personal information collected or generated within the territory of the PRC. If it is necessary to provide such information to an overseas recipient, a security assessment organised by the national cyberspace administration must be passed.

REGULATIONS RELATING TO INTERNET COMMENT SERVICES

According to the Administrative Provisions on Internet Follow-up Comment Services (《互聯網跟帖評論服務管理規定》), which was promulgated by the CAC on 25 August 2017, and became effective on 1 October 2017, an internet follow-up comment services provider shall strictly assume the primary responsibilities and the obligations, including but not limited to: (i)

verify the real identity information of registered users; (ii) establish and improve a user information protection system; (iii) establish a system of reviewing at first and then publishing comments if they offer internet follow-up comment services to news information; (iv) furnish corresponding static information content on the same platform and page at the same time if they provide internet follow-up comment services by way of bullet chatting; (v) establish and improve an internet follow-up comment review and administration, real-time check, emergency response and other information security administration systems, timely identify and process illicit information and submit a report to the relevant competent authorities; (vi) develop internet follow-up comment information protection and administration technologies, innovate internet follow-up comment administration modes, research, develop and utilise an anti-spam administration system and improve the spam-handling capability; (vii) equip with content examination team corresponding with services; and (viii) coordinate with relevant supervising authorities for examination and provide necessary technology, information and data support.

According to the Cyber Security Law, a network operator shall strengthen the management of the information released by its users. If it founds any information that is prohibited by laws and administrative regulations from release or transmission, it shall immediately cease transmission of such information, and take measures such as deletion to prevent dissemination of such information. The operator shall also keep relevant record, and report the case to the competent authority. In the event that a network operator fails to take measures as ceasing transmission or removal of information prohibited by appropriate laws or administrative regulations, or keep record of relevant information, the competent authority shall warn such operator and order it to make rectifications, and shall confiscate its illegal earnings. A fine shall be imposed in case of refusal to make rectifications or severe violations, and further penalties such as suspension of related business, winding up for rectification, shutdown of website, and revocation of business licence may be concurrently imposed by the competent authority.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Copyright

The PRC has enacted various laws and regulations relating to the protection of copyright. The PRC is a signatory to some major international conventions on protection of copyright and became a member of the Berne Convention for the Protection of Literary and Artistic Works in October 1992, the Universal Copyright Convention in October 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

The Copyright Law of the People's Republic of China (《中華人民共和國著作權法》) (the "Copyright Law") which was promulgated by the SCNPC on 7 September 1990 and last amended on 11 November 2020 provides that Chinese citizens, legal persons, or other organisations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilisation and material civilisation and promote the development and prosperity of Chinese culture.

Under the Regulation on Protection of the Right to Network Dissemination of Information (《信息網絡傳播權保護條例》) that took effect on 1 July 2006 and was amended on 30 January 2013, it is further provided that an internet information service provider may be held liable under various situations, including if it knows or should reasonably have known a copyright infringement through the internet and the service provider fails to take measures to remove or block or disconnects links to the relevant content, or, although not aware of the infringement, the internet information service provider fails to take such measures upon receipt of the copyright holder's notice of infringement. The internet information service provider may be exempted from indemnification liabilities under the following circumstances:

- (i) any internet information service provider that provides automatic internet access service upon instructions from its users or provides automatic transmission service for works, performances and audio/visual products provided by its users is not required to assume indemnification liabilities if (a) it has not chosen or altered the transmitted works, performance and audio/visual products and (b) it provides such works, performances and audio/visual products to the designated users and prevents any person other than such designated users from obtaining access;
- (ii) any internet information service provider that, for the sake of improving network transmission efficiency, automatically stores and provides to its own users the relevant works, performances and audio/visual products obtained from any other internet information service providers, is not required to assume the indemnification liabilities if (a) it has not altered any of the works, performances or audio/visual products that are automatically stored; (b) it has not affected such original internet information service provider in holding the information about where the users obtain the relevant works, performances and audio/visual products; and (c) when the original internet information service provider revises, deletes or shields the works, performances and audio/visual products, it will automatically revise, delete or shield the same:
- (iii) any internet information service provider that provides its users with information memory space for such users to provide the works, performances and audio/visual products to the general public via an informational network is not required to assume the indemnification liabilities if (a) it clearly indicates that the information memory space is provided to the users and publicises its own name, contact person and web address; (b) it has not altered the works, performances and audio/visual products that are provided by the users; (c) it is not aware of or has no justified reason to know that the works, performances and audio/visual products provided by the users infringe upon the copyrights of others; (d) it has not directly derived any economic benefit from the providing of the works, performances and audio/visual products by its users; and (e) after receiving a notice from the copyright holder, it promptly deletes the allegedly infringing works, performances and audio/visual products pursuant to the regulation; and
- (iv) an internet information service provider that provides its users with search engine or link services should not be required to assume the indemnification liabilities if, after receiving a notice from the copyright holder, it disconnects the link to the allegedly infringing works, performances and audio/visual products pursuant to the regulation, unless it is aware of or should reasonably have known the infringement.

Measures on Administrative Protection of Internet Copyright (《互聯網著作權行政保護辦法》), that were promulgated by the MII and the NCAC and took effect on 30 May 2005, provided that an internet information service provider shall take measures to remove the relevant contents, record relevant information after receiving the notice from the copyright owner that some content communicated through internet infringes upon his/its copyright and preserve the copyright owner's notice for 6 months. Where an internet information service provider clearly knows an internet content provider's tortuous act of infringing upon another's copyright through internet, or fails to take measures to remove relevant contents after receipt of the copyright owner's notice although it does not know it clearly, and meanwhile damages public benefits, the infringer shall be ordered to stop the tortious act, and may be imposed of confiscation of the illegal proceeds and a fine of not more than 3 times the illegal business amount; if the illegal business amount is difficult to be calculated, a fine of not more than RMB100,000 may be imposed.

The Notice on Regulating Copyright Order of Internet Reproduction (《關於規範網絡轉載版權秩序的通知》) issued by the NCAC in 2015 includes the following four major points: (i) clarify certain important issues related to internet copyrights in existing laws and regulations, including the definition of news, clarify statutory licences that are not applicable to internet

copyrights and prohibit the distortion of title and work intent; (ii) guide the press and media to further improve the internal management of copyrights, especially requesting the press to clarify the copyright sources of their content; (iii) encourage the press and internet media to actively carry out copyright cooperation; and (iv) ask the copyright administrations at all levels to strictly implement copyright supervision.

The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》) (the "Software Copyright Measures"), promulgated by the NCAC on 20 February 2002, regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The NCAC shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China (the "CPCC"), is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyright Measures and the Computer Software Protection Regulations (Revised in 2013) (《計算機軟件保護條例》(2013年修訂)).

Provisions of the Supreme People's Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks(《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》)provide that web users or web service providers who create works, performances or audio-video products, for which others have the right of dissemination through information networks or are available on any information network without authorisation shall be deemed to have infringed upon the right of dissemination through information networks.

The Notice on Launching "Jian Wang 2020" Special Actions Against Internet Piracy and Copyright Infringement (《關於開展打擊網絡侵權盜版"劍網2020"專項行動的通知》), jointly issued by NCAC, MIIT, the MPS and CAC in 2020 includes carrying out special rectification of audio-visual works copyright, e-commerce platform copyright, social platform copyright, online education copyright, and consolidate the achievements of copyright management in key areas, including strengthen the protection of music copyright, and promote the improvement of online music copyright authorisation system.

Trademark

Trademarks are protected by the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated on 23 August 1982 and last amended on 23 April 2019 as well as the Implementation Regulation of the PRC Trademark Law (《中華人民共和國商標法實施條例》) which was adopted by the State Council on 3 August 2002 and amended on 29 April 2014. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The PRC Trademark Office of National Intellectual Property Administration (the "**Trademark Office**") is responsible for the registration and administration of trademarks throughout the PRC, and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark licence contract. Trademark licence agreements must be filed with the Trademark Office to be recorded. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. As with trademarks, the PRC Trademark Law has adopted a "first come, first file" principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such

trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such party's use.

Patent

Patents are protected by the Patent Law of the PRC (《中華人民共和國專利法》) which was promulgated on 12 March 1984 and last amended on 17 October 2020 with effect from 1 June 2021. A patentable invention or utility model must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds, methods of nuclear transformation or substances obtained by means of nuclear transformation. The Patent Office under the National Intellectual Property Administration is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term for an invention, a ten-year term for a utility model and a fifteen-year term for a design. Except under certain specific circumstances provided by law, any third-party user must obtain consent or a proper licence from the patent owner to use the patent, or else the use will constitute an infringement of the rights of the patent holder.

Domain Names

Domain names are protected under the Administrative Measures on the Internet Domain Names (《互聯網域名管理辦法》) promulgated by the MIIT. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the China Internet Network Information Center (the "CNNIC") is responsible for the daily administration of .cn domain names and Chinese domain names. CNNIC adopts the "first to file" principle with respect to the registration of domain names. In November 2017, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services(《工業和信息化部關於規範互聯網信息服務使用域名的通知》), which became effective on 1 January 2018. Pursuant to the notice, the domain name used by an internet-based information service provider in providing internet-based information services must be registered and owned by such provider in accordance with the law. If the internet-based information service provider is an entity, the domain name registrant must be the entity (or any of the entity's shareholders), or the entity's principal or senior manager.

REGULATIONS RELATING TO ANTI-UNFAIR COMPETITION AND ANTI-MONOPOLY

According to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) (the "Anti-Unfair Competition Law"), which was adopted by the SCNPC on 2 September 1993, became effective as of 1 December 1993, and last amended on 23 April 2019, unfair competition refers to that the operator disrupts the market competition order and damages the legitimate rights and interests of other operators or consumers in violation of the provisions of the Anti-unfair Competition Law in the production and operating activities. Pursuant to the Anti-unfair Competition Law, operators shall abide by the principle of voluntariness, equality, impartiality, integrity and adhere to laws and business ethics during market transactions. Operators in violation of the Anti-unfair Competition Law shall bear corresponding civil, administrative or criminal liabilities depending on the specific circumstances.

On 7 February 2021, the Anti-Monopoly Committee of the State Council published the Anti-Monopoly Guidelines for the Internet Platform Economy Sector (《關於平台經濟領域的反壟斷指南》), (the "Guideline"), which became effective on the same day and will operate as a compliance guidance under the existing PRC anti-monopoly laws and regulations for

platform economy operators. The Guideline aims at specifying some of the circumstances under which an activity of internet platforms may be identified as monopolistic act as well as setting out merger controlling filing procedures involving variable interest entities.

In August 2021, the SAMR issued the Provisions on Preventing Unfair Online Competition (Draft for Public Comments) (《禁止網絡不正當競爭行為規定(公開徵求意見稿)》) ("Draft Provisions on Preventing Unfair Online Competition"), which mainly regulates the production and operation activities of business operators through the Internet and other information networks, and specifically stipulates the general norms of online competition, prohibits the use of technical means to impede, interfere or conduct other unfair competition behaviours and prohibits the use of technical means to conduct other online unfair competition behaviours. As of the Latest Practicable Date, the Draft Provisions on Preventing Unfair Online Competition has not been formally adopted, and due to the lack of further clarification, there are still uncertainties regarding the interpretation and implementation of the Draft Provisions on Preventing Unfair Online Competition. The PRC Legal Adviser is of the view that the above-mentioned regulation will not affect the Company's compliance with laws and regulations in any material aspects as of the date of this document, based on the following reasons: (1) the Draft Provisions on Preventing Unfair Online Competition further details the implementation of the Anti-Unfair Competition Law in the internet sector, is consistent with the requirements of the Anti-Unfair Competition Law, and also reflects the enforcement experiences of the Anti-Unfair Competition Law. Therefore, that the Company has not been subject to any penalties in respect of the Anti-Unfair Competition Law is an important basis for determining the Company's compliance status in relation to the requirements of the new regulation, and the Company confirmed that it had actually complied with the Draft Provisions on Preventing Unfair Online Competition in all material aspects, and (2) the regulation is still in the stage of soliciting comments and has not formally taken effect.

On 11 September 2020, the Anti-Monopoly Committee of the State Council issued the Anti-Monopoly Compliance Guideline for Operators (《經營者反壟斷合規指南》), which gave guidance on compliance management system, compliance risk focus, compliance risk management, and compliance management guarantee on the basis of the Anti-Monopoly Law to encourage the operators prevent the compliance risk of the Anti-Monopoly Law. According to the Anti-Monopoly Compliance Guideline for Operators, it only provides general guidelines for operators' anti-monopoly compliance, and is not mandatory. In addition, the Company has not been subject to any penalties because of the breach of the Anti-Monopoly Law. The Company's market share in terms of revenue in 2020 was 20.5%, and thus does not believe that it holds a dominant market position or significant market power to eliminate or restraint competition. The Company does not believe that it is able to control the prices, quantities or any other terms of transaction in the relevant market, or obstruct and affect the entry of other business operators into the relevant market. Based on the above, the PRC Legal Adviser is of the view that the above-mentioned regulation will not affect the Company's compliance with laws and regulations in any material aspects as of the date of this document.

REGULATIONS RELATING TO FOREIGN EXCHANGE

General Administration of Foreign Exchange

Under the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》) promulgated by the State Council on 29 January 1996 and last amended on 5 August 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local branches. Payments for transactions that take place within the PRC must be made in Renminbi. Unless

otherwise provided by laws and regulations, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the PRC. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of the PRC.

Regulations Relating to Offshore Investment

Pursuant to SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the "SAFE Circular 75"), which became effective on 1 November 2005, the domestic residents, including domestic individuals and domestic companies, must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle (the "Overseas SPV"), for the purposes of overseas equity financing activities, and to update such registration in the event of any significant changes with respect to that offshore company.

On 4 July 2014, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round-tripping by Chinese Residents through Special Purpose Vehicles (《國家 外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通 知》), the "SAFE Circular 37", which replaced SAFE Circular 75, for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. SAFE Circular 37 supersedes the SAFE Circular 75 and revises and regulates the relevant matters involving foreign exchange registration for round-trip investment. Under SAFE Circular 37, a domestic resident must register with the local SAFE branch before he or she contributes assets or equity interests in an Overseas SPV, that is directly established or indirectly controlled by the domestic resident for the purpose of conducting investment or financing. In addition, in the event of any change of basic information of the Overseas SPV such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration procedures for offshore investment. According to the procedural guideline as attached to SAFE Circular 37, the principle of review has been changed to "the domestic individual resident shall only register the Overseas SPV directly established or controlled (first level)."

At the same time, the SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment (《返程投資外匯管理所涉業務操作指引》) with respect to the procedures for SAFE registration under SAFE Circular 37, which became effective on 4 July 2014 as an attachment to SAFE Circular 37. Under the relevant rules, failure to comply with the registration procedures set out in SAFE Circular 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who hold any shares in the company from time to time are required to register with the SAFE in connection with their investments in the company.

On 13 February 2015, the SAFE promulgated the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), effective from 1 June 2015, which

further amended SAFE Circular 37 by requiring domestic residents to register with qualified banks rather than the SAFE or its local branches in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

REGULATIONS RELATING TO FOREIGN INVESTMENT

Investment activities in the PRC by foreign investors are principally governed by the Catalog of Industries for Encouraging Foreign Investment (the "Encouraging Catalog") and the Special Management Measures (Negative List) for the Access of Foreign Investment (the "Negative List") which were promulgated and are amended from time to time by the MOFCOM and the NDRC, and together with the PRC Foreign Investment Law and their respective implementation rules and ancillary regulations. The Encouraging Catalog and the Negative List lay out the basic framework for foreign investment in the PRC, classifying businesses into three categories with regard to foreign investment: "encouraged", "restricted" and "prohibited." Industries not listed in the Catalog are generally deemed as falling into a fourth category "permitted" unless specifically restricted by other PRC laws.

On 27 December 2020, MOFCOM and the NDRC released the Catalog of Industries for Encouraging Foreign Investment (2020 Version) (《鼓勵外商投資產業目錄(2020年版)》), which became effective on 27 January 2021, to replace the previous Encouraging Catalog. On 23 June 2020, MOFCOM and the NDRC released Negative List, which became effective on 23 July 2020, to replace the previous Negative List.

On 8 October 2021, the NDRC and the MOFCOM publicly solicit opinions on the Negative List for Market Access (2021) (《市場准入負面清單 (2021年版)》). Compared with the Negative List for Market Access (2020) (《市場准入負面清單 (2020年版)》), the main changes under the Negative List for Market Access (2021 Draft for Public Comments) (《市場准入負面清單(2021年版公開徵求意見稿)》) include the prohibition of illegally conducting news and media-related businesses, and non-public capital shall not engage in live streaming services of activities and events involving politics, economy, military, diplomacy, major society, culture, science and technology, health, education, sports and other activities or events related to political directions, public opinion orientations, and value orientations. Since the Company's current business operations do not involve the above-mentioned related fields, and the above-mentioned negative list is still in the stage of soliciting opinions and has not been duly implemented, the PRC Legal Adviser is of the view that the above-mentioned regulation will not affect the Company's compliance with laws and regulations in any material aspects as of the date of this document.

On 15 March 2019, the National People's Congress promulgated the Foreign Investment Law (the "FIL"), which became effective on 1 January 2020 and replaced the major laws and regulations governing foreign investment in the PRC. Pursuant to the FIL, "foreign investments" refer to investment activities conducted by foreign investors directly or indirectly in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment of other methods as specified in laws, administrative regulations, or as stipulated by the State Council.

According to the FIL, foreign investment shall enjoy pre-entry national treatment, except for those foreign invested entities that operate in industries deemed to be either "restricted" or "prohibited" in the Negative List. The FIL provides that foreign invested entities operating in foreign "restricted" or "prohibited" industries will require entry clearance and other approvals. The FIL does not comment on the concept of "de facto control" or contractual arrangements with variable interest entities, however, it has a catch-all provision under definition of "foreign investment" to include investments made by foreign investors in the PRC through means

stipulated by laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to provide for contractual arrangements as a form of foreign investment.

The FIL also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their commitments to the foreign investors; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriate or requisition the investment of foreign investors is prohibited; mandatory technology transfer is prohibited, allows foreign investors' funds to be freely transferred out and into the territory of PRC, which run through the entire lifecycle from the entry to the exit of foreign investment, and provide an all-around and multi-angle system to guarantee fair competition of foreign-invested enterprises in the market economy. In addition, foreign investors or the foreign investment enterprise should be imposed legal liabilities for failing to report investment information in accordance with the requirements. Furthermore, the FIL provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the FIL, which means that foreign invested enterprises may be required to adjust the structure and corporate governance in accordance with the current PRC Company Law (《中華人民共和國公司法》) and other laws and regulations governing the corporate governance.

On 26 December 2019, the State Council promulgated the Implementation Rules to the Foreign Investment Law (《中華人民共和國外商投資法實施條例》), which became effective on 1 January 2020. The implementation rules further clarified that the state encourages and promotes foreign investment, protects the lawful rights and interests of foreign investors, regulates foreign investment administration, continues to optimise foreign investment environment, and advances a higher-level opening.

On 30 December 2019, MOFCOM and the SAMR, jointly promulgated the Measures for Information Reporting on Foreign Investment (《外商投資信息報告辦法》), which became effective on 1 January 2020. Pursuant to the Measures for Information Reporting on Foreign Investment, where a foreign investor carries out investment activities in the PRC directly or indirectly, the foreign investor or the foreign-invested enterprise shall submit the investment information to the competent commerce department.

REGULATIONS RELATING TO TAX

Enterprise Income Tax

The Law of the PRC on Enterprise Income Tax(《中華人民共和國企業所得稅法》) and The Regulations for the Implementation of the Law on Enterprise Income Tax(《中華人民共和國企業所得稅法實施條例》) (collectively, the "EIT Laws") were promulgated on 16 March 2007 and 6 December 2007, respectively and were most recently amended on 29 December 2018 and 23 April 2019, respectively. According to the EIT Laws, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in the PRC in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Laws and relevant implementing regulations, a uniform EIT rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC but there is

no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside the PRC.

Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as the PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註 冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) (the "Circular 82") promulgated by the STA on 22 April 2009 and amended on 29 January 2014 and 29 December 2017, sets out the standards and procedures for determining whether the "de facto management body" of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

According to Circular 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a "de facto management body" in the PRC and will be subject to PRC EIT on its worldwide income only if all of the following criteria are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organisations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders meeting minutes are located or maintained in the PRC; and (iv) 50% or more of voting board members or senior executives habitually reside in the PRC.

The EIT Laws permit certain High and New Technologies Enterprises, or HNTEs, to enjoy a reduced 15% EIT rate subject to these HNTEs meeting certain qualification criteria. In addition, the relevant EIT laws and regulations also provide that entities recognised as Software Enterprises are able to enjoy a tax holiday consisting of a two-year-exemption commencing from their first profitable calendar year and a 50% reduction in ordinary tax rate for the following three calendar years, while entities qualified as key software enterprises can enjoy a preferential EIT rate of 10%.

The Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (《關於非居民企業間接轉讓財產企業所得税若干問題的公告》) (the "Bulletin 7") was issued by the STA on 3 February 2015 and most recently amended pursuant to the Announcement on Issues Concerning the Withholding of Enterprise Income Tax at Source on Non-PRC Resident Enterprises, which was issued by the STA on 17 October 2017 and became effective as of 1 December 2017. Pursuant to Bulletin 7, an "indirect transfer" of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be recharacterized and treated as a direct transfer of PRC taxable assets, if the arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC EIT. As a result, gains derived from an indirect transfer may be subject to PRC EIT. According to Bulletin 7, "PRC taxable assets" include assets attributed to an establishment or a place of business in the PRC, immovable properties in the PRC, and equity investments in PRC resident enterprises. In respect of an indirect offshore transfer of assets of a PRC establishment or place of business, the relevant gain is to be regarded as effectively connected with the PRC establishment or a place of business and therefore included in its EIT filing, and would consequently be subject to PRC EIT at a rate of 25%. Where the underlying transfer relates to the immovable properties in the PRC or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment or a place of business of a non-resident enterprise, a PRC EIT at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. There is uncertainty as to the implementation details of Bulletin 7.

VAT and Business Tax

Before August 2013 and pursuant to applicable PRC tax regulations, any entity or individual conducting business in the service industry is generally required to pay a business tax at the rate of 5% on the revenue generated from providing services. However, if the services provided are related to technology development and transfer, the business tax may be exempted subject to approval by the relevant tax authorities.

In November 2011, the MOF and the STA promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改徵增值稅試點方案》). In May and December 2013, April 2014, March 2016 and July 2017, the MOF and the STA promulgated five circulars to further expand the scope of services that are to be subject to VAT instead of business tax. Pursuant to these tax rules, from 1 August 2013, a VAT was imposed to replace the business tax in certain service industries, including technology services and advertising services, and from 1 May 2016, VAT replaced business tax in all industries, on a nationwide basis. On 19 November 2017, the State Council further amended the Interim Regulation of the PRC on Value Added Tax (《中華人民共和國增值稅暫行條例》) to reflect the normalisation of the pilot programme. The VAT rates generally applicable are simplified as 17%, 11%, 6% and 0%, and the VAT rate applicable to the small-scale taxpayers is 3%. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the revenue from services provided.

On 4 April 2018, the MOF and the STA issued the Notice on Adjustment of VAT Rates (《關於調整增值稅稅率的通知》), which came into effect on 1 May 2018. According to the abovementioned notice, the taxable goods previously subject to VAT rates of 17% and 11% respectively become subject to lower VAT rates of 16% and 10%, respectively starting from 1 May 2018.

On 20 March 2019, the MOF, the STA and the General Administration of Customs issued the Announcement on Policies for Deepening the VAT Reform (《關於深化增值税改革有關政策的公告》) (the "Announcement 39"), which came into effect on 1 April 2019, to further slash VAT rates. According to Announcement 39, (i) for general VAT payers' sales activities or imports previously subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9% respectively; (ii) for the agricultural products purchased by taxpayers to which an existing 10% deduction rate is applicable, the deduction rate is adjusted to 9%; (iii) for the agricultural products purchased by taxpayers for production or commissioned processing, which are subject to VAT at 13%, the input VAT will be calculated at a 10% deduction rate; (iv) for the exportation of goods or labour services that are subject to VAT at 16%, with the applicable export refund at the same rate, the export refund rate is adjusted to 13%; and (v) for the exportation of goods or cross-border taxable activities that are subject to VAT at 10%, with the export refund at the same rate, the export refund rate is adjusted to 9%.

REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WELFARE

The Labour Contract Law

According to the Labour Law of the PRC (《中華人民共和國勞動法》) promulgated on 5 July 1994 and last amended on 29 December 2018, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate labourers in labour safety and sanitation in the PRC. Labour safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide labourers with a safe workplace and sanitation conditions which are

in compliance with state stipulations and the relevant articles of labour protection. The PRC Labour Contract Law (《中華人民共和國勞動合同法》, which was implemented on 1 January 2008 and amended on 28 December 2012, is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labour contracts. Pursuant to the PRC Labour Contract Law, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labourers. Enterprises and institutions are forbidden to force labourers to work beyond the time limit and employers shall pay labourers for overtime work in accordance with the laws and regulations. In addition, labour wages shall not be lower than local standards on minimum wages and shall be paid to labourers in a timely manner.

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labour Injury(《工傷保險條例》) implemented on 1 January 2004 and amended on 20 December 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations(《企業職工生育保險試行辦法》) implemented on 1 January 1995, the Decisions on the Establishment of a Unified Programme for Basic Old-Aged Pension Insurance for Employees of Corporations of the State Council(《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on 16 July 1997, the Decisions on the Establishment of the Medical Insurance Programme for Urban Workers of the State Council(《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on 14 December 1998, the Unemployment Insurance Measures(《失業保險條例》) promulgated on 22 January 1999 and the Social Insurance Law of the PRC(《中華人民共和國社會保險法》) implemented on 1 July 2011 and amended on 29 December 2018, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Regulations on the Management of Housing Funds (《住房公積金管理條例》) which was promulgated by the State Council on 3 April 1999 and last amended on 24 March 2019, enterprises must register at the competent managing centre for housing funds and upon the examination by such managing centre of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

REGULATIONS RELATING TO DIVIDEND DISTRIBUTIONS

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the PRC Company Law last amended in 2018 and the FIL. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC company, including foreign-invested enterprise, is required to set aside as general reserves (法定公積金) at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided, and shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

REGULATIONS RELATING TO STRICTLY COMBATING ILLEGAL SECURITIES ACTIVITIES

On 6 July 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Combating Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》), which called for the enhanced administration and supervision of overseas-listed China-based companies (中概股公司), proposed to revise the relevant regulation governing the overseas issuance and listing of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities.

OUR CONTROLLING SHAREHOLDER

As at the Latest Practicable Date, (a) NetEase controls more than 30% of the voting rights in our Company through beneficially owned Shares and 62.46% of the total issued share capital of our Company; and (b) no single shareholder has statutory control over NetEase, which is a public company whose ADSs are listed on the Nasdaq and shares are secondary listed on the Stock Exchange. Our Company will remain a subsidiary of NetEase, and NetEase will be our Controlling Shareholder after the Listing.

After the Listing, NetEase will be the only Shareholder directly interested in more than 30% of our total issued share capital. Additionally, NetEase has been granted an Anti-dilution Right to acquire new Shares under the Global Offering up to such amount so as to maintain the same shareholding percentage in the total issued share capital of our Company immediately before and after the Global Offering (assuming the Presumptions, but taking into account the exercise of the Anti-dilution Right).

NetEase is a company incorporated in the Cayman Islands on 6 July 1999. NetEase's shares are listed on the Main Board of the Stock Exchange (SEHK: 9999) and its ADSs are listed on the Nasdaq (Nasdaq: NTES). NetEase is a leading internet and online game services provider in China.

CLEAR DELINEATION OF BUSINESS

There is a clear delineation between our business and that of NetEase. NetEase operates various business segments, including: online games; intelligent learning through Youdao, Inc., a company separately listed on the New York Stock Exchange (NYSE: DAO); and innovative businesses and others, which includes, music streaming (through our Group), advertising services, e-commerce, email and other value-added services.

As mentioned above, we represent the music streaming business of NetEase. We are a leading music platform, featuring a highly interactive content community for music enthusiasts. We monetise our platform primarily through the sales of membership subscriptions for our online music services and sales of virtual items for our live streaming services. To diversify our revenue streams, we have been actively developing other monetisation channels, such as providing advertising services, sales of digital albums and music-inspired services. Aside from through our Company, NetEase does not operate any other music streaming business.

Nevertheless, we have certain transactions, and will after the Listing continue to have certain transactions, with NetEase Group, which are set out below. See "Connected transactions" for more details.

Advertising Services and Advertising Agency Services Transactions

Given that we are an internet business and our primary business is in music streaming, we provide advertising services to end-advertising clients outside of our Group (and primarily to third-parties) as an additional revenue stream to monetise our platforms/websites. Under these transactions, NetEase Group engages or will engage with us in three capacities: as "end-advertising client", as "intermediary customer/agent", and as a "pure agent." Transactions where NetEase Group acts as an "end-advertising client" and an "intermediary customer/agent" are recorded as "Advertising Services" transactions, while transactions where NetEase Group acts as a "pure agent" will be recoded as "Advertising Agency Services" transactions.

During the Track Record Period, revenue generated from NetEase Group, in their capacity as our end-advertising client, is set out below:

Revenue generated from NetEase Group (as end-advertising client) as a percentage of our total advertising revenue during the Track Record Period Revenue generated from NetEase Group (as end-advertising client) as a percentage of our total revenue during the Track Record Period

FY 2018	FY 2019	FY 2020	FY 2018	FY 2019	FY 2020
9.6%	12.6%	3.2%	2.4%	2.3%	0.3%

Given that our primary business is not in media, we engage media agencies outside of our Group to act as an "intermediary customer/agent" to help with various aspects of the end-advertising client-facing side of advertising, including identifying end-advertising clients and campaigns, engaging and contracting with end-advertising clients to advertise on our platforms/websites, dealing with customer relations (sales, customer service) and other logistical and administrative matters relating to the end-advertising client's campaign queries/requests, so that we can focus on providing the end-advertising results for these clients. In cases where part of the media agency's services would be to directly contract with end-advertising clients and negotiate a final price (within pricing guidelines and mechanisms determined by our Group), we will treat both the media agency and the end-advertising client as customers, with the media agency taking on the "intermediary customer/agent" role.

In 2018 and 2019, our "Advertising Services" transactions consisted of NetEase Group acting as our end-advertising client, while the "intermediary customer/agent" role was undertaken by third-parties. In 2020 and going forward, we additionally engaged NetEase Group to act as our media agency, providing both an "intermediary customer/agent" role (included in the "Advertising Services" transaction; meaning that from 2020 onwards, this transaction consisted of NetEase Group acting as both an "end-advertising client" and "intermediary customer/agent") and a "pure agent" role (represented as "Advertising Agency Services"). We intend to continue this engagement after the Listing. See "Connected transactions — NetEase Group Framework Agreement — Details of the transactions — Advertising Services by our Group to NetEase Group and Advertising Agency Services by NetEase Group to our Group" for more details on these two transactions.

Given that both our Group and NetEase Group operate internet businesses, both groups use advertising as an additional way to monetise their respective platforms/websites/products. Despite both offering advertising services, our Directors believe that there is no competition within the advertising space between our Group and NetEase Group, based on the following:

(a) Campaigns of end-advertising clients are driven by different considerations and target audiences. Based on the Company's knowledge, end-advertising clients tend to choose advertising providers that they believe would best deliver results, based on scope of audience and precision of the right message to the right target audience. Which advertising provider would deliver the best efficacy for an end-advertising client would depend on a number of factors, including: (i) the platform through which an advertisement is placed; (ii) whether the platform has sufficient data to facilitate audience outreach with precision to the audience targeted by the end-advertising client (for example, taking into account age group and their interests, etc.); and (iii) the traffic of the respective platform(s). NetEase Group and our Group operate different platforms/websites in different online entertainment industries, with our Group operating in the music streaming industry and NetEase

Group operating in a number of other online industries but excluding music streaming. As such, by virtue of operating different platforms/websites, in different online industries, with different user demographics (including catering to different user interests and activities), and different underlying technological focus and analytical data capabilities and insights, the end-advertising clients choosing to advertise on, and the actual campaigns ran on, the platforms/websites of NetEase Group and our Group would be different from one another.

- (b) Mutually complementary. Advertising is not an exhaustive revenue stream where advertising in one industry would reduce advertising in another industry. On the contrary, given that end-advertising clients tend to choose advertising platforms based on brand association, certain end-advertising clients, or campaigns, may find it beneficial to associate themselves with the "NetEase" brand and subscribe to advertising services across various "NetEase" platforms/websites, including platforms/websites of both our Group and NetEase Group. For these end-advertising clients, or campaigns, having a brand that reaches multiple industry verticals and a broad range of audience demographics, would be a favourable factor taken into account when deciding on an advertising provider. In this respect, being associated with NetEase Group and being part of the NetEase ecosystem would be mutually beneficial to both groups.
- (c) The competition is not between the two groups. For the reasons above, our Group and NetEase Group are not competing with each other for end-advertising clients, but rather, we are competing with other music streaming platform operators, and similarly, NetEase Group is competing with other platform operators with offerings in the same industry verticals and jurisdictions and have the same demographic of users as NetEase Group.

During the Track Record Period, the Company was not aware of any, and to the best of its knowledge there were no, instances where end-advertising clients chose to advertise on our Group's platforms/websites on the condition that, or only if, they would also be able to advertise on NetEase Group's platforms/websites.

For end-advertising clients that are not seeking precision marketing but rather targeting the general public, to the best knowledge of the Company, these clients would tend to look at, among other factors, total user number, user growth, and user engagement. In these cases, the Company would not be privy to the decision-making process of its clients and there would be a possibility that a small subset of end-advertising clients may treat the Group's and NetEase Group's advertising services as interchangeable or able to be aggregated. However, the Company notes that this subset, if in existence, is not the target of the Group's advertising services, which is focused on, and derives the majority of its revenue from, precision and tailored advertising campaigns that are results driven and that are dependent on the Group's unique offerings.

End-advertising clients may advertise with both the Group and NetEase Group. Nevertheless, these overlapping end-advertising clients would advertise for their various brands/business lines/products/services with different customer-bases/audiences. As such, these end-advertising clients would adopt different advertising campaigns that focus on different types of customers (including age group, lifestyle and spending patterns) and they would approach the Group for advertising services based on the unique attributes of, and offerings from, the Group's platforms/websites.

Other continuing connected transactions that are mutually beneficial to our Group and NetEase Group

Given that we will remain as part of the NetEase ecosystem, and NetEase will continue to be our parent, we will continue to have a number of transactions with NetEase Group that will be beneficial to our Group, or in the opinion of our Directors, mutually beneficial, to both groups. These include: (i) licensing certain intellectual property, such as those containing "NetEase" and "網易", to our Group (under "Intellectual Property Licensing CCTs"); (ii) providing access to each other's products/services, to be integrated into the other's platforms/products/services or to incentivise and benefit the employees of the wider NetEase Group, such as sub-licensing certain intellectual property rights held by our Group relating to music (under "Other Services CCTs") or procurement of certain assets to enhance our workplace environment (under "Product Procurement CCTs"); (iii) sharing bandwidth, server custody and rack services provided by NetEase Group or procured by NetEase Group from third-parties (under "Bandwidth, Server Custody and Rack Services CCTs"); (iv) sharing certain office-related resources such as office space and administrative facilities and purchases (under "Share Services CCTs"); and (v) receiving information technology services and support from NetEase Group (under "Information Technology CCTs"). These transactions will ensure that our Group maintains a level of synergy with NetEase Group in both back-office administrations and operations and front-end products/services delivered to our users, and reinforce a level of compatibility and seamless transition between and among the products/services offered under the wider "NetEase" brand. Our Directors believe that this level of synergy and compatibility is expected from our employees, our users and our partners, and as such, these transactions are beneficial to and in the interests of our Company and our Shareholders.

On the basis of the above, we consider that: (a) apart from their interest in our Company, if any, our Controlling Shareholder and our Directors do not currently control a business similar to the 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 Hong Kong Listing Rules; (b) our business is clearly delineated from that of NetEase Group; and (c) together with the reasons set out below in this section, we are sufficiently independent from and do not rely on NetEase Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently of our Controlling Shareholder and its close associates after the Listing.

Management independence

Our business is managed and conducted by our Board and senior management. Our Board consists of three executive Directors, three non-executive Directors, and three independent non-executive Directors.

Our Directors consider that our Board and senior management will function independently of our Controlling Shareholder because:

(a) except for Mr. Ding, there will not be any overlap between NetEase and our Company in terms of directors and senior management. Although Mr. Ding will act as our executive Director, we have two other executive Directors and six non-executive Directors and independent non-executive Directors who do not hold directorships or senior management positions in NetEase. The non-overlapping

Directors will provide checks and balances over the decision-making of our Board on connected transactions or other transactions involving conflicts of interests between our Group and NetEase Group. See "Directors and senior management" for the biographies of our Directors and senior managers.

- (b) our executive Directors and members of our senior management are responsible for the day-to-day management of our business and aside from Mr. Ding, none of them holds any directorships or senior management positions in NetEase.
- (c) all of our independent non-executive Directors are independent of NetEase Group and are professional parties having extensive experience in their respective areas of expertise. See "Directors and senior management" for more details. Our independent non-executive Directors are appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. None of our independent non-executive Directors are otherwise connected with NetEase in any manner that may affect their independent judgement or independence, as required under the Listing Rules.
- (d) each Director is aware of his/her fiduciary duties as a director which require, among others, that he/she acts for the benefit and in the interest of our Company and does not allow any conflict between his/her duties as a director of our Company and any personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall not vote and shall not have their presence counted towards quorum in respect of such transactions. See "— Corporate governance measures" for other corporate governance measures we have adopted to manage conflicts of interest, if any, between our Group and our Controlling Shareholder.

Based on the above, our Directors believe that our business is managed independently of our Controlling Shareholder.

Operational independence

We have sufficient capital, facilities, equipment and employees to operate our business independently of our Controlling Shareholder. Our access to, and relationship with, our customers and suppliers are independent of our Controlling Shareholder, and we have an independent management team that operates our business.

Nevertheless, after the Listing, we will maintain a number of transactions and share resources, including IP licensing, advertising services, information technology services, product procurement and shared services (see "Connected transactions — NetEase Group Framework Agreement"), with NetEase, which we believe will benefit our Company, increase our operational and administrative efficiency, and strategically maintain the alignment between our Company and NetEase, a brand well-known in China in the internet services industry.

See "Connected transactions" for details of the transactions (including the reasons for the transactions) that we share with our Controlling Shareholder.

Notwithstanding the above, our Directors believe that our business is operationally independent of our Controlling Shareholder.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. We have independent internal control and accounting systems and also have an independent finance department responsible for discharging the treasury function, and an audit committee comprising solely of independent Directors to oversee our accounting and financial reporting processes. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholder.

Other than certain accounts receivables and accounts payables arising from the normal course of business, there are no loans or guarantees provided by, or granted to, our Controlling Shareholder or its associates will be outstanding as of the Listing Date.

Based on the above, our Directors believe that our Board as a whole, and together with our senior management team, are able to manage, operate and carry on our business independently of, and do not place undue reliance on, our Controlling Shareholder and its close associates.

CORPORATE GOVERNANCE MEASURES

Our Directors recognise the importance of good corporate governance in protecting our Shareholders' interests. We will adopt the following corporate governance measures to resolve actual or potential conflict of interests between our Group and our Controlling Shareholder:

- (a) under the Articles, where any member is, under the Listing Rules, required to abstain from voting only for or only against any particular resolution proposed at a meeting of our Shareholders, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted in the quorum in respect of such transactions;
- (b) our Company has established internal control mechanisms to identify connected transactions, and we will comply with the applicable Listing Rules if we enter into connected transactions with our Controlling Shareholder or its associates after the Listing;
- (c) our independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between our Group and our Controlling Shareholder (the "Annual Review") (including review of the composition of our Board and consider whether our Board, in light of the matters requiring the overlapping Director(s) to abstain from voting, can maintain effective functioning) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) our Controlling Shareholder will undertake to provide all information necessary or requested by our independent non-executive Directors for the Annual Review, including all relevant financial, operational and market information;
- (e) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company's expense; and

(f) we have appointed China International Capital Corporation Hong Kong Securities Limited as our compliance adviser for the period prescribed by the Listing Rules to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors believe that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholder, and to protect our minority Shareholders' interests after the Listing.

CONNECTED PERSONS

We have entered into certain transactions in the ordinary and normal course of our business with the following connected persons, which will constitute connected transactions upon the Listing:

Name of connected person	Relationship		
NetEase	our substantial shareholder		
Registered Shareholders who hold 10% or more of the equity interest in the Onshore Holdcos	our substantial shareholders		

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Tra	nsaction	Proposed annual cap for the years ending 31 December			
		2021	2022	2023	
	_	(in	RMB million)		
Net	Ease Group Framework Agreement				
	ly-exempt continuing connected ransaction				
1.	Intellectual Property Licensing CCTs by NetEase Group to our Group	N/A	N/A	N/A	
	tially-exempt continuing connected ransaction				
2.	Other Services CCTs by our Group to NetEase Group	27.4	34.9	48.0	
3.	Bandwidth, Server Custody and Rack Services CCTs by NetEase Group to our Group	105.2	119.7	141.4	
4.	Shared Services CCTs by NetEase Group to our Group	79.5	36.7	51.3	
5.	Product Procurement CCTs by NetEase Group to our Group	24.2	32.9	46.7	
Nor	n-exempt continuing connected transaction				
6.	Advertising Services CCTs by our Group to NetEase Group	N/A	N/A	N/A	
7.	Advertising Agency Services CCTs by NetEase Group to our Group	N/A	N/A	N/A	
8.	Information Technology CCTs by NetEase Group to our Group	281.9	342.6	468.9	
Coı	ntractual Arrangements				
Nor	n-exempt continuing connected transaction				
9.	Contractual Arrangements	N/A	N/A	N/A	

During the Track Record Period, the partially-exempt and non-exempt transactions below were conducted in the ordinary and usual course of business and will, upon Listing, constitute continuing connected transactions of the Company subject to the annual reporting, announcement and independent Shareholders' approval (as the case may be) requirements under Chapter 14A of the Listing Rules.

NETEASE GROUP FRAMEWORK AGREEMENT

Background

Prior to the Spin-off, our Group's business was part of NetEase Group and all transactions between the parties were intragroup.

Following the Spin-off, our Directors believed that certain of these transactions would remain beneficial to our Group and be in the best interests of our Company and its Shareholders as a whole. 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, (ii) Other Services; and
- (b) NetEase Group would provide to our Group, (i) Intellectual Property Licensing Services, (ii) Advertising Agency Services, (iii) Bandwidth, Server Custody and Rack Services, (iv) Information Technology Services, (v) Shared Services, and (vi) Product Procurement.

The terms of the NetEase Group Framework Agreement were entered into on normal commercial terms (or better) after arm's length negotiations and, except with respect to the Intellectual Property Licensing Services, which will be in perpetuity, the transactions under the NetEase Group Framework Agreement will commence on the Listing Date and continue until 31 December 2023 (both dates inclusive).

Details of the transactions

Intellectual Property Licensing by NetEase Group to our Group

NetEase Group will grant to our Group a royalty-free licence to non-exclusively use certain intellectual property, including software copyrights, domain names, trademarks and logos relating to NetEase or registered by NetEase, such as those containing "NetEase" and "網易" (both of which cannot be directly transferred to our Group) in connection with the branding of our services, platforms, branding and business operations, for an indefinite term ("Intellectual Property Licensing CCTs"). Such brands and logos were already used in our Group prior to the Spin-off and this arrangement is necessary to ensure no disruption to our branding activities.

We have no historical transaction amount for this transaction as we were not charged any royalties for this transaction during the Track Record Period.

As the licence to use the specified intellectual property rights is granted to us on a royalty-free basis, this constitutes a *de minimis* transaction upon Listing and will be fully exempt from the annual reporting, announcement, independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

Our Directors are of the view that considering the nature of the intellectual property rights and the strategic importance of the rights to the stability of our Group's business and operations, it is normal business practice and in the interests of the Company and its Shareholders as a whole for the term of the Intellectual Property Licensing CCTs under the NetEase Group Framework Agreement to be longer than three years.

Having considered the nature and importance of the Intellectual Property Licensing CCTs under the NetEase Group Framework Agreement and the relationship between NetEase Group and the Group, the Joint Sponsors are of the view that it is commercially justifiable and normal business practice, and in the interest of the Company and its shareholders as a whole for transactions of the similar natures to be of such duration.

Other Services by our Group to NetEase Group

Transaction and pricing policy

Our Group will provide to NetEase Group services such as the products/services from us or from our users/partners posted on our platforms/websites (including music streaming, certain rights to use or sub-license intellectual property relating to music and brands associated with the products developed on our platforms/websites). For the provision of music streaming and membership services, these services are provided at a discount (at a rate comparable to, and no less better than, those provided to third-party businesses that we also cooperate with) and bundled with NetEase Group's products/services or enjoyed by NetEase Group's members and staff ("Other Services CCTs"). We will also provide traffic direction services under this transaction through a portal on our mobile application that directs to NetEase Group's platforms/websites or products/services, the fees received by us will be based on market prices and volume of use and apportioned with NetEase Group according to a fee split. The fee split depends on the actual traffic volume directed through the portal, the type of products/services generating the revenue (or distribution channel), and a fee split ratio that depends on the popularity of the product/service. The licensing of intellectual property will be negotiated separately on a project basis, with reference to market prices and the same products/services offered to third-parties outside of NetEase Group.

Given that our Group will remain part of the NetEase ecosystem after Listing, we believe that it would be mutually beneficial to both groups to build cohesion between the two groups by incentivising and benefiting both groups with the products and services of the other at a beneficial rate. Similarly, it would be beneficial to both groups to integrate our products and services to reach a broader audience and to enhance the user experience and offerings to users of both groups. For example, by embedding original music created on our platforms and by our users into the online games of NetEase Group, not only will our users (including independent artists that stream their music on our platforms/websites) reach a broader audience and gain an additional revenue stream, NetEase Group will also have a wider catalogue of original scores to use in its gaming and other products. This integration promotes synergy between the two groups and its users.

Historical transaction amounts and annual caps

The historical transaction amounts for the Track Record Period and the expected maximum transaction amounts for the upcoming three full financial years are set out below:

	ransaction an Record Perio		amount for 31	maximum tr the three ye December 20 RMB millio	ears ending 23	
FY 2018	FY 2019	FY 2020	Six months ended 30 June 2021	FY 2021	FY 2022	FY 2023
18.6	15.2	20.0	10.3	27.4	34.9	48.0

Basis of annual caps

The expected transaction amounts for the upcoming three years are estimated based on historical transaction amounts, the expected growth of business of NetEase Group and our Group over the same periods, the estimated growth of users interested in the products/services of our platforms, and changes in prevailing market rates of our products and services over these periods. We expect both the online music entertainment market and the markets in which NetEase Group operate their online businesses to grow and expand over the coming years, as the online services industry expands generally and more users become accustomed to shifting more of their lifestyle habits online and the online ecosystem grows and adapts. With the growth of the online ecosystem, the user base (including new and retained user numbers), user engagement time, the quality and breadth of products/services offered on the platforms/websites, among other things, of both our Group and NetEase Group are all expected to grow (from our perspective). This expected business growth in our Group and NetEase Group (from our perspective) will require increased demand for services under this transaction. We expect prices for products/services to be similarly adjusted according to the market (including inflation). We have accordingly factored these variables into the basis of calculating our expected maximum transaction amounts over the next three years.

The FY 2021 to 2023 compound annual growth rate (or CAGR) of the annual cap amounts is generally in line with the growth rate of the historical transaction amounts in FY 2019 to 2020. The annual caps also take into account the annual revenue derived from NetEase Group for this transaction, as a percentage of the Group's online music services revenue, which was 1.8%, 0.9%, 0.8%, and 0.6%, respectively, for the three years ended 31 December 2020 and six months ended 30 June 2021. As a result of the increasing number of our MAUs and their revenue contribution, this percentage has been slightly decreasing throughout the Track Record Period. As we further expand our MAU base, we expect the decreasing trend for this percentage to continue in the foreseeable future.

Implication under the Listing Rules

Since the highest applicable percentage ratio for this transaction for the upcoming three financial years, calculated under Chapter 14A of the Listing Rules, will be more than 0.1% but less than 5% on an annual basis, pursuant to Rule 14A.76(2)(a) of the Listing Rules, this transaction will be a partially-exempt continuing connected transaction upon Listing, and will be exempt from the circular and independent shareholders' approval (including recommendation from an independent financial adviser) requirements, but will be subject to announcement requirements and annual reporting requirements under Chapter 14A of the Listing Rules.

Bandwidth, Server Custody and Rack Services by NetEase Group to our Group

Transaction and pricing policy

NetEase Group will provide to our Group bandwidth, server custody and rack services ("Bandwidth, Server Custody and Rack Services CCTs"), which includes content delivery network (or CDN) and Internet Data Centre (or IDC) services that NetEase Group will procure from third-parties for relevant hardware and services, data storage services, hard disks, storage and central processing units (or CPUs), and big data platform solutions for big data computation developed by NetEase Group and tailored to our Group's needs. The pricing basis will vary depending on the type of services offered. Server custody fees, sharing of bandwidth equipment and costs associated with engaging operating and maintenance personnel services will be apportioned on a "cost-plus" pricing basis (being a portion of the total costs incurred

by NetEase Group to the provider, plus a percentage to cover additional costs and expenses, such as personnel/maintenance/hosting, incurred by NetEase Group in sharing the service) for the primary reason that historically, there were not many providers for these services and those existing providers preferred not to contract with multiple entities within the same group, and since then, the Group has not identified any appropriate and suitable third-party providers with whom the Group can directly contract with that would offer a more beneficial arrangement to the Group than under this transaction; and accordingly, market-prices were not considered appropriate or suitable for a pricing basis and the "cost-plus" basis was considered more appropriate and beneficial to the Group. Transcoding services will be priced based on market prices applying a discount. The market prices are based on comparisons of charged or quoted prices by comparable providers for comparable services, such as speed of responding, and reviewed and renegotiated periodically with the provider. The Group will compare the benefits (including qualitative benefits) gained and costs/expenses incurred under this transaction against the estimated costs/expenses likely to be incurred and any anticipated benefits/disadvantages/limitations (including potential reluctance from providers to contract with multiple entities within the one group and number of competing providers offering comparable products/services) of acquiring the services directly from third-party providers, on an ongoing basis, to determine whether this transaction would remain beneficial to the Group and will make adjustments to this transaction accordingly, in the best interests of the Company.

We believe that sharing the procurement of these services with NetEase Group would be more beneficial to our Group compared with each of the groups procuring these services separately. It is mutually beneficial to both groups for NetEase Group to undertake the procurement role *vis-a-vis* third-parties, which would allow both groups to benefit from the economy of scale achieved by procuring these resources in bulk and in accessing a greater number of suppliers and third-party providers, and allow the parties to negotiate with third-parties from a more advantageous position.

Historical transaction amounts and annual caps

The historical transaction amounts for the Track Record Period and the expected maximum transaction amounts for the upcoming three full financial years are set out below:

	ransaction an Record Perio		amount for 31	maximum tr the three ye December 20 RMB millio	ears ending 123	
FY 2018	FY 2019	FY 2020	Six months ended 30 June 2021	FY 2021	FY 2022	FY 2023
85.0	139.9	89.6	45.0	105.2	119.7	141.4

Basis of annual caps

The expected transaction amounts for the upcoming three years are estimated based on historical transaction amounts, the expected growth of our business over the same periods, and changes in prevailing market rates of the products and services offered by NetEase Group and third-parties over these periods. We expect the online music entertainment market to grow and expand over the coming years. With the market's growth, our user base (including new and retained user numbers), user engagement time, the quality and breadth of products/services offered on our platforms/websites, among other things, are all expected to grow. This expected business growth will require increased demand for services under this transaction, particularly

in areas of data storage services, storage and CPUs, and big data platform solutions, as the amount of data passed through and processed on our systems increase. We expect prices for higher-level/quality services for commercial use to similarly be adjusted according to the market (including inflation). We have accordingly factored these variables into the basis of calculating our expected maximum transaction amounts over the next three years.

In determining the annual caps for this transaction, we have considered the historical, and our predicted, trends of our overall expenses as represented by the aggregate of our cost of revenue and operating expenses as well as our expenses incurred from this transaction as a percentage of such overall expenses. As we continue to further expand our user base to reach critical mass in user scale, we expect the growth rate of our aggregate amount of cost of revenue and operating expenses to decrease over the next few years (given our overall economy of scale). This takes into account the trend experienced over the Tack Record Period, where our costs from this transaction, as a percentage of the aggregate of our cost of revenue and operating expenses, has decreased from 2.9% in FY 2018 to 1.4% in FY 2020, and further decreased to 1.2% in the six months ended 30 June 2021, due to benefits of growing scale; and we expect this trend to continue over the next few years.

Implication under the Listing Rules

Since the highest applicable percentage ratio for this transaction for the upcoming three financial years, calculated under Chapter 14A of the Listing Rules, will be more than 0.1% but less than 5% on an annual basis, pursuant to Rule 14A.76(2)(a) of the Listing Rules, this transaction will be a partially-exempt continuing connected transaction upon Listing, and will be exempt from the circular and independent shareholders' approval (including recommendation from an independent financial adviser) requirements, but will be subject to announcement requirements and annual reporting requirements under Chapter 14A of the Listing Rules.

Shared Services by NetEase Group to our Group

Transaction and pricing policy

NetEase Group will share various services with our Group, including the sharing of premises and use of administrative resources, facilities, furniture, administrative purchases and various support services, some of which may be procured from third-parties should the Company desire or consider it more beneficial ("Shared Services CCTs"). The shared services will be apportioned on a "cost-plus" pricing basis (being a portion of the total costs incurred by NetEase Group to the provider, plus a percentage to cover additional costs and expenses, such as personnel/maintenance/instalment, incurred by NetEase Group in sharing the service). The Group considered this pricing policy appropriate given that it was of the view that the "cost-plus" basis, which would allow the Group to apportion the costs/expenses incurred by NetEase Group, would be more beneficial from both a financial and synergistic perspective, than compared with the Group directly acquiring similar products/services from third-parties, which would likely factor in a premium or charge on a profit-making basis. Furthermore, the Group does not consider there to be an appropriate or desirable provider outside of NetEase Group that would share comparable services on a comparable basis.

These services relate to peripheral aspects of our business that can also be provided or sourced by our Group directly from third-parties. However, sharing these resources would enhance their utilisation, and thereby create less per-unit or per-usage cost for both parties. Accessing these resources through NetEase Group, which undertakes the procurement role from third-parties, allows both parties to benefit from the economy of scale achieved by procuring these resources in bulk, allows the parties to access a greater number of suppliers and third-party providers, and allows our Group to benefit from negotiations with third-parties from a more advantageous

position. The shared services also allow our Group to leverage the brand association, reputation and user reach already established by NetEase Group and promote a better level of administrative and systematic cohesion between the two groups.

Historical transaction amounts and annual caps

The historical transaction amounts for the Track Record Period and the expected maximum transaction amounts for the upcoming three full financial years are set out below:

Expected maximum transaction

	ransaction an Record Perio		amount for 31	the three ye December 20 RMB millio	ears ending 23	
FY 2018	FY 2019	FY 2020	Six months ended 30 June 2021	FY 2021	FY 2022	FY 2023
73.8	62.6	73.5	41.4	79.5	36.7	51.3

Basis of annual caps

The expected transaction amounts for the upcoming three years are estimated based on historical transaction amounts, the expected staff and growth of our business over the same periods, and changes in prevailing market rates of the shared services offered by NetEase Group and third-parties or for comparable services procurable directly from third-parties over the same periods. We expect the online music entertainment market to grow and expand over the coming years. With the market's growth, our user base (including new and retained user numbers), user engagement time, the quality and breadth of products/services offered on our platforms/websites, among other things, are all expected to grow. This expected business growth will require increased staff and office needs, which in-turn would lead to increased demand for shared services under this transaction, particularly in areas of premises sharing and administrative resources sharing. We expect the costs of, and expenses associated with, these shared services to be similarly adjusted according to the market (including inflation). We have accordingly factored these variables into the basis of calculating our expected maximum transaction amounts over the next three years.

In determining the annual caps for this transaction, we have considered the historical, and our predicted, trends of our overall expenses as represented by the aggregate of our cost of revenue and operating expenses as well as our expenses incurred from this transaction as a percentage of such overall expenses. The decrease in 2022 represents personnel expenses (and associated working environment costs) relating to certain administrative staff shared with NetEase Group which our Group intends to decrease as it engages its own staff for these roles outside of NetEase Group. The annual caps take into account an expected decrease in the growth rate of the aggregate of cost of revenue and operating expenses over the next few years (given our overall economy of scale). Other than the personnel expenses relating to certain administrative staff shared with NetEase Group, the rest of the historical transaction amounts for this transaction, as a percentage of the total cost of revenue and operating expenses, was 0.2%, 0.3%, 0.3%, and 0.2%, respectively, for the three years ended 31 December 2020 and six months ended 30 June 2021, and we expect this percentage to remain relatively stable and immaterial in the foreseeable future.

Implication under the Listing Rules

Since the highest applicable percentage ratio for this transaction for the upcoming three financial years, calculated under Chapter 14A of the Listing Rules, will be more than 0.1% but less than 5% on an annual basis, pursuant to Rule 14A.76(2)(a) of the Listing Rules, this

transaction will be a partially-exempt continuing connected transaction upon Listing, and will be exempt from the circular and independent shareholders' approval (including recommendation from an independent financial adviser) requirements, but will be subject to announcement requirements and annual reporting requirements under Chapter 14A of the Listing Rules.

Product Procurement by NetEase Group to our Group

Transaction and pricing policy

NetEase Group will procure for our Group fixed assets such as laptops, hardware and other products for the use of our employees or for our Group to provide as employee benefits to incentivise our staff and enhance our working environment ("Product Procurement CCTs"). The procured products will be provided either at-cost or based on market prices applying a discount. The market prices are based on comparisons of charged or quoted prices by providers for comparable products/items, and reviewed and renegotiated periodically with the provider. The Group will compare the benefits (including qualitative benefits) gained and costs/expenses incurred under this transaction against the estimated costs/expenses likely to be incurred and any anticipated benefits/disadvantages/limitations (including potential reluctance from providers to contract with multiple entities within the one group and number of competing providers offering comparable products under comparable terms) of acquiring the products/items directly from third-party providers, on a periodic basis, to determine whether the scope of this transaction would remain beneficial to the Group and will make adjustments to this transaction accordingly, in the best interests of the Company. For those products that have no market price against which to compare (given that, similar to the Shared Services CCTs, the Group is not able to identify an appropriate comparable provider that is able to offer comparable items within comparable conditions), the Group will refer to the "at cost" pricing basis.

We believe that it is beneficial to the workplace environment of both groups to align the cultures of the two groups and continue to maintain a cohesive and integrated wider-group work culture. As such, we endeavour to provide our employees with a similar level of benefits and office resources as enjoyed by the wider NetEase Group. By procuring these assets through NetEase Group, both groups are able to enjoy the benefits of economy of scale rates and volumes, whilst enhancing the utilisation rates of these products. Nevertheless, where the Group is able to identify opportunities to procure comparable products at a more beneficial price and where the Group considers it would be more beneficial and appropriate for the Group to contract directly with the third-party, the Group will consider procuring such products directly with those third-parties.

Historical transaction amounts and annual caps

The historical transaction amounts for the Track Record Period and the expected maximum transaction amounts for the upcoming three full financial years are set out below:

Expected maximum transaction

	ransaction an Record Perio		amount for 31	the three ye December 20 RMB millio	ars ending 23	
FY 2018	FY 2019	FY 2020	Six months ended 30 June 2021	FY 2021	FY 2022	FY 2023
5.9	16.9	17.9	5.0	24.2	32.9	46.7

Basis of annual caps

The expected transaction amounts for the upcoming three years are estimated based on historical transaction amounts, the expected staff number and growth of our business over the same periods, and changes in prevailing market rates of the products procured by NetEase Group over these periods. We expect the online music entertainment market to grow and expand over the coming years. With the market's growth, our user base (including new and retained user numbers), user engagement time, the quality and breadth of products/services offered on our platforms/websites, among other things, are all expected to grow. This expected business growth will require increased staff and lead to increased staff retention efforts, which in-turn would lead to an increased demand for the products procured under this transaction. We expect the costs of these products, and expenses associated with the procurement of these products, to be similarly adjusted according to the market (including inflation). We have accordingly factored these variables into the basis of calculating our expected maximum transaction amounts over the next three years.

In determining the annual caps for this transaction, we have considered the historical, and our predicted, trends of our overall expenses as represented by the aggregate of our cost of revenue and operating expenses as well as our expenses incurred from this transaction as a percentage of such overall expenses. The annual caps take into account an expected decrease in the growth rate of the aggregate of cost of revenue and operating expenses over the next few years (given our overall economy of scale). The historical transaction amounts for this transaction, as percentage of the aggregate of cost of revenue and operating expenses, was 0.2%, 0.4%, 0.3%, and 0.1%, respectively, for the three years ended 31 December 2020 and six months ended 30 June 2021, and we expect this percentage to remain relatively stable and immaterial in the foreseeable future.

Implication under the Listing Rules

Since the highest applicable percentage ratio for this transaction for the upcoming three financial years, calculated under Chapter 14A of the Listing Rules, will be more than 0.1% but less than 5% on an annual basis, pursuant to Rule 14A.76(2)(a) of the Listing Rules, this transaction will be a partially-exempt continuing connected transaction upon Listing, and will be exempt from the circular and independent shareholders' approval (including recommendation from an independent financial adviser) requirements, but will be subject to announcement requirements and annual reporting requirements under Chapter 14A of the Listing Rules.

Advertising Services by our Group to NetEase Group and Advertising Agency Services by NetEase Group to our Group

Transaction and pricing policy

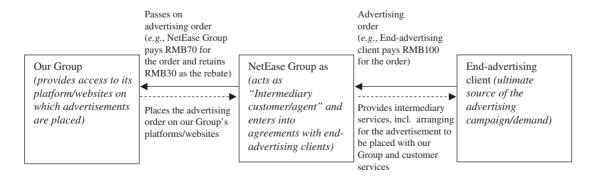
One of our growing revenue streams is from providing advertising services to end-advertising clients, the majority of which are third-parties and outside of the wider NetEase Group. Our advertising services include embedding advertisements across our platforms or through our services, coordinating advertising campaigns using our music or products, and facilitating collaborations between the end-advertising client and our users, artists or stakeholders in the music industry. See "Business — Our monetisation model — Online music services — Advertising services" for more information.

To help connect with a greater number of end-advertising clients and campaigns, we identify and engage with end-advertising clients or campaigns through various intermediaries, including the media arm of NetEase Group. With respect to NetEase Group, we source our end-advertising clients and campaigns through NetEase Group in two ways: (a) the first is through NetEase Group, which plays an "intermediary customer/agent" role and contracts with end-advertising clients and sources their orders with us on the end-advertising clients' behalf. In this arrangement, we will treat both NetEase Group and the end-advertising client as customers (with NetEase Group treated as our contracting customer from an accounting perspective and the end-advertising client treated as our ultimate business customer) and the transaction will be treated as our Group providing advertising services to NetEase Group ("Advertising Services CCTs"); and (b) the second is by our Group directly contracting with end-advertising clients identified through or referred to us by NetEase Group. In this arrangement, we will treat the end-advertising client as the sole customer and NetEase Group will be treated as an agent providing us with a referral service ("Advertising Agency Services CCTs"). In both transactions, our advertising services are ultimately delivered to, catered for, and driven by the demand of end-advertising clients.

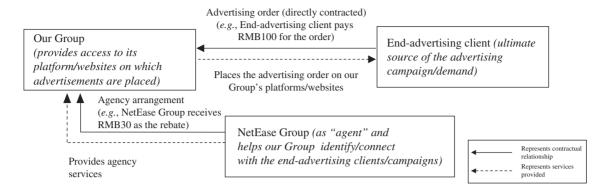
As disclosed in "Relationship with our Controlling Shareholder — Clear delineation of business — Advertising Services and Advertising Agency Services transactions", historically, given that our primary business is in music streaming and not in operating an advertising platform/agency, we have used the sales team, customer service representatives, and media-related resources of firms outside of our Group to assume the "intermediary customer/agent" role. In financial years 2018 and 2019, we engaged another firm outside of NetEase Group, and as such, the transaction amounts under the Advertising Services CCTs for these two years represent revenue generated from NetEase Group as the end-advertising client. In financial year 2020, we engaged NetEase Group to assume the role of "intermediary customer/agent", and accordingly, the transaction amount for financial year 2020 under the Advertising Services CCTs represents revenue ultimately sourced from both NetEase Group and end-advertising clients outside of NetEase Group, as customers. The decision to engage NetEase Group in the role of "intermediary customer/agent" was based on commercial considerations, including competitiveness of price, brand cohesion, industry experience and synergy between our Group and NetEase Group (including users, platforms and product/service strengths), which in turn translates to a greater level of synergy among the end-advertising clients that approach both groups.

Below is a simplified diagram showing the difference between Advertising Services CCTs and Advertising Agency Services CCTs and the monetary flow (purely for illustrative purposes and using an example order amount and assuming the rebate ratio of 30%).

Advertising Services CCTs



Advertising Agency Services CCTs



After the Spin-off, as our Group increasingly promotes our own branding and reputation, we intend to grow our own network and internal resources, including in connection with advertising sales, with the intention of engaging more end-advertising clients directly. Depending on the specific commercial needs and circumstances of each end-advertising client and their campaigns, we will determine whether to engage the end-advertising client directly or through NetEase Group. For example, we will consider the size of a campaign, whether we anticipate the campaign would require more direct involvement from our team or whether it would require heavy customer service support from NetEase Group's network, or whether a campaign would be cross-platform or require synergies across both our Group's platforms/users and NetEase Group's platforms/users. This flexibility will allow us to better tailor our advertising services to the end-advertising clients' needs, and together with NetEase Group's multiple advertising channels and dedicated agents, we will be able to uncover more advertising clients and opportunities for our Group.

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

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

The "rebate ratio" is the percentage charged by NetEase Group to the Group under both the Advertising Services CCTs and the Advertising Agency Services CCTs (and deducted from the proceeds received by the Group from end-advertising clients outside of NetEase Group for advertising services ultimately provided to such end-advertising clients) and is determined with reference to market rates, which will be revised from time to time to ensure that it is in line with market practice. According to CIC, as at the Latest Practicable Date, the average market rate of the rebate ratio percentage ranges from approximately 20% to 50%, based on different contract terms. The base rate of each advertising unit adopts the "effective cost-per-mille" (or "eCPM") pricing model, which is calculated based on the resources/support required and the cost of advertising space per one thousand units of advertisement impressions. The discount rate allows for greater flexibility and depends on various factors, including advertising volume, advertising duration and any bundling services subscribed for by the end-advertising client.

To the best knowledge of our Company, the pricing policy formula for the Advertising Services CCTs and Advertising Agency CCTs 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 <u>volume/quantity</u> of each advertising unit, according to the request of the end-advertising client;
- a <u>discounted rate</u>, which provides the 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 <u>rebate ratio</u>, which represents the percentage charged by NetEase Group to our Group for services they had provided us in the overall process.

Historical transaction amounts and annual caps

The historical transaction amounts for the Track Record Period for the two transactions are set out below:

		ver the Track vertising Serv million)	Transaction amount over the Track Record Period for the Advertising Agency Services (in RMB million)		
FY 2018	FY 2019	FY 2020	Six months ended 30 June 2021	FY 2018 to 30 June 2021	
27.9	52.3	464.4	270.7	We did not engage in this transaction during the Track Record Period. We expect to commence this transaction after the Listing.	

Reasons for not setting annual caps

The amount of revenue generated from advertising for the next few years would largely depend on the business demands of end-advertising clients. Accordingly, the change in our annual advertising revenues under these transactions after the Track Record would largely depend on the business growth, change in advertising budget, and the strategic marketing focus, among other factors, of our end-advertising clients. Given that our end-advertising clients are third-parties outside of the Group, and their internal advertising metrics/drives/business plans and strategies are not known to the Group, we are not in a position to estimate the maximum transaction amounts for each financial year after the Track Record Period.

Additionally, we expect and intend to grow our advertising revenue with time. As such, we have not capped the expected transaction amount for each financial year after the Track Record Period. The annual transaction amount after the Track Record Period is expected to increase with time and would be primarily based on the widening scope of users, the increasing selling price of each advertising item, quantity and audience exposure, with reference to the transaction amount in the 2020 financial year. As we focus our efforts on increasing the scope and quality of our products/services and user consumption of our platforms/websites, we would in turn expect to increase opportunities to monetise our platforms/websites through

advertising; and additionally, as advertising content and reach becomes more targeted and more efficient (e.g., more accurate product/service recommendations are expected to be delivered to our users), we would expect the quantity and price charged in this area to increase. Given the above, and in particular, our intention to grow our advertising revenues generated from our products/services and platforms/websites, we do not consider it appropriate to set a fixed maximum expected annual transaction amount, but rather, will determine the transaction amount based on the pricing formula mentioned above.

Implication under the Listing Rules

We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 14A.53(1) of the Listing Rules to express annual caps for these two transactions in terms of a monetary value. For each of these transactions, since the highest applicable percentage ratio for the upcoming financial years, calculated under Chapter 14A of the Listing Rules, is expected to exceed 5% on an annual basis, each of these two transactions will be a continuing connected transaction upon Listing, and be subject to the announcement, annual reporting and independent shareholders' approval (including recommendation from an independent financial adviser) requirements under Chapter 14A of the Listing Rules.

Information Technology by NetEase Group to our Group

Transaction and pricing policy

NetEase Group will provide to our Group information technology services, including cloud hosting and data storage services, big data services (including extraction and analysis services), algorithm training, and security analysis services ("Information Technology CCTs"). Security analysis services will be priced based on the lowest market price with a discount, while the other information technology services will be based on a "cost-plus" pricing policy. The Group considered this pricing policy appropriate given that it was of the view that the "cost-plus" basis, which would allow the Group to apportion the costs/expenses incurred by NetEase Group, would be more beneficial from both a financial and synergistic perspective, than compared with the Group directly acquiring similar products/services from third-parties, which would likely factor in a premium or charge on a profit-making basis. Furthermore, the Group does not consider there to be an appropriate or comparable provider outside of NetEase Group that would be able to provide comparable services given that the services under this transaction are uniquely tailored to, customised for and specific to businesses within the NetEase ecosystem.

NetEase Group is an information technology company and given that we will remain part of the NetEase ecosystem after Listing, it is in our benefit that our Group's platforms and businesses remain compatible with, and, to some extent, linked to, the wider NetEase Group's network of technology, platforms and systems. There is a level of synergy to be maintained, not only at an operational and resource-sharing level, but also at a system and information technology level, to ensure a seamless integration of product and service offerings and user experience to the wider NetEase Group's users, customers and partners. Additionally, by tapping into NetEase Group's vast network of information technology expertise and engineering talent, we are able to leverage the wider NetEase Group's already established networks, data and analytical know-how, and consumer ecosystem.

Historical transaction amounts and annual caps

The historical transaction amounts for the Track Record Period and the expected maximum transaction amounts for the upcoming three full financial years are set out below:

Expected maximum transaction

	ransaction an Record Perio		amount for	the three ye December 20 RMB millio	ars ending 23	
FY 2018	FY 2019	FY 2020	Six months ended 30 June 2021	FY 2021	FY 2022	FY 2023
72.7	121.7	240.1	135.9	281.9	342.6	468.9

Basis of annual caps

The expected transaction amounts for the upcoming three years are estimated based on historical transaction amounts, the expected growth of our business over the same periods (and therefore, corresponding growth in our need for information technology services, particularly in data processing, storage and analysis services), and changes in prevailing market rates offered by NetEase Group and third-parties over the same periods. We expect the online music entertainment market to grow and expand over the coming years. With the market's growth, our user base (including new and retained user numbers), user engagement time, the quality and breadth of products/services offered on our platforms/websites, among other things, are all expected to grow. This expected business growth will require increased demand for services under this transaction, particularly in the demand for greater hardware, software and information technology maintenance and support services. We expect comparable market prices for these services to be similarly adjusted according to the market (including inflation). We have accordingly factored these variables into the basis of calculating our expected maximum transaction amounts over the next three years.

In determining the annual caps for this transaction, we have considered the historical, and our predicted, trends of our overall expenses as represented by the aggregate of our cost of revenue and operating expenses as well as our expenses incurred from this transaction as a percentage of such overall expenses. The annual caps take into account an expected decrease in the growth rate of the aggregate of cost of revenue and operating expenses over the next few years (given our overall economy of scale). The historical transaction amounts for this transaction, as a percentage of the aggregate of cost of revenue and operating expenses, was 2.5%, 3.0%, 3.7% and 3.5%, respectively, for the three years ended 31 December 2020 and six months ended 30 June 2021, and we expect this percentage to slightly decrease in the foreseeable future due to the effects of economy of scale.

Implication under the Listing Rules

Since the highest applicable percentage ratio for the upcoming three full financial years, calculated under Chapter 14A of the Listing Rules, will exceed 5% on an annual basis, the transaction will be a continuing connected transaction upon Listing, and be subject to the announcement, annual reporting and independent shareholders' approval (including recommendation from an independent financial adviser) requirements under Chapter 14A of the Listing Rules.

THE CONTRACTUAL ARRANGEMENTS

As disclosed in "Contractual Arrangements", due to regulatory restrictions on foreign ownership in the PRC, we conduct part of our business through our Consolidated Affiliated Entities in the PRC. We do not hold equity interests in our Consolidated Affiliated Entities. Rather, through the Contractual Arrangements, we have effective control over the Consolidated Affiliated Entities. See "Contractual Arrangements" for further detail on the agreements underlying the Contractual Arrangements.

The transactions contemplated under the Contractual Arrangements constitute connected transactions of the Company under the Listing Rules as certain parties to the Contractual Arrangements, namely, the Registered Shareholders, are connected persons of the Company.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our Consolidated Affiliated Entities and any member of our Group ("New Intergroup Agreements" and each of them, a "New Intergroup Agreement") technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in an unique situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements under Chapter 14A of the Listing Rules, including the announcement, annual reporting, and independent shareholders' approval (including recommendation from an independent financial adviser) requirements.

WAIVERS

Advertising Services CCTs and Advertising Agency Services CCTs

In relation to each of the Advertising Services CCTs and the Advertising Agency Services CCTs under the NetEase Group Framework Agreement, we have applied for, and the Stock Exchange has granted us, a waiver from (i) the announcement, circular (including the opinion and recommendation from an independent financial adviser), independent shareholders' approval requirements under Chapter 14A of the Listing Rules; and (ii) the requirements to set an annual monetary cap under Rule 14A.53(1) of the Listing Rules, pursuant to Rule 14A.105 of the Listing Rules, subject to the following conditions:

- (a) we will disclose in our subsequent annual and interim reports: (i) a clear description of the bases for calculating the transaction amounts, and (ii) the actual transaction amounts, under the Advertising Services CCTs and Advertising Agency Services CCTs within the NetEase Group Framework Agreement.
- (b) our independent non-executive Directors will review the underlying transactions entered into under the Advertising Services CCTs and Advertising Agency Services CCTs within the NetEase Group Framework Agreement on an annual basis and confirm in our annual reports the matters set out in Rule 14A.55 of the Listing Rules.

- (c) we will comply with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules if there is any material change to the terms of the Advertising Services CCTs and Advertising Agency Services CCTs under the NetEase Group Framework Agreement.
- (d) we will engage an external auditor to report on, among other things, transactions contemplated in the Advertising Services CCTs and Advertising Agency Services CCTs under the NetEase Group Framework Agreement pursuant to Rule 14A.56 of the Listing Rules. We will also ensure that the auditor is allowed sufficient access to our records for the purpose of reporting on the Advertising Services CCTs and Advertising Agency Services CCTs.
- (e) we and our Board will ensure that the two transactions are undertaken in accordance with the terms of the Advertising Services CCTs and Advertising Agency Services CCTs under the NetEase Group Framework Agreement and will use our best endeavours to comply with such terms and the Listing Rules requirements applicable to the Advertising Services CCTs and Advertising Agency Services CCTs under the NetEase Group Framework Agreement.
- (f) we will disclose in this document: the background of entering into the Advertising Services CCTs and Advertising Agency Services CCTs, the salient terms of the Advertising Services CCTs and Advertising Agency Services CCTs, the grounds of applying for the waivers set out in the final waiver application(s) submitted to the Stock Exchange, and our Directors' views on the fairness and reasonableness of the Advertising Services CCTs and Advertising Agency Services CCTs under the NetEase Group Framework Agreement as a whole.
- (g) we will implement internal procedures so as to ensure that the Advertising Services CCTs and Advertising Agency Services CCTs under the NetEase Group Framework Agreement are undertaken in accordance with the terms provided therein and the underlying transaction agreements entered into pursuant to or governed by the Advertising Services CCTs and Advertising Agency Services CCTs under the NetEase Group Framework Agreement.

Transactions under the NetEase Group Framework Agreement (other than Intellectual Property Licensing CCTs, Advertising Services CCTs, Advertising Agency Services CCTs)

Aside from the Intellectual Property Licensing CCTs, Advertising Services CCTs and Advertising Agency Services CCTs, for the other transactions under the NetEase Group Framework Agreement, we have applied for, and the Stock Exchange has granted us, pursuant to Rule 14A.105 of the Listing Rules, the following:

- (a) with respect to each of the Other Services CCTs, Bandwidth, Server Custody and Rack Services CCTs, Shared Services CCTs and Product Procurement CCTs, waivers from strict compliance with Rule 14A.35 of the Listing Rules, provided that the total transaction amounts of these transactions for each of the three years ending 31 December 2023 will not exceed the relevant estimated transaction amount for the respective expected maximum transaction amount for each corresponding year, as disclosed above; and
- (b) with respect to the Information Technology CCTs, a waiver from strict compliance with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, provided that the total

transaction amounts of this transaction for each of the three years ending 31 December 2023 will not exceed the expected maximum transaction amount for each corresponding year, as disclosed above. Any material changes to the terms of this transaction will be approved by our independent Shareholders. The independent non-executive Directors and the auditor of our Company will review whether this transaction has been entered into pursuant to the principal terms and pricing policies under the NetEase Group Framework Agreement, as disclosed above. The confirmation from our independent non-executive Directors and our auditor will be disclosed annually according to the requirements of the Listing Rules.

Contractual Arrangements

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 (collectively, the "Applicable Requirements"), for so long as our Shares are listed on the Stock Exchange, subject to the following conditions:

- (a) No change without independent non-executive Directors' approval. No change to the Contractual Arrangements (including with respect to any fees payable to the WFOE thereunder) will be made without the approval of the independent non-executive Directors.
- (b) No change without independent Shareholders' approval. Save as described below, no material change to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders. Once the independent Shareholders' approval of any change has been obtained, no further announcement or approval by our independent Shareholders, except for those described above, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company will continue to be applicable.
- (c) Economic benefits and flexibility. The Contractual Arrangements will continue to enable our Group to receive economic benefits derived by our Consolidated Affiliated Entities through: (i) our Group's option (if and when allowed under applicable PRC Laws) to acquire, all or part of, the entire equity interests in our Consolidated Affiliated Entities for nil consideration or for the minimum amount of consideration permitted by applicable PRC Laws; (ii) the business structure under which the profit generated by our Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to the WFOE by our Consolidated Affiliated Entities under the Cooperation Agreements (as defined in "Contractual Arrangements"); and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of our Consolidated Affiliated Entities.
- (d) Renewal and reproduction. On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and our Consolidated Affiliated Entities, on the other hand, that framework may be renewed

and/or reproduced without being in strict compliance with the Applicable Requirements (including obtaining the approval of our Shareholders): (i) upon the expiry of the existing arrangements; (ii) in connection with any changes to the Registered Shareholder in respect of its shareholding in or director(s) of the Consolidated Affiliated Entities; or (iii) in relation to any existing, newly established or acquired wholly foreign-owned enterprise (or foreign-controlled joint venture) or operating company (including branch company), engaging in the same business as that of our Group. Such renewal and/or reproduction is justified by business expediency. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise (or foreign controlled joint venture) or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, be treated as connected persons of our Group and transactions between these connected persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC Laws and approvals. Any such renewed or reproduced agreements will be on substantially the same terms and conditions as the existing Contractual Arrangements.

DIRECTORS' CONFIRMATION

Our Directors (including independent non-executive Directors) are of the view that the continuing connected transactions set out above have been entered into in our ordinary and usual course of business on normal commercial terms or better which are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and the proposed monetary annual caps or non-monetary caps (if any) in respect of the partially-exempt and non-exempt continuing connected transactions are fair and reasonable and in the interests of us and our Shareholders as a whole.

JOINT SPONSORS' CONFIRMATION

Based on (i) the documentation and data provided to the Joint Sponsors, (ii) the due diligence conducted and discussions with the Company, and having made reasonable inquiries and after due and careful consideration, the Joint Sponsors are of the view that, as of the date of this document, the aforesaid partially-exempt and non-exempt continuing connected transactions have been entered into in the ordinary and usual course of business of the Company on normal commercial terms (or better) which are fair and reasonable, and in the interests of the Company and its Shareholders as a whole, and the proposed monetary annual caps or non-monetary caps (as applicable) in respect of such continuing connected transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

DIRECTORS

Upon the Listing, our Board will consist of nine Directors, comprising of three executive Directors, three non-executive Directors and three independent non-executive Directors, namely:

<u>Name</u>	Age	Position	Roles and responsibilities	Date of joining our Group	Date of appointment as Director
Mr. William Lei Ding	50	Executive Director, Chairman, Chief executive officer	Overall executive and business direction and overall management of our Group	February 2016	2 February 2016
Mr. Yong Li	43	Executive Director, Vice president of business intelligence	Overall strategic planning and business direction and overall management of our Group	September 2019	25 May 2021
Ms. Yanfeng Wang	34	Executive Director	Overall strategic planning and business direction and overall management of our Group	July 2020	25 May 2021
Mr. Yat Keung Li		Non-executive Director	Provide professional advice, opinion, and guidance to our Board	September 2018	18 September 2018
Mr. Dewei Zheng	38	Non-executive Director	Provide professional advice, opinion, and guidance to our Board	May 2021	25 May 2021
Mr. Feng Yu	44	Non-executive Director	Provide professional advice, opinion, and guidance to our Board	May 2021	25 May 2021
Mr. Ying Kit Caleb Lo	60	Independent non- executive Director	Supervising and providing independent judgement to our Board	the Listing Date	the Listing Date
Mr. Xianfeng Gu	51	Independent non- executive Director	Supervising and providing independent judgement to our Board	the Listing Date	the Listing Date
Mr. Zhong Xu.	53	Independent non- executive Director	Supervising and providing independent judgement to our Board	the Listing Date	the Listing Date

Save as may be disclosed below, none of our Directors and members of senior management are related to other Directors or members of senior management.

Executive Directors

Mr. Lei Ding (丁磊), also known as William Lei Ding, 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 (李勇) 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 (王燕鳳) 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 (李日強) 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 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 (鄭德偉) 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.

Mr. Feng Yu (俞峰) is a non-executive Director. Mr. Yu joined Alibaba Group in March 2006 and currently serves as the vice president of the Taobao e-commerce content business division 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. He 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 (盧英傑) will be an independent non-executive Director upon Listing, and the chairperson 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: HPO) 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 (顧險峰) will be an independent non-executive Director upon the Listing, and 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 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 (許忠) will be an independent non-executive Director upon Listing, and the chairperson 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.

SENIOR MANAGEMENT

Mr. Ding is an executive Director of our Company and the chairman of our Group. Mr. Li is an executive Director of our Company. Please see their biographies in "— Director — Executive Directors."

The senior management team of our Group comprises the following persons (other than our executive Directors):

D 4 6

Ī	Name	Age	Position	Roles and Responsibilities	Date of joining our Group	Date of appointment as senior manager
l	Mr. Yiwen Zhu	41	Senior Vice President	Responsible for the overall management of the Company	July 2012	July 2012
l	Mr. Bo Ding	43	Vice President of Content	Responsible for the Company's music content development	July 2012	July 2012
l	Mr. Cai Cao	35	Vice President of Technology	Responsible for the Company's technology development	July 2012	July 2012
l	Ms. Ju Lu	41	Vice President of Finance	Responsible for the Company's finance and investments	May 2018	May 2018

Mr. Yiwen Zhu (朱一聞) 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 (丁博) 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 (曹偲) 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 (蘆菊) 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.

COMPANY SECRETARY

Ms. Wong Wai Yee Ella (黃慧兒) 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), and Vedan International (Holdings) Limited 味丹國際(控股)有限公司 (SEHK: 2317). Ms. Wong is Chartered Secretary, Chartered Governance Professional, Fellow of 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)).

MANAGEMENT AND CORPORATE GOVERNANCE

Board Committees

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 set out in Appendix 14 to the Listing Rules. 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 the Board. 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 chair of the audit committee.

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 set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendations to the Board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration committee comprises three members, namely Mr. Xianfeng Gu, Mr. Ying Kit Caleb Lo and Mr. Zhong Xu, with Mr. Zhong Xu as chair of the remuneration committee.

Nomination committee

We have established a nomination committee with written terms of reference in compliance with the Code on Corporate Governance in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. The nomination committee comprises three members, namely Mr. Xianfeng Gu, Mr. Ying Kit Caleb Lo and Mr. Zhong Xu, with Mr. Xianfeng Gu as chair of the nomination committee.

Corporate Governance Code

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. In order to accomplish this, we expect to comply with the Corporate Governance Code set out in Appendix 14 to the Listing Rules save for the below.

Code provision A.2.1 of the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules, recommends, but does not require, that the roles of chairperson and chief executive should be separate and should not be performed by the same person. Our Company deviates from this provision because Mr. Ding performs both the roles of the chairman of the Board and the chief executive officer of our Company. Mr. Ding is the founder of NetEase and has extensive experience in the business operations and management of our Group. Our Board believes that vesting the roles of both chairperson 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 the Board, including the relevant Board committees, and 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.

Board diversity

Our Company has adopted a board diversity policy which sets out the approach to achieve diversity of the Board. Our Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining the 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 the Board and recommend them to the Board for adoption.

Management presence

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not have sufficient management presence in Hong Kong for the purposes of Rule 8.12 of the Listing Rules.

Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules. See "Waivers and Exemptions" for further details

REMUNERATION

Our Directors receive remuneration, including salaries, allowances and benefits in kind, including our contribution to the pension plan on their behalf.

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 for the years ended 31 December 2018, 2019 and 2020 was approximately RMB1.5 million, RMB5.4 million, and RMB3.8 million, respectively. None of our Directors waived any remuneration during the aforesaid periods. See the Accountant's Report in Appendix I for more information.

The five highest paid individuals of our Group for the year ended 31 December 2018, 2019 and 2020 included one, one and one Director, respectively. The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonuses) for the five highest paid individuals for the years ended 31 December 2018, 2019 and 2020 was approximately RMB11.6 million, RMB15.4 million, and RMB20.8 million, respectively.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended 31 December 2018, 2019 and 2020 by our Company to our Directors or senior management.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors for the Track Record Period for the loss of office as director or any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

See "Statutory and general information — Share Incentive Plan — Pre-IPO Share Incentive Plan" in Appendix IV for details of the options granted under the Pre-IPO Share Incentive Plan to the Directors and senior management.

COMPLIANCE ADVISER

We have appointed China International Capital Corporation Hong Kong Securities Limited as our Compliance Adviser pursuant to Rule 3A.19 of the Listing Rules. The Compliance Adviser will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this document or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this document; and
- (d) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of appointment of the Compliance Adviser shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering (assuming the Presumptions and based on the information available as of the Latest Practicable Date) the following persons will have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group:

	Capacity/Nature of	Number of	Approximate percentage of interest in our Company immediately after the Global Offering (assuming the
Name of Shareholder	interest	Shares	Presumptions)
NetEase, Inc. (1)	Beneficial owner	119,770,118	57.65%
Taobao China Holding Limited ⁽²⁾	Beneficial owner	20,733,975	9.98%
Alibaba Group Holding Limited ⁽²⁾	Interest in a controlled corporation	20,733,975	9.98%

Notes:

(1) On 31 March 2021, NetEase was granted an Anti-dilution Right (subject to the terms thereof). See "History – Pre-IPO Investment – Rights of Pre-IPO Investors."

Mr. Ding (through his controlled corporations) is interested in one-third or more of NetEase, and under the SFO, is deemed to be interested in NetEase's interest in our Company; please see "Statutory and general information — Further information about our Directors — Disclosure of interests — Interests and short positions of our Directors in the share capital of our Company or our associated corporations following completion of the Global Offering — Interest in our associated corporation" in Appendix IV for more information.

(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 SFO, 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 the Shares interested by Taobao China Holding Limited in our Company.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following completion of the Global Offering (assuming the Presumptions), have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group.

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements ("Cornerstone Investment Agreement(s)") with the cornerstone investors set out below ("Cornerstone Investor(s)"), pursuant to which the Cornerstone Investors have agreed to, subject to certain conditions, subscribe, or cause their designated entities to subscribe, for such number of Offer Shares (rounded down to the nearest whole board lot of 50 Shares) which may be purchased at the Offer Price with an aggregate amount of approximately US\$350 million (approximately HK\$2,727 million) (calculated based on the conversion rate of US\$1.00 to HK\$7.7921) (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) (each a "Cornerstone Investment") and collectively, the "Cornerstone Placing").

The Cornerstone Placing will form part of the International Offering, and the Cornerstone Investors will not acquire any Offer Shares under the Global Offering (other than pursuant to the Cornerstone Investment Agreements). The Offer Shares to be acquired by the Cornerstone Investors will rank *pari passu* in all respects with the fully paid Shares in issue.

Among the Cornerstone Investors, NetEase is our controlling shareholder. As of the date of this document, NetEase holds 62.46% of the total issued share capital in our Company (assuming the Presumptions).

Immediately following the completion of the Global Offering, aside from NetEase, the Cornerstone Investors will not become substantial shareholders of our Company (as defined under the Listing Rules, "Substantial Shareholder(s)"), and aside from NetEase, the Cornerstone Investors will not have any Board representation in our Company.

To the best knowledge of our Company, aside from NetEase, (i) no Cornerstone Investor will be a connected person of our Company (as defined in the Listing Rules) upon the Listing; (ii) each Cornerstone Investor is independent of the other Cornerstone Investors; (iii) no Cornerstone Investor is accustomed to take instructions from us, our subsidiaries, our Directors, chief executive, Controlling Shareholder, Substantial Shareholders, or their respective close associates in relation to the acquisition, disposal, voting or other disposition of the Shares registered in their name or otherwise held by them; and (iv) no Cornerstone Investment is financed by us, our subsidiaries, our Directors, chief executive, Controlling Shareholder, Substantial Shareholders, existing Shareholders or any of its close associates.

To the best knowledge of our Company, the Cornerstone Investments do not require shareholders' approval from the shareholders of the listed Cornerstone Investors, or the corresponding listed shareholder of the Cornerstone Investor in cases where its shareholder(s) is listed, on any stock exchange as disclosed below in "– The Cornerstone Investors."

Aside from those Shares acquired by NetEase, all of the Shares acquired under the Cornerstone Placing will be counted towards the public float of our Company under Rule 8.24 of the Listing Rules.

Other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price, the Cornerstone Investors do not have any preferential rights in the Cornerstone Investment Agreements compared with other public Shareholders. Save as disclosed below in "— The Cornerstone Investors", there are no side arrangements between us and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in relation to the Cornerstone Placing, other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price. As confirmed by each of the Cornerstone Investors, their subscription under the Cornerstone Placing would be financed by their own internal financial resources and/or the financial resources of their shareholders.

The Offer Shares to be subscribed by the Cornerstone Investors may be affected by reallocation in the event of over-subscription under the Hong Kong Public Offering, as described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation"; in such case, the amount allocated to each Cornerstone Investor will be scaled back on a *pro rata* basis. In the event that 50% of the total number of Offer Shares initially made available under the Global Offering is reallocated to the Hong Kong Public Offering, the amount of Offer Shares allocated to the Cornerstone Investors will be adjusted in proportion to their original subscription amount and represent, in aggregate, approximately 50% of the total number of Offer Shares initially available under the Global Offering. Assuming that the Over-allotment Option is fully exercised, the Offer Shares allocated to the Cornerstone Investors, in aggregate, will represent approximately 43.5% of the total number of Offer Shares (as enlarged by the exercise of the Over-allotment Option). Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by us on or around 1 December 2021.

The Cornerstone Investors have agreed to pay for the relevant Offer Shares that they have subscribed before dealings in the Company's Shares commence on the Stock Exchange. There will be no deferred delivery of the Offer Shares to be subscribed by the Cornerstone Investors.

Pursuant to the Anti-dilution Right granted by our Company to NetEase on 31 March 2021, NetEase may acquire Shares under the Global Offering up to US\$200 million, being 7,602,000 new Shares (rounded down to the nearest whole board lot of 50 Shares) based on the mid-point of the Offer Price range, representing 47.51% of the total Offer Shares (not including the exercise of the Over-allotment Option), which would take NetEase's aggregate shareholding to 61.31% immediately after the Global Offering (assuming the Presumptions, other than the exercise of the Anti-dilution Right). See "History — Pre-IPO Investment — Rights of the Pre-IPO Investors" for more information.

THE CORNERSTONE INVESTORS

We set out below a description of our Cornerstone Investors:

1. NetEase

NetEase, Inc. is an exempted company incorporated in the Cayman Islands with Limited liability. Its ADSs are listed on the Nasdaq under "NTES" and its share are listed on the Stock Exchange under "9999." NetEase is our Controlling Shareholder. See "Relationship with our Controlling Shareholder" and "Substantial Shareholders" for more information on NetEase.

2. SME

Sony Music Entertainment ("SME") is a general partnership formed in Delaware on 1 July 2004 that is controlled by Sony Music Holdings Inc., which is in turn a US-based wholly owned subsidiary and global recorded music arm of Sony Corporation of America. Sony Corporation of America, based in New York, is an American subsidiary of the Japanese conglomerate, Sony Group Corporation (TSE: 6758 and NYSE: SONY), that is headquartered in Tokyo, Japan and conducts, by itself or through its subsidiaries, businesses of (i) game and network services, (ii) music, (iii) pictures, (iv) electronics products and solutions, (v) imaging and sensing solutions, (vi) financial services and (vii) other businesses, and research and development activities.

SME is a global recorded music entertainment company nurturing many of today's most iconic artists and the producer of some of the most influential recordings of all time. SME works in more than 60 countries, supporting a diverse roster of international superstars, developing and independent artists, and visionary creators. From a position at the intersection of music, entertainment, and technology, SME brings imagination and expertise to the newest products and platforms, embraces new business models, employs breakthrough tools, and provides powerful insights that help artists push creative boundaries and reach new audiences. SME is a member of the Sony family of global companies.

SME, through its affiliates and business partner, has had direct and indirect licensing arrangements with certain PRC subsidiaries within the Group and the Netease Group (both terms as defined in this document) for the distribution of SME's digital audio and audio-visual contents within Mainland China and collaborative arrangements for the marketing of local artists and live streaming collaborations in Mainland China on an ad hoc basis from time to time. Such licensing and collaboration arrangements have been conducted on arm's length basis and on normal commercial terms.

3. Orbis Investments

Founded in 1989, Orbis Investment Management Limited (the "**Orbis Investments**") is a privately-owned asset manager that has been investing globally for over 30 years. Orbis Investments applies a fundamental, long-term and contrarian investment philosophy in managing its funds (the "**Orbis Funds**"). The Orbis Funds are collective investment schemes or limited partnerships domiciled in Australia, Bermuda, Luxembourg, the United Kingdom and the United States and invest in global and emerging market equities. The Orbis Funds are generally open to both institutional and retail investors. As at 30 June 2021, Orbis Investments had approximately US\$39 billion in assets under management.

The Orbis Funds deal in NetEase's securities from time to time in their normal course of business. As of the Latest Practicable Date, the Orbis Funds held insignificant interests in NetEase, and are Independent Third Parties of NetEase and the Company.

The table below sets out details of the Cornerstone Placing:

Assuming a final Offer Price of HK\$190 per Share (being the low-end of the indicative Offer Price range)

Cornerstone Investor	Subscription amount	Number of Offer Shares to be acquired ⁽¹⁾	Assuming the O	Over-Allotment ot exercised	Assuming the Option is fu	Over-Allotment lly exercised
	(US\$ in millions)		Approximately % of the Offer Shares	Approximately % of the issued share capital (2)	Approximately % of the Offer Shares	Approximately % of the issued share capital (2)
NetEase	200	8,202,200	51.26%	3.95%	44.58%	3.90%
SME	100	4,101,100	25.63%	1.97%	22.29%	1.95%
Orbis Funds .	50	2,050,550	12.82%	0.99%	11.14%	0.98%
Total	350	14,353,850	89.71%	6.91%	78.01%	6.83%

Assuming a final Offer Price of HK\$205 per Share (being the mid-point of the indicative Offer Price range)

Cornerstone Investor	Subscription amount	Number of Offer Shares to be acquired	Assuming the Over-Allotment Option is not exercised		Assuming the Over-Allotment Option is fully exercised	
	(US\$ in millions)		Approximately % of the Offer Shares	Approximately % of the issued share capital (2)	Approximately % of the Offer Shares	Approximately % of the issued share capital (2)
NetEase	200	7,602,000	47.51%	3.66%	41.32%	3.62%
SME	100	3,801,000	23.76%	1.83%	20.66%	1.81%
Orbis Funds .	50	1,900,500	11.88%	0.91%	10.33%	0.90%
Total	350	13,303,500	83.15%	6.40%	72.30%	6.33%

Assuming a final Offer Price of HK\$220 per Share (being the high-end of the indicative Offer Price range)

Cornerstone Investor	Subscription amount	Number of Offer Shares to be acquired	Assuming the Over-Allotment Option is not exercised		Assuming the Over-Allotment Option is fully exercised	
	(US\$ in millions)		Approximately % of the Offer Shares	Approximately % of the issued share capital (2)	Approximately % of the Offer Shares	Approximately % of the issued share capital (2)
NetEase	200	7,083,700	44.27%	3.41%	38.50%	3.37%
SME	100	3,541,850	22.14%	1.70%	19.25%	1.69%
Orbis Funds .	50	1,770,900	11.07%	0.85%	9.62%	0.84%
Total	350	12,396,450	77.48%	5.97%	67.37%	5.90%

Notes:

CLOSING CONDITIONS

The subscription obligation of each Cornerstone Investor under their respective Cornerstone Investment Agreement is subject to, among other things, the following closing conditions:

(a) the underwriting agreements for the Hong Kong Public Offering and the International Offering being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the Underwriting Agreements, and neither of the aforesaid underwriting agreements having been terminated:

⁽¹⁾ Rounded down to the nearest whole board lot of 50 Shares. Calculated based on the exchange rate set out in the section headed "Information about this document and the Global Offering — Exchange rate conversion."

⁽²⁾ Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Incentive Plan.

- (b) the Offer Price having been agreed upon between our Company and the Joint Global Coordinators (on behalf of the underwriters of the Global Offering);
- (c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares (including the Shares subscribed for by the Cornerstone Investors) as well as other applicable waivers and approvals, and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (d) no Laws shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or in the respective Cornerstone Investment Agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (e) the representations, warranties, undertakings and confirmations of such Cornerstone Investor under the respective Cornerstone Investment Agreement are accurate and true in all respects and not misleading and that there is no material breach of such Cornerstone Investment Agreement on the part of such Cornerstone Investor.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each Cornerstone Investor has agreed that it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the "Lock-up Period"), dispose of any of the Offer Shares they have purchased pursuant to the relevant Cornerstone Investment Agreement, save for in certain limited circumstances, such as transfers to any of its wholly-owned subsidiaries, affiliates or close associates who will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restriction.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of our authorised share capital and the amount in issue and to be issued as fully paid or credited as fully paid immediately prior to and following completion of the Global Offering:

	Number of shares	Aggregate nominal value
Authorised share capital as of the date of this document	1,000,000,000 191,756,876 16,000,000	US\$100,000.00 US\$ 19,175.69 US\$ 1,600.00
Offering	207,756,876	US\$ 20,775.69

The above table assumes (i) the Presumptions, (ii) the Global Offering becomes unconditional and Shares are issued pursuant to the Global Offering, and (iii) no Shares are issued or repurchased by us under the general mandates granted to our Directors as referred in "—Potential changes to share capital" below.

Our voting rights structure before the completion of the Global Offering

Under our current weighted voting rights structure, our share capital comprises Class A Ordinary Shares, Class B 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.

Pursuant to the Articles and the Pre-IPO Shareholders' Agreement, the Class B Ordinary Shares and all the Preference 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.

Upon the conversion of all the issued and outstanding Class B Ordinary Shares and Preference Shares into Class A Ordinary Shares, the Company will have in issue 190,286,776 additional Class A Ordinary Shares, representing approximately 99.23% the total number of issued and outstanding Shares (immediately before the Global Offering). Following this, all Class A Ordinary Shares will be re-designated and re-classified as ordinary shares of the Company with a par value of US\$0.0001 each. The current weighted voting rights structure will cease as each Class A Ordinary Share (and ordinary share upon re-designation and re-classification) entitles the holder to exercise one vote on all matters subject to the vote at general meetings of the Company.

For further details, see the summary of the Articles of Association in Appendix III to this document.

SHARE CAPITAL

Ranking

The Shares are ordinary shares in our share capital and rank equally with all shares of the Company currently in issue and, in particular, will rank *pari passu* for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which general meeting and class meeting are required

Our Company may by ordinary resolution of Shareholders: (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may reduce its share capital or capital redemption reserve by its shareholders passing a special resolution.

See "Summary of the constitution of the Company — Articles of Association — 2.5 Alteration of capital" in Appendix III for further details.

Subject to the Cayman Companies Act, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

See "Summary of the constitution of the Company — Articles of Association — 2.4 Variation of rights of existing shares or classes of shares" in Appendix III for further details.

General mandate to issue Shares

Subject to the Global Offering becoming unconditional, our Directors were granted a general mandate to allot, issue and deal with any Shares or securities convertible into Shares of not more than the sum of:

- 20% of the total number of Shares in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and under the Pre-IPO Share Incentive Plan);
 and
- the total number of Shares repurchased by our Company pursuant to the authority referred to in "— General mandate to repurchase Shares" below.

This general mandate to issue Shares will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;
- the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and

SHARE CAPITAL

• the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

General mandate to repurchase Shares

Subject to the Global Offering becoming unconditional, our Directors were granted a general mandate to repurchase our own Shares up to 10% of the total number of Shares in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and under the Pre-IPO Share Incentive Plan).

This mandate only relates to repurchases on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, and in accordance with all applicable laws and the requirements under the Listing Rules or equivalent rules or regulations of any other stock exchange.

This general mandate to repurchase Shares will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;
- the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

See "Statutory and general information — Further information about our Group — Explanatory statement on repurchase of our own securities" in Appendix IV for further details of this general mandate to repurchase Shares.

Share Incentive Plan

We have adopted the Pre-IPO Share Incentive Plan. See "Statutory and general information — Share Incentive Plan" in Appendix IV for further details.

FINANCIAL INFORMATION

In the following section we discuss our historical financial results for the years ended 31 December 2018, 2019, 2020, and for the six months ended 30 June 2021. You should read the following discussion and analysis together with our audited consolidated financial statements as of and for the years ended 31 December 2018, 2019, 2020, and for the six months ended 30 June 2021, our unaudited consolidated financial statements for the six months ended 30 June 2020, and the accompanying notes included in the Accountant's Report in Appendix I to this document. Our consolidated financial statements have been prepared in accordance with IFRS.

This discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and our financial performance and involves risks and uncertainties. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of any number of factors. In evaluating our business, you should carefully consider the information provided in this document, including "Risk Factors" and "Business" in this document.

OVERVIEW

We are a leading music platform, featuring a highly interactive content community for music enthusiasts. Since our inception, we have opened new possibilities for the exploration and creation of music and music-inspired content, as well as social interactions surrounding them. Our platform immerses users in a highly interactive and integrated experience beyond discovering music, providing multimedia, innovative channels for them to express themselves, connect with fellow music enthusiasts, showcase their talents and unleash their creative potential.

Our user base experienced rapid growth in the Track Record Period. Our MAUs of online music services increased from 105.1 million in 2018 to 147.2 million in 2019 and further to 180.5 million in 2020, and up from 173.2 million in the six months ended 30 June 2020 to 184.5 million in the six months ended 30 June 2021. Our users are highly engaged, with each daily active user on average spending approximately 76.9 minutes per day on listening to music on our platform in the six months ended 30 June 2021.

Our deep, diverse reserve of music and music-inspired content lays the foundation of our user experience and community engagement. As of 30 June 2021, we have amassed over 60 million music tracks in total, and, among them, 1.4 million original music tracks were created by Registered Independent Artists. Encouraged and empowered by our user-centric product features and dynamic community culture, our highly engaged user base constantly generates a broad range of music-inspired content, such as playlists, comments, reviews, short-form videos, podcasts, karaoke performances and audio- and video-based live streaming sessions.

We monetise our platform primarily through the sales of membership subscriptions for our online music services and sales of virtual items for our social entertainment services. To diversify our revenue streams, we have been actively developing other monetisation channels, such as providing advertising services, sales of digital albums and music-inspired services.

We grew rapidly during the Track Record Period. Our revenues grew from RMB1.1 billion in 2018 to RMB2.3 billion in 2019 and further to RMB4.9 billion in 2020, and up from RMB2.0 billion in the six months ended 30 June 2020 to RMB3.2 billion in the six months ended 30 June 2021. We recognised fair value loss of convertible redeemable preferred shares of RMB175.3 million, RMB423.5 million, RMB1,361.6 million in 2018, 2019 and 2020 and RMB3.128.7 million in the six months ended 30 June 2021 which is due to the increases in the fair value liabilities of our convertible redeemable preferred shares mainly driven by the increases in the valuation of our Company. This led to the increases in our losses during the Track Record Period. Our convertible redeemable preferred shares will be re-designated and reclassified from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing. Changes in fair value of convertible redeemable preferred shares affect the Group's performance significantly during the Track Record Period and may continue to have adverse effect on the results of the Company when the valuation of the Company continue to increase until conversion into ordinary shares of the Company, after which we do not expect to recognise any further loss or gain on fair value changes from convertible redeemable preferred shares and will return to a net assets position.

We had net loss of RMB2.0 billion, RMB2.0 billion, RMB3.0 billion, RMB1.0 billion, and RMB3.8 billion in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively. We had adjusted net loss (Non-IFRS measures) of RMB1.8 billion, RMB1.6 billion, RMB0.8 billion, and RMB0.5 billion in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively. Adjusted net profit/(loss) is a non-IFRS measure. For more details, see "— Non-IFRS measures" in this section.

BASIS OF PRESENTATION

The historical financial information presented in this section has been prepared in accordance with IFRS and interpretations issued by International Accounting Standards Board applicable to companies reporting under IFRSs. The historical financial information has 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 historical financial information 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 our accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 4 to the Accountant's Report in Appendix I.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, we were in a net liability position of RMB0.9 billion, RMB2.9 billion, RMB5.3 billion and RMB8.9 billion, respectively. Historically, we have relied principally on both internally generated cash flows from operations and financing cash flows from investors (including convertible redeemable preferred shares) to finance our operations and business development. Our ability to continue as a going concern is dependent on management's ability to successfully execute our business plans, which include increasing revenue through enhancing our user base, monetisation capabilities and content offerings; and at the same time managing the related costs in order to continue generating cash flows and gain support from existing and new investors.

Based on the above considerations, our historical performance and management's operating and financing plans, the Directors believe that we will have sufficient working capital to finance our operations and to meet our financial obligations as and when they fall due for not

less than next twelve months after 31 December 2018, 2019 and 2020 and 30 June 2021. Consequently, the historical financial information has been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the normal course of business.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are affected by various general factors affecting the music, entertainment and internet industries in China, which include the trends in consumption of music and music-inspired content, competition for user's time and attention and other resources between various other formats of entertainment, changes in regulatory, legal and public policy landscape, and general economic and business conditions in China and globally. Adverse changes in any of these factors could materially and negatively affect demand for our services and our results of operations.

Our results of operations are also affected by specific factors relating to our business, primarily including the following:

Growing our user base and deepening our user engagement

We derive our revenue growth principally from our online music services and social entertainment services, which are ultimately driven by the size and engagement level of our user base.

We generate our online music services' revenue primarily from sales of membership subscriptions in various content and service packages. The following table sets forth our MAUs of online music services for the periods indicated.

	Year en	ded 31 Dece	Six Months ended 30 June		
-	2018	2019	2020	2020	2021
MAUs of online music services (in millions) ⁽¹⁾	105.1	147.2	180.5	173.2	184.5

Note:

During the Track Record Period, our MAUs of online music services increased significantly, primarily as a result of our continued efforts in improving user experience, innovating interactive features and enriching our content offerings.

As the size and engagement level of our online music services' user base continued to grow, we strive to provide more music-inspired social entertainment services to them, which primarily include our live streaming services. We launched our live streaming services in the second half of 2018, which accounted for substantially all of the revenues of social entertainment services during the Track Record Period. Our vibrant community culture that encourages content creation, as well as our diverse content offerings in both audio- and video-based live streaming formats, contributed to the robust growth of our live streaming business. Our live streaming services business is in a relatively early stage, and we expect our revenues generated from it to increase in absolute amounts in the foreseeable future.

⁽¹⁾ For the definition, see "Glossary of technical terms."

Our ability to continually grow our user base and increase its engagement depends on whether we could effectively (i) strengthen our content offerings by enriching content sourced from music labels and other copyright owners, as well as by encouraging and empowering independent artists, live streaming performers and other content contributors to create high-quality original content; (ii) recommend engaging, personalised content to our users; (iii) innovate and enhance the interactive social features of our platform; (iv) cultivate our community culture and brand value; and (v) improve our ability to attract users to our social entertainment services leveraging our online music services. We will seek to further strengthen our ability in these areas to increase the size and engagement level of our user base.

Enhancing our monetisation capabilities

Our revenues depend on our ability to monetise to convert more users to paying users and to increase the spending of our paying users. The following table sets forth our monthly paying users and monthly ARPPU during the Track Record Period.

	Year end	ded 31 Dec	ember	Six Months ended 30 June		
- -	2018	2019	2020	2020	2021	
Monthly paying users ⁽¹⁾ (in thousands)						
Online music services Social entertainment	4,201.1	8,626.5	15,961.5	12,999.0	26,134.5	
services	5.8	91.7	327.1	270.2	496.4	
Online music services (2) Social entertainment	8.9	9.3	8.4	9.3	6.8	
services ⁽³⁾	$N.M.^*$	477.6	573.8	551.9	526.5	

Notes:

- * Not meaningful as our social entertainment services commenced in the second half of the year.
- (1) For the definitions, see "Glossary of technical terms."
- (2) The revenues used to calculate the monthly ARPPU of online music services include revenues from membership subscriptions only, which amounted to RMB447.1 million, RMB965.9 million, RMB1,603.9 million, RMB725.4 million, and RMB1,064.6 million in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively.
- (3) The revenues used to calculate the monthly ARPPU of social entertainment services include revenues from social entertainment only, which amounted to RMB3.9 million, RMB525.6 million, RMB2,252.2 million, RMB894.7 million, and RMB1,568.2 million in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively.

Our monthly paying users of online music services significantly increased during the Track Record Period, primarily due to the enhanced product and content offerings of our membership services. Our social entertainment services' monthly paying users and monthly ARPPU experienced robust growth due to the rapid development of our live streaming services since its launch in the second half of 2018. To further cultivate our users' willingness to pay, we are committed to continually improving user experience, strengthening our product and content offerings and deepening user engagement.

In addition, we have been striving to develop other monetisation channels. In particular, our revenues from advertising services have been increasing during the Track Record Period. We will seek to continue to attract more advertisers and increase their spending on our platform.

We are also actively exploring new monetisation opportunities in both music as well as music-inspired social entertainment products and services, leveraging our strong brand appeal, vast and highly engaged user base, diverse content and strong relationships with partners in the music, entertainment and internet industries.

Enriching our music content offerings and managing related costs

Our diverse music content offerings underpin our ability to continually attract users and motivate them to pay for our online music services. We have amassed a vast reservoir of music content sourced from music labels. Due to our long-standing efforts in discovering and empowering independent artists, we enjoy a significant advantage in developing original music content offerings. In addition, our dynamic community culture and highly engaged user base also enable us to provide UGC, such as playlists, comments, likes, short-form videos and podcasts, which in turn help us to attract more users to our online music services.

We will continue to strategically enrich our content sourced from music labels by focusing on valuable content that could most effectively address our users' needs. Our unique community culture, strong brand and leading market position have made us an attractive partner for music labels. We are committed to further strengthening our relationships with music labels, availing us of more favourable terms in content sourcing. We also seek to continually encourage and empower independent artists to create more high-quality, diverse music content, which could help us improve our cost structure with respect to music content sourcing.

Enriching our social entertainment content offerings and managing related costs

Our social entertainment content has grown into an important source of user engagement and monetisation largely due to the rapid growth of our live streaming services since its launch in the second half of 2018. We provide both audio- and video-based live streaming content in a variety of interactive, engaging categories, such as instrument, singing and dancing performances, storytelling, talk shows, concerts and music classes. We are committed to further diversifying our live streaming content to attract new users, as well as existing users of our online music services, and to further improving their willingness to pay.

Our costs related to social entertainment content mainly include revenue sharing costs paid to live streaming performers and talent agencies of live streaming performers. We will further solidify our relationships with live streaming performers and their talent agencies and help them grow on our platform, and we believe we will be able to better manage the related costs as our live streaming business continues to scale up.

Enhancing our technological capabilities

Our ability to continually attract users and to deepen user engagement depends on our ability to keep innovating and improving our technology-driven products and services that create more value to our users. Our industry-leading technological capabilities lay the foundation for our platform's personalised content recommendations, assisted content creation, interactive social functions and other powerful features that optimise user experience and realise the unique value of our diverse content. We are committed to enhancing our technological capabilities by making strategic investments in research and development and by expanding and developing our talent pool. We believe our commitment to technology and innovation will enable us to continuously roll out high-quality products and services that attract more users to our platform and deepen their engagement level.

IMPACT OF COVID-19 ON OUR OPERATIONS

The COVID-19 pandemic has severely affected China and the rest of the world. In an effort to contain the spread of the pandemic, China and many other countries have taken precautionary measures, such as imposing travel restrictions, quarantining individuals infected with or suspected of being infected with COVID-19, encouraging or requiring people to work remotely, and cancelling public activities, among others. As a result, in the first half of 2020, our operations had to a certain extent been impacted by delays in business activities, commercial transactions and general uncertainties surrounding the duration of the governments' extended business and travel restrictions. We took a series of measures in response to the outbreak to protect our employees, including, among others, temporary closure of our offices, remote working arrangements for our employees, and travel restrictions or suspension. In particular, the travel restrictions also resulted in the reduction in size or even cancellation of our offline events, which temporarily adversely affected our marketing activities. We also provided our employees with masks, hand sanitisers and other protective equipment immediately after the outbreak, which had increased and may continue to increase our operations and support costs. In addition, our business operations could be disrupted if any of our employees is suspected of contracting COVID-19 or any other epidemic disease, since our employees could be quarantined, and our offices may have to be shut down for disinfection. Furthermore, as social and work gatherings were banned, mandatory quarantine requirements were imposed and public transportation was suspended in certain cities and countries where our offices and facilities were located, a portion of our employees have been working remotely and our operations in those regions have been interrupted to the extent that onsite services of our employees were required.

In addition, the COVID-19 pandemic adversely affected our revenue generated from advertising services in the first half of 2020, as some of our advertisers reduced their expenditures and budgets. Our revenue generated from advertising services increased by 8.5% during the first half of 2020 compared to the first half of 2019, which could be higher without the negative impacts imposed by COVID-19. While the lockdown and various social distancing initiatives adopted by the governments during the outbreak of COVID-19 have caused people to turn to online social and entertainment activities in lieu of physical gatherings, these measures have led to reduced business activities in general. The general concerns and uncertainties about the pandemic and the economy and the overall weakening consumer sentiment may have negatively affected our business.

Many of the quarantine measures within China have since been relaxed, and we have resumed normal operations since the second half of 2020. We have continued to adopt a few measures to improve our financial performance since the second half of 2020, including enhancing our monetisation capabilities for social entertainment services, such as starting the online concert services, and developing new products, such as Xin Yu. The extent to which the COVID-19 pandemic may continue to affect our operations and financial performance will depend on future developments, which are highly uncertain and cannot be predicted. While we believe the impact on our business due to the outbreak of COVID-19 was limited, it is hard for us to quantify the impact and estimate the extent to which the COVID-19 outbreak impacts our long-term results. See "Risk factors — Risks related to our business and industry — The COVID-19 pandemic has adversely affected, and may continue to adversely affect, our business, operating results and financial condition."

MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenues

During the Track Record Period, we generated revenues from online music services and social entertainment services and others. We mainly operated our businesses in China, and generated substantially all of our revenues from customers in China.

The following table sets forth our revenues by business line in absolute amounts and as percentages of our revenues for the periods indicated, respectively:

		Year ended 31 December				Six Months ended 30 June				
	2018		2019		2020		2020		2021	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
							(unaudit	ed)		
	(in thousands, except for percentages)									
Revenues: Online music										
services Social entertainment services and	1,026,168	89.4	1,776,970	76.6	2,622,685	53.6	1,073,826	54.3	1,604,325	50.4
others	121,869	10.6	541,420	23.4	2,273,046	46.4	904,760	45.7	1,579,349	49.6
Total revenues	1,148,037	100.0	2,318,390	100.0	4,895,731	100.0	1,978,586	100.0	3,183,674	100.0

Online music services

The following table sets forth the components of our revenue from online music services in absolute amounts and as percentages of our revenues from online music services for the periods indicated, respectively:

	Year ended 31 December				Six Months ended 30 June					
	2018		2019		2020		2020		2021	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
							(unaudit	ed)		
	(in thousands, except for percentages)									
Online music services										
Membership										
subscription	447,129	43.6	965,923	54.4	1,603,934	61.2	725,444	67.6	1,064,600	66.4
Advertising services	290,744	28.3	414,401	23.3	465,880	17.8	186,293	17.3	270,723	16.9
Others	288,295	28.1	396,646	22.3	552,871	21.0	162,089	15.1	269,002	16.7
Total	1,026,168	100.0	1,776,970	100.0	2,622,685	100.0	1,073,826	100.0	1,604,325	100.0

Our revenues from online music services primarily consist of the sales of membership subscriptions in various content and service packages. We provide our users with subscription packages which entitled paying subscriber access to our relevant music contents and other privileged features on our platforms. The subscription fees for these packages are primarily time-based mainly from weekly to yearly and are collected upfront. Our revenue from sales of membership subscriptions is driven by the size and engagement level of our user base.

Revenue from online advertising is primarily generated through display of advertisements on our online platforms. We offer advertising services in various formats, including brand advertising and performance-based advertising. Revenue is recognised rateably over the period that the advertising is displayed as the performance obligation is expended evenly over the period.

In addition, we also generated revenues from (i) selling digital music albums and singles, (ii) sublicensing music content, and (iii) offering various other music-related content and services.

Social entertainment services and others

Our revenues from social entertainment services and others are primarily derived from sales of virtual items. Revenue from sales of virtual items is recognised when the virtual items are gifted by users to live streaming performers. Proceeds received from the sales of virtual items before they are gifted by users to live streaming performers are recorded as contract liabilities. In 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, revenue from social entertainment services amounted to RMB3.9 million, RMB525.6 million, RMB2,252.2 million, RMB894.7 million, and RMB1,568.2 million, respectively. We launched our live streaming services in the second half of 2018 to provide a more engaging music-inspired experience to our users and to further diversify our platform's monetisation channels. Our revenues from social entertainment services are affected by the number of our paying users and ARPPU.

During the Track Record Period, we generated substantially all the revenues of social entertainment services from our live streaming services. Although a majority of our social entertainment services and others' revenue in 2018 was attributable to sales of music-related merchandise, we strategically shifted our monetisation efforts away from this channel to developing our live streaming services during the Track Record Period.

Cost of Revenue

The following table sets forth the components of our cost of revenue in absolute amounts and as percentages of our revenues for the periods indicated, respectively:

	Year ended 31 December					Six Months ended 30 June				
	2018		2019		2020		2020		2021	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
							(unaudit	ed)		
			(in thous	ands, except	for perc	entages)			
Content service costs	1,970,862	171.7	2,853,025	123.1	4,787,497	97.8	2,069,593	104.6	2,759,391	86.7
Other costs	494,393	43.0	522,079	22.5	703,569	14.4	305,507	15.4	437,139	13.7
Total	2,465,255	214.7	3,375,104	145.6	5,491,066	112.2	2,375,100	120.0	3,196,530	100.4

Content service costs

Content service costs primarily consist of (1) content licensing fees paid to music labels, independent artists and other copyright partners and (2) revenue sharing fees paid to live streaming performers and their agencies. Content licensing fees paid to music labels include minimum guaranteed licensing fees and performance-based licensing fees, with the former representing substantially all of the content licensing fees for music labels. Content licensing fees paid to independent artists are principally performance-based. Revenue sharing fees paid to live streaming performers and their agencies primarily relates to revenue from sales of virtual items. Our content licensing fees accounted for the majority of our content service costs and increased steadily during the Track Record Period because we had been investing in and enriching out content library and acquire high-quality content. Such efforts contributed to its growth of revenues and user base during the Track Record Period. In addition, our revenue

sharing fees increased significantly during the Track Record Period due to the rapid expansion of live streaming services since its launch in the second half of 2018, from an inconsiderable amount in 2018 to a significant portion of our content service costs in 2020 and the six months ended 30 June 2021.

Other costs

Other costs primarily consist of (i) advertising service related costs, (ii) music and entertainment event related costs, (iii) depreciation of property, plant and equipment, (iv) professional fees, (v) employee benefit expenses and (vi) payment channel fee.

Gross Loss and Negative Gross Margin

The following table sets forth our gross loss both in absolute amount and as percentages of our revenues, for the periods indicated, respectively:

	Year ended 31 December					Six Months ended 30 June					
	2018		2019		2020		2020		2021		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	
							(unaudit	ed)			
	(in thousands, except for percentages)										
Gross loss	1,317,218	114.7	1,056,714	45.6	595,335	12.2	396,514	20.0	12,856	0.4	

We incurred gross loss of RMB1.3 billion, RMB1.1 billion, RMB0.6 billion, RMB396.5 million, and RMB12.9 million in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively. Our negative gross margin narrowed significantly during the Track Record Period, reaching 114.7%, 45.6% and 12.2% in 2018, 2019 and 2020, respectively and narrowed from 20.0% in the six months ended 30 June 2020 to 0.4% in the six months ended 30 June 2021, as a result of (i) the expansion of our business operations scale and particularly the rapid growth of live streaming business and (ii) the control of our cost of revenue.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses, (ii) employee benefit expenses to our selling and marketing personnel, and (iii) other selling and marketing expenses. We incurred RMB127.9 million, RMB223.4 million, RMB327.3 million, RMB90.6 million, and RMB154.9 million in selling and marketing expenses in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively. The increase in our selling and marketing expenses during the Track Record Period was primarily due to an increase in promotion and advertising expenses.

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) salary and welfare to our general and administrative personnel and (ii) other general and administrative expenses. We incurred RMB34.3 million, RMB55.4 million, RMB96.9 million, RMB44.6 million, and RMB130.3 million in general and administrative expenses in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively. The increase in our general and administrative expenses during the Track Record Period was primarily due to an increase in related employee benefit expenses.

Research and Development Expenses

Our research and development expenses primarily consist of (i) salary and welfare to our research and development personnel and (ii) other research and development expenses. We incurred RMB266.0 million, RMB363.2 million, RMB576.5 million, RMB247.2 million, and RMB420.3 million in research and development expenses in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively. The increase in our research and development expenses during the Track Record Period was primarily due to an increase in related employee benefit expenses and technology development fees.

Other Income

Other income primarily includes government grants and value-added tax subsidies.

We incurred RMB132 thousand, RMB50.9 million, RMB71.3 million, RMB24.5 million, and RMB13.5 million of other income in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively. The fluctuations in other income during the Track Record Period was primarily due to the fluctuations in government grants and value-added tax subsidies.

Other Gains/(Losses), Net

Our other gains/(losses), net primarily include impairment loss for investments in associates, gain on fair value changes on financial assets at fair value through profit or loss, net foreign exchange gains or loss and others.

We incurred other gains of RMB21.2 million, RMB8.4 million, RMB11.9 million, and RMB3.5 million in 2018, 2019, and the six months ended 30 June 2020 and 2021, respectively, compared to other losses of RMB17 thousands in 2020. The decrease in other gains during the Track Record Period was primarily due to a decrease of net foreign exchange gains. The change from gains in 2019 to losses in 2020 was primarily due to our net foreign exchange losses incurred in 2020.

Finance (cost)/income, Net

Finance (cost)/income, net primarily comprises of finance income net of finance cost. Finance income includes interest income from bank deposits. Finance cost primarily includes interest expense on amounts due to NetEase Group, loss on buy-back of preferred shares, fair value (loss)/gain on other financial liabilities at fair value through profit or loss and others.

We generated RMB50.2 million, RMB100.6 million, RMB58.0 million, and RMB24.8 million of finance income in 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively, compared to finance cost of RMB100.9 million incurred in 2018. The fluctuations in finance costs or finance income was primarily due to the fluctuations in the interest income from bank deposit and other finance costs or income.

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. We recorded changes in fair value of convertible redeemable preferred shares of RMB175.3 million, RMB423.5 million, RMB1,361.6 million, RMB180.1 million, and RMB3,128.7 million in 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, respectively.

TAXATION

In 2018, 2019, 2020, and the six months ended 30 June 2020 and 2021, we had income tax expenses of RMB2.0 million, RMB2.1 million, RMB1.6 million, RMB0.5 million, and RMB2.2 million, respectively. The fluctuations in income tax expenses were primarily due to the fluctuations in enacted tax rates in relation to the preferential tax treatments received by our WFOEs and VIEs and changes in loss before income tax. For more details, see "— PRC" in this section. As of the Latest Practicable Date, we did not have any disputes with any tax authority.

We are subject to various rates of income tax under different jurisdictions. The following summarises major factors affecting our applicable tax rates in the Cayman Islands, Hong Kong and the PRC, which we believe are significant.

Cayman Islands

We are incorporated as an exempted company with limited liability under the Cayman Companies Act and are not currently subject to tax on income or capital gains. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for taxable income earned in Hong Kong before 1 April 2018. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

PRC

Under EIT Law, our PRC subsidiaries, and controlled entities and their subsidiaries are subject to a unified EIT rate of 25%, except for a subsidiary of us in the PRC that was approved as High and New Technology Enterprise which enjoys a preferential tax rate of 15% from 2019 onwards and subject to approvals by the related authorities every three years.

Under the EIT Law, beginning 1 January 2008, distribution of profits earned by companies in mainland China since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor.

We do not have any plan in the foreseeable future to require our subsidiaries in the PRC to distribute their retained earnings, and intend to retain them to operate and expand our business in the PRC. Accordingly, no deferred income tax liability related to withholding tax on undistributed earnings was accrued as of 31 December 2018, 2019 and 2020 and 30 June 2021.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified the accounting policies that we believe are the most significant to the preparation of our consolidated financial statements. Some of our critical accounting policies involve subjective assumptions and estimates and complex judgements by our management relating to accounting items. Our significant accounting policies are set out in detail in the Accountant's Report in Appendix I to this document.

The estimates and associated assumptions, which we believe are reasonable under the circumstances, are based on our historical experience and other factors, and form the basis of our judgements about matters that are not readily apparent from other sources. When reviewing our financial results, you should consider: (i) our selection of critical accounting policies, (ii) the judgement and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions. The determination of these items requires management judgements based on information and financial data that may change in future periods, and as a result, actual results could differ from those estimates.

Contractual Arrangements

We exercise control over certain structured entities and have the right to recognise and receive substantially all the economic benefits from them through the contractual arrangements. The Directors consider that we control these structured entities notwithstanding that we do not have direct or indirect legal ownership in equity of these entities as we have 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 Track Record Period.

Nevertheless, the contractual arrangements may not be as effective as direct legal ownership in providing us with direct control over the structured entities. Uncertainties presented by the PRC legal system could impede our beneficiary rights of the results, assets and liabilities of the structured entities. Significant judgement is involved in determining whether we are 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 advisers, consider that the contractual arrangements entered into by us are in compliance with the relevant PRC laws and regulations and are therefore legally binding and enforceable.

Revenue Recognition

We generate revenues primarily from provision of online music services and social entertainment services, such as music membership subscription, sublicensing of content 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.

The following sets forth the accounting policies for revenue from online music services, social entertainment services and others. See Note 2.20 to the Accountant's Report in Appendix I for more details.

Revenue from online music services

Our music service revenues mainly include revenue from sales of membership subscription, sales of digital music album and singles, content sublicensing and online advertising.

We provide to our users subscription packages which entitled paying subscriber access to our relevant music contents and other privileged features on our 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. We satisfy our performance obligations throughout the subscription period and revenue from the membership subscriptions is recognised over time.

We also offer users exclusive digital music albums and singles for them to purchase, which can be listened to both online and offline. We consider 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.

We sublicense certain of our music contents to other music platforms for a fixed period of one to three years, which generally falls within the original licence period. Sublicense fees are normally collected upfront and is initially recognised as contract liabilities upon receipt. We determine 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 our online platforms.

We 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. We 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 to the criteria stated in "— Principal agent consideration" 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.

Revenue from social entertainment services and others

We operate a live streaming platform whereby users can view performances provided by live streaming performers and interact with them on a real time basis free of charge.

We sell virtual items to users at pre-determined price, where users can gift the virtual items to live streaming performers to show their support and appreciation. We generate revenue from the sale of virtual items, which are also produced and delivered by us. 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 our performance obligation is satisfied, and we have no further obligations related to the virtual items after they are consumed by the users. We allocate 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.

We share 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 we considers itself as the principal for the sale of virtual items as we control 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 "Principal agent consideration" below.

Principal agent consideration

We report revenue on a gross or net basis depending on whether we are 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 we (i) are the primary obligor in the arrangement; (ii) have latitude in establishing the selling price; (iii) change the product or performs part of the service; and (iv) have involvement in the determination of product and service specifications.

Contract liabilities

A contract liability is our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

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 us 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.

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

• Server and network equipment 3 years

Office furniture, equipment and 3-5 years

others

• Leasehold improvements Shorter of the 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.

Principles of consolidation and equity accounting

Subsidiaries

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

Intercompany transactions, balances and unrealised gains on transactions within the Group 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 us.

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, we operate our 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 are legally owned by certain management members of the Company ("Registered Shareholders") authorised by us (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 Power of Attorney, which enable us 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;
- obtain a pledge over all of our equity interests from our respective Registered Shareholders as collateral for all of the PRC entities' payments due to us to secure performance of entities' obligation under the Contractual Arrangements; and
- exercise equity holder voting rights of the Structured entities.

Accordingly, we have rights to control these entities and they are accounted for as entities controlled by us.

Associates

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

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. We have 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 equity accounting below), after initially being recognised at cost in the consolidated balance sheets.

Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise our share of the post-acquisition profits or losses of the investee in profit or loss, and our 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 our share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, we do not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between us and our associates and joint venture are eliminated to the extent of our 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 us.

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

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.

Current and deferred income tax

The income tax expense or credit for the Track Record 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.

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. We measure 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.

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 Historical Financial Information. 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 substantially 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.

Share-based Payments

We operate an equity-settled share-based compensation plan (i.e., share option schemes), under which we receive 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 us. Share options and RSUs granted to the grantees of us are measured at the grant date based on the fair value of equity instruments and are recognised as an employee benefit expense 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 "contribution from ultimate holding company" if it is related to equity instruments of NetEase.

At the end of each period, we revise our estimates of the number of options and RSUs that are expected to vest based on the non-market vesting and service conditions. We recognise 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, such as the entity's share price,
- excluding the impact of any service and non-market performance vesting conditions, such as profitability, sales growth targets and remaining an employee of the entity over a specified time period, and
- including the impact of any non-vesting conditions, such as the requirement for employees to save or hold shares for a specific period of time.

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 30 to the Accountant's Report in Appendix I for details.

We 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 holder 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.

New and Amended Standards Adopted by Us

All effective standards, amendments to standards and interpretations, which are mandatorily effective for the financial year beginning on 1 January 2020, are consistently applied to us for the Track Record Period. In preparation of the Historical Financial Information, we have early adopted IFRS 16 — Leases ("IFRS 16") on 1 January 2018 and applied consistently throughout the Track Record Period.

We lease office buildings. We applied the lessee accounting requirements of IFRS 16 retrospectively during the Track Record Period. Since all lease agreements were within 12 months on 1 January 2018, we had used the practical expedient, in applying IFRS 16 for the first time, by accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2018 as short-term leases.

New and amended standards not yet adopted

Certain new and amended standards have been issued but are not yet effective for the year beginning on 1 January 2021 and have not been early adopted by us during the Track Record Period.

		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

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

RESULTS OF OPERATIONS

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 periods indicated. This information should be read together with our Historical Financial Information and related notes included elsewhere in this document. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Year ended 31 December				Six Months ended 30 June					
	201	8	201	9	202	20	202	.0	202	1
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
							(unaudited)			
				(in th	ousands, excep	pt for percenta	ges)			
Revenue	1,148,037 (2,465,255)	100.0 (214.7)	2,318,390 (3,375,104)	100.0 (145.6)	4,895,731 (5,491,066)	100.0 (112.2)	1,978,586 (2,375,100)	100.0 (120.0)	3,183,674 (3,196,530)	100.0 (100.4)
Gross loss Selling and marketing expenses. General and administrative expenses. Research and development expenses Other income Other gains/(losses), net	(1,317,218) (127,867) (34,323) (265,978) 132 21,174	(114.7) (11.1) (3.0) (23.2) 0.0 1.8	(1,056,714) (223,410) (55,373) (363,200) 50,946 8,398	(45.6) (9.6) (2.4) (15.7) 2.2 0.4	(595,335) (327,323) (96,909) (576,457) 71,251 (17)	(12.2) (6.7) (2.0) (11.8) 1.5 (0.0)	(396,514) (90,550) (44,625) (247,158) 24,494 11,898	(20.0) (4.6) (2.3) (12.5) 1.2 0.6	(12,856) (154,925) (130,261) (420,313) 13,500 3,540	(0.4) (4.9) (4.1) (13.2) 0.4 0.1
Operating loss	(1,724,080)	(150.2)	(1,639,353)	(70.7)	(1,524,790)	(31.2)	(742,455)	(37.5)	(701,315)	(22.0)
for using equity method	(3,969) 22,181 (123,060)	(0.3) 1.9 (10.7)	(1,011) 79,055 (28,814)	(0.0) 3.4 (1.2)	(3,658) 100,642 -	(0.1) 2.1	(2,659) 57,976	(0.1) 2.9	(1,780) 24,795 -	(0.1) 0.8
Changes in fair value of convertible redeemable preferred shares	(175,284)	(15.3)	(423,499)	(18.3)	(1,361,581)	(27.8)	(180,110) (160,500)	(9.1)	(3,128,668)	(98.3)
Loss before income tax	(2,004,212) (2,037)	(174.6) (0.2)	(2,013,622) (2,137)	(86.8)	(2,949,887) (1,576)	(60.3)	(1,027,748)	(51.9)	(3,806,968) (2,179)	(119.6)
Loss for the year/period attributable to the equity holders of the Company	(2,006,249)	(174.8)	(2,015,759)	(86.9)	(2,951,463)	(60.3)	(1,028,223)	(52.0)	(3,809,147)	(119.6)
Non-IFRS Measures: Adjusted net loss (unaudited) (1)	(1,813,745)	(158.0)	(1,580,283)	(68.2)	(1,567,989)	(32.0)	(837,787)	(42.3)	(532,976)	(16.7)

Notes:

⁽¹⁾ Adjusted net profit/(loss) is a non-IFRS measure. We define "adjusted net loss" as loss for the year/period adjusted by adding back equity-settled share-based payments and changes in fair value of convertible redeemable preferred shares. Adjusted net profit/(loss) is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net profit/(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 measures" in this section.

NON-IFRS MEASURES

To supplement our consolidated results which are prepared and presented in accordance with IFRS, we use adjusted net profit/(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 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 to the nearest measures prepared in accordance with IFRS:

	Year e	nded 31 Dece	ember	Six Months ended 30 June		
	2018	2019	2020	2020	2021	
				(unaudited)		
		(in	RMB thousa	ands)		
Loss for the year/period attributable to the equity holders of the						
Company Equity-settled share-	(2,006,249)	(2,015,759)	(2,951,463)	(1,028,223)	(3,809,147)	
based payments ^(a) Changes in fair value of convertible redeemable	17,220	11,977	21,893	10,326	147,503	
preferred shares (b)	175,284	423,499	1,361,581	180,110	3,128,668	
Non-IFRS measures: Adjusted net loss (unaudited) ^(c)	(1,813,745)	(1,580,283)	(1,567,989)	(837,787)	(532,976)	

⁽a) Equity-settled share-based payments mainly represent share-based compensation expenses incurred in connection with our Pre-IPO Share Incentive Plan. 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, and the adjustment has been consistently made during the Track Record Period.

⁽b) Changes in fair value of convertible redeemable preferred shares represent fair value changes of the convertible redeemable preferred shares issued by our Company and relate to changes in the valuation of our Company. Changes in fair value of the convertible redeemable preferred shares are not directly related to our ability to generate revenue from our daily operations, and we do not expect to record any further changes in fair value of the convertible redeemable preferred shares as such convertible redeemable preferred shares will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing. The reconciling item is non-cash, non-recurring and does not result in cash outflow.

⁽c) A non-IFRS measure.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended 30 June 2021 Compared to Six Months Ended 30 June 2020

Revenues

Our revenues increased by 60.9% from RMB2.0 billion for the six months ended 30 June 2020 to RMB3.2 billion for the six months ended 30 June 2021.

Online music services

Revenue from our online music services increased by 49.4% from RMB1,073.8 million for the six months ended 30 June 2020 to RMB1,604.3 million for the six months ended 30 June 2021, primarily due to the significant growth in revenues from sales of membership subscriptions. Revenue from sales of membership subscriptions increased from RMB725.4 million for the six months ended 30 June 2020 to RMB1,064.6 million for the six months ended 30 June 2021. In particular, MAUs of online music services grew by 6.5% from 173.2 million for the six months ended 30 June 2020 to 184.5 million for the six months ended 30 June 2021, and monthly paying users of online music services expanded from 13.0 million for the six months ended 30 June 2020 to 26.1 million for the six months ended 30 June 2021. Our monthly ARPPU of online music services decreased from RMB9.3 for the six months ended 30 June 2020 to RMB6.8 for the six months ended 30 June 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. Our advertising services revenue also increased from RMB186.3 million for the six months ended 30 June 2020 to RMB270.7 million for the six months ended 30 June 2021, primarily because our advertisers reduced their expenditures and budgets during the first half of 2020 due to the outbreak of COVID-19 and increased their spending in the first half of 2021. The increase was also in line with the expansion of our user base.

Social entertainment services and others

Revenue from our social entertainment services and others increased by 74.5% from RMB904.8 million for the six months ended 30 June 2020 to RMB1,579.3 million for the six months ended 30 June 2021, as a result of the rapid growth of social entertainment services revenue, substantively all of which was derived from live streaming services. In particular, our monthly paying users of social entertainment services expanded from 270.2 thousand for the six months ended 30 June 2020 to 496.4 thousand for the six months ended 30 June 2021, and monthly ARPPU of social entertainment services was RMB551.9 for the six months ended 30 June 2020 and RMB526.5 for the same period of 2021.

Cost of revenue

Our cost of revenue increased by 34.6% from RMB2,375.1 million for the six months ended 30 June 2020 to RMB3,196.5 million for the six months ended 30 June 2021, attributable to an increase in content service costs from RMB2,069.6 million for the six months ended 30 June 2020 to RMB2,759.4 million for the six months ended 30 June 2021, as a result of (i) an increase in content licensing fees paid to music labels and independent artists in line with the growth of online music service revenue and (ii) an increase in revenue sharing costs for talent agencies of live streaming performers, in line with the rapid growth of our revenue from live streaming services.

Gross loss and negative gross margin

As a result of the above, our gross loss decreased by 96.8% from RMB396.5 million for the six months ended 30 June 2020 to RMB12.9 million for the six months ended 30 June 2021, and our negative gross margin narrowed significantly from 20.0% for the six months ended 30 June 2020 to 0.4% for the six months ended 30 June 2021, due to (i) the expansion of our business operations scale and particularly the rapid growth of live streaming business, and (ii) the control of our cost of revenue.

Selling and marketing expenses

Our selling and marketing expenses increased by 71.1% from RMB90.6 million for the six months ended 30 June 2020 to RMB154.9 million for the six months ended 30 June 2021, primarily because (i) our promotion and marketing activities were affected by COVID-19 in the first quarter of 2020, and we increased our marketing and advertising expenses since then, and (ii) we increased our expenses related to promoting our music-inspired social entertainment products and services in the first half of 2021.

General and administrative expenses

Our general and administrative expenses increased significantly by 191.9% from RMB44.6 million for the six months ended 30 June 2020 to RMB130.3 million for the six months ended 30 June 2021, primarily due to an increase in employee benefit expenses as a result of (i) an increase in administrative personnel's headcount to support our business growth, (ii) an increase of share based payment expenses related to employee share incentive plans, and (iii) an increase of listing expenses.

Research and development expenses

Our research and development expenses increased by 70.1% from RMB247.2 million for the six months ended 30 June 2020 to RMB420.3 million for the six months ended 30 June 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 decreased by 44.9% from RMB24.5 million for the six months ended 30 June 2020 to RMB13.5 million for the six months ended 30 June 2021, primarily due to a decrease in government grants.

Other gains/(losses), net

Other gains were decreased from RMB11.9 million for the six months ended 30 June 2020 to RMB3.5 million for the six months ended 30 June 2021. The change was primarily due to our net foreign exchange losses incurred in the six months ended 30 June 2021, which offsets our gain on fair value changes of financial assets at fair value through profit or loss.

Operating losses

As a result of the foregoing, our operating loss decreased by 5.5% from RMB742.5 million for the six months ended 30 June 2020 to RMB701.3 million for the six months ended 30 June 2021.

Finance (cost)/income, net

Our finance income, net decreased by 57.2% from RMB58.0 million for the six months ended 30 June 2020 to RMB24.8 million for the six months ended 30 June 2021, primarily attributable to a decrease in the interest income from bank deposit due to a decrease of interest rate.

Changes in fair value of convertible redeemable preferred shares

Our changes in fair value of convertible redeemable preferred shares were negative RMB180.1 million in the six months ended 30 June 2020, and negative RMB3,128.7 million in the six months ended 30 June 2021, primarily due to changes in the valuation of our Company. See Note 30 to the Accountant's Report in Appendix I to this document for details regarding the changes in fair value of convertible redeemable preferred shares.

Loss before income tax

As a result of the foregoing, our loss before income tax increased by 270.4% from RMB1,027.7 million for the six months ended 30 June 2020 to RMB3,807.0 million for the six months ended 30 June 2021.

Income tax expenses

Our income tax expenses increased by 358.7% from RMB475 thousand for the six months ended 30 June 2020 to RMB2.2 million for the six months ended 30 June 2021, primarily due to an increase in taxable income attributable to certain of our controlled entities in PRC.

Loss for the period attributable to the equity holders of the Company

As a result of the foregoing, our loss attributable to the equity holders of the Company increased by 270.5% from RMB1,028.2 million for the six months ended 30 June 2020 to RMB3,809.1 million for the six months ended 30 June 2021.

Year Ended 31 December 2020 Compared to Year Ended 31 December 2019

Revenues

Our revenues increased by 111.2% from RMB2.3 billion in 2019 to RMB4.9 billion in 2020.

Online music services

Revenue from our online music services increased by 47.6% from RMB1.8 billion in 2019 to RMB2.6 billion in 2020, primarily due to the significant growth in revenues from sales of membership subscriptions. Revenue from sales of membership subscriptions increased from RMB965.9 million in 2019 to RMB1,603.9 million in 2020. In particular, MAUs of online music services grew by 22.6% from 147.2 million in 2019 to 180.5 million in 2020, and monthly paying users of online music services expanded from 8.6 million in 2019 to 16.0 million in 2020. Our monthly ARPPU of online music services decreased from RMB9.3 in 2019 to RMB8.4 in 2020, primarily because we started to utilise joint membership packages in 2020 in cooperation with other platforms, in which our membership subscriptions were sold at a discount, for promoting our subscriptions and broadening the reach of our services. Our

advertising services revenue also increased from RMB414.4 million in 2019 to RMB465.9 million in 2020, in line with the expansion of our user base and partially offset by the impacts from COVID-19 outbreak when our advertisers reduced their expenditures and budgets in 2020.

Social entertainment services and others

Revenue from our social entertainment services and others increased significantly by 319.8 % from RMB541.4 million in 2019 to RMB2.3 billion in 2020, as a result of the rapid growth of social entertainment services revenue, substantively all of which was derived from live streaming services. In particular, our monthly paying users of social entertainment services expanded from 91.7 thousands in 2019 to 327.1 thousands in 2020, and monthly ARPPU of social entertainment services was RMB477.6 in 2019 and RMB573.8 in 2020.

Cost of revenue

Our cost of revenue increased by 62.7% from RMB3.4 billion in 2019 to RMB5.5 billion in 2020, attributable to an increase in content service costs from RMB2.9 billion in 2019 to RMB4.8 billion in 2020, as a result of (i) an increase in content licensing fees paid to music labels and independent artists in line with the growth of online music service revenue and (ii) an increase in revenue sharing costs for talent agencies of live streaming performers, in line with the rapid growth of our revenue from live streaming services.

Gross loss and negative gross margin

As a result of the above, our gross loss decreased by 43.7% from RMB1.1 billion in 2019 to RMB595.3 million in 2020 and our negative gross margin narrowed from 45.6% in 2019, and to 12.2% in 2020, due to the expansion of our business operations scale and particularly the rapid growth of live streaming business.

Selling and marketing expenses

Our selling and marketing expenses increased by 46.5% from RMB223.4 million in 2019 to RMB327.3 million in 2020, primarily due to an increase in promotion and advertising expenses as we enhanced spending on native advertising on other platforms.

General and administrative expenses

Our administrative expenses increased by 75.0% from RMB55.4 million in 2019 to RMB96.9 million in 2020, primarily due to an increase in employee benefit expenses as a result of an increase in administrative personnel's headcount to support our business growth.

Research and development expenses

Our research and development expenses increased by 58.7% from RMB363.2 million in 2019 to RMB576.5 million in 2020, primarily due to an increase in employee benefit expenses attributable to an increase in our research and development personnel's headcount to strengthen our research and development capabilities for of AI and machine learning technologies.

Other income

Our other income increased by 39.9% from RMB50.9 million in 2019 to RMB71.3 million in 2020, primarily due to an increase in government grants and value-added tax subsidies.

Other gains/(losses), net

Other losses were RMB17 thousand in 2020, compared to other gains of RMB8.4 million in 2019. The change from gains to losses was primarily due to our net foreign exchange losses incurred in 2020, which are partially offset by an increase in gain on fair value changes of financial assets at fair value through profit or loss and a decrease in impairment loss for investments in associates.

Operating losses

As a result of the foregoing, our operating loss decreased by 7.0% from RMB1.6 billion in 2019 to RMB1.5 billion in 2020.

Finance (cost)/income, net

Our finance income, net increased significantly by 100.3% from RMB50.2 million in 2019 to RMB100.6 million in 2020, primarily attributable to an increase in the interest income from bank deposit from 2019 to 2020 and the incurrence of interest expense on amounts due to NetEase Group in 2019.

Changes in fair value of convertible redeemable preferred shares

Our changes in fair value of convertible redeemable preferred shares were negative RMB423.5 million in 2019, compared to negative RMB1,361.6 million in 2020, primarily due to changes in the valuation of our Company. See Note 30 to the Accountant's Report in Appendix I to this document for details regarding the changes in fair value of convertible redeemable preferred shares.

Loss before income tax

As a result of the foregoing, our loss before income tax increased by 46.5% from RMB2.0 billion in 2019 to RMB2.9 billion in 2020.

Income tax expenses

Our income tax expenses decreased by 26.3% from RMB2.1 million in 2019 to RMB1.6 million in 2020, primarily due to a decrease in taxable income attributable certain of our controlled entities in PRC.

Loss for the year attributable to the equity holders of the Company

As a result of the foregoing, our loss attributable to the equity holders of the Company increased by 46.4% from RMB2.0 billion in 2019 to RMB3.0 billion in 2020.

Year Ended 31 December 2019 Compared to Year Ended 31 December 2018

Revenues

Our revenues increased by 101.9% from RMB1.1 billion in 2018 to RMB2.3 billion in 2019.

Online music services

Revenue from our online music services increased by 73.2% from RMB1.0 billion in 2018 to RMB1.8 billion in 2019, primarily due to the significant growth in revenues from sales of membership subscriptions. Revenue from sales of membership subscriptions increased from RMB447.1 million in 2018 to RMB965.9 million in 2019. In particular, MAUs of online music services grew by 40.2% from 105.1 million in 2018 to 147.2 million in 2019, monthly paying users of online music services expanded from 4.2 million in 2018 to 8.6 million in 2019, and our monthly ARPPU of online music services increased from RMB8.9 in 2018 to RMB9.3 in 2019. Our advertising services revenue also increased from RMB290.7 million in 2018 to RMB414.4 million in 2019, in line with the expansion of our user base.

Social entertainment services and others

Revenue from our social entertainment services and others increased by 344.3% from RMB121.9 million in 2018 to RMB541.4 million in 2019, primarily attributable to the rapid growth of our live streaming services since its launch in the second half of 2018. In particular, monthly paying users of social entertainment services expanded from 5.8 thousands in 2018 to 91.7 thousands in 2019. Monthly ARPPU of social entertainment services in 2019 was RMB477.6.

In addition, our revenues from sales of music-related merchandise declined significantly as we strategically shifted our monetisation efforts away from this channel.

Cost of revenue

Our cost of revenue increased by 36.9% from RMB2.5 billion in 2018 to RMB3.4 billion in 2019, attributable to content service costs from RMB2.0 billion in 2018 to RMB2.9 billion in 2019, mainly attributable to (i) an increase in content licensing fees paid to music labels and independent artists in line with the growth of online music service revenue and (ii) an increase in revenue sharing costs for talent agencies of live streaming performers, in line with the rapid growth of our revenue from live streaming services since its launch in the second half of 2018.

Gross loss and negative gross margin

Our gross loss decreased by 19.8% from RMB1.3 billion in 2018 to RMB1.1 billion in 2019 and our negative gross margin significantly narrowed from 114.7% in 2018 to 45.6% in 2019, which was mainly attributable to the expansion of our business operations scale, particularly the rapid growth of live streaming business.

Selling and marketing expenses

Our selling and marketing expenses increased by 74.7% from RMB127.9 million in 2018 to RMB223.4 million in 2019, primarily due to an increase in promotion and advertising expenses as we enhanced spending on online advertising.

General and administrative expenses

Our administrative expenses increased by 61.3% from RMB34.3 million in 2018 to RMB55.4 million in 2019, primarily due to an increase in employee benefits expenses and an increase in miscellaneous administrative expenses.

Research and development expenses

Our research and development expenses increased by 36.6% from RMB266.0 million in 2018 to RMB363.2 million in 2019, primarily due to an increase in employee benefits expenses attributable to an increase in our research and development personnel's headcount to strengthen our research and development capabilities for of AI and machine learning technologies.

Other income

Our other income increased significantly from RMB132 thousand in 2018 to RMB50.9 million in 2019, primarily due to an increase in government grants and value-added tax subsidies.

Other gains/(losses), net

Our other gains decreased from RMB21.2 million in 2018 to RMB8.4 million in 2019, primarily due to a decrease of our net foreign exchange gains and our impairment loss for investments in associates incurred in 2019.

Operating losses

As a result of the foregoing, our operating loss decreased by 4.9% from RMB1.7 billion in 2018 to RMB1.6 billion in 2019.

Finance (cost)/income, net

We recorded finance income, net of RMB50.2 million in 2019, primarily attributable to interest income from bank deposits and fair value gain of other financial liabilities at fair value through profit or loss, which are partially offset by interest expense on amounts due to NetEase Group.

We incurred finance cost, net of RMB100.9 million in 2018, primarily attributable to interest expense on amounts due to NetEase Group, loss on buy-back of preferred shares issued by a subsidiary and fair value loss of other financial liabilities at fair value through profit or loss, which are partially offset by interest income from bank deposits.

Changes in fair value of convertible redeemable preferred shares

Our changes in fair value of convertible redeemable preferred shares were negative RMB175.3 million in 2018, compared to negative RMB423.5 million in 2019, primarily due to changes in the valuation of our Company. See Note 30 to the Accountant's Report in Appendix I to this document for details regarding the changes in fair value of convertible redeemable preferred shares.

Loss before income tax

As a result of the foregoing, our loss before income tax remained stable at RMB2.0 billion in 2018 and 2019.

Income tax expenses

Our income tax expenses increased by 4.9% from RMB2.0 million in 2018 to RMB2.1 million in 2019, due to an increase in taxable income attributable to certain of our controlled entities in PRC.

Loss for the year attributable to the equity holders of the Company

As a result of the foregoing, our loss for the year attributable to the equity holders of the Company remained stable at RMB2.0 billion in 2018 and 2019.

Working Capital

We recorded net current assets of RMB3.6 billion, RMB7.0 billion, RMB4.7 billion, RMB2.8 billion and RMB2.9 billion as of 31 December 2018, 2019, 2020, 30 June 2021 and 30 September 2021, respectively. The following table sets forth our current assets and current liabilities as of the dates indicated, respectively:

	As	of 31 Decem	ber	As of 30 June	As of 30 September
	2018	2019	2020	2021	2021
		(in	RMB thousa	nds)	
Current assets					
Accounts receivables	300,420	373,898	254,375	463,646	562,166
Prepaid contents					
royalties	1,081,418	1,184,462	1,362,001	1,276,849	1,386,348
Prepayments, deposits and	200 752	262 676	200 122	210.006	206.250
other receivables	208,753	262,676	280,133	310,086	286,359
Amounts due from NetEase Group	2,134,151	18,461	171,682	173,420	120,408
Financial assets at fair	2,134,131	10,401	171,002	173,420	120,406
value through profits or					
loss	162,759	338,742	971,315	52,840	40,140
Short-term bank deposits.	2,892,839	5,166,923	816,917	3,622,897	3,018,305
Cash and cash			,		
equivalents	551,279	911,266	3,006,206	476,149	622,558
Total current assets	7,331,619	8,256,428	6,862,629	6,375,887	6,036,284
Current liabilities					
Accounts payables	103,275	125,877	1,400	522	2,156
Accruals and other					
payables	352,859	669,651	1,639,840	1,065,215	1,054,256
Contract liabilities	112,893	175,456	384,978	536,011	541,138
Amounts due to NetEase	2 100 020	220 117	145,000	150 565	76.074
Group	3,198,920	239,117	145,800	153,765	76,274
Income tax payable Lease Liabilities	523	618	642	548 250	245
Convertible redeemable	_	_	_	230	243
preferred shares	_	_	_	1,812,387	1,435,731
Total current liabilities .	3,768,470	1,210,719	2,172,660	3,568,698	3,109,800
Net current assets	3,563,149	7,045,709	4,689,969	2,807,189	2,926,484
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Our net current assets were primarily attributable to prepaid current royalties, short-term bank deposits and cash and cash equivalents, partially offset by accounts payables, accruals and other payables, convertible redeemable preferred shares and amounts due to NetEase Group.

All the convertible redeemable preferred shares which were accounted for as liabilities will be converted into ordinary shares of the Company immediately prior to the completion of the Listing, and such liabilities would be derecognised and accounted as an increase in equity upon the Listing. We expect that our net liabilities position will turn into net assets position upon the Listing.

Accounts receivables

Accounts receivables are primarily amounts due from distribution partners and payment processing channels for the services we provided, as well as receivables due from our advertising agencies. Accounts receivables are generally due for settlement within one year and therefore are all classified as current.

The following table sets forth our accounts receivables as of the dates indicated, respectively:

	As	As of 30 June						
	2018	2019	2020	2021				
	(in RMB thousands)							
Accounts receivables Less: loss allowance	301,643 (1,223)	374,161 (263)	257,672 (3,297)	466,874 (3,228)				
Accounts receivables, net	300,420	373,898	254,375	463,646				

Our accounts receivables, net increased by 24.5% from RMB300.4 million as of 31 December 2018 to RMB373.9 million as of 31 December 2019, primarily due to an increase in receivables from payment channels arising from online music services. Our accounts receivables, net decreased by 32.0% from RMB373.9 million as of 31 December 2019 to RMB254.4 million as of 31 December 2020, primarily because the account receivables related to our advertising services were due from third parties in 2018 and 2019, while such account receivables were due from NetEase Group in 2020 as we change to source our end-advertising clients through NetEase Group. Our accounts receivables, net increased by 82.3% from RMB254.4 million as of 31 December 2020 to RMB463.6 million as of 30 June 2021 primarily because our revenue increased, and our accounts receivables from sublicensing and joint memberships increased in the first half of 2021.

We generally allow a credit period of 0 to 180 days to our customers, depending on different revenue streams. The following table sets forth an ageing analysis of our trade receivables, based on the invoice date, as of the dates indicated, respectively:

	As	As of 30 June						
	2018	2019	2020	2021				
	(in RMB thousands)							
Up to 3 months	196,100	249,497	185,397	443,134				
3 to 6 months	95,964	123,064	68,974	1,241				
Over 6 months	9,579	1,600	3,301	22,499				
Total	301,643	374,161	257,672	466,874				

We applied 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. We have identified the gross domestic products to be the most relevant factor, and accordingly adjust the historical loss rate based on expected changes in these factors.

On that basis, the loss allowances of trade receivables as of 31 December 2018, 2019 and 2020 and 30 June 2021 were determined as follows:

	As of 31 December			As at 30 June			
	2018	2019	2020	2020	2021		
	(in RMB thousands, except for percentages)						
Gross carrying amount	301,643	374,161	257,672	114,015	466,874		
Loss allowance provision.	(1,223)	(263)	(3,297)	(3,008)	(3,228)		
Expected loss rate	0.41%	0.07%	0.04%	0.80%	0.01%		

As of the Latest Practicable Date, RMB135.7 million, or 29.3% of, our accounts receivables outstanding as of 30 June 2021 had been subsequently settled.

Prepaid contents royalties

Prepaid contents royalties primarily represent the prepaid licensing fees related to the music content licensed from music labels, which will be amortised and charged as content service costs in the profit or loss over the licence period, which is comparable to the average range of license period of one to five years in the industry, as advised by CIC.

The following table sets forth our prepaid contents royalties as of the dates indicated:

	As of 31 December			As of 30 June	
	2018	2019	2020	2021	
	(in RMB thousands)				
Non-current prepaid contents					
royalties	550,645	652,860	894,758	597,391	
Current prepaid contents royalties.	1,081,418	1,184,462	1,362,001	1,276,849	
Total	1,632,063	1,837,322	2,256,759	1,874,240	

Our prepaid contents royalties increased by 12.6% from RMB1.6 billion as of 31 December, 2018 to RMB1.8 billion as of 31 December, 2019, increased by 22.8% from RMB1.8 billion as of 31 December 2019 to RMB2.3 billion as of 31 December 2020, primarily due to continuous procurement of licensed music content from music labels. As of 31 December 2020 to 30 June 2021, our prepaid royalties decreased by 16.9% from RMB2,256.8 million to RMB1,874.2 million, primarily because we did not incur large amount of additional prepaid content royalties during the first half of 2021.

The current portion of the prepaid contents royalties will be recognised in our profit or loss within cost of revenue as content service costs within the next twelve months after the respective balance sheet dates as of 31 December 2018, 2019 and 2020, and 30 June 2021, whereas the non-current portion will be recognised on the same basis over the relevant licence period.

Set out below is the amount of prepaid contents royalties we expect to recognise as content service costs:

	As of 31 December			As of 30 June	
	2018	2019	2020	2021	
	(in RMB thousands)				
Within one year	1,081,418 319,883 230,762	1,184,462 465,058 187,802	1,362,001 589,745 305,013	1,276,849 370,325 227,066	
	1,632,063	1,837,322	2,256,759	1,874,240	

Prepaid contents royalties as at 31 December 2018 of RMB1,632.1 million were subsequently recognised as content service costs in "cost of revenue" in 2019, 2020 and the six months ended 30 June 2021 amounting to RMB1,081.4 million, RMB319.9 million and to the extent of RMB97.9 million, respectively, which totally represent 91.9% of the prepaid contents royalties as at 31 December 2018.

Prepaid contents royalties as at 31 December 2019 of RMB1,837.3 million were subsequently recognised as content service costs in "cost of revenue" in 2020 and the six months ended 30 June 2021 amounting to RMB1,184.5 million and to extent of RMB280.8 million, respectively, which totally represent 79.8% of the prepaid contents royalties as at 31 December 2019.

Prepaid contents royalties as at 31 December 2020 of RMB2,256.8 million were subsequently recognised as content service costs in "cost of revenue" during the six months ended 30 June 2021 to the extent of RMB738.2 million, which totally represent 32.7% of the prepaid contents royalties as at 31 December 2020.

Prepaid content royalties as at 30 June 2021 of RMB1,874.2 million were subsequently recognised as content service costs in "cost of revenue" to the extent of RMB665.8 million up to the Latest Practicable Date, which represents 35.5% of the prepaid contents royalties as at 30 June 2021.

As disclosed in the accounting policies stated on page I-18 in Appendix I, our prepaid contents royalties are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. During the Track Record Period, we continue to expand the licensed music content from music labels in order to grow our business and incurred significant prepaid content royalties. The continuous procurement of licensed content is critical for expanding our monetisation channels, such as advertising services, digital album sales and our social entertainment services, and increasing our equity value as a whole. Although we are still at gross loss position, our (i) revenue grew significantly from RMB1.1 billion in 2018 to RMB2.3 billion in 2019 and further to RMB4.9 billion in 2020, and up from RMB2.0 billion in the six months ended 30 June 2020 to RMB3.2 billion in the six months ended 30 June 2021; (ii) our negative gross margin was gradually narrowing down significantly during the Track Record Period, from 114.7% in 2018 to 45.6% in 2019, and further to 12.2% in 2020, and decreased from 20.0% in the six months ended 30 June 2020 to 0.4% for the same period in 2021; and (iii) our equity value was increasing during the Track Record Period. All these indicate that our strategies of expanding our sources of music content from music labels enabled us to drive our expansion of monetisation channels successfully in the right direction during the Track Record Period and within our expectation based on our business model. In addition, since majority of our prepaid contents royalties are expected to be utilised and amortised within next twelve months after the respective balance sheet dates as of 31 December 2018, 2019 and 2020, and 30 June 2021, and given the continuous growing and

improving trend of our business performance; and increase in our equity value, we did not identify any events or circumstances which indicate that the carrying amount of the prepaid contents royalties may be impaired.

Prepayments, deposits and other receivables

The following table sets forth our prepayments, deposits and other current assets as of the dates indicated:

As of 30 June	
021	
16,264	
56,331	
33,365	
90,437	
41	
13,648	
10,086	
1	

Prepaid payment channel fee mainly represents the payment channel fee related to the unutilised contract liabilities which will be recorded as cost of revenue upon revenue recognition of the unutilised contract liabilities. Prepaid promotion, advertising and other expenses mainly represent the payment for contracted promotion, advertising and other services that will be recorded as selling and marketing expenses when the services are rendered.

Our total prepayments, deposits and other current assets increased by 25.8% from RMB208.8 million as of 31 December 2018 to RMB262.7 million as of 31 December 2019, primarily due to the increase in value added tax recoverable. Our total prepayments, deposits and other current assets increased by 6.6% from RMB262.7 million as of 31 December 2019 to RMB280.1 million as of 31 December 2020, primarily due to the increase in prepaid revenue sharing fee. Our total prepayments, deposits and other current assets increased by 10.7% from RMB280.1 million as of 31 December 2020 to RMB310.1 million as of 30 June 2021, primarily because the increase in interest receivables, value-added tax recoverables and prepaid payment channel fee.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss comprise wealth management products, at fair value. The wealth management products were mainly the non-principal-protected structured bank deposits purchased from reputable financial institutions in the PRC. The returns on all of these wealth management products are not guaranteed and with the expected rates of return ranging from 1.26% to 3.92% for the Track Record Period. We managed and evaluated the performance of investments on a fair value basis in accordance with our risk management and investment strategy. The fair values are based on cash flow discounted using the expected return based on observable market inputs and are within level 2 of the fair value hierarchy. Please refer to Note 3.3(a) to the Accountant's Report in the Appendix I.

In assessing the wealth management products, we apply a number of standards, including (i) investment in high risk products are prohibited; (ii) the primary objectives of investment activities focus on minimising the financial risks by reasonably and conservatively matching the maturities of the portfolio to anticipated operating cash needs, while generating desirable investment returns for the benefits of our Shareholders; (iii) the proposed investment must not interfere with our business operations or capital expenditures; and (iv) the wealth management products should be issued by a reputable bank.

The following table sets forth our financial assets at fair value through profit or loss as of the dates indicated, respectively:

	As of 31 December			As of 30 June	
	2018	2019	2020	2021	
	(in RMB thousands)				
Wealth management products	162,759	338,742	971,315	52,840	
Total	162,759	338,742	971,315	52,840	

Our financial assets at fair value through profit or loss increased from RMB162.8 million as of 31 December 2018 to RMB338.7 million as of 31 December 2019, and further to RMB971.3 million as of 31 December 2020, primarily due to the increase of investments in wealth management products. Our financial assets at fair value through profit or loss decreased by from RMB971.3 million as of 31 December 2020 to RMB52.8 million as of 30 June 2021, primarily because we converted part of our investment in wealth management products to bank deposits and part to accounts payables for royalties.

Accounts payables

Accounts payables represent liabilities for invoiced goods and services provided to us prior to the end of a period which are unpaid. Accounts payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Our accounts payables increased from RMB103.3 million as of 31 December 2018 to RMB125.9 million as of 31 December 2019 primarily attributable to an increase in rebate to the advertising agencies arising from advertising services. Since 2020, we have changed to source our end-advertising clients through NetEase Group and therefore payables to the aforesaid advertising agencies decreased substantially upon settlement during 2020.

The following table sets forth our accounts payables, as of the dates indicated, respectively:

	As of 31 December			As of 30 June
	2018	2019	2020	2021
		(in RMB th	ousands)	
Accounts payables	103,275	125,877	1,400	522

As of the Latest Practicable Date, almost all accounts payables outstanding as of 30 June 2021 has been settled.

Accruals and other payables

The following table sets forth our accruals and other payables as of the dates indicated, respectively:

As of 31 December			As of 30 June
2018	2019	2020	2021
210,888	389,105	1,308,373	703,603
37,236	101,976	106,237	107,822
_	_	_	35,069
74,519	120,679	150,771	126,070
11,030	18,481	31,892	39,431
4,655	17,129	10,184	23,277
14,531	22,281	32,383	29,943
352,859	669,651	1,639,840	1,065,215
	210,888 37,236 74,519 11,030 4,655 14,531	2018 2019 (in RMB the second s	2018 2019 2020 (in RMB thousands) 210,888 389,105 1,308,373 37,236 101,976 106,237 - - - 74,519 120,679 150,771 11,030 18,481 31,892 4,655 17,129 10,184 14,531 22,281 32,383

Accruals and other payables due within 12 months after the reporting period are presented as current liabilities.

Our accruals and other payables increased from RMB352.9 million as of 31 December 2018 to RMB669.7 million as of 31 December 2019, and further to RMB1,639.8 million as of 31 December 2020, and down to RMB1,065.2 million as of 30 June 2021, primarily due to the decrease in accrued content service cost from payment for music labels.

Contract liabilities

Contract liabilities mainly represent advanced payments received from customers related to sales of membership subscriptions, sublicensing of copyright and sales of virtual items.

	As of 31 December			As of 30 June	
	2018	2019	2020	2021	
	(in RMB thousands)				
Contract liabilities related to online music services Contract liabilities related to social entertainment services and	122,343	174,889	383,293	549,652	
others	1,020	8,703	30,790	24,210	
Total	123,363	183,592	414,083	573,862	
Less: Non-current portion Current portion	(10,470) 112,893	(8,136) 175,456	(29,105) 384,978	(37,851) 536,011	

Our contract liabilities increased from RMB123.4 million as of 31 December 2018 to RMB183.6 million as of 31 December 2019 and further to RMB414.1 million as of 31 December 2020, and up to RMB573.9 million as of 30 June 2021, primarily due to the growth of our membership subscriptions, live streaming and sublicensing businesses.

INDEBTEDNESS

Convertible Redeemable Preferred Shares

As at 31 December 2018, 2019 and 2020, 30 June 2021 and 30 September 2021, our convertible redeemable preferred shares had fair values of RMB5.1 billion, RMB10.8 billion, RMB11.2 billion, RMB14.2 billion and RMB11.5 billion, respectively.

Lease Liabilities

As at 30 June 2021 and 30 September 2021, lease liabilities amounted to RMB388 thousand and RMB325 thousand, and there were no lease liabilities being recognised as at 31 December 2018, 2019 and 2020, respectively.

No Other Outstanding Indebtedness

As at 31 December 2018, 2019 and 2020, 30 June 2021 and 30 September 2021, we did not have any unutilised banking facilities.

Save as disclosed in this "— Indebtedness" above, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenants and undertakings in connection therewith as of 30 September 2021, being the indebtedness statement date.

Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss, mainly represented our convertible redeemable preference shares. Changes in fair value of this financial liabilities had been recognised in the consolidated statements of profit or loss. As of 31 December 2018, 2019 and 2020 and 30 June 2021, the convertible redeemable preference shares were RMB5.1 billion, RMB10.8 billion, RMB11.2 billion and RMB14.2 billion. For the three years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021, changes in fair value of convertible redeemable preferred shares amounted to approximately RMB175.3 million, RMB423.5 million, RMB1,361.6 million and RMB3,128.7 million, respectively. Please see Note 3.3 and Note 30 to the Accountant's Report in Appendix I for details of fair value estimation of convertible redeemable preference shares.

We classified the convertible redeemable preferred shares as liabilities at fair value through profit or loss of which no quoted prices in an active market exist. The fair value is established by using valuation techniques which include income approach and equity allocation model. Valuation techniques are certified by an independent and recognised international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make use of market inputs and our own specific data. However, it should be noted that some inputs, such as probabilities under different scenarios such as initial public offering and liquidation, time to liquidation and discount for lack of marketability, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the financial liabilities at fair value through profit or loss.

In relation to the valuation of the financial liabilities at fair value through profit or loss, our Directors adopted the following procedures: (i) reviewed the terms of the Pre-IPO Investment Agreement and the Pre-IPO Shareholders Agreement; (ii) engaged an independent suitably qualified valuer, provided material information that is likely to affect the valuation as part of the instructions to the valuer, so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions and valuation methodologies; (iii) carefully considered all information which require management assessments and estimates, including probabilities under different scenarios, time to liquidation and discount for lack of marketability; and (iv) reviewed the valuation working papers and valuation report prepared by the valuer and carefully considered, the reasonableness of key input data and major assumptions adopted, such as risk-free interest rate, lack of marketability discount and historical volatility of the comparable companies. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable.

Details of the fair value measurement of the financial liabilities at fair value through profit or loss, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs and the relationship of valuation inputs to fair value are disclosed in Note 3.3 and Note 30 to the Historical Financial Information of Group for the Track Record Period as set out in the Accountant's Report issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in Appendix I. The Reporting Accountant's opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out on pages I-1-I-3 of Appendix I.

In relation to the valuation of our level 3 financial liabilities at fair value through profit or loss, the Joint Sponsors has conducted relevant due diligence works, including, but not limited to, (i) reviewing the relevant notes included in the Accountant's Report as contained in Appendix I to this document to acquire general understanding of relevant valuation techniques adopted for the valuation of level 3 financial instruments; (ii) obtaining information on the credentials of the valuer and the background, qualifications and work experience of its core team members; (iii) obtaining and reviewed the valuation report issued by the valuer; (iv) discussing with the Company on the primary factors taken into account by the Company and the valuer, key assumptions and methodologies adopted for the valuation of the level 3 financial instruments, as well as the internal control process undertaken by the Company for reviewing and approving the relevant valuation; and (v) discussing with the Reporting Accountant to understand, among other things, (a) the work that the Reporting Accountant had performed in relation to the valuation of our level 3 financial instruments; (b) whether the valuation data are consistent with the relevant accounting standards; and (c) whether the Reporting Accountant agree with the results of valuation from an accounting point of view.

Having considered the work done by the Directors, the Reporting Accountant and the valuer and the relevant due diligence work conducted as stated above, nothing has come to the attention of the Joint Sponsors which would cause the Joint Sponsors to disagree with the valuation analysis performed by the Company on the financial liabilities at fair value through profit or loss.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we historically met our working capital and other capital requirements primarily through cash flows from financing and cash flows from investors (including convertible redeemable preferred shares) to finance our operations and business development. We had cash and cash equivalents of RMB551.3 million, RMB911.3 million, RMB3.0 billion, RMB1.3 billion, and RMB476.1 million as of 31 December 2018, 2019 and 2020 and 30 June 2020 and 2021, respectively. We had net cash used in operating activities of RMB2.7 billion, RMB1.7 billion, RMB969.5 million and RMB748.0 million for the year ended 31 December 2018, 2019, 2020, and the six months ended 30 June 2021, respectively, compared to net cash used in operating activities of RMB730.4 million for the six months ended 30 June 2020.

We believe that our liquidity requirements will be satisfied by a combination of the net proceeds received from the Global Offering, and other funds raised from the capital markets from time to time. We currently do not have any plans for material additional external financing.

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

	Year ended 31 December		Six Month 30 Ju		
	2018	2019	2020	2020	2021
				(unaudited)	
		(in I	RMB thousan	nds)	
Operating cash outflows before					
movement in working capital	(1,690,060)	(1,618,048)	(1,498,416)	(728,971)	(551,839)
Changes in working capital	(1,055,146)	(85,806)	530,510	(989)	(193,903)
Income taxes paid	(1,239)	(2,042)	(1,552)	(488)	(2,273)
Net cash used in operating activities	(2.746.445)	(1,705,896)	(969,458)	(730,448)	(748,015)
Net cash (used in)/generated from	, , , ,			, , ,	, , ,
investing activities	(3,130,149)	(2,440,046)	3,405,915	664,433	(1,721,241)
financing activities	6,370,794	4,488,208	(320,948)	(320,948)	(64,499)
Net increase/(decrease) in cash and					
cash equivalents	494,200	342,266	2,115,509	(386,963)	(2,533,755)
beginning of the year/period	23,460	551,279	911,266	911,266	3,006,206
Exchange differences on cash and cash equivalents	33,619	17,721	(20,569)	21,430	3,698
Cash and cash equivalents at the end					
of the year/period	551,279	911,266	3,006,206	545,733	476,149

Working Capital Sufficiency Statement

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, time deposits and wealth management products, the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

Net Cash Used in Operating Activities

Cash used in operating activities mainly represents cash paid for content service costs, which mainly comprises of content licensing fees and revenue sharing fees, employee benefit expenses, promotion and advertising expenses and technology cost, offset by cash received from membership subscriptions and live streaming services.

For the six months ended 30 June 2021, our net cash used in operating activities was RMB748.0 million, which was primarily attributable to our loss before income tax of RMB3,807.0 million, adjusted by adding back non-cash items, primarily comprising changes in fair value of convertible redeemable preferred shares of RMB3,128.7 million, equity-settled share-based payments of RMB147.5 million, and depreciation of property, plant, and equipment of RMB8.7 million. The amount was further adjusted by changes in working capital,

which primarily comprised a decrease in other operating assets of RMB358.6 million and a decrease in other operating liabilities of RMB342.4 million, partially offset by an increase in accounts receivables of RMB209.2 million.

For 2020, our net cash used in operating activities was RMB969.5 million, which was primarily attributable to our loss before income tax of RMB2.9 billion, adjusted by adding back non-cash items, primarily comprising changes in fair value of convertible redeemable preferred shares of RMB1.4 billion, loss on buy-back of convertible redeemable preferred shares of RMB160.5 million, equity-settled share-based payments of RMB21.9 million and depreciation of property, plant and equipment of RMB22.4 million. The amount was further adjusted by changes in working capital, which primarily comprised an increase in other operating liabilities of RMB1,122.4 million due to the increasing in accrual content service costs of RMB919.3 million, partially offset by an increase in other operating assets of RMB583.9 million, mainly due to the increase in prepaid contents royalties of RMB419.4 million. The improvement in working capital were attributable to our business expansion. In particular, the cash inflow arising from the increase in revenue in our membership subscriptions and live streaming services outweigh the cash outflow arising from the increase in content service fee. We have invested in content acquisition to enrich our content library, focusing on valuable content that could most effectively address our users' needs.

For 2019, our net cash used in operating activities was RMB1.7 billion, which was primarily attributable to our loss before income tax of RMB2.0 billion, adjusted by adding back non-cash items, primarily comprising changes in fair value of convertible redeemable preferred shares of RMB423.5 million, depreciation of property, plant, and equipment of RMB14.4 million, equity-settled share-based payments of RMB12.0 million, and impairment loss for investments in associates of RMB11.2 million. The amount was further adjusted by changes in working capital, which primarily comprised an increase in accounts receivables of RMB72.5 million, in particular, the receivable from payment channels arising from our expanding online music services.

For 2018, our net cash used in operating activities RMB2.7 billion, which was primarily attributable to our loss before income tax of RMB2.0 billion, adjusted by adding back non-cash items, primarily comprising changes in fair value of convertible redeemable preferred shares of RMB175.3 million, finance cost of RMB123.1 million, equity-settled share-based payments of RMB17.2 million and depreciation of property, plant, and equipment of RMB17.6 million. The amount was further adjusted by changes in working capital, which primarily comprised an increase in other operating assets of RMB1.1 billion mainly due to the increase in prepaid contents royalties, partially offset by an increase in other operating liabilities of RMB592.7 million mainly due to the increase in accrual content service costs. The changes in working capital were attributable to the increasing content service fee, since we have established long-term relationship with many leading music labels in China and around the world.

Net cash used in operating activities decreased from RMB2.7 billion in 2018 to RMB1.7 billion in 2019, further to RMB969.5 million in 2020. This improvement was mainly due to more cash received driven by the increased revenues as our businesses continued to grow, while cash paid due to the increased cost of revenue and operating expenses is less in comparison. For the six months ended 30 June 2020 and 2021, the Company has used RMB730.4 million and used RMB748.0 million net cash in operating activities, respectively.

Net Cash Generated from/(Used in) Investing Activities

For the six months ended 30 June 2021, our net cash used in investing activities was RMB1.7 billion, which was primarily attributable to payments for investments in financial assets at fair value through profit or loss of RMB1.9 billion and placement of short-term deposits of RMB4.2 billion, partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB2.9 billion and proceeds from maturity of short-term deposits of RMB1.5 billion.

For 2020, our net cash generated from investing activities was RMB3.4 billion, which was primarily attributable to proceeds from maturity of short-term deposits of RMB6.1 billion and proceeds from disposal of financial assets at fair value through profit or loss of RMB4.0 billion, partially offset by payments for investments in financial assets at fair value through profit or loss of RMB4.6 billion, placements of short-term deposits of RMB2.0 billion, placements of long-term deposits of RMB190 million.

For 2019, our net cash used in investing activities was RMB2.4 billion, which was primarily attributable to placements of short-term deposits of RMB7.7 billion, payments for investments in financial assets at fair value through profit or loss of RMB1.5 billion, addition of investments accounted for using equity method of RMB59.4 million, partially offset by proceeds from maturity of short-term deposits of RMB5.4 billion and proceeds from disposal of investments in current financial assets at fair value through profit or loss of RMB1.4 billion.

For 2018, our net cash used in investing activities was RMB3.1 billion, which was primarily attributable to placements of short-term deposits of RMB3.1 billion, purchase of investments in financial assets at fair value through profit or loss of RMB306.0 million, partially offset by proceeds from maturity of short-term deposits of RMB140.6 million and proceeds from disposal of investments in current financial assets at fair value through profit or loss of RMB150.7 million.

Net Cash (Used in)/Generated from Financing Activities

For the six months ended 30 June 2021, our net cash used in financing activities was RMB64.5 million, which was primarily attributable to interest paid of RMB64.5 million.

For 2020, our net cash used in financing activities was RMB320.9 million, which was primarily attributable to buy-back of convertible redeemable preferred shares of RMB462.7 million, partially offset by proceeds from issuance of preferred shares of RMB141.7 million.

For 2019, our net cash generated from financing activities was RMB4.5 billion, which was primarily attributable to proceeds from issuance of convertible redeemable preferred shares of RMB5.2 billion, capital injection from the ultimate holding company of RMB2.1 billion, partially offset by repayment to ultimate holding company of RMB2.8 billion.

For 2018, our net cash generated from financing activities was RMB6.4 billion, which was primarily attributable to proceeds from issuance of convertible redeemable preferred shares of RMB4.9 billion, advance from the ultimate holding company of RMB2.3 billion, proceeds from issuance of ordinary shares of RMB304.0 million, partially offset by buy-back of preferred shares issued by a subsidiary of RMB975.0 million.

CAPITAL EXPENDITURES

The following table sets forth our capital expenditures for the periods indicated, respectively:

	Year ended 31 December		mber	Six Months end 30 June	
	2018	2019	2020	2020	2021
			(ı	inaudited)	
		(in R	MB thousan	ds)	
Purchase of property, plant and equipment	14,370	14,731	20,565	12,999	9,020

Our capital expenditure in 2018 was RMB14.4 million, primarily attributable to purchase of servers and network equipment of RMB12.7 million. Our capital expenditure in 2019 was RMB14.7 million, primarily attributable to purchase of servers and network equipment of RMB9.9 million. Our capital expenditure in 2020 was RMB20.6 million, primarily attributable to purchase of servers and network equipment of RMB15.0 million. Our capital expenditure for the six months ended 30 June 2021 was RMB9.0 million, primarily attributable to purchase of servers and network equipment of RMB6.1 million.

We plan to fund our planned capital expenditures with our existing cash and cash equivalents on hand and proceeds from the Global Offering.

MATERIAL RELATED PARTY TRANSACTIONS

We had the following transactions during the Track Record Period with NetEase Group, a related party of our Company:

	Year ended 31 December			Six Months ended 30 June	
	2018	2019	2020	2020	2021
				(unaudited)	
		(in R	MB thousan	nds)	
Purchase of property, plant and equipment from					
NetEase Group	4,349	11,333	9,245	7,930	2,324
Purchase of goods from	4 500		0.700		2.704
NetEase Group	1,532	5,558	8,702	4,254	2,704
Purchase of technology and other services from					
NetEase Group	231,601	324,227	403,203	177,222	222,343
Provide advertising services to NetEase					
Group	27,863	52,310	464,434	185,446	270,723
Provide other services to					
NetEase Group	3,735	11,961	18,833	6,671	9,936
Sales of property, plant and equipment to					
NetEase Group	828	2,635	1,051	48	400
Sales of goods to NetEase					
Group	14,019	652	152	_	_
Finance cost charged by					
NetEase Group	58,039	33,581	_	_	_

The below table sets forth the balances with NetEase Group as of the dates indicated.

	As	of 31 Decembe	er	As of 30 June		
	2018	2019	2020	2021		
	(in RMB thousands)					
Amounts due from NetEase Group						
(i) Trade	25,302	18,461	171,680	173,420		
(ii) Non-trade	2,108,849	_	2	_		
Amounts due to NetEase Group						
(i) Trade	199,257	171,588	74,152	153,765		
(ii) Non-trade	198,599	67,529	71,648	_		
(iii) Borrowings	2,801,064	_	_	_		

Non-trade related amounts due to NetEase Group will be fully settled before Listing.

CONTINGENT LIABILITIES

As of 31 December 2018, 2019 and 2020 and 30 June 2021, we did not have any material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet commitments or arrangements.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated, respectively:

	Year ended 31 December			Six Months ended 30 June	
	2018	2019	2020	2020	2021
			(1	inaudited)	
Revenue growth (%) Negative gross margin ⁽¹⁾ (%)	N.A.	101.9	111.2	N.A.	60.9
	114.7	45.6	12.2	20.0	0.4

Note:

Revenue Growth

Our revenue growth increased from 101.9% in 2019 to 111.2% in 2020. See "— Year Ended 31 December 2020 Compared to Year Ended 31 December 2019" and "— Year Ended 31 December 2019 Compared to Year Ended 31 December 2018" in this section for the analysis on our revenue growth. For the six months ended 30 June 2021, our revenue growth decreased to 60.9%. See "— The Six Months Ended 30 June 2021 Compared to the Six Months Ended 30 June 2020" in this section for the analysis on our revenue growth.

Negative Gross Margin

Our negative gross margin narrowed from 114.7% in 2018 to 45.6% in 2019, then further to 12.2% in 2020. See "— Year Ended 31 December 2020 Compared to Year Ended 31 December 2019" and "— Year Ended 31 December 2019 Compared to Year Ended 31 December 2018" in this section for the analysis on our negative gross margin. For the six months ended 30 June 2020 and 2021, our negative gross margin narrowed from 20.0% to 0.4%. See "— The Six Months Ended 30 June 2021 Compared to the Six Months Ended 30 June 2020" in this section for the analysis on our negative gross margin.

⁽¹⁾ Negative gross margin is calculated by dividing gross loss by our revenues.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to various types of financial risks, including foreign exchange risk, interest rate risk, price risk, credit risk and liquidity risk.

Foreign Exchange Risk

We are 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 respective functional currency of our subsidiaries. The functional currency of the Company is US\$ whereas the functional currency of the subsidiaries which operate in the PRC is RMB. We currently do not hedge transactions undertaken in foreign currencies but manage our foreign exchange risk by performing regular reviews of our net foreign exchange exposures.

During the Track Record Period, substantially all of our revenues and expenditures were denominated in Renminbi, while the net proceeds from the Global Offering will be in Hong Kong dollars. Fluctuations in the exchange rate between the Renminbi and the Hong Kong dollar will affect the relative purchasing power in Renminbi terms of the proceeds from the Global Offering. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our subsidiaries. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar would affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business or results of operations. During the Track Record Period, we recorded currency translation loss of RMB35.9 million, RMB55.5 million and RMB77.0 million in 2018, 2019 and the six months ended 30 June 2020, respectively; and recognised currency translation gains of RMB524.0 million and RMB79.4 million in 2020 and the six months ended 30 June 2021, respectively, as other comprehensive income/(loss) in our consolidated statements of comprehensive loss which is primarily a result of translation of financial statements of the companies within the Group into the presentation currency of the Group, which is RMB.

As of 31 December 2018, 2019, 2020, and 30 June 2021, the impact of foreign exchange fluctuations is not material as our entities had no material financial assets or financial liabilities denominated in a currency that differed from its functional currency and therefore no sensitivity analysis is presented for foreign exchange risk.

Price Risk

We are exposed to price risk mainly relating to certain investments held by us, which were classified as financial assets at fair value through profit or loss, including investments in wealth management products. We are not exposed to commodity price risk. See Note 3.3 to the Accountant's Report in Appendix I for details.

Interest Rate Risk

Our 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 us to cash flow interest rate risk whereas those carried at fixed rate expose us to fair value interest rate risk.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, management considered that as any reasonable changes in interest rate would not result in a significant impact on our results and financial position, no sensitivity analysis is presented for interest rate risk.

We regularly monitor our interest rate risk to ensure there is no undue exposure to significant interest rate movements.

Credit Risk

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

Credit risk is managed on a group basis. Bank deposits are mainly placed with reputable financial institutions in PRC, which the management consider being of high credit quality. For accounts receivables, we assess the credit quality by taking account of various factors, including past operation and financial performance and other factors.

Liquidity Risk

We intend to maintain sufficient cash and cash equivalents. Due to the dynamic nature of our underlying businesses, we regularly monitor our liquidity risk and maintain adequate liquid assets such as cash and cash equivalents, short-term time deposits and investments in wealth management products to retain adequate financing arrangements to meet our liquidity requirements.

The following table analyses our non-derivative financial liabilities into relevant maturity groupings based on the remaining time period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table have 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	Less than 1 year	Between 1 and 2 years	Total
		(in RMB th	ousands)	
As of 31 December 2018				
Accounts payables	_	103,275	-	103,275
non-financial liabilities)	_	273,685	_	273,685
Amounts due to NetEase Group Other financial liabilities at fair value	3,198,920	-	-	3,198,920
through profit or loss		34,316		34,316
As of 31 December 2019				
Accounts payables	_	125,877	_	125,877
Accruals and other payables (excluding		521 042		521 042
non-financial liabilities)	239,117	531,843	_	531,843 239,117
As of 31 December 2020				237,117
Accounts payables	-	1,400	-	1,400
non-financial liabilities)	_	1,478,885	_	1,478,885
Amounts due to NetEase Group	145,800	_	_	145,800
As of 30 June 2021				
Accounts payables	-	522	-	522
non-financial liabilities)	_	915,868	_	915,868
Amounts due to group companies	153,765	_	_	153,765
Lease liabilities		250	138	388

Details of the description of convertible redeemable preferred shares refer to Note 30 to Accountant's Report in Appendix I.

DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits as the statutory common reserve fund until the cumulative amount of the statutory common reserve fund reaches 50% or more of such enterprises' registered capital, if any, to fund its statutory common reserves, which are not available for distribution as cash dividends.

Dividend distribution to our shareholders is recognised as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, we did not declare or distribute any dividend to our shareholders.

DISTRIBUTABLE RESERVES

As of 30 June 2021, we did not have any distributable reserve.

LISTING EXPENSE

Based on the mid-point Offer Price of HK\$205.00, the total estimated listing expenses in relation to the Global Offering is up to approximately RMB128 million, assuming the Over-allotment Option is not exercised. The total estimated listing expenses will represent approximately 4.8% of the total gross proceeds from the Global Offering of approximately HK\$3,280.0 million. Out of the total listing expenses, we estimate RMB79 million will be charged to our consolidated statement of profit or loss for the year ending 31 December 2021. The remaining balance of approximately RMB49 million, which mainly includes underwriting commission, is expected to be accounted for as a deduction from equity upon the completion of the Global Offering. These listing expenses mainly comprise professional fees paid and payable to the professional parties for their services rendered in relation to the Listing and the Global Offering which are non-underwriting related expenses, including fees for legal advisers, Reporting Accountant and internal control consultant of RMB67 million, and other nonunderwriting-related fees of RMB20 million, as well as the underwriting commission (including SFC transaction levy and Stock Exchange trading fee) of up to RMB41 million, payable to the Underwriters in connection with the offering of Offer Shares under the Global Offering.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 June 2021 and based on the audited consolidated net tangible liabilities attributable to equity holders of the Company as at 30 June 2021 as shown in the Accountant's Report, the text of which is set out in Appendix I to this document, and adjusted as described below.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of us had the Global Offering been completed as of 30 June 2021 or at any future dates.

	Audited consolidated net tangible liabilities attributable to equity holders of the Company as at the Global 30 June 2021 ⁽¹⁾ handle		Estimated impact related to the conversion of convertible redeemable preferred shares ⁽³⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽⁴⁾⁽⁵⁾	
	RMB'000	RMB'000	RMB'000	RMB '000	RMB	HK\$
Based on an Offer Price of HK\$190.00 per Share Based on an Offer Price of	(8,923,918)	2,403,541	14,211,200	7,690,823	37.02	45.14
HK\$220.00 per Share	(8,923,918)	2,791,242	14,211,200	8,078,524	38.88	47.41

Notes:

- (1) The audited consolidated net tangible liabilities attributable to equity holders of our Company as of 30 June 2021 is extracted from the Accountant's Report as set out in Appendix I to this document, which is based on the audited consolidated net liabilities of our Group attributable to equity holders of our Company as of 30 June 2021 of approximately RMB8,923,918,000.
- (2) The estimated net proceeds to be received by our Company from the Global Offering are based on the indicative Offer Price of HK\$190.00 per Share and HK\$220.00 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by our Company, and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any Shares which may be issued under the Pre-IPO Share Incentive Plan or any Shares which may be issued or repurchased by our Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in "Share Capital."
- (3) Upon the Listing and the completion of the Global Offering, all the Preferred Shares will be automatically converted into Class A Ordinary Shares. The convertible redeemable preferred shares which were accounted for as liabilities will be re-designated from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of our Company will be increased by RMB14,211,200,000, being the carrying amount of the convertible redeemable preferred shares which were accounted for as liabilities as of 30 June 2021.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 207,756,876 Shares were in issue assuming that the Global Offering and the conversion of the Preferred Shares to Class A Ordinary Shares had been completed on 30 June 2021 but does not take into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any Shares which may be issued under the Pre-IPO Share Incentive Plan or any Shares which may be issued or repurchased by our Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this document.
- (5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at rate of RMB1 to HK\$1.2194. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (6) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to 30 June 2021.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this document, save for the subsequent events as described in Note 35 to the Accountant's Report in Appendix I, the recent developments as described in "Summary — Recent developments" and risks as described in "Summary — Business Sustainability", there has been no material adverse change in our financial or trading position since 30 June 2021, being the end date of the periods reported in the Accountant's Report in Appendix I to this document, and there has been no event since 30 June 2021 that would materially affect the information as set out in the Accountant's Report in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, except as otherwise disclosed in this document, as of the Latest Practicable Date, there were no circumstances which would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See "Business — Our Plan for Next Steps" for details of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$3,124 million (after deducting the underwriting fees and expenses related to the Global Offering), assuming the Over-allotment Option is not exercised and an Offer Price of HK\$205.00 per Share, being the mid-point of the Offer Price range of HK\$190.00 to HK\$220.00 per Share in this document.

We intend to use the net proceeds of the Global Offering for the following purposes:

- (a) Approximately 40% of the net proceeds, or approximately HK\$1,250 million, is expected to be used for continuingly cultivating our community, including to:
 - Continue investing in music and music-inspired content to expand the music content library, and enrich vertical music content offerings, especially in new and innovative genres, in order to provide diverse content choices and satisfy the evolving needs of young users. According to CIC, the number of users in China's online music entertainment market will reach 792.8 million in 2025 from 658.3 million in 2020, the increase of which are mainly driven by the increase of the number of users who were born in 1990 and after. Despite that we already have a music library with over 60 million music tracks, we believe such efforts in expanding our content library will allow us to better capture the industry trend, retain existing users and attract more users to our platform. This is especially true for young users, who are increasingly seeking more diversity in music and music-inspired content in terms of genre, style and taste, such as electronic music and rock and roll, are willing to pay for our content and stay active and engaged within our community in the long run. We consider the continuously increasing and highly engaged user base as the backbone of our community, and an ever-enriching music content library would better incentivise our users to continuously pay for our online music services and social entertainment services.

In addition, as the online music entertainment industry is quickly developing and other major platforms in the industry are also constantly enriching their content offerings, we believe that such efforts are necessary and critical for us to remain competitive.

On the cost side, as exclusive copyrights historically granted by labels gradually phase out, alternative content sources continue to diversify, which serves to optimise our cost structure and promotes the long-term healthy development of our industry. As such, we believe that, despite the incurrence of certain content costs, our investments in expanding our music content library is essential for us to constantly build and maintain a healthy and vibrant community for our users. We also believe that our costs would become more and more efficient in the long run. Our continued investment in music contents has helped drive our expansion of user base, which in turn let us enjoy economy of scale. This was demonstrated by our narrowed negative gross margin during the Track Record Period, with the incremental increase in costs for enriching our music content being outweighed by the corresponding marginal returns in financial terms. In the next 12 to 36 months, we expect to renew existing contracts and engage with new music content providers;

FUTURE PLANS AND USE OF PROCEEDS

- Continue discovering and engaging independent artists through our platform and various initiatives and supporting the creation, promotion and monetisation of their music content leveraging our multi-channel community features, user feedback and technology capabilities, so as to further enrich and diversify our content and meeting evolving user needs and preference. For instance, we offer AI-enabled creative assistance technologies and provide various courses to help our independent artists improve their skills, create, promote and distribute their music, which in turn enriches our content library. In the next 24 to 60 months, we expect to further increase content creation by our Registered Independent Artists:
- Continue refining our social interactive features, implementing our support projects and strengthening the vibrant culture of our community in order to encourage and incentivise our users to interact with each other and create content. For instance, we will create more channels for our users to interact with independent artists and receive updates in real time. We will also continue to develop our Mlog creation tools and allow users to create more text and audio content for their Mlogs to effectively boost UGC creation on our platform; and
- Continue promoting our brand to increase its popularity and influence among users, especially among young users. For instance, we will continue to increase the brand influence with a combination of word-of-mouth referrals and high return-on-investment marketing activities. We will also strengthen our brand recognition among the young generation of music enthusiasts through a combination of brand advertisements and performance-based advertisements.

We expect to use such portion of the net proceeds for the purposes described above in the next 36 to 60 months.

- (b) Approximately 40% of the net proceeds, or approximately HK\$1,250 million, is expected to be used for continuingly innovating and improving technological capabilities, including to:
 - Continue attracting, retaining and incentivising our research and development talents, especially data scientists, artificial intelligence experts and software engineers, other research and development personnel in order to support our research and development initiatives, product innovation, including, but not limited to, improving music and live streaming technologies to further enhance the performance of our apps and refining our product features and functions to further enhance user engagement;
 - Continue investing in artificial intelligence, machine learning and data analysisrelated research and development initiatives to strengthen our technological
 capabilities, improve our understanding of users' needs and preferences, optimise
 our personalised content recommendations and further develop tools to assist the
 creative endeavours of independent artists and users. For instance, we will continue
 to invest in our AI-enabled creative assistance technologies, such as the automated
 composition function, which empower independent artists and users in their creative
 pursuit. We will continue to offer a variety of technologies and tools to assist key
 opinion leaders and key opinion consumers with their content creation and
 interactions with our users. We will also keep leveraging our deep learning and data
 analytics technologies to gain more insight into our user behaviours and satisfy their
 diverse needs and preferences;

FUTURE PLANS AND USE OF PROCEEDS

- Continue innovating to improve and upgrade our music and social entertainment products and services, providing a more immersive and liberating user experience that meets the ever increasing needs of users and improves user stickiness. For instance, we will further improve our various sound effects, including the classic Deep Whale Sound Effect, to optimise our users' listening experience and improve the interactive features on our platform to further enhance user engagement. In the next 24 to 36 months, we expect to launch new sound effects, such as High-Fidelity Sound Effect (Hi-Fi) and Spatial Sound Effect, and at the same time, in the next 12 to 36 months, we expect to initiate and further explore music visualisation as an innovative new feature: and
- Continue upgrading and scaling up our IT infrastructure, including data centres and bandwidth, to support our growing user base as well as product and content offerings in the next 24 to 36 months.

We expect to use such portion of the net proceeds for the purposes described above in the next 24 to 36 months.

- (c) Approximately 10% of the net proceeds, or approximately HK\$312 million, is expected to be used for 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. We believe such acquisitions and investments would be complementary to our business and are in line with our growth strategies. In particular, in order to strengthen our technological position, attract more users to the platform, cultivate and help Registered Independent Artists with content creation, we will seek out potential businesses and assets that are synergistic with our current business. We mainly focus on cutting-edged technologies and tools when making our investments in order to assist our users and Registered Independent Artists with music creation, especially those technologies in their early stage. We understand that such targets are available in the industry.
- (d) Approximately 10% of the net proceeds, or approximately HK\$312 million, is expected to be used for working capital and general corporate purposes.

If the Offer Price is fixed at the high or low end of the Offer Price range (assuming the Over-allotment Option is not exercised), the net proceeds will increase or decrease by approximately HK\$236 million (after deducting underwriting fees and expenses related to the Global Offering). We intend to apply the additional or reduced net proceeds to the above uses on a pro rata basis.

If the Over-allotment Option is exercised in full, we will receive additional net proceeds of approximately HK\$520 million and approximately HK\$449 million if the Offer Price is fixed at the high and low end of the Offer Price range, respectively. We intend to apply the additional net proceeds to the above uses on a pro rata basis.

If the net proceeds of the Global Offering are not immediately used for the purposes described above, they will be placed on deposit with licensed banks or other authorised financial institutions.

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited
Credit Suisse (Hong Kong) Limited
Merrill Lynch (Asia Pacific) Limited
(in alphabetical order)
ABCI Securities Company Limited
BOCI Asia Limited
CCB International Capital Limited
Citigroup Global Markets Asia Limited
CMB International Capital Limited
The Hongkong and Shanghai Banking Corporation Limited
Huatai Financial Holdings (Hong Kong) Limited
ICBC International Securities Limited
(in alphabetical order)

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The Company expects the International Offering to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 1,600,000 Hong Kong Offer Shares and the International Offering of initially 14,400,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in "Structure of the Global Offering" in this prospectus as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus, the Green Application Form and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (a) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, on the Main Board of the Stock Exchange and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the Green Application Form and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Joint Sponsors and the Joint Global Coordinators, for themselves and on behalf of the Hong Kong Underwriters, may in their sole and absolute discretion and upon giving notice in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (i) there develops, occurs, exists or comes into force:
 - (a) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting the Cayman Islands, Hong Kong, the PRC, the United States (each a "Relevant Jurisdiction"); or
 - (b) any change or development, or any event or series of events likely to result in or representing a change or development, in local, national, regional or international financial, political, economic, currency market, fiscal or regulatory conditions or any monetary or trading settlement system (including, without limitation, conditions in stock markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States) in or affecting any Relevant Jurisdiction; or
 - (c) any event or series of events in the nature of force majeure (including, without limitation, fire, explosion, earthquake, flooding, tsunami, volcanic eruption, acts of war (whether declared or not), acts of terrorism (whether or not responsibility has been claimed), acts of God; or
 - (d) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in whatever form in or directly or indirectly affecting any Relevant Jurisdiction: or
 - (e) trading in securities generally on the Stock Exchange, the New York Stock Exchange or the NASDAQ Global Market shall have been suspended or materially limited; or
 - (f) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Authority), New York (imposed at Federal or New York State level or other competent Authority), or any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
 - (g) any contravention by the Company, any other member of the Group or any of their respective directors or supervisors or senior management (if applicable) of the Companies Ordinance, the Companies Act of the Cayman Islands, the PRC Company Law or the Listing Rules; or

(h) a prohibition on the Company for whatever reason from allotting, issuing or selling the Offer Shares (including any additional Shares which the Company may be required to issue upon exercise of the Over-allotment Option) pursuant to the terms of the Global Offering,

which, in any such case individually or in the aggregate, in the reasonable opinion of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

- (a) is or will be or is likely to materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Group; or
- (b) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or
- (c) makes or will make it or is likely to make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the Prospectus, the Green Application Form, the formal notice, the preliminary offering circular or the final offering circular; or
- (d) would have or is likely to have the effect of making a part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (ii) there has come to the notice of the Joint Sponsors, the Joint Global Coordinators or any of the Hong Kong Underwriters:
 - (a) that any statement contained in this prospectus, the Green Application Form and the formal notice in connection with the Hong Kong Public Offering (the "Hong Kong Public Offering Documents"), the preliminary offering circular was or has become untrue, incorrect or misleading in a material respect or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the foregoing documents are not fair and honest in a material respect, when taken as a whole; or
 - (b) any material breach of any of the obligations (including the representations, warranties and undertakings given by the Company) of the Company under the Hong Kong Underwriting Agreement; or
 - (c) any person (other than the Joint Sponsors) has withdrawn its consent to being named in any of the Hong Kong Public Offering Documents or to the issue of any of the Hong Kong Public Offering Documents; or

- (d) the grant or agreement to grant by the Stock Exchange of the listing of, and permission to deal in, the Shares on the Main Board of the Stock Exchange (the "Admission") is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the Admission is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld: or
- (e) an order or a petition being presented for the winding-up or liquidation of the Company or any member of the Group, or the Company or any member of the Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of the Company or any member of the Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of the Company or any member of the Group or anything analogous thereto occurs in respect of the Company or any member of the Group; or
- (f) any material adverse change in the earnings, results of operations, business, business or management prospects, financial or trading position or conditions (financial or otherwise) of any member of the Group; or
- (g) the Company has withdrawn the Hong Kong Public Offering Documents (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

Undertakings to the Stock Exchange pursuant to the Listing Rules

(A) Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that it will not exercise its power to issue any further Shares, or securities convertible into Shares (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except (a) pursuant to the Global Offering (including the Over-allotment Option); or (b) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertakings by the Controlling Shareholder

Pursuant to Rule 10.07 of the Listing Rules, the Controlling Shareholder has undertaken to the Stock Exchange and the Company that, except pursuant to (a) the Global Offering (including the Over-allotment Option), or (b) the Stock Borrowing Agreement and arrangements relating thereto, it will not and will procure that the relevant registered holder(s) will not without the prior written consent of the Stock Exchange or unless otherwise in compliance with the applicable requirement of the Listing Rules:

(a) in the period commencing on the date by reference to which disclosure of its shareholdings in the Company is made in this prospectus and ending on the date which is six months from the Listing Date (the "First Six-Month Period"), either directly or indirectly, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of the Company in respect of which it is shown by this prospectus to be the beneficial owner; and

(b) in the period of six months from the expiry of the First Six-Month Period, either directly or indirectly, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, the Controlling Shareholder has undertaken to the Stock Exchange and the Company that, within the period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will and will procure that the relevant registered holder(s) will:

- (i) when it pledges or charges any securities of the Company beneficially owned by it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07 of the Listing Rules, immediately inform the Company of such pledge or charge together with the number of securities so pledged or charged; and
- (ii) when it receives indications, either verbal or written, from the pledgee or chargee of any securities of the Company that any of the pledged or charged securities will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of the matters referred to in paragraphs (i) and (ii) above by the Controlling Shareholder and subject to the then applicable requirements of the Listing Rules disclose such matters by way of an announcement.

Lock-up Undertakings

(A) Undertakings by our Company pursuant to the Hong Kong Underwriting Agreement

The Company undertakes to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and the Hong Kong Underwriters that, except for (a) the issue, offer or sale of the Offer Shares by the Company pursuant to the Global Offering (including pursuant to any exercise of the Over-allotment Option) or (b) the grant of options and the issue of Shares by the Company pursuant to the Pre-IPO Share Incentive Plan, the Company will not, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with and otherwise not prohibited by the Listing Rules or the SEHK and applicable Laws in Hong Kong, at any time during the period commencing on the date hereof and ending on the date falling six months from the Listing Date (the "First Six-Month Period"):

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company or any interest in any of the foregoing), or deposit any Shares or other securities of the Company with a depositary in connection with the issue of depositary receipts; or

- (ii) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any interest therein (including, without limitation, any securities are convertible into or exchangeable or exercisable for, or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above; or
- (iv) offer to or contract to or agree to announce, or publicly disclose that the Company will or may enter into any transaction described in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company, in cash or otherwise (whether or not the issue of such Shares or other securities of the Company will be completed within the First Six-Month Period).

(B) Undertakings by the Controlling Shareholder

The Controlling Shareholder entered into a deed of undertaking on 5 August 2021 and undertook to each of the Joint Global Coordinators (for themselves and on behalf of each of the International Underwriters and the Hong Kong Underwriters) that, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with or permitted under the Listing Rules and the Stock Borrowing Agreement, or with prior written consent of the Stock Exchange,

- (a) at any time during the First Six-Month Period, they will not and will procure that the relevant registered holder(s) will not,
 - (i) offer, pledge, charge, sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest in any of the foregoing (including, but not limited to, any securities that are convertible into or exchangeable or exercisable for, or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company) beneficially owned by NetEase as at the Listing Date (the "Locked-up Securities"); or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of, any Lock-up Securities; or
 - (iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or
 - (iv) offer to or contract to or agree to announce, or publicly disclose that they will or may enter into any transaction described in paragraphs (i), (ii) or (iii) above,

whether any such transaction described in paragraphs (i), (ii) or (iii) above is to be settled by delivery of such Shares or other securities of the Company, in cash or otherwise (whether or not the settlement or delivery of such Shares or other securities will be completed within the First Six-Month Period);

- (b) during the period of six months immediately following the First Six-Month Period (the *Second Six-Month Period*), NetEase will not enter into any transaction described in (a) (i), (ii) or (iii) above or offer, agree or contract to or publicly announce any intention to enter into any such transaction, if, immediately following such transaction, NetEase will cease to be a controlling shareholder of the Company; and
- (c) at any time from the date of the deed up to the expiry of the Second Six-Month Period, NetEase will: (i) if and when NetEase or the relevant registered holder(s) pledges or charges any Shares or other securities of the Company beneficially owned by it, immediately inform the Company, the Joint Sponsors and the Joint Global Coordinators in writing of such pledge or charge together with the number of Shares or other securities (or interests therein) of the Company so pledged or charged; and (ii) if and when NetEase or the relevant registered holder(s) receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or other securities (or interests therein) of the Company will be disposed of, immediately inform the Company, the Joint Sponsors and the Joint Global Coordinators in writing of such indications.

Hong Kong Underwriters' Interests in the Company

Save for their respective obligations under the Hong Kong Underwriting Agreement and, if applicable, the Stock Borrowing Agreement, as at the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares or any securities of any member of the Group or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or any securities of any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, the Company expects to enter into the International Underwriting Agreement with, among others, the International Underwriters on or around the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See "Structure of the Global Offering — The International Offering."

Over-allotment Option

The Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which the Company may be required to issue up to an aggregate of 2,400,000 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocations in the International Offering, if any. See "Structure of the Global Offering — Over-allotment Option."

Commissions and Expenses

The Underwriters will receive an underwriting commission of up to 1.5% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued by us pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees. There is no discretionary incentive fee in addition to the underwriting commission.

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an indicative offer price of HK\$205.00 per Offer Share (which is the mid-point of the Offer Price range as stated in this document), and the exercise of the Over-allotment Option in full) will be up to approximately HK\$56.58 million.

The aggregate underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be up to approximately HK\$163.61 million (assuming an indicative offer price of HK\$205.00 per Offer Share (which is the mid-point of the Offer Price range as stated in this document) and the exercise of the Over-allotment Option in full) and will be paid by the Company.

Indemnity

The Company has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any material breach by the Company of the Hong Kong Underwriting Agreement.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "Syndicate Members") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging,

investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to our assets, securities and/or instruments and/or persons and entities with relationships with us and may also include swaps and other financial instruments entered into for hedging purposes in connection with our loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilising period described in "Structure of the Global Offering." Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- the Syndicate Members (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to us and certain of our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of the Offer Shares in the Global Offering.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The listing of the Shares on the Main Board of the Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on behalf of the Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

16,000,000 Offer Shares will initially be made available under the Global Offering comprising:

- the Hong Kong Public Offering of initially 1,600,000 Offer Shares (subject to reallocation) in Hong Kong as described in "— The Hong Kong Public Offering" below; and
- the International Offering of initially 14,400,000 Offer Shares (subject to reallocation and the Over-allotment Option) (i) in the United States solely to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in "The International Offering" below.

Investors may either (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or (ii) apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 7.70% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 8.76% of the total Shares in issue immediately following the completion of the Global Offering.

References in this prospectus to applications, Green Application Form, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

The Company is initially offering 1,600,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10.0% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 0.77% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in "— Conditions of the Global Offering" below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the "price" for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 800,000 Hong Kong Offer Shares is liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- (a) In the event that the International Offer Shares are fully subscribed or oversubscribed under the International Offering:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters), at their sole and absolute discretion (but shall not be under any obligation), may reallocate all or any of the unsubscribed Shares from the Hong Kong Public Offering to the International Offering;

- (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 1,600,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will increase to up to 3,200,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering;
- (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 4,800,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 6,400,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- (v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 8,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.
- (b) In the event that the International Offer Shares are undersubscribed under the International Offering:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Global Offering shall not proceed unless fully underwritten by the Underwriters; and
 - (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times, then up to 1,600,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Hong Kong Offer Shares available for subscription under the Hong Kong Public Offering will increase to up to 3,200,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Sponsors and the Joint Global Coordinators. If either the Hong Kong Public Offering or the International Offering is not fully subscribed for, the Joint Sponsors and the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Offer Shares from such offering to the other, in such proportion as the Joint Sponsors and the Joint Global Coordinators deem appropriate.

In the event of reallocation of Offer Shares from the International Offering to the Hong Kong Public Offering in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the Offer Price range (i.e. HK\$190.00 per Offer Share) indicated in this document.

In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with the Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, if such allocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 3,200,000 Offer Shares).

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the allotment results announcement, which is expected to be published on Wednesday, 1 December 2021.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he/she has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the Maximum Offer Price in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$11,110.85 for one board lot of 50 Offer Shares. If the Offer Price, as finally determined in the manner described in "— Pricing and Allocation" below, is less than the Maximum Offer Price, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in "How to Apply for Hong Kong Offer Shares."

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

The International Offering will consist of an initial offering of 14,400,000 Offer Shares offered by us (subject to reallocation and the Over-allotment Option), representing 90.0% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 6.93% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Group and the Shareholders as a whole.

The Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Sponsors and the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in "— The Hong Kong Public Offering — Reallocation" above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 2,400,000 Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to cover overallocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 1.14% of the total Shares in issue immediately following the completion of the Global Offering. If the Over-allotment Option is exercised, an announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager (or any person acting for it) to conduct any such stabilising action. Such stabilising action, if taken, (a) will be conducted at the absolute discretion of the Stabilising Manager (or any person acting for it) and in what the Stabilising Manager reasonably regards as the best interest of the Company, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days after the last day for lodging applications under the Hong Kong Public Offering.

Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimising any reduction in the market price of the Shares, (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares, (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in clauses (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilising Manager (or any person acting for it) may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilising Manager (or any person acting for it) will maintain such a long position;
- liquidation of any such long position by the Stabilising Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilisation period, which will begin on the Listing Date, and is expected to expire on Sunday, 26 December 2021, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

The Company will ensure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

Over-Allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilising Manager (or any person acting for it) may cover such over-allocations by exercising the Over-allotment Option in full or in part, using Shares purchased by the Stabilising Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price or through the Stock Borrowing Agreement as detailed below or a combination of these means.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations, if any, in connection with the Global Offering, the Stabilising Manager (or any person acting for it) may choose to borrow up to 2,400,000 Shares (being the maximum number of Shares which may be issued pursuant to the exercise of the Over-allotment Option) from NetEase, pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilising Manager (or any person acting for it) and NetEase on or about the Price Determination Date.

The same number of Shares so borrowed must be returned to NetEase or their nominees, as the case may be, on or before the third business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised and (b) the day on which the Over-allotment Option is exercised in full.

The Shares borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to NetEase by the Stabilising Manager (or any person acting for it) in relation to such Shares borrowing arrangement.

PRICING AND ALLOCATION

Determining the Pricing of the Offer Shares

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be determined on the Price Determination Date, which is expected to be on or about Friday, 26 November 2021 and, in any event, no later than Wednesday, 1 December 2021, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Company, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$220.00 per Offer Share and is expected to be not less than HK\$190.00 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the Maximum Offer Price plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$11,110.85 for one board lot of 50 Offer Shares. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Minimum Offer Price stated in this prospectus.

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of the Company, reduce the number of Offer Shares offered below and/or the Offer Price Range as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the websites of the Company and the Stock Exchange at http://ir.music.163.com and www.hkexnews.hk, respectively, notices of the reduction. The Company will also, as soon as practicable following the decision to make such change, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the Offer Price, extend the period under which the Hong Kong Public Offering was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and require investors who had applied for the Hong Kong Offer Shares to positively confirm their applications for Offer Shares in light of the change in the number of Offer Shares and/or the Offer Price. Upon the issue of such a notice and supplemental prospectus, the revised number of Offer Shares and/or the Offer Price Range will be final and conclusive and the Offer Price, if agreed upon by the Joint Sponsors and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company, will be fixed within such revised Offer Price Range.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or Offer Price Range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company, will under no circumstances be set outside the Offer Price Range as stated in this prospectus.

Announcement of Final Pricing of the Offer Shares

The final pricing of the Offer Shares, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in "How to Apply for Hong Kong Offer Shares — D. Publication of results."

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Company agreeing on the Offer Price.

The Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarised in "Underwriting."

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, on the Main Board of the Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;
- the pricing of the Offer Shares having been agreed between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Company;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Company on or before Wednesday, 1 December 2021, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company on the websites of the Company and the Stock Exchange at http://ir.music.163.com and www.hkexnews.hk, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares — F. Refund of application monies." In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Thursday, 2 December 2021, provided that the Global Offering has become unconditional in all respects at or before that time.

DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 2 December 2021, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 2 December 2021.

The Shares will be traded in board lots of 50 Shares each and the stock code of the Shares will be 9899.

HOW TO APPLY FOR HONG KONG OFFER SHARES

NOTICE TO INVESTORS FULLY ELECTRONIC APPLICATION PROCESS

The Hong Kong Public Offering is being conducted in a fully electronic manner and no printed copies of this prospectus or the Green Application Form for use by the public will be provided by the Company in accordance with the Listing Rules.

This prospectus is available at the website of Stock Exchange at www.hkexnews.hk under the "HKEXnews > New Listings > New Listing Information" section, and the Company's website at http://ir.music.163.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above. If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. No physical channels to accept any application for the Hong Kong Offer Shares by the public will be provided by the Company in accordance with the Listing Rules.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of the Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8646 from 9:00 a.m. to 9:00 p.m. on Tuesday, 23 November 2021, Wednesday, 24 November 2021 and Thursday, 25 November 2021, and from 9:00 a.m. to 12:00 noon on Friday, 26 November 2021.

A. APPLICATIONS FOR HONG KONG OFFER SHARES

1. How to Apply

To apply for Hong Kong Offer Shares, you may:

- (1) apply online through the White Form eIPO service at www.eipo.com.hk; or
- (2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing CCASS Investor Participant) giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request form.

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Sponsors, the Joint Global Coordinators, the White Form eIPO Service Provider and their respective agents may reject or accept any application, in full or in part, for any reason at their discretion.

2. Who Can Apply

Eligibility for the Application

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S.

If an application is made by a person under a power of attorney, the Company, the Joint Sponsors and the Joint Global Coordinators, as the Company's agents, may accept it at the Company's or their discretion, and on any conditions the Company or they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any member of the Group;
- a close associate (as defined in the Listing Rules) of any of the above persons;
 and

• have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, you must:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

3. Terms and Conditions of an Application

By applying through the application channels specified in this prospectus, you:

- undertake to execute all relevant documents and instruct and authorise the Company, the Joint Sponsors and/or the Joint Global Coordinators (or their agents or nominees), as the Company's agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with the Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Cayman Companies Act;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;
- agree that none of the Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering (the "Relevant Persons"), and the White Form eIPO Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);

- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- agree to disclose to the Company, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons any personal data which the Company or any of them may require about you and the person(s) for whose benefit you have made the application;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither the Company nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus;
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- warrant that the information you have provided is true and accurate;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- authorise (i) the Company to place your name(s) or the name of HKSCC Nominees on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under the Articles of Association and (ii) the Company and/or the Company's agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "— G. Despatch/collection of share certificates/e-refund payment instructions/refund cheques Personal Collection" below to collect the Share certificate(s) and/or refund cheque(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that the Company, the Directors, the Joint Sponsors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the **White Form eIPO** service by you or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

4. Minimum Application Amount and Permitted Numbers

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 50 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
50	11,110.85	700	155,551.86	5,000	1,111,084.70	70,000	15,555,185.80
100	22,221.69	800	177,773.55	6,000	1,333,301.64	80,000	17,777,355.20
150	33,332.54	900	199,995.25	7,000	1,555,518.58	90,000	19,999,524.60
200	44,443.39	1,000	222,216.94	8,000	1,777,735.52	100,000	22,221,694.00
250	55,554.24	1,500	333,325.41	9,000	1,999,952.46	200,000	44,443,388.00
300	66,665.08	2,000	444,433.88	10,000	2,222,169.40	300,000	66,665,082.00
350	77,775.93	2,500	555,542.35	20,000	4,444,338.80	400,000	88,886,776.00
400	88,886.78	3,000	666,650.82	30,000	6,666,508.20	500,000	111,108,470.00
450	99,997.62	3,500	777,759.29	40,000	8,888,677.60	600,000	133,330,164.00
500	111,108.47	4,000	888,867.76	50,000	11,110,847.00	700,000	155,551,858.00
600	133,330.16	4,500	999,976.23	60,000	13,333,016.40	$800,000^{(1)}$	177,773,552.00

⁽¹⁾ Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Applying Through the White Form eIPO Service

General

Individuals who meet the criteria in "Who Can Apply" above may apply through the White Form eIPO service for the Offer Shares to be allocated and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the White Form eIPO Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the White Form eIPO Service Provider.

If you have any question on how to apply through the **White Form eIPO** service for Hong Kong Offer Shares, you may call the enquiry hotline of the White Form eIPO Service Provider at +852 2862 8646 which is available from 9:00 a.m. to 9:00 p.m. on Tuesday, 23 November 2021, Wednesday, 24 November 2021 and Thursday, 25 November 2021, and from 9:00 a.m. to 12:00 noon on Friday, 26 November 2021.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service through the designated website at www.eipo.com.hk (24 hours daily, except on the last day for applications) from 9:00 a.m. on Tuesday, 23 November 2021 until 11:30 a.m. on Friday, 26 November 2021 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 26 November 2021, the last day for applications, or such later time as described in "— C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" below.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Commitment to sustainability

The obvious advantage of **White Form eIPO** service is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each "**CLOUD VILLAGE INC.**" **White Form eIPO** application submitted via **www.eipo.com.hk** to support sustainability.

6. Applying Through CCASS EIPO Service

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants though HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Sponsors, the Joint Global Coordinators and the Hong Kong Share Registrar.

Applying through CCASS EIPO service

Where you have applied through **CCASS EIPO** service (either indirectly through a broker or custodian or directly) and an application is made by HKSCC Nominees on your behalf:

- HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus; and
- HKSCC Nominees will do the following things on your behalf:
 - o agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - o agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - o undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;

- o (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- o (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as its agent;
- o confirm that you understand that the Company, the Directors, the Joint Sponsors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration:
- o authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you, and dispatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between the Company and HKSCC;
- o confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- o confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;
- o agree that neither the Company nor any of the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- o agree to disclose to the Company, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons any personal data which the Company or they may require about you;
- o agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company, and to become binding when you give the instructions and such collateral contract to be in consideration of the Company's agreeing that the Company will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of

opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;

- o agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by the Company;
- o agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving electronic application instructions to apply for Hong Kong Offer Shares;
- o agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for the Company and on behalf of each Shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance the Cayman Companies Act; and
- o agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the Maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the Maximum Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and

 instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions¹

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates and times:

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Tuesday, 23 November 2021 — 9:00 a.m. to 8:30 p.m. Wednesday, 24 November 2021 — 8:00 a.m. to 8:30 p.m. Thursday, 25 November 2021 — 8:00 a.m. to 8:30 p.m. Friday, 26 November 2021 — 8:00 a.m. to 12:00 noon
```

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 23 November 2021 until 12:00 noon on Friday, 26 November 2021 (24 hours daily, except on Friday, 26 November 2021, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 26 November 2021, the last day for applications, or such later time as described in "— C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" below.

Note:

The times in this subsection are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

If you are instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The following Personal Information Collection Statement applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of the Company and the Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to the Company or the Company's agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of the Company or the Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform the Company and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

processing your application and refund cheque, where applicable, verification
of compliance with the terms and application procedures set out in this
prospectus and announcing results of allocation of the Hong Kong Offer
Shares;

- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of the Shares including, where applicable, HKSCC Nominees;
- maintaining or updating the Register of Members;
- verifying identities of the holders of the Shares;
- establishing benefit entitlements of holders of the Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from the Company and other member of the Group;
- compiling statistical information and profiles of the holder of the Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong Share Registrar to discharge their obligations to holders of the Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by the Company and the Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but the Company and the Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- the Company's appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Company or the Hong Kong Share Registrar in connection with their respective business operation;
- the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers, etc.

Retention of personal data

The Company and the Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether the Company or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. The Company and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to the Company, at the Company's registered address disclosed in "Corporate Information" or as notified from time to time, for the attention of the secretary, or the Hong Kong Share Registrar for the attention of the privacy compliance officer.

7. Warning for Electronic Applications

The application for the Hong Kong Offer Shares by CCASS EIPO service (directly or indirectly through your broker or custodian) is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the White Form eIPO service is only a facility provided by the White Form eIPO Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. The Company, the Directors, the Relevant Persons and the White Form eIPO Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through CCASS EIPO service or person applying through the White Form eIPO service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems.

In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 26 November 2021, the last day for applications, or such later time as described in "— C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" below.

8. How Many Applications You Can Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your broker or custodian) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will

not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your behalf to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

B. HOW MUCH THE HONG KONG OFFER SHARES ARE

The Maximum Offer Price is HK\$220.00 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. This means that for one board lot of 50 Hong Kong Offer Shares, you will pay HK\$11,110.85.

You must pay the Maximum Offer Price, together with brokerage, SFC transaction levy and Stock Exchange trading fee, in full upon application for Hong Kong Offer Shares.

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 50 Hong Kong Offer Shares. If you make an **electronic application instruction** for more than 50 Hong Kong Offer Shares, the number of Hong Kong Offer Shares you apply for must be in one of the specified numbers set out in the section "— A. Applications for Hong Kong Offer Shares — 4. Minimum Application Amount and Permitted Number."

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see "Structure of the Global Offering — Pricing and allocation."

C. EFFECT OF BAD WEATHER AND EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning; and/or
- Extreme Conditions.

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 26 November 2021. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 26 November 2021 or if there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in "Expected Timetable," an announcement will be made on the Company's website at http://ir.music.163.com and the website of Stock Exchange at www.hkexnews.hk.

D. PUBLICATION OF RESULTS

The Company expects to announce the pricing of the Offer Shares on Wednesday, 1 December 2021 on its website at http://ir.music.163.com and the website of Stock Exchange at www.hkexnews.hk.

The Company expects to announce the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Wednesday, 1 December 2021 on its website at http://ir.music.163.com and the website of Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering (if provided) will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on the Company's website and the website of Stock Exchange at http://ir.music.163.com and www.hkexnews.hk, respectively, by no later than 9:00 a.m. on Wednesday, 1 December 2021;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English https://www.eipo.com.hk/en/Allotment; Chinese https://www.eipo.com.hk/zh-hk/Allotment) with a "search by ID function" on a 24 hour basis from 8:00 a.m. on Wednesday, 1 December 2021 to 12:00 midnight on Tuesday, 7 December 2021; and
- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from Wednesday, 1 December 2021 to Monday, 6 December 2021 on a business day.

If the Company accept your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in "Structure of the Global Offering."

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

E. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

If your application is revoked:

By applying through the CCASS EIPO service or through the White Form eIPO service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus; or
- if any supplement to this prospectus is issued, in which case applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

If the Company or its agents exercise discretion to reject your application:

The Company, the Joint Sponsors, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies the Company of that longer period within three weeks of the closing date of the application lists.

If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your payment is not made correctly;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at **www.eipo.com.hk**;
- you apply for more than 800,000 Hong Kong Offer Shares, being 50% of the 1,600,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- the Company, the Joint Sponsors or the Joint Global Coordinators believe that by accepting your application, a violation of applicable securities or other laws, rules or regulations would result; or
- the Underwriting Agreements do not become unconditional or are terminated.

F. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Maximum Offer Price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in "Structure of the Global Offering — Conditions of the Global Offering" are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Wednesday, 1 December 2021.

G. DESPATCH/COLLECTION OF SHARE CERTIFICATES/E-REFUND PAYMENT INSTRUCTIONS/REFUND CHEQUES

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made through the CCASS EIPO service where the Share certificates will be deposited into CCASS as described below).

The Company will not issue any temporary document of title in respect of the Offer Shares. The Company will not issue receipt for sums paid on application.

Subject to arrangement on dispatch/collection of Share certificates and refund cheques as mentioned below, any refund cheques and Share certificate(s) are expected to be posted on or before Wednesday, 1 December 2021. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 2 December 2021, provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with their respective terms at or before that time. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

Personal collection

• If you apply through White Form eIPO service:

• If you apply for 100,000 Hong Kong Offer Shares or more through the White Form eIPO service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 1 December 2021, or any other place or date notified by the Company.

- If you do not personally collect your Share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
- If you apply for less than 100,000 Hong Kong Offer Shares through the White Form eIPO service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 1 December 2021 by ordinary post and at your own risk.
- If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address specified in your application instructions in the form of refund cheque(s) by ordinary post and at your own risk.

• If you apply through CCASS EIPO service:

Allocation of Hong Kong Offer Shares

• For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 1 December 2021 or on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in "Publication of Results" above on Wednesday, 1 December 2021. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 1 December 2021 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 1 December 2021. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the Maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 1 December 2021.

H. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CLOUD VILLAGE INC. AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED, CREDIT SUISSE (HONG KONG) LIMITED AND MERRILL LYNCH (ASIA PACIFIC) LIMITED

Introduction

We report on the historical financial information of Cloud Village Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-77, which comprises the consolidated balance sheets as at 31 December 2018, 2019 and 2020 and 30 June 2021, the company balance sheets as at 31 December 2018, 2019 and 2020 and 30 June 2021, and the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-77 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 23 November 2021 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2018, 2019 and 2020 and 30 June 2021 and the consolidated financial position of the Group as at 31 December 2018, 2019 and 2020 and 30 June 2021 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2020 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the International Auditing and Assurance Standards Board ("IAASB"). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 14 to the Historical Financial Information which states that no dividends have been paid by Cloud Village Inc. in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

${\bf Price water house Coopers}$

Certified Public Accountants Hong Kong 23 November 2021

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Year o	ended 31 Decen	Six months ended 30 June		
	Note	2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Revenue	5	1,148,037	2,318,390	4,895,731	1,978,586	3,183,674
Cost of revenue	8	(2,465,255)	(3,375,104)	(5,491,066)	(2,375,100)	(3,196,530)
Gross loss		(1,317,218)	(1,056,714)	(595,335)	(396,514)	(12,856)
expenses	8	(127,867)	(223,410)	(327,323)	(90,550)	(154,925)
expenses	8	(34,323)	(55,373)	(96,909)	(44,625)	(130,261)
expenses	8	(265,978)	(363,200)	(576,457)	(247,158)	(420,313)
Other income	6	132	50,946	71,251	24,494	13,500
Other gains/(losses), net	7	21,174	8,398	(17)	11,898	3,540
Operating loss		(1,724,080)	(1,639,353)	(1,524,790)	(742,455)	(701,315)
equity method	17	(3,969)	(1,011)	(3,658)	(2,659)	(1,780)
Finance income	11	22,181	79,055	100,642	57,976	24,795
Finance cost	11	(123,060)	(28,814)	-	-	-
Preferred Shares Loss on buy-back of Convertible redeemable	30	(175,284)	(423,499)	(1,361,581)	(180,110)	(3,128,668)
Preferred Shares	31(d)	_	_	(160,500)	(160,500)	_
Loss before income tax		(2,004,212)	(2,013,622)	(2,949,887)	(1,027,748)	(3,806,968)
Income tax expense	12	(2,037)	(2,137)	(1,576)	(475)	(2,179)
Loss for the year/period attributable to equity					44.000.000	
holders of the Company		(2,006,249)	(2,015,759)	(2,951,463)	(1,028,223)	(3,809,147)
Loss per share attributable to equity holders of the Company (expressed in RMB per share)						
Basic loss per share	13	19.54	16.71	24.22	8.45	31.19
Diluted loss per share	13	N/A	N/A	N/A	N/A	N/A

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year o	ended 31 Decer	Six months ended 30 June		
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Loss for the year/period	(2,006,249)	(2,015,759)	(2,951,463)	(1,028,223)	(3,809,147)
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	45,046 (35,925)	(14,162) (55,468)	(97,436) 524,040	(13,072) (77,062)	(34,930) 79,422
Items that may be subsequently reclassified to profit or loss Currency translation differences	(2)	(2)	6	41	_
Other comprehensive income/(loss) for the year/period, net of taxes	9,119	(69,632)	426,610	(90,093)	44,492
Total comprehensive loss for the year/period attributable to equity holders of the Company	(1,997,130)	(2,085,391)	(2,524,853)	(1,118,316)	(3,764,655)

CONSOLIDATED BALANCE SHEETS

		A	s at 31 December	•	As at 30 June
	Note	2018	2019	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets Property, plant and equipment Right-of-use assets Investments accounted for using	15	25,669	23,709	20,802	20,621 388
equity method Prepaid contents royalties Prepayments, deposits and other assets Long-term bank deposits	17 20 21 22	26,401 550,645 30,421	73,531 652,860 30,634	88,580 894,758 633 190,000	86,800 597,391 495
6		633,136	780,734	1,194,773	705,695
Current assets					
Accounts receivables	19 20	300,420 1,081,418	373,898 1,184,462	254,375 1,362,001	463,646 1,276,849
receivables	21 33	208,753 2,134,151	262,676 18,461	280,133 171,682	310,086 173,420
profit or loss	18 22 23	162,759 2,892,839 551,279	338,742 5,166,923 911,266	971,315 816,917 3,006,206	52,840 3,622,897 476,149
		7,331,619	8,256,428	6,862,629	6,375,887
Total assets		7,964,755	9,037,162	8,057,402	7,081,582
EQUITY Equity attributable to equity holders of the Company					
Share capital	24 25	76 2,517,790 (3,417,487)	77 2,477,590 (5,423,176)	78 3,065,596 (8,372,440)	78 3,308,388 (12,232,384)
Total equity holders' deficits		(899,621)	(2,945,509)	(5,306,766)	(8,923,918)
LIABILITIES Non-current liabilities Contract liabilities	29 30	10,470 5,051,120	8,136 10,763,816	29,105 11,162,403	37,851 12,398,813
Other financial liabilities at fair value through profit or loss	3.3(b)	34,316	_	_	_
Lease liabilities			10.551.050		138
~		5,095,906	10,771,952	11,191,508	12,436,802
Current liabilities Accounts payables	27 28 29 30 33	103,275 352,859 112,893 - 3,198,920	125,877 669,651 175,456 - 239,117	1,400 1,639,840 384,978 - 145,800	522 1,065,215 536,011 1,812,387 153,765
Income tax payable		523	618	642	548 250
		3,768,470	1,210,719	2,172,660	3,568,698
Total liabilities		8,864,376	11,982,671	13,364,168	16,005,500
Total equity and liabilities		7,964,755	9,037,162	8,057,402	7,081,582

COMPANY BALANCE SHEETS

		As	at 31 Decembe	er	As at 30 June
	Note	2018	2019	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Investment in an associate		_	17,575	17,575	17,575
Investment in a joint venture	16	1 007 222	7.010.122	5,165	5,165
Investments in subsidiaries	16	1,997,223			8,071,770
		1,997,223	7,036,698	8,137,944	8,094,510
Current assets					
Prepayments, deposits and other receivables		15,086	13,623	4,145	15,908
Amount due from ultimate		13,000	13,023	7,173	13,700
holding company		2,108,834	_	_	_
Short-term bank deposits	22	2,892,839	5,166,923		3,432,897
Cash and cash equivalents	23	331,008	468,531	2,848,590	201,316
		5,347,767	5,649,077	3,669,652	3,650,121
Total assets		7,344,990	12,685,775	11,807,596	11,744,631
EQUITY Equity attributable to equity holders of the Company					
Share capital	24	76	77	78	78
Reserves	25	2,259,478	1,921,823	645,001	(2,501,900)
Total equity/(deficits)		2,259,554	1,921,900	645,079	(2,501,822)
LIABILITIES Non-current liabilities Convertible redeemable Preferred		7.071.100	40.700.046	44.462.402	12 200 012
Shares	30	5,051,120	10,763,816	11,162,403	12,398,813
value through profit or loss	<i>3.3(b)</i>	34,316	_	_	_
		5,085,436	10,763,816	11,162,403	12,398,813
Current liabilities Accruals and other payables Convertible redeemable Preferred		-	59	114	35,253
Shares	30				1,812,387
			59	114	1,847,640
Total liabilities		5,085,436	10,763,875	11,162,517	14,246,453
Total equity and liabilities		7,344,990	12,685,775	11,807,596	11,744,631

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Attributable	to equity	holders of	the	Company
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	Note	Share capital	Other reserves	Accumulated losses	Total
		RMB'000	RMB'000	RMB'000	RMB'000
			(Note 25)		
Balance at 1 January 2018		54	79,331	(1,411,866)	(1,332,481)
Loss for the year Other comprehensive income/(loss): Fair value change on Convertible redeemable Preferred Shares due to own credit risk		-	45,046	(2,006,249)	(2,006,249) 45,046
Currency translation differences			(35,927)	_	(35,927)
Total comprehensive loss for the year		_	9,119	(2,006,249)	(1,997,130)
Transactions with equity holders: Issuance of ordinary shares Equity-settled share-based	24, 25	22	2,412,748	-	2,412,770
payments	25	-	16,287	933	17,220
reserves	25		305	(305)	
Total transactions with equity holders		22	2,429,340	628	2,429,990
Balance at 31 December 2018		76	2,517,790	(3,417,487)	(899,621)
Balance at 1 January 2019		76	2,517,790	(3,417,487)	(899,621)
Loss for the year Other comprehensive loss: Fair value change on Convertible redeemable Preferred Shares due		-	-	(2,015,759)	(2,015,759)
to own credit risk			(14,162) (55,470)	- -	(14,162) (55,470)
Total comprehensive loss for the year		_	(69,632)	(2,015,759)	(2,085,391)
Transactions with equity holders: Exercise of share options Equity-settled share-based	24, 25	1	27,525	-	27,526
payments	25	-	1,341	10,636	11,977
reserves	25		566	(566)	
Total transactions with equity holders		1	29,432	10,070	39,503
Balance at 31 December 2019		77	2,477,590	(5,423,176)	(2,945,509)

Attributable to equity holders of the Company

					1 0
	Note	Share capital	Other reserves	Accumulated losses	Total
		RMB'000	RMB'000	RMB'000	RMB'000
			(Note 25)		
Balance at 1 January 2020		77	2,477,590	(5,423,176)	(2,945,509)
Loss for the year Other comprehensive income/(loss): Fair value change on Convertible redeemable Preferred Shares due		_	-	(2,951,463)	(2,951,463)
to own credit risk		_	(97,436)	_	(97,436)
Currency translation differences		_	524,046	-	524,046
Total comprehensive loss for				_	
the year		-	426,610	(2,951,463)	(2,524,853)
Transactions with equity holders: Issuance of Preferred Shares Equity-settled share-based	24, 25	1	141,702	-	141,703
payments	25	-	18,957	2,936	21,893
reserves	25	_	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)

Attributable to equity holders	5 OI	tne	Company
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	Note	Share capital	Other reserves	Accumulated losses	Total
		RMB'000	RMB'000	RMB'000	RMB'000
			(Note 25)		
Balance at 1 January 2021		78	3,065,596	(8,372,440)	(5,306,766)
Loss for the period Other comprehensive loss: Fair value change on Convertible redeemable Preferred Shares due		-	-	(3,809,147)	(3,809,147)
to own credit risk			(34,930) 79,422	_ 	(34,930) 79,422
Total comprehensive loss for the period		-	44,492	(3,809,147)	(3,764,655)
Transactions with equity holders: Equity-settled share-based					
payments	25		198,300	(50,797)	147,503
Total transactions with equity holders			198,300	(50,797)	147,503
Balance at 30 June 2021		78	3,308,388	(12,232,384)	(8,923,918)
(Unaudited) Balance at 1 January 2020		77	2,477,590	(5,423,176)	(2,945,509)
Loss for the period Other comprehensive loss: Fair value change on Convertible redeemable Preferred Shares due		-	-	(1,028,223)	(1,028,223)
to own credit risk			(13,072) (77,021)	- -	(13,072) (77,021)
Total comprehensive loss for the period			(90,093)	(1,028,223)	(1,118,316)
Transactions with equity holders: Issuance of Preferred Shares Equity-settled share-based	24, 25	1	141,702	-	141,703
payments	25		9,997	329	10,326
Total transactions with equity holders		1	151,699	329	152,029
Balance at 30 June 2020		78	2,539,196	(6,451,070)	(3,911,796)

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year e	ended 31 Decen	nber	Six months en	ded 30 June
	Note	2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Cash flows from operating activities Cash used in operations	31(a)	(2,745,206) (1,239)	(1,703,854) (2,042)	(967,906) (1,552)	(729,960) (488)	(745,742) (2,273)
Net cash used in operating activities		(2,746,445)	(1,705,896)	(969,458)		(748,015)
Cash flows from investing activities Additions of investments accounted for using			`- ' '	` '		`
equity method		(27,843) (14,370)	(59,374) (14,731)	(20,208) (20,565)	(17,209) (12,999)	(9,020)
and equipment		1,019	2,332	1,086 (190,000)	54 (190,000)	543
Placement of short-term deposits		(3,050,935) 140,574	(7,732,456) 5,444,200	(1,968,664) 6,090,039	(882,184) 2,207,824	(4,177,354) 1,522,297
fair value through profit or loss Proceeds from disposal of financial assets at		(306,000)	(1,532,050)	(4,565,130)	(1,409,000)	(1,942,000)
fair value through profit or loss		150,721 (30,000)	1,371,371	3,954,997	937,607	2,867,091
Refund of prepayment for an investment Interest received		6,685	80,662	15,000 109,360	2,000 28,340	3,500 13,702
Net cash (used in)/generated from investing activities		(3,130,149)	(2,440,046)	3,405,915	664,433	(1,721,241)
Cash flows from financing activities Interest paid		(88,381)	(62,457)	-	-	(64,499)
ordinary shares	24	303,990	2,108,834	-	-	-
redeemable Preferred Shares	<i>31(b)</i>	4,869,175	5,215,369	-	-	-
holding company		2,261,010	(2,801,064)	-	-	-
subsidiary	31(c) 24 24	(975,000) - -	27,526	141,702	- 141,702	- - -
Shares	<i>31(d)</i>			(462,650)	(462,650)	
Net cash generated from/(used in) financing activities		6,370,794	4,488,208	(320,948)	(320,948)	(64,499)
Net increase/(decrease) in cash and cash equivalents		494,200	342,266	2,115,509	(386,963)	(2,533,755)
Cash and cash equivalents at beginning of the year/period		23,460	551,279	911,266	911,266	3,006,206
Exchange differences on cash and cash equivalents		33,619	17,721	(20,569)	21,430	3,698
Cash and cash equivalents at end of the year/period	23	551,279	911,266	3,006,206	545,733	476,149

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

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."

This Historical Financial Information is presented in thousands of unit of Renminbi (RMB'000), unless otherwise stated.

1.2 History of the Group

The Company was incorporated under the laws of the Cayman Islands on 2 February 2016 as an exempted company with limited liability. Upon incorporation, the authorised share capital of the Company was US\$10,000 divided into 100,000,000 ordinary shares with a par value of US\$0.0001 each. On 23 August 2017, the Company increased its share capital by 900,000,000 shares, following which, the authorised share capital of the Company became US\$100,000 divided into 1,000,000,000 shares with a par value of US\$0.0001 each.

As at 1 January 2018, 85,000,000 Class B Ordinary shares were issued. During the year ended 31 December 2018, 34,770,118 additional Class B Ordinary shares were issued to NetEase Inc.. During the year ended 31 December 2019, 1,470,100 Class A Ordinary shares were issued as a result of exercise of share options issued by the Company. Details of the share capital of the Company is disclosed in Note 24.

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 16.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of the Historical Financial Information. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Group, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations issued by International Accounting Standards Board ("IASB") applicable to companies reporting under IFRSs.

The Historical Financial Information has 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 Historical Financial Information 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 Historical Financial Information are disclosed in Note 4.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group was in a net liability position of approximately RMB0.9 billion, RMB2.9 billion, RMB5.3 billion and RMB8.9 billion, respectively. Historically, the Group has relied principally on both internally generated cash flows from operations and financing cash flows from investors (including Convertible redeemable Preferred Shares) to finance its operations and business development. The Group's ability to continue as a going concern is dependent on management's ability to successfully execute its business plans, which include increasing revenue through enhancing the Group user base, monetisation capabilities and content offerings; and at the same time managing the related costs in order to continue generating cash flows and gain support from existing and new investors.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group had net current assets of approximately RMB3.6 billion, RMB7.0 billion, RMB4.7 billion and RMB2.8 billion, respectively. In addition, all of the Company's Convertible redeemable Preferred Shares are (i) redeemable at the option of the holders commencing at a date of more than twelve months from the respective financial reporting dates, except for an amount to the extent of approximately RMB1.8 billion which is redeemable from April 2022; and (ii) will be automatically converted into ordinary shares of the Company upon listing of the Company's share, such that immediately after the conversion, the Group will no longer in net liability position. Based on the above considerations, the Group's historical performance and management's operating and financing plans, the directors believe that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for not less than next twelve months after 31 December 2018, 2019 and 2020 and 30 June 2021. Consequently, the Historical Financial Information has been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the normal course of business.

2.1.1 Change in accounting policy and disclosures

All effective standards, amendments to standards and interpretations, which are mandatorily effective for the financial year beginning on 1 January 2020, are consistently applied to the Group for the Track Record Period. In preparation of the Historical Financial Information, the Group has early adopted IFRS 16 – Leases ("IFRS 16") on 1 January 2018 and applied consistently throughout the Track Record Period.

The Group leases office buildings. The Group applied the lessee accounting requirements of IFRS 16 retrospectively during the Track Record Period. Since all lease agreements were within 12 months on 1 January 2018, the Group had used the practical expedient, in applying IFRS 16 for the first time, by accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2018 as short term leases.

(a) New and amended standards not yet adopted

Certain new and amended 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 during the Track Record Period.

		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

The Group is in the process of making an assessment of the impact of these new and amended 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;
- 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.

(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 information 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 Historical Financial Information in RMB.

(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.

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.

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.

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.

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.

(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 19 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 24).

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.

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 30 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.

(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 Historical Financial Information. 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.

(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).

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 subscription, sublicensing of content 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 subscriber 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.

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. Sublicense fees are normally collected upfront and is initially recognised as contract liabilities upon receipt. 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 control 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.

(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/(cost), net" 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.

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.

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 2018, 2019 and 2020 and 30 June 2021.

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 2018, 2019 and 2020 and 30 June 2021, 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.

(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 2018, 2019 and 2020 and 30 June 2021, 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 are mainly placed with reputable financial institutions in PRC, 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

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 2018, 2019 and 2020 and 30 June 2020 and 2021 was determined as follows for accounts receivables:

	At 31 December	At 31 December	At 31 December	As at 30 June		
	2018	2019	2020	2020	2021	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
				(unaudited)		
Gross carrying						
amount	301,643	374,161	257,672	114,015	466,874	
Loss allowance provision	(1,223)	(263)	(3,297)	(3,008)	(3,228)	
Expected loss						
rate	0.41%	0.07%	0.04%	0.80%	0.01%	

Circ months and ad

The loss allowances for accounts receivables as at 31 December 2018, 2019 and 2020 and 30 June 2020 and 2021 reconcile to the opening loss allowances is as follows:

	Year o	ended 31 Decer	30 June			
	2018	2019	2019 2020		2021	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
				(unaudited)		
At 1 January Net impairment loss/(reversal of impairment loss) during the	-	1,223	263	263	3,297	
year/period	1,223	(960)	3,034	2,745	(69)	
At 31 December/ 30 June	1,223	263	3,297	3,008	3,228	

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.

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 are mainly placed with state-owned financial institutions in the 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.

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	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018 Accounts payables Accruals and other payable	-	103,275	-	-	103,275
(excluding non-financial liabilities)	2 108 020	273,685	-	-	273,685 3,198,920
Other financial liabilities at fair value through profit or loss	3,198,920	34,316	_	_	34,316
At 31 December 2019					
Accounts payables Accruals and other payable (excluding non-financial	-	125,877	-	-	125,877
liabilities)	-	531,843	_	_	531,843
companies	239,117	_	_		239,117
At 31 December 2020 Accounts payables Accruals and other payable	_	1,400	_		1,400
(excluding non-financial liabilities)	-	1,478,885	-	_	1,478,885
Amounts due to group companies	145,800				145,800
At 30 June 2021 Accounts payables Accruals and other payable		522			522
(excluding non-financial liabilities)	-	915,868	-	-	915,868
companies	153,765	250	138		153,765 388

Details of the description of Convertible redeemable Preferred Shares are presented in Note 30.

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 2018, 2019 and 2020 and 30 June 2021, 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 Track Record Period.

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 2018, 2019 and 2020 and 30 June 2021:

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018 Assets Financial assets at fair value through profit or loss — Wealth management products		162,759		162,759
		102,739		102,739
Convertible redeemable Preferred Shares Other financial liabilities at fair value through profit or loss			5,051,120	5,051,120
	_	_	5,085,436	5,085,436
At 31 December 2019 Assets Financial assets at fair value through profit or loss — Wealth management products	-	338,742	-	338,742
Liabilities Convertible redeemable Preferred Shares			10,763,816	10,763,816
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
At 30 June 2021 Assets Financial assets at fair value through profit or loss				
— Wealth management products		52,840		52,840
Liabilities Convertible redeemable Preferred Shares			14,211,200	14,211,200

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the Track Record Period.

(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 Track Record Period:

RMB'000
5,508 306,000 (150,721) 1,972
162,759 1,532,050 (1,371,371) 15,304
338,742 4,565,130 (3,954,997) 22,440
971,315 1,942,000 (2,867,091) 6,616
52,840
338,742 1,409,000 (937,607) 9,340 819,475

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.

Level 3 instruments of the Group's liabilities include Convertible redeemable Preferred Shares and other financial liabilities at fair value through profit or loss.

The following table presents the changes in level 3 items of other financial liabilities at fair value through profit or loss for the Track Record Period:

	RMB'000
At 1 January 2018	34,679 (363)
At 31 December 2018 and 1 January 2019 Change in fair value through profit or loss Currency translation differences	34,316 (33,643) (673)
At 31 December 2019 and 2020, 30 June 2020 and 2021	_

During the year ended 31 December 2018, the Group entered into a share subscription agreement with an independent third party ("Subscriber") for subscription of 2,939,491 Series A Preferred Shares of the Company at a consideration US\$10.83 per share. Pursuant to the subscription agreement, the subscriber can complete the subscription at a future date which was regarded as a forward feature in the respective preferred shares and is recognised as financial liabilities at fair value through profit or loss on the Group's consolidated balance sheet. As at 31 December 2018, fair value of the financial liabilities is determined to be RMB34,316,000, and a fair value loss was recognised in the consolidated statement of profit or loss for the year ended 31 December 2018. The financial liabilities were extinguished upon completion of the subscription in April 2019 resulting in a fair value gain of RMB33,643,000 being recognised in the consolidated statement of comprehensive income for the year ended 31 December 2019

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included Convertible redeemable Preferred Shares (Note 30) and other financial liabilities at fair value through profit or loss. As the instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques. Major assumptions used in the valuation for Convertible redeemable Preferred Shares are presented in Note 30.

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

		Fair	·value		Significant unobservable inputs		Range	of inputs		Relationship of unobservable inputs to fair values
Description	As at 31 December		As at 30 June		As at 31 Decembe		As at 30 June			
	2018	2019	2020	2021		2018	2018 2019 2020	2018 2019 2020 2021	2020 2021	
	RMB '000	RMB '000	RMB '000	RMB '000						
Other financial liabilities at fair value through	34,316	-	-	-	Discount rate	19.00%	N/A	N/A	N/A	The higher the discount rate, the lower the fair value
profit or loss					DLOM	12.5%	N/A	N/A	N/A	The higher the DLOM rate, the lower the fair value

Fair value of other financial liabilities at fair value through profit and loss 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 2018 would have been approximately RMB25,394,000/24,708,000 higher/lower.

Fair value of other financial liabilities at fair value through profit and loss 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 2018 would have been approximately RMB29,512,000/35,689,000 lower/higher.

Details of the movements and significant unobservable inputs used in Convertible redeemable Preferred Shares are set out in Note 30.

(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 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 statements of profit or loss.

(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 30.

(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 Track Record Period.

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 26.

(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 Decer	Six months ended 30 June		
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Type of goods or services:					
Online music services	1,026,168	1,776,970	2,622,685	1,073,826	1,604,325
Social entertainment					
services and others	121,869	541,420	2,273,046	904,760	1,579,349
	1,148,037	2,318,390	4,895,731	1,978,586	3,183,674
Timing of revenue recognition:					
A point in time	294,009	806,691	2,652,911	1,047,076	1,705,639
Over time	854,028	1,511,699	2,242,820	931,510	1,478,035
Total	1,148,037	2,318,390	4,895,731	1,978,586	3,183,674

(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 Track Record Period.

Since the Group domiciles and operates in the PRC, substantially all revenue and non-current assets of the Group were generated and were located in the PRC during the Track Record Period.

(c) Information about major customers

Revenue from external customers derived from online music services contributing over 10% to the total revenue of the Group for the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021.

	Year	ended 31 Decer	Six months ended 30 June		
	2018 RMB'000	2019	2020	2020	2021 RMB'000
		RMB'000	RMB'000	RMB'000	
				(unaudited)	
Customer A	250,095	272,878	N/A*	N/A*	N/A*

^{*} Less than 10% of the total revenue of the Group in the respective year/period.

6 OTHER INCOME

	Year	ended 31 Decer	Six months ended 30 June		
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000	2021 RMB'000
				(unaudited)	
Government grants and value-added tax					
subsidies	132	50,946	71,251	24,494	13,500

7 OTHER GAINS/(LOSSES), NET

	Year	ended 31 Decen	Six months ended 30 June		
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net foreign exchange					
gains/(losses)	21,521	4,387	(21,366)	2,950	(2,142)
Gain on fair value changes of financial assets at fair value through profit or					
loss	1,972	15,304	22,440	9,340	6,616
Impairment loss for investments in associates					
(Note 17)	_	(11,233)	(1,501)	_	_
Others	(2,319)	(60)	410	(392)	(934)
	21,174	8,398	(17)	11,898	3,540

8 EXPENSES BY NATURE

	Year	ended 31 Decen	Six months ended 30 June		
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Content service costs					
(Note)	1,970,862	2,853,025	4,787,497	2,069,593	2,759,391
Technology costs	185,574	269,117	398,620	177,169	226,554
Employee benefit expenses					
(Note 9)	318,468	471,828	646,613	289,661	550,342
Promotion and advertising					
expenses	109,929	170,504	264,326	60,656	122,059
Payment channel fees	70,785	143,851	222,244	103,776	125,356
Net impairment losses/(reversal of impairment losses) on					
financial assets	1,223	(960)	3,034	2,745	(69)
Depreciation of property,					
plant and equipment	17,564	14,379	22,383	9,753	8,672
Legal and professional					
fees	16,955	12,288	6,747	2,454	9,545
Listing expenses	_	_	_	_	35,630
Others	202,063	83,055	140,291	41,626	64,549
Total cost of revenue, selling and marketing expenses, general and administrative expenses and research and					
development expenses	2,893,423	4,017,087	6,491,755	2,757,433	3,902,029

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

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries and bonuses Welfare and other	251,285	382,118	545,242	247,771	337,800
employee benefits	49,963	77,733	79,478	31,564	65,039
Equity-settled share-based					
payments	17,220	11,977	21,893	10,326	147,503
	318,468	471,828	646,613	289,661	550,342

Note: The employee benefit expenses included labour outsourcing services from NetEase Group which provide labour services during the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 of RMB66,522,000, RMB50,853,000, RMB54,302,000, RMB26,484,000 and RMB31,339,000, respectively.

During the Track Record Period, employee benefit expenses were charged to the consolidated profit or loss as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Cost of revenue	121,214	166,748	191,722	83,903	169,151
Selling and marketing expenses	15,523	47,524	58,453	28,790	31,404
General and administrative expenses	26,505	40,017	62,494	26,642	76,167
Research and development expenses	155,226	217,539	333,944	150,326	273,620
	318,468	471,828	646,613	289,661	550,342

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 include one director in 2018, 2019 and 2020 and six months ended 30 June 2020 and 2 directors in the six months ended 30 June 2021, whose emolument is reflected in the analysis presented in Note 10. The emoluments paid and payable to the five individuals during the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries and bonus Welfare and other	7,280	13,318	14,236	6,737	6,945
employee benefits Equity-settled share-based	372	504	438	224	276
payments	3,903	1,562	6,125	2,991	38,589
	11,555	15,384	20,799	9,952	45,810

The emoluments fell within the following bands:

Number of individuals

Year ended 31 December			Six months ended 30 Jun		
2018	2019	2020	2020	2021	
			(unaudited)		
_	_	_	2	_	
_	_	_	2	_	
3	_	_	_	_	
_	2	_	_	_	
2	2	3	_	_	
_	_	1	_	_	
_	_	_	1	_	
_	1	_	_	_	
_	_	_	_	1	
_	_	1	_	_	
_	_	_	_	2	
		_		2	
5	5	5	5	5	
	2018	2018 2019	2018 2019 2020 - - - - - - 3 - - - 2 - 2 2 3 - - 1 - - - - - - - - 1 - - - - - 1 - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - -	2018 2019 2020 2020 (unaudited) (unaudited) - - - 2 - - - - - - - - - 2 - - - - 1 - - - - 1 - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - -	

10 BENEFITS AND INTERESTS OF DIRECTORS

The remuneration of every director and chief executive during the Track Record Period is set out below:

For the year ended 31 December 2018:

Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking

Name	Fees	Salary	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
William Lei Ding (Note (i))	_	_	_	_	_
Zhipeng Hu (Note (ii))	_	_	_	_	_
Yat Keung Li (Note (ii))	_	_	1	_	1
Jianqin Tao (Note (ii))	_	_	216	_	216
Haifeng Wu (Note (ii))	_	_	_	_	_
Zhaoxuan Yang (Note (ii))	_	_	648	_	648
Yiwen Zhu (Note (iii))	_	530	40	28	598
Chi Zhang (Note (iv))	_	_	_	_	_
Zhiyi Chen (Note (iv))					

For the year ended 31 December 2019:

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	_	_	_	_	_
Yat Keung Li	_	_	_	_	_
Jianqin Tao	_	_	135	_	135
Haifeng Wu (Note (v))	_	_	_	_	_
Zhaoxuan Yang	_	_	406	_	406
Yiwen Zhu	_	4,746	_	91	4,837
Chi Zhang	_	_	_	_	_
Zhiyi Chen	_	_	_	_	_
Huan Zhou (Note (vi))	_	_	_	_	_
Fan Jiang (Note (vii))	_	_	_	_	_
Xiaoyan Xia (Note (vii))					

For the year ended 31 December 2020:

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 (viii))	_	_	_	_	_
Yat Keung Li	_	_	_	_	_
Jianqin Tao (Note (viii))	_	_	_	_	_
Zhaoxuan Yang (Note (viii)) .	_	_	_	_	_
Yiwen Zhu (Note (viii))	_	3,753	_	82	3,835
Chi Zhang (Note (viii))	_	_	_	_	_
Zhiyi Chen (Note (viii))	_	_	_	_	_
Huan Zhou (Note (viii))	_	_	_	_	_
Fan Jiang (Note (viii))	_	_	_	_	-
Xiaoyan Xia (Note (viii))					

For the six months ended 30 June 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	Salary	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
William Lei Ding	-	-	_	_	-
Zhipeng Hu (Note (viii)) Yat Keung Li	_	_	- 61	_	61
Jianqin Tao (Note (viii))	_		2,273	_	2,273
Zhaoxuan Yang (Note (viii)) .	_	_	1,975	_	1,975
Yiwen Zhu (Note (viii))	_	1,295	4,052	40	5,387
Chi Zhang (Note (viii))	_	_	_	_	_
Zhiyi Chen (Note (viii))	_	_	_	_	_
Huan Zhou (Note (viii))	_	_	_	_	_
Fan Jiang (Note (viii))	_	_	_	_	_
Xiaoyan Xia (Note (viii))	_	_	_	_	_
Yong Li (<i>ix</i>)	_	411	1,623	12	2,046
Yanfeng Wang (ix)	_	_	19	_	19
Feng Yu (<i>ix</i>)	_	_	_	_	_
Dewei Zheng (ix)					

For the six months ended 30 June 2020:

Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking

Fees	Salary	money value of other benefits	a retirement benefit scheme	Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
_	_	_	_	_
_	_	_	_	_
_	_	_	_	_
_	_	_	_	_
_	_	_	_	_
_	1,570	_	45	1,615
_	_	_	_	_
_	_	_	_	_
_	_	_	_	_
_	_	_	_	_
_	_	_	_	-
	- - - - - - - - -			

Notes: (i) Appointed as executive director and chief executive director since February 2016.

- (ii) Appointed as director since September 2018.
- (iii) Appointed as director since August 2018. The amount disclosed was relating to his services as a director of the Company and the amount of emoluments for the remaining of the year was inclusive in Note 9 above.
- (iv) Appointed as director since October 2018.
- (v) Resigned since March 2019.
- (vi) Appointed as director since March 2019.

- (vii) Appointed as director since December 2019.
- (viii) Resigned since May 2021.
- (ix) Appointed as director since May 2021.

(a) Directors' retirement or termination benefits

None of the directors received or will receive any retirement or termination benefits during the Track Record Period.

(b) Consideration provided to third parties for making available directors' services

During the Track Record Period, 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 Track Record Period, 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.

(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 the end of the Track Record Period or at any time during the Track Record Period.

11 FINANCE (COST)/INCOME

Year ended 31 December			Six months ended 30 June		
2018	2019	2020	2020	2021	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
			(unaudited)		
22 101	50.055	100 642	55.054	24.505	
22,181	79,055	100,642	57,976	24,795	
(58,039)	(33,581)	_	_	_	
(25,000)					
(23,000)	_	_	_	-	
(34,679)	33,643	_	_	_	
(5,342)	(28,876)				
(123,060)	(28,814)		_	_	
(100,879)	50,241	100,642	57,976	24,795	
	2018 RMB'000 22,181 (58,039) (25,000) (34,679) (5,342) (123,060)	2018 2019 RMB'000 RMB'000 22,181 79,055 (58,039) (33,581) (25,000) - (34,679) 33,643 (5,342) (28,876) (123,060) (28,814)	2018 2019 2020 RMB'000 RMB'000 RMB'000 22,181 79,055 100,642 (58,039) (33,581) - (25,000) - - (34,679) 33,643 - (5,342) (28,876) - (123,060) (28,814) -	2018 2019 2020 RMB'000 RMB'000 RMB'000 RMB'000 RMB'000 22,181 79,055 100,642 57,976 (58,039) (33,581) - - (25,000) - - - (34,679) 33,643 - - (5,342) (28,876) - - (123,060) (28,814) - -	

12 INCOME TAX EXPENSE

The income tax expense of the Group is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current income tax – PRC corporate income					
tax	2,037	2,137	1,576	475	2,179
Deferred income tax					
	2,037	2,137	1,576	475	2,179

(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.

(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.

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 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	Year ended 31 December			Six months ended 30 June		
	2018	2019	2020	2020	2021	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
				(unaudited)		
Loss before income tax	(2,004,212)	(2,013,622)	(2,949,887)	(1,027,748)	(3,806,968)	
Tax calculated at a tax rate of 25%	(501,053)	(503,406)	(737,472)	(256,937)	(951,742)	
Effect of different tax rates applicable to different companies within the Group	51,892	90,544	360,390	72,951	788,745	
Effect of preferential income tax rate of a	, , , , ,	,	,	,	,	
subsidiary Expenses not deductible	_	164,182	146,245	73,128	46,175	
for tax purposes	306	5,347	741	324	234	
Income not subject to tax.	(153)	(328)	(97)	(13)	_	
Super Deduction for research and						
development expenses	(28,881)	(36,956)	(26,335)	(11,192)	(16,218)	
Tax losses and other temporary differences						
not recognised	479,262	283,332	258,641	122,692	134,489	
Others	664	(578)	(537)	(478)	496	
	2,037	2,137	1,576	475	2,179	

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 2018, 2019 and 2020 and 30 June 2021, the Group had unrecognised tax losses to be carried forward against future taxable income amounted to RMB2,775 million, RMB4,659 million, RMB6,176 million and RMB6,694 million respectively. These unrecognised tax losses will mainly expire within 5 to 10 years. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the potential deferred income tax assets in respect of the above unrecognised tax losses amounted to RMB694 million, RMB695 million, RMB928 million and RMB1,011 million, respectively. Unrecognised tax assets in respect of other deductible temporary differences are relatively insignificant.

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/period.

	Year ended 31 December			Six months er	nded 30 June
	2018	2019 2020		2020	2021
				(unaudited)	
Loss for the year/period attributable to equity holders of the Company (in RMB'000)	(2,006,249)	(2,015,759)	(2,951,463)	(1,028,223)	(3,809,147)
Weighted average number of shares outstanding	102,623,210	120,626,422	121,874,826	121,617,353	122,126,731
Basic loss per share (in RMB)	19.54	16.71	24.22	8.45	31.19

(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 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, 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 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021.

15 PROPERTY, PLANT AND EQUIPMENT

	Servers and network equipment	Leasehold improvements	Office furniture, equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2018					
Cost	36,179	_	695	242	37,116
Accumulated depreciation	(7,083)	_	(166)	_	(7,249)
Net book amount	29,096	_	529	242	29,867
Year ended 31 December 2018					
Opening net book amount	29,096	-	529	242	29,867
Additions	12,675	_	1,282	413	14,370
Transfer	(0.49)	518	(56)	(518)	(1.004)
Disposals	(948) (16,581)	(518)	(56) (465)	_	(1,004) (17,564)
Closing net book amount	24,242		1,290	137	25,669
			1,290	137	23,009
As at 31 December 2018	47.050	510	1.007	105	40.610
Cost	47,059 (22,817)	518 (518)	1,896 (606)	137	49,610 (23,941)
Net book amount	24,242		1,290	137	25,669
			Office		
	Servers and network equipment	Leasehold improvements	furniture, equipment and others	Construction in progress	Total
	network		equipment		Total RMB'000
Year ended 31 December 2019	network equipment	improvements	equipment and others	in progress	
Year ended 31 December 2019 Opening net book amount	network equipment	improvements	equipment and others	in progress	
Opening net book amount Additions	network equipment RMB'000	improvements	equipment and others RMB'000	in progress RMB'000	RMB'000
Opening net book amount Additions	network equipment RMB'000	improvements	equipment and others RMB'000	in progress RMB'000	25,669 14,731
Opening net book amount Additions	network equipment RMB'000 24,242 9,914 - (2,214)	mprovements RMB'000	equipment and others RMB'000	in progress RMB'000 137 546	25,669 14,731 - (2,312)
Opening net book amount Additions	network equipment RMB'000 24,242 9,914 - (2,214) (13,327)	Improvements RMB'000 -	equipment and others RMB'000	in progress RMB'000 137 546	25,669 14,731 - (2,312) (14,379)
Opening net book amount Additions	network equipment RMB'000 24,242 9,914 - (2,214)	mprovements RMB'000	equipment and others RMB'000	in progress RMB'000 137 546	25,669 14,731 - (2,312)
Opening net book amount Additions	network equipment RMB'000 24,242 9,914 (2,214) (13,327) 18,615	Improvements RMB'000	1,290 4,271 (98) (972)	in progress RMB'000 137 546	25,669 14,731 - (2,312) (14,379) 23,709
Opening net book amount Additions Transfer Disposals Depreciation charge Closing net book amount As at 31 December 2019 Cost	network equipment RMB'000 24,242 9,914 (2,214) (13,327) 18,615	Improvements RMB'000	equipment and others RMB'000 1,290 4,271 - (98) (972) 4,491	in progress RMB'000 137 546	25,669 14,731 - (2,312) (14,379) 23,709
Opening net book amount	network equipment RMB'000 24,242 9,914 - (2,214) (13,327) 18,615 52,510 (33,895)	Improvements RMB'000	equipment and others RMB'000 1,290 4,271 - (98) (972) 4,491 5,933 (1,442)	in progress RMB'000 137 546	25,669 14,731 - (2,312) (14,379) 23,709 59,644 (35,935)
Opening net book amount Additions Transfer Disposals Depreciation charge Closing net book amount As at 31 December 2019 Cost	network equipment RMB'000 24,242 9,914 (2,214) (13,327) 18,615	Improvements RMB'000	equipment and others RMB'000 1,290 4,271 - (98) (972) 4,491	in progress RMB'000 137 546	25,669 14,731 - (2,312) (14,379) 23,709
Opening net book amount	network equipment RMB'000 24,242 9,914 - (2,214) (13,327) 18,615 52,510 (33,895)	Improvements RMB'000	equipment and others RMB'000 1,290 4,271 - (98) (972) 4,491 5,933 (1,442)	in progress RMB'000 137 546	25,669 14,731 - (2,312) (14,379) 23,709 59,644 (35,935)
Opening net book amount	network equipment RMB'000 24,242 9,914 (2,214) (13,327) 18,615 52,510 (33,895) 18,615	Improvements RMB'000	1,290 4,271 (98) (972) 4,491	in progress RMB'000 137 546	25,669 14,731 - (2,312) (14,379) 23,709 59,644 (35,935) 23,709
Opening net book amount	network equipment RMB'000 24,242 9,914 (2,214) (13,327) 18,615 52,510 (33,895) 18,615	Improvements RMB'000	equipment and others RMB'000 1,290 4,271 - (98) (972) 4,491 5,933 (1,442) 4,491 4,491 5,610	in progress RMB'000 137 546	25,669 14,731 - (2,312) (14,379) 23,709 59,644 (35,935) 23,709 23,709 20,565
Opening net book amount	network equipment RMB'000 24,242 9,914 (2,214) (13,327) 18,615 (33,895) 18,615 14,955 (842)	Improvements RMB'000	equipment and others RMB'000 1,290 4,271 - (98) (972) 4,491 5,933 (1,442) 4,491 4,491 5,610 (247)	in progress RMB'000 137 546	25,669 14,731 (2,312) (14,379) 23,709 59,644 (35,935) 23,709 20,565 (1,089)
Opening net book amount	network equipment RMB'000 24,242 9,914 (2,214) (13,327) 18,615 52,510 (33,895) 18,615	Improvements RMB'000	equipment and others RMB'000 1,290 4,271 - (98) (972) 4,491 5,933 (1,442) 4,491 4,491 5,610	in progress RMB'000 137 546	25,669 14,731 (2,312) (14,379) 23,709 59,644 (35,935) 23,709 23,709 20,565

	Servers and network equipment	Leasehold improvements	Office furniture, equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
Period ended 30 June 2021					
Opening net book amount	12,189	466	8,147	_	20,802
Additions	6,068	_	2,952	_	9,020
Disposals	(295)	_	(234)	_	(529)
Depreciation charge	(7,005)	(68)	(1,599)	_	(8,672)
Closing net book amount	10,957	398	9,266	_	20,621
As at 30 June 2021					
Cost	70,709	1,201	13,505	_	85,415
Accumulated depreciation	(59,752)	(803)	(4,239)		(64,794)
Net book amount	10,957	398	9,266		20,621

During the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, depreciation was charged to the consolidated statements of profit or loss as follows:

	Year ended 31 December			Six months ended 30 Jun		
	2018	2019	2020	2020	2021	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
				(unaudited)		
Cost of revenue Selling and marketing	10,197	7,393	6,878	3,886	1,793	
expenses	_	28	798	79	195	
General and administrative expenses	_	24	50	25	26	
Research and development	7 267	6.024	14657	5 762	6 650	
expenses	7,367	6,934	14,657	5,763	6,658	
	17,564	14,379	22,383	9,753	8,672	

16 SUBSIDIARIES

The Group's subsidiaries (including structured entities) during the Track Record Period 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.

		Place of		Particulars of	Effective interest held		eld As at		
	Date of	incorporation and ate of kind of		issued/ Registered/	As o	f 31 Decem	ber	30 June	
Name of entity	incorporation	legal entity	Principal activities	paid-in capital	2018	2019	2020	2021	Note
Subsidiaries directly held:									
Cloud Village Limited	2 February 2016	Hong Kong, limited liability company	Investment holdings	HKD1	100%	100%	100%	100%	(ii)&(vi)
Dream Studio, Inc	6 December 2017	Cayman Islands, limited liability company	Investment holdings	US\$1	100%	100%	100%	100%	(i)
Indirectly held:									
Dream Studio (Hong Kong) Limited	6 December 2017	Hong Kong, limited liability company	Investment holdings	HKD1	100%	100%	100%	100%	(ii)&(vi)
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\$1,219,000,000	100%	100%	100%	100%	(iv)
Dream Studio Music Production US, Inc	1 December 2017	USA, limited liability company	Provision of music production services	US\$1	100%	100%	100%	100%	(i)
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%	100%	100%	(iii)&(vi)
Hangzhou Yuyinniaoniao Culture Media Co., Ltd.*	18 September 2018	PRC, limited liability company	Provision of music production services	US\$200,000/ -	100%	100%	100%	100%	(v)&(vi)
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%	100%	100%	(iv)
Structured entities (Note (viii))									
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%	100%	100%	(iv)
Hangzhou Rege Culture Creativity Co., Ltd.*	20 July 2018	PRC, limited liability company	Dormant	RMB100,000/ -	100%	100%	100%	100%	(vii)

^{*} English names are translated for identification purpose only.

Notes:

- (i) No audited financial statements were issued for these subsidiaries as it is not required to issue audited financial statements under the local statutory requirements of their respective places of incorporation.
- (ii) The statutory financial statements for the years ended 31 December 2018 and 2019, were audited by Vincent Lee & Co.
- (iii) The statutory financial statements for the year ended 31 December 2018 and 2019 were audited by Da Hua Certified Public Accountants.
- (iv) The statutory financial statements for the years ended 31 December 2018, 2019 and 2020, were audited by Da Hua Certified Public Accountants.
- (v) Hangzhou Yuyinniaoniao Culture Media Co., Ltd. was incorporated on 18 September 2018. No audited financial statements were issued for the year ended 31 December 2018 as it was newly incorporated in the year ended 31 December 2018 and there was no material business operations. The statutory financial statements for the year ended 31 December 2019, were audited by Da Hua Certified Public Accountants.
- (vi) The audited financial statements for the year ended 31 December 2020 have not yet been issued.
- (vii) Hangzhou Rege Culture Creativity Co., Ltd. has no material business operations and no audited financial statements were issued for the years ended 31 December 2018, 2019 and 2020.
- (viii) 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.

17 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	As at 31 December			Six months ended 30 Ju		
	2018	2019	2020	2020	2021	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
				(unaudited)		
Associates	26,401	73,531	84,647	82,916	86,320	
Joint venture			3,933	5,165	480	
	26,401	73,531	88,580	88,081	86,800	

Movement of investments in associates is analysed as follows:

	Year ended 31 December			Six months ended 30 Ju		
	2018	2019	2020	2020	2021	
	RMB'000	IB'000 RMB'000		RMB'000	RMB'000	
				(unaudited)		
At 1 January	2,527	26,401	73,531	73,531	84,647	
Additions	27,843	59,374	15,043	12,044	_	
Share of results	(3,969)	(1,011)	(2,426)	(2,659)	1,673	
Impairment loss (Note)		(11,233)	(1,501)			
At 31 December/30 June	26,401	73,531	84,647	82,916	86,320	

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 FVLCD and value in use.

The Group made an aggregate impairment provision of approximately RMB11,233,000 and RMB1,501,000 against the carrying amounts of certain investments in associates during the years ended 31 December 2019 and 2020, 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.

Movement of investment in a joint venture is analysed as follows:

	Year o	ended 31 Dece	Six months ended 30 Jun		
	2018	2018 2019 RMB'000 RMB'000		2020	2021
	RMB'000			RMB'000	RMB'000
				(unaudited)	
At 1 January	_	_	_	_	3,933
Additions	_	_	5,165	5,165	_
Share of results			(1,232)		(3,453)
At 31 December/30 June	_		3,933	5,165	480

Details of principal associates are as follows:

		D1 4	Percentage of ownership attributable to the Grou		Percentage of ownership attributable to the Group			
	Date of	Place of business/country	As of 31 December			30 June		
Name of entity	incorporation	of incorporation	2018	2019	2020		Principal activities	
Directly held:								
Cloud Lapentti Limited	6 November 2019	Cayman Islands	-	50%	50%	50%	Investment holdings	
Indirectly held:								
AIVA Technologies S.A.R.L	23 September 2016	Luxembourg	-	-	20%	20%	Provision of online AI soundtrack creating services	

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	A	As at 30 June		
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Wealth management products	162,759	338,742	971,315	52,840

For the fair value measurement of financial assets at fair value, please refer to Note 3.3.

19 ACCOUNTS RECEIVABLES

	As	As at 30 June			
	2018	2019	2020	2021	
	RMB'000	RMB'000	RMB'000	RMB'000	
Accounts receivables	301,643	374,161	257,672	466,874	
Less: loss allowance	(1,223)	(263)	(3,297)	(3,228)	
Accounts receivables, net	300,420	373,898	254,375	463,646	

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:

	A	As at 30 June		
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 3 months	196,100	249,497	185,397	443,134
3 to 6 months	95,964	123,064	68,974	1,241
Over 6 months	9,579	1,600	3,301	22,499
	301,643	374,161	257,672	466,874

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.

20 PREPAID CONTENTS ROYALTIES

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Current	1,081,418	1,184,462	1,362,001	1,276,849
Non-current	550,645	652,860	894,758	597,391
	1,632,063	1,837,322	2,256,759	1,874,240

Prepaid contents royalties represent the prepaid license fee related to the music contents licensed from third parties.

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21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Deposits	332	540	600	330
Prepayment for an investment	30,000	30,000	_	_
Others	89	94	33	165
	30,421	30,634	633	495
Current assets				
Interest receivable	15,496	13,889	5,171	16,264
Prepaid payment channel fee	12,227	19,661	46,250	56,331
Prepaid promotion, advertising and				
other expenses	11,593	13,790	30,164	33,365
Value-added tax recoverables	163,505	211,451	179,450	190,437
Rental and other deposits	347	1,725	1,194	41
Others	5,585	2,160	17,904	13,648
	208,753	262,676	280,133	310,086

22 BANK DEPOSITS

Group

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Current	2,892,839	5,166,923 -	816,917 190,000	3,622,897
	2,892,839	5,166,923	1,006,917	3,622,897

The weighted average effective interest rate on bank deposits of the Group with initial terms of over three months as at 31 December 2018, 2019 and 2020 and 30 June 2021 was 2.99%, 2.41%, 1.29% and 1.26% per annum, respectively.

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			As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
US\$	2,892,839	5,166,923	816,917 190,000	3,432,897 190,000
	2,892,839	5,166,923	1,006,917	3,622,897

Company

	As at 31 December			As at 30 June
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Current	2,892,839	5,166,923	816,917	3,432,897

The weighted average effective interest rate on bank deposits of the Company with initial terms of over three months as at 31 December 2018, 2019 and 2020 and 30 June 2021 was 2.99%, 2.41%, 0.71% and 1.12% per annum, respectively.

The carrying amounts of bank deposits with initial terms of over three months approximated their fair values and were denominated in US\$ during the Track Record Period.

23 CASH AND CASH EQUIVALENTS

Group

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank	33,063	32,036	24,327	282,346
three months	518,216	879,230	2,981,879	193,803
	551,279	911,266	3,006,206	476,149

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
US\$	540,957	899,905	2,996,528	206,481
RMB	10,315	11,361	9,669	269,667
Others	7		9	1
	551,279	911,266	3,006,206	476,149

The weighted average effective interest rate on bank deposits of the Group with initial terms within three months as at 31 December 2018, 2019 and 2020 and 30 June 2021 was 2.96%, 1.70%, 1.13% and 0.87% per annum, respectively.

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.

Company

	A	As at 30 June		
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank	4,962	897	10,258	7,513
three months	326,046	467,634	2,838,332	193,803
	331,008	468,531	2,848,590	201,316

Cash and cash equivalents are denominated in the following currencies:

	A	As at 30 June		
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
US\$	331,005	468,215	2,848,590	201,316
Others	3	316		
	331,008	468,531	2,848,590	201,316

The weighted average effective interest rate on bank deposits of the Company with initial terms within three months as at 31 December 2018, 2019 and 2020 and 30 June 2021 was 3.06%, 1.50%, 1.16% and 0.87% per annum, respectively.

24 SHARE CAPITAL

Authorised:

	Number of Class A ordinary shares	Number of Class B ordinary shares	Number of other ordinary shares	Total number of ordinary shares	Nominal value of ordinary shares	Number of Preferred Shares	Nominal value of Preferred Shares	Total number of Shares	Total nominal value of Shares
	'000	'000	'000	'000	US\$'000	'000	US\$'000	'000	US\$'000
At 1 January 2018	815,000	85,000	100,000	1,000,000	100	-	-	1,000,000	100
Issuance of: Class B ordinary shares	(34,770)	34,770	_	_	_	_	_	_	_
Series A Preferred Shares	(12,204)	_	_	(12,204)	(1)	12,204	1	_	_
Series B Preferred Shares	(10,887)	-	-	(10,887)	(1)	10,887	1	-	-
Series B1 Preferred Shares	(22,163)	-	-	(22,163)	(2)	22,163	2	-	-
At 31 December 2018 and 1 January 2019	734,976	119,770	100,000	954,746 (31,101)	96 (3)	45,254	3	1,000,000	100
At 31 December 2019, 1 January 2020, 31 December 2020, 1 January 2021 and 30 June 2021	703,875	119,770	100,000	923,645	93	76,355	7	1,000,000	100
(Unaudited) At 1 January 2020 and 30 June 2020	703,875	119,770	100,000	923,645	93	76,355	7	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.

Accordingly, upon the completion of the Global Offering, all the Class B Ordinary Shares and preferred shares will be automatically converted into Class A Ordinary Shares. Upon the conversion of all the issued and outstanding Class B Ordinary Shares and Preference Shares into Class A Ordinary Shares, the Company will have in issue an additional 190,286,776 Class A Ordinary Shares, and the current weighted voting rights structure will cease as all Class A Ordinary Shares entitles the holder to exercise one vote on all matters subject to the vote at general meetings of the Company.

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 shares	Nominal value of share capital
					RMB'000
As at 1 January 2018	-	85,000,000 34,770,118	- -	85,000,000 34,770,118	54 22
As at 31 December 2018 and 1 January 2019 Exercise of share options (Note (ii))	1,470,100	119,770,118		119,770,118 1,470,100	76 1
As at 31 December 2019 and 1 January 2020 Issuance of Series A Preferred Shares (Note (iii))	1,470,100	119,770,118	886,513	121,240,218 886,513	77
At 31 December 2020, 1 January 2021 and 30 June 2021	1,470,100	119,770,118	886,513	122,126,731	78
(Unaudited) As at 31 December 2019 and 1 January 2020 Issuance of Series A Preferred Shares (Note (iii))	1,470,100	119,770,118	- 886,513	121,240,218 886,513	77
At 30 June 2020	1,470,100	119,770,118	886,513	122,126,731	78

As at 31 December 2018, 2019 and 2020 and 30 June 2020 and 2021, analysis of the Company's issued shares are as follows:

	Number of shares	Nominal value of share capital
		RMB'000
As at 31 December 2018 Class B ordinary shares	119,770,118	76
As at 31 December 2019 Class A ordinary shares	1,470,100 119,770,118	1 76
	121,240,218	77
As at 31 December 2020 Class A ordinary shares	1,470,100 119,770,118 886,513	1 76 1
	122,126,731	78
As at 30 June 2021 Class A ordinary shares Class B ordinary shares Series A Preferred Shares with no redemption rights	1,470,100 119,770,118 886,513	1 76 1
	122,126,731	78
(Unaudited) As at 30 June 2020 Class A ordinary shares	1,470,100 119,770,118 886,513	1 76 1
	122,126,731	78

Notes:

(i) On 29 June 2018, the Company issued 34,770,118 new Class B ordinary shares for a cash consideration of approximately US\$376,412,000 (equivalent to approximately RMB2,412,770,000). The issuance resulted in an increase in the nominal value of the share capital and share premium by approximately RMB22,000 and RMB2,412,748,000, respectively.

Proceeds amounting to RMB303,936,000 were received during the year ended 31 December 2018, while the remaining proceeds of RMB2,108,834,000 were received during the year ended 31 December 2019.

An amount of RMB54,000 in respect of shares issued in prior year was also received during the year ended 31 December 2018.

- (ii) During the year ended 31 December 2019, 1,470,100 Class A ordinary shares of the Company were issued upon exercise of share options under the share option scheme of the Company at the exercise price ranging from US\$1 to US\$8, and resulted in an increase in nominal value of the Company's share capital and share premium by approximately RMB1,000 and RMB27,525,000, respectively.
- (iii) 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 30 for details of the other preferred shares.

25 OTHER RESERVES

Group

	Share premium	Contributions from ultimate holding company	Share-based compensation reserve	PRC statutory reserve	Exchange reserve	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note (a))		(Note (b))			
As at 1 January 2018	_	4,513	74,600	213	5	-	79,331
Issuance of ordinary shares	2,412,748	-	-	-	-	-	2,412,748
Equity-settled share-based payments Appropriations to statutory reserves	_	3,920	12,367	305	_	-	16,287 305
Fair value change on Convertible redeemable Preferred Shares due to							
own credit risk	-	-	-	-	(25,025)	45,046	45,046
Currency translation differences					(35,927)		(35,927)
As at 31 December 2018	2,412,748	8,433	86,967	518	(35,922)	45,046	2,517,790
As at 1 January 2019	2,412,748 27,525	8,433	86,967 -	518	(35,922)	45,046 -	2,517,790 27,525
Equity-settled share-based payments	-	3,243	(1,902)	-	-	-	1,341
Appropriations to statutory reserves Fair value change on Convertible redeemable Preferred Shares due to	-	-	-	566	_	_	566
own credit risk	-	-	-	-	-	(14,162)	(14,162)
Currency translation differences					(55,470)		(55,470)
As at 31 December 2019	2,440,273	11,676	85,065	1,084	(91,392)	30,884	2,477,590
As at 1 January 2020	2,440,273 141,702	11,676	85,065	1,084	(91,392)	30,884	2,477,590 141,702
Equity-settled share-based payments	-	6,763	12,194	_	-	-	18,957
Appropriations to statutory reserves Fair value change on Convertible redeemable Preferred Shares due to	-	-	-	737	-	-	737
own credit risk	-	-	-	-	- 524,046	(97,436) -	(97,436) 524,046
As at 31 December 2020	2,581,975	18,439	97,259	1,821	432,654	(66,552)	3,065,596
As at 1 January 2021 Equity-settled share-based payments Fair value change on Convertible	2,581,975	18,439 2,814	97,259 195,486	1,821	432,654	(66,552)	3,065,596 198,300
redeemable Preferred Shares due to own credit risk	-	-	-	-	- 79,422	(34,930)	(34,930) 79,422
As at 30 June 2021	2,581,975	21,253	292,745	1,821	512,076	(101,482)	3,308,388
(Unaudited) 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 Fair value change on Convertible redeemable Preferred Shares due to	-	3,976	6,021	-	-	-	9,997
own credit risk	-	-	-	-		(13,072)	(13,072)
Currency translation differences					(77,021)		(77,021)
As at 30 June 2020	2,581,975	15,652	91,086	1,084	(168,413)	17,812	2,539,196

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.

Company

	Share premium	Share-based compensation reserve	Exchange reserve	Accumulated losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2018	_	74,600	5	(74,732)	5,514	5,387
Loss for the year	_	_	_	(212,443)	_	(212,443)
Issuance of ordinary shares Equity-settled share-based	2,412,748	-	-	_	_	2,412,748
payments Fair value change on Convertible redeemable Preferred Shares due to own	-	12,367	-	933	-	13,300
credit risk	-	_	_	_	45,046	45,046
Currency translation differences			(4,560)			(4,560)
As at 31 December 2018	2,412,748	86,967	(4,555)	(286,242)	50,560	2,259,478
As at 1 January 2019	2,412,748	86,967	(4,555)	(286,242)	50,560	2,259,478
Loss for the year	_	_	_	(354,431)	_	(354,431)
Exercise of share options Equity-settled share-based	27,525	-	_	_	_	27,525
payments Fair value change on Convertible redeemable Preferred Shares due to own	-	(1,902)	-	10,636	-	8,734
credit risk	-	-	_	_	(14,162)	(14,162)
differences	_	_	(5,321)	-	_	(5,321)
As at 31 December 2019	2,440,273	85,065	(9,876)	(630,037)	36,398	1,921,823

	Share premium	Share-based compensation reserve	Exchange reserve	Accumulated losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 Equity-settled share-based	141,702	_	_	-	_	141,702
payments Fair value change on Convertible redeemable Preferred Shares due to own	-	12,194	-	2,936	-	15,130
credit risk	-	-	_	-	(97,436)	(97,436)
differences	-	_	109,730	_	_	109,730
As at 31 December 2020	2,581,975	97,259	99,854	(2,073,049)	(61,038)	645,001
As at 1 January 2021 Loss for the year	2,581,975	97,259	99,854	(2,073,049) (3,151,247)	(61,038)	645,001 (3,151,247)
Equity-settled share-based payments	-	195,486	-	(50,797)	-	144,689
Preferred Shares due to own credit risk	-	-	- (105 412)	-	(34,930)	(34,930)
differences			(105,413)			(105,413)
As at 30 June 2021	2,581,975	292,745	(5,559)	(5,275,093)	(95,968)	(2,501,900)

26 SHARE-BASED COMPENSATION

During the Track Record Period, 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.

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 2018	12,160,000	2.82
Granted during the year	3,549,000	8.00
Forfeited during the year	(966,000)	5.16
Outstanding as of 31 December 2018	14,743,000	3.91
Vested and exercisable at 31 December 2018	2,303,400	2.76
Outstanding as of 1 January 2019	14,743,000	3.91
Granted during the year	2,591,000	10.36
Exercised during the year	(1,470,100)	2.78
Forfeited during the year	(2,690,400)	5.65
Outstanding as of 31 December 2019	13,173,500	4.95
Vested and exercisable at 31 December 2019	2,163,700	3.77
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
Outstanding as of 1 January 2021	11,332,600	5.87
Granted during the period	1,907,850	11.00
Forfeited during the period	(1,005,900)	7.11
Outstanding as of 30 June 2021	12,234,550	6.57
Vested and exercisable at 30 June 2021	1,936,340	5.40

	Number of share options	Weighted average exercise price per share option
		US\$
(Unaudited)		
Outstanding as of 1 January 2020	13,173,500	4.95
Granted during the period	516,300	11.00
Forfeited during the period	(864,000)	8.71
Outstanding as of 30 June 2020	12,825,800	4.94
Vested and exercisable at 30 June 2020	2,154,300	3.78

Share options outstanding at the end of the year/period have the following expiry date and exercise price.

		Exercise		Year e	nded 31 Dece	mber	Six month 30 Ju	
Grant date	Expiry date	price	Vesting year*	2018	2019	2020	2020	2021
							(unaudited)	
25 May 2016	25 May 2023	US\$1	4 years from grant date	8,365,000	6,491,500	4,516,300	6,451,500	4,289,900
29 August 2016	29 August 2023	US\$1	4 years from grant date	250,000	40,000	40,000	40,000	40,000
18 January 2017	18 January 2024	US\$8	4 years from grant date	935,000	731,000	711,000	711,000	567,000
10 July 2017	10 July 2024	US\$8	4 years from grant date	955,000	661,000	613,000	637,000	541,000
7 August 2017	7 August 2024	US\$8	5 years from grant date	500,000	-	-	_	-
23 November 2017	23 November 2024	US\$8	4 years from grant date	512,000	417,000	275,000	299,000	267,000
12 February 2018	12 February 2025	US\$8	4 years from grant date	270,000	170,000	170,000	170,000	170,000
21 May 2018	21 May 2025	US\$8	4 years from grant date	1,881,000	1,578,000	1,313,000	1,348,000	1,237,500
17 August 2018	17 August 2025	US\$8	4 years from grant date	795,000	560,000	525,000	545,000	295,000
19 November 2018	19 November 2025	US\$8	4 years from grant date	280,000	170,000	130,000	130,000	130,000
2 March 2019	2 March 2026	US\$8	4 years from grant date	_	215,000	185,000	185,000	185,000
21 May 2019	21 May 2026	US\$8	4 years from grant date	_	305,000	255,000	255,000	235,000
25 September 2019	25 September 2026	US\$11	4 years from grant date	_	1,326,000	1,109,000	1,227,000	1,020,000
22 November 2019	22 November 2026	US\$11	4 years from grant date	_	509,000	410,000	419,000	403,000
1 March 2020	1 March 2027	US\$11	4 years from grant date	_	_	210,000	256,000	178,000
20 May 2020	20 May 2027	US\$11	4 years from grant date	_	_	142,300	152,300	123,300
30 September 2020	30 September 2027	US\$11	4 years from grant date	_	_	508,000	_	480,000
24 November 2020	24 November 2027	US\$11	4 years from grant date	_	_	220,000	_	207,000
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	_	_	_	_	216,150
27 May 2021	27 May 2028	US\$11	4 years from grant date	_	_	_	_	1,433,850
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					204,850
Total				14,743,000	13,173,500	11,332,600	12,825,800	12,234,550
Weighted average remaining contractual life of options outstanding at end of the year/period				5.72 years	5.29 years	4.82 years	3.99 years	4.89 years

^{* 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:

	Year e	nded 31 Decem	Six months ended 30 June		
	2018	2019	2020	2020	2021
				(unaudited)	
Fair value per share (in US\$)	2.74-4.57	5.28	5.5-10.19	5.5	15.05 - 20.07
Exercise price (in US\$)	8	8-11	11	11	11
Risk-free interest rate	2.81%-3.01%	1.70%	0.52%- 0.63%	0.52%	0.96%-1.25%
Expected life	7 years	7 years	7 years	7 years	7 years
Expected volatility	48%-54%	43%	44%	44%	45%-49%
Dividend yield	0.00%	0.00%	0.00%	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.

Movement in the number of RSUs granted to Eligible Grantees of the Group for the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 are as follows:

	Number of RSUs	Weighted average grant date fair value
		US\$
Outstanding as at 1 January 2018	93,855	34.71
Granted during the year	43,045	45.37
Vested and transferred during the year	(49,150)	26.70
Forfeited during the year	(5,785)	30.95
Outstanding as at 31 December 2018 and 1 January 2019	81,965	45.37
Granted during the year	49,175	52.74
Vested and transferred during the year	(33,100)	42.97
Forfeited during the year	(25,365)	44.81
Outstanding as at 31 December 2019 and 1 January 2020	72,675	51.64

	Number of RSUs	Weighted average grant date fair value
		US\$
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 and 1 January 2021	42,161	57.29
Granted during the period	1,753	109.03
Vested and transferred during the period	(14,105)	53.69
Forfeited during the period	(1,633)	65.01
Outstanding as at 30 June 2021	28,176	61.86
(Unaudited)		
Outstanding as at 1 January 2020	72,675	51.64
Granted during the period	4,815	74.45
Vested and transferred during the period	(23,515)	48.23
Forfeited during the period	(5,385)	51.46
Outstanding as at 30 June 2020	48,590	55.58

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 years/period as part of employee benefit expenses were as follows:

	Year ended 31 December			Six months ended 30 June	
	2018 RMB'000	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Options issued under the Pre-IPO Incentive Plan	13,300	8,734	15,130	6,350	144,689
RSUs granted to Eligible Grantees of the Group	3,920	3,243	6,763	3,976	2,814
	17,220	11,977	21,893	10,326	147,503

27 ACCOUNTS PAYABLES

	As	s at 31 December	r	As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payables	103,275	125,877	1,400	522

Accounts payables are unsecured and are usually paid within 30 days of recognition and denominated in RMB.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the aging of accounts payables are all between 0-90 days based on invoice date.

28 ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities				
Accrued content service costs	210,888	389,105	1,308,373	703,603
Accrued expenses	37,236	101,976	106,237	107,822
Accrued listing expenses	_	_	_	35,069
Accrued salaries and staff benefits	74,519	120,679	150,771	126,070
Deposits from customers	11,030	18,481	31,892	39,431
Other taxes payable	4,655	17,129	10,184	23,277
Others	14,531	22,281	32,383	29,943
	352,859	669,651	1,639,840	1,065,215

29 CONTRACT LIABILITIES

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities related to online music services	122,343	174,889	383,293	549,652
entertainment services and others	1,020	8,703	30,790	24,210
Contract liabilities Less: Non-current portion	123,363 (10,470)	183,592 (8,136)	414,083 (29,105)	573,862 (37,851)
Current portion	112,893	175,456	384,978	536,011

(i) Significant changes in contract liabilities

Contract liabilities mainly represent advance payments received from customers related to music membership subscription, sublicensing of content royalties and sales of virtual items. Contract liabilities increased by RMB60,229,000, RMB230,491,000 and RMB159,779,000 during the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021, 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/period related to carried forward contract liabilities.

	Year ended 31 December			Six months ended 30 June	
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2020 RMB'000 (unaudited)	2021 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year/ period	45,518	112,893	175,456	140,514	310,768

(iii) Unsatisfied performance obligations

The following table shows unsatisfied performance obligations mainly resulting from fixed-price contracts:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	112,893	175,456	384,978	536,011
Over 1 year	10,470	8,136	29,105	37,851
	123,363	183,592	414,083	573,862

As at 31 December 2018, 2019 and 2020, and 30 June 2021, the Group expects that the unsatisfied performance obligations resulting from the above contracts that will be recognised as revenue within one year amounting to RMB112,893,000, RMB175,456,000, RMB384,978,000 and RMB536,011,000 respectively. The remaining unsatisfied performance obligations are primarily expected to be recognised as revenue within the second year after the respective balance sheet dates.

30 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.

The details of the issuance are set out in the table below:

	Date of issuance	Number of Preferred Shares	Price per share	Total cons	sideration
			(US\$)	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

Details of the movements of number of Convertible redeemable Preferred Shares are as follows:

Opening as of 1 January 2018 1 Issuance during the year 9,264,916 - Series B 20,655,757 Outstanding as of 31 December 2018 38,085,925 Outstanding as at 31 December 2018 represents: 9,264,916 - Series A 9,264,916 - Series B 8,165,252 - Series B 1,165,252 - Series B 1,100,653,757 Outstanding as of 31 December 2018 38,085,925 Series B 2,939,491 - Series B 2,939,491 - Series B 3,100,663 Outstanding as of 31 December 2019 72,569,636 Outstanding as of 31 December 2019 represents: 12,204,407 - Series B 8,165,252 - Series B 8,165,252 - Series B 1,100,963 Outstanding as of 31 December 2019 72,569,636		Number of preference shares
Series A 9,264,916 Series B 3,165,252 Series B 20,655,757 Outstanding as of 31 December 2018 38,085,925 Outstanding as at 31 December 2018 represents: 9,264,916 Series B 8,165,252 Series B 8,165,252 Series B 8,165,252 Series B 38,085,925 Opening as of 1 January 2019 38,085,925 Issuance during the year 2,939,491 Series A 2,939,491 Series B1 443,257 Series B2 31,100,963 Outstanding as of 31 December 2019 72,569,636 Outstanding as at 31 December 2019 represents: 12,204,407 Series B 8,165,252 Series B 12,099,014 Series B 12,099,014 Series B 12,099,014 Series B 1,00,563 Outstanding as of 31 December 2019 72,569,636 Outstanding as of 31 December 2019 72,569,636 Outstanding as of 31 December 2020 69,630,145 Outstanding as of 31 December 2020 repres		-
Outstanding as at 31 December 2018 represents: Series A	Series ASeries B	8,165,252
Series A 9,264,916 - Series B 20,655,252 Series B1 20,655,757 Outstanding as of 31 December 2018 38,085,925 Issuance during the year - - Series A 2,939,491 - Series B1 443,257 - Series B2 31,100,963 Outstanding as of 31 December 2019 72,569,636 Outstanding as at 31 December 2019 represents: - - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as of 31 December 2019 represents: 21,099,014 - Series B3 8,165,252 - Series B4 21,099,014 Outstanding as of 31 December 2019 72,569,636 Outstanding as of 31 January 2020 72,569,636 Buy-back of Series A (Note 31/d)) (2,939,491) Outstanding as of 31 December 2020 represents: - - Series B 8,165,252 - Series B 9,264,916 - Series B 9,264,916 - Series B 9,264,916 - Series B	Outstanding as of 31 December 2018	38,085,925
Series B 8,165,252 - Series B1 20,655,757 Outstanding as of 31 December 2018. 38,085,925 Opening as of 1 January 2019 38,085,925 Issuance during the year 2,939,491 - Series A 2,939,491 - Series B1 31,100,963 Outstanding as of 31 December 2019 72,569,636 Outstanding as at 31 December 2019 represents: 8,165,252 - Series A 12,204,407 - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as of 31 December 2019 72,569,636 Outstanding as of 31 Inuary 2020 72,569,636 Buy-back of Series A (Note 31(d)) (2,939,491) Outstanding as of 31 December 2020 69,630,145 Outstanding as at 31 December 2020 represents: 9,264,916 - Series B 8,165,252 - Series B 9,264,916 - Series B 9,264,916 - Series B 9,264,916 - Series B 9,264,916 - Series B 9,264,916 <tr< td=""><td>Outstanding as at 31 December 2018 represents:</td><td></td></tr<>	Outstanding as at 31 December 2018 represents:	
Outstanding as of 1 January 2019 38,085,925 Issuance during the year 2,939,491 - Series A 443,257 - Series B1 443,257 - Series B2 31,100,963 Outstanding as of 31 December 2019 72,569,636 Outstanding as at 31 December 2019 represents: 12,204,407 - Series A 12,099,014 - Series B2 31,100,963 Outstanding as of 31 December 2019 72,569,636 Outstanding as of 31 December 2019 72,569,636 Outstanding as of 31 December 2019 72,569,636 Outstanding as of 31 January 2020 72,569,636 Outstanding as of 31 December 2020 69,630,145 Outstanding as of 31 December 2020 69,630,145 Outstanding as at 31 December 2020 represents: 9,264,916 - Series B 8,165,252 - Series B 9,264,916 - Series B 9,264,916 - Series B 9,264,916 - Series B 9,264,916 - Series B 8,165,252 - Series B 9,264,916 - Series B 8,165,2	– Series B	8,165,252
Sautane during the year 2,939,491 2,939,491 2,931,491 3,100,963 3,		
- Series A		38,085,925
Outstanding as at 31 December 2019 represents: 72,569,636 Outstanding as at 31 December 2019 represents: 12,204,407 - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as of 31 December 2019 72,569,636 Buy-back of Series A (Note 31(d)) (2,939,491) Outstanding as of 31 December 2020 69,630,145 Outstanding as at 31 December 2020 represents: 9,264,916 - Series A 9,264,916 - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as at 30 June 2021 represents: 9,264,916 - Series B 8,165,252 - Series B 9,264,916 - Series B 1,100,963 Outstanding as at 30 June 2021 represents: 9,264,916 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as of 30 June 2021 69,630,145 (Unaudited) 0utstanding as at 30 June 2020 represents: 9,264,916 - Series B 8,165,252 - Series B 8,165,252	- Series A	443,257
Outstanding as at 31 December 2019 represents: 12,204,407 - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as of 31 December 2019 72,569,636 Outstanding as of 1 January 2020 72,569,636 Buy-back of Series A (Note 31(d)) (2,939,491) Outstanding as of 31 December 2020 69,630,145 Outstanding as at 31 December 2020 represents: 9,264,916 - Series A 9,264,916 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as of 31 December 2020 69,630,145 Outstanding as at 30 June 2021 represents: 9,264,916 - Series B 8,165,252 - Series B 9,264,916 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as of 30 June 2021 69,630,145 (Unaudited) 0utstanding as at 30 June 2020 represents: 9,264,916 - Series B 8,165,252 - Series B 8,165,252 - Series B 8,165,252 - Series B 8,165,252 - Series B		 -
- Series A	Outstanding as of 31 December 2019	72,569,636
Outstanding as of 1 January 2020 72,569,636 Buy-back of Series A (Note 31(d)) (2,939,491) Outstanding as of 31 December 2020 69,630,145 Outstanding as at 31 December 2020 represents: 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 Outstanding as at 30 June 2021 represents: 9,264,916 - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as of 30 June 2021 69,630,145 (Unaudited) 0utstanding as at 30 June 2020 represents: 9,264,916 - Series A 9,264,916 - Series B 8,165,252 - Series B 8,165,252 - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963	- Series A	8,165,252 21,099,014
Buy-back of Series A (Note 31(d)) (2,939,491) Outstanding as of 31 December 2020 69,630,145 Outstanding as at 31 December 2020 represents: 9,264,916 - 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 Outstanding as at 30 June 2021 represents: 9,264,916 - Series B 8,165,252 - Series B2 31,100,963 Outstanding as of 30 June 2021 69,630,145 (Unaudited) 0utstanding as at 30 June 2021 represents: - Series B 9,264,916 - Series B 9,264,916 - Series B 8,165,252 - Series B 8,165,252 - Series B 8,165,252 - Series B 8,165,252 - Series B 21,099,014 - Series B 21,099,014 - Series B 31,100,963	Outstanding as of 31 December 2019	72,569,636
Outstanding as at 31 December 2020 represents: 9,264,916 - 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 Outstanding as at 30 June 2021 represents: - - Series A 9,264,916 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as of 30 June 2021 69,630,145 (Unaudited) 0 Outstanding as at 30 June 2020 represents: - - Series A 9,264,916 - Series B 8,165,252 - Series B 8,165,252 - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963	·	
- 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 Outstanding as at 30 June 2021 represents: - Series A - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as of 30 June 2021 69,630,145 (Unaudited) 0utstanding as at 30 June 2020 represents: 9,264,916 - Series A 9,264,916 - Series B 8,165,252 - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963	Outstanding as of 31 December 2020	69,630,145
- 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 Outstanding as at 30 June 2021 represents: - Series A - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963 Outstanding as of 30 June 2021 69,630,145 (Unaudited) 0utstanding as at 30 June 2020 represents: 9,264,916 - Series A 9,264,916 - Series B 8,165,252 - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963	Outstanding as at 31 December 2020 represents:	
Outstanding as at 30 June 2021 represents: - Series A	- Series B	8,165,252 21,099,014
- Series A	Outstanding as of 31 December 2020	69,630,145
(Unaudited) Outstanding as at 30 June 2020 represents: - Series A 9,264,916 - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963	- Series A	8,165,252 21,099,014
Outstanding as at 30 June 2020 represents: 9,264,916 - Series A 9,264,916 - Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963	Outstanding as of 30 June 2021	69,630,145
- Series B 8,165,252 - Series B1 21,099,014 - Series B2 31,100,963	Outstanding as at 30 June 2020 represents:	9 264 916
Outstanding as of 30 June 2020	- Series B	8,165,252 21,099,014
	Outstanding as of 30 June 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.

(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).

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 income statements.

The movements of the Convertible redeemable Preferred Shares are set out as below:

	RMB'000
At 1 January 2018	4,869,175 175,284 (45,046) 51,707
At 31 December 2018 and 1 January 2019 Issuance during the year	5,051,120 5,215,369 423,499 14,162 59,666
At 31 December 2019 and 1 January 2020 Buy-back of Convertible redeemable Preferred Shares (Note 31(d)) Change in fair value through profit or loss Change in fair value through other comprehensive income. Currency translation differences	10,763,816 (302,150) 1,361,581 97,436 (758,280)
At 31 December 2020 and 1 January 2021 Change in fair value through profit or loss Change in fair value through other comprehensive income Currency translation differences	11,162,403 3,128,668 34,930 (114,801)
At 30 June 2021	14,211,200
(Unaudited) At 31 December 2019 and 1 January 2020 Buy-back of Convertible redeemable Preferred Shares (Note 31(d)) Change in fair value through profit or loss Change in fair value through other comprehensive income Currency translation differences	10,763,816 (302,150) 180,110 13,072 152,309
At 30 June 2020	10,807,157

As of 30 June 2021, certain Series A Preference Shares amounting to RMB1,812,387,000 were reclassified as current liabilities as their redemption commencement date were within one year from 30 June 2021.

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. Key assumption are set as below:

	As	As at 30 June			
	2018	2019	2020	2021	
	RMB'000	RMB'000	RMB'000	RMB'000	
Discount rate	19.0%	18.5%	18.5%	16.0%	
Risk-free interest rate	2.5%	1.7%	0.1%-0.2%	0.1%-0.3%	
DLOM	25.0%	20.0%	10.0%	3.5%	
Volatility	50.0%	42.2%	45.4%-46.2%	35.3%-48.4%	

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 statements 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 statements 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 years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 would have been approximately RMB292,309,000/295,298,000 higher/lower, RMB713,963,000/674,682,000 higher/lower, RMB798,466,000/774,331,000 higher/lower, RMB737,110,000/741,948,000 higher/lower, RMB1,337,448,000/1,327,021,000 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 years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 would have been approximately RMB359,219,000/413,273,000 lower/higher, RMB620,755,000/731,552,000 lower/higher, RMB656,742,000/795,600,000 lower/higher, RMB651,809,000/735,402,000 lower/higher, RMB1,260,477,000/1,478,192,000 lower/higher, respectively.

Subsequent to the reporting period, as at 30 September 2021, the fair values of the Convertible redeemable Preference Shares were determined to be RMB11,522,045,000.

31 CASH FLOW INFORMATION

(a) Cash used in operations

Year ended 31 December		Six months ended 30 June		
2018	2018 2019		2020	2021
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
(2,004,212)	(2,013,622)	(2,949,887)	(1,027,748)	(3,806,968)
.=	4.4.0=0		0.770	0.450
17,564	14,379	22,383	9,753	8,672
	11 222	1.501		
_	11,233	1,501	_	-
1 222	(060)	2.024	2 745	(69)
1,223	(900)	3,034	2,743	(09)
17 220	11 977	21 893	10 326	147,503
17,220	11,577	21,073	10,320	147,505
175.284	423,499	1.361.581	180.110	3,128,668
	, , , ,	,- ,- ,-	,	, ,,,,,,,,
(15)	(20)	3	_	(14)
(1,972)	(15,304)	(22,440)	(9,340)	(6,616)
-	-	160,500	160,500	-
		,		1,780
		(100,642)	(57,976)	(24,795)
123,060	28,814			
(1,690,060)	(1,618,048)	(1,498,416)	(728,971)	(551,839)
(233,349)	(72,518)	116,489	260,146	(209,202)
(1,117,074)	(254,164)	(583,871)	(551,240)	358,559
(297,470)	22,602	(124,477)	(119,405)	(878)
592,747	218,274	1,122,369	409,510	(342,382)
(2,745,206)	(1,703,854)	(967,906)	(729,960)	(745,742)
	2018 RMB'000 (2,004,212) 17,564 - 1,223 17,220 175,284 (15) (1,972) - 3,969 (22,181) 123,060 (1,690,060) (233,349) (1,117,074) (297,470) 592,747	2018 2019 RMB'000 RMB'000 (2,004,212) (2,013,622) 17,564 14,379 - 11,233 1,223 (960) 17,220 11,977 175,284 423,499 (15) (20) (1,972) (15,304) - - 3,969 1,011 (22,181) (79,055) 123,060 28,814 (1,690,060) (1,618,048) (233,349) (72,518) (1,117,074) (254,164) (297,470) 22,602 592,747 218,274	2018 2019 2020 RMB'000 RMB'000 RMB'000 (2,004,212) (2,013,622) (2,949,887) 17,564 14,379 22,383 - 11,233 1,501 1,223 (960) 3,034 17,220 11,977 21,893 175,284 423,499 1,361,581 (15) (20) 3 (1,972) (15,304) (22,440) - - 160,500 3,969 1,011 3,658 (22,181) (79,055) (100,642) 123,060 28,814 - (1,690,060) (1,618,048) (1,498,416) (233,349) (72,518) 116,489 (1,117,074) (254,164) (583,871) (297,470) 22,602 (124,477) 592,747 218,274 1,122,369	2018 2019 2020 RMB'000 RMB'000 RMB'000 RMB'000 RMB'000 (2,004,212) (2,013,622) (2,949,887) (1,027,748) 17,564 14,379 22,383 9,753 - 11,233 1,501 - 1,223 (960) 3,034 2,745 17,220 11,977 21,893 10,326 175,284 423,499 1,361,581 180,110 (15) (20) 3 - (1,972) (15,304) (22,440) (9,340) - - 160,500 160,500 3,969 1,011 3,658 2,659 (22,181) (79,055) (100,642) (57,976) 123,060 28,814 - - (1,690,060) (1,618,048) (1,498,416) (728,971) (233,349) (72,518) 116,489 260,146 (1,117,074) (254,164) (583,871) (551,240) (297,470) 2

(b) Reconciliation of liabilities arising from financing activities

	Convertible redeemable Preferred Shares
	RMB'000
Balance at 1 January 2018	_
Cash flows	4,869,175
Non-cash movements	181,945
Balance at 31 December 2018	5,051,120
Balance at 1 January 2019	5,051,120
Cash flows	5,215,369
Non-cash movements	497,327
Balance at 31 December 2019	10,763,816
Balance at 1 January 2020	10,763,816
Cash flows	(462,650)
Non-cash movements	861,237
Balance at 31 December 2020	11,162,403
Balance at 1 January 2021	11,162,403
Non-cash movements	3,048,797
Balance at 30 June 2021	14,211,200
(Unaudited)	
Balance at 1 January 2020	10,763,816
Cash flows	(462,650)
Non-cash movements	505,991
Balance at 30 June 2020	10,807,157

- (c) During the year ended 31 December 2017, a subsidiary of the Group issued equity interests with preferential rights to certain investors for a total consideration of approximate RMB750,000,000. During the first quarter of 2018, the Group repurchased all of these shares at total consideration of approximate RMB975,000,000 (the "Onshore Repurchase"). The difference between the purchase consideration and the fair value of these interests as at 31 December 2017 amounting to approximate RMB25,000,000 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2018.
- (d) 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.

32 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

As at 31 December 2018 As at 31 December 2018 Accounts receivables (Note 19) 300,420 - 300,420 Deposits and other receivables 21,760 - 21,760 Amounts due from group companies 2,134,151 - 2,134,151 Short-term bank deposits (Note 22) 2,892,839 - 2,892,839 Cash and cash equivalents (Note 23) 551,279 - 551,279 Financial assets at fair value through profit or loss (Note 18) - 162,759 162,759 Ioss (Note 18) - 162,759 6,063,208 As at 31 December 2019 373,898 - 373,898 Accounts receivables (Note 19) 373,898 - 373,898 Deposits and other receivables 18,461 - 18,461 Short-term bank deposits (Note 22) 5,166,923 - 5,166,923 Cash and cash equivalents (Note 23) 911,266 - 911,266 Financial assets at fair value through profit or loss (Note 18) - 338,742 338,742 As at 31 December 2020 - 338,742 338,742 6,827,604 As at 31 December 2020 Long-term bank deposits (Note 22) 190,000 - 90,000 - 190,000	Financial assets	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Total
Accounts receivables (Note 19) 300,420 - 300,420 Deposits and other receivables 21,760 - 21,760 Amounts due from group companies 2,134,151 - 2,134,151 Short-term bank deposits (Note 22) 2,892,839 - 2,892,839 Cash and cash equivalents (Note 23) 551,279 - 551,279 Financial assets at fair value through profit or loss (Note 18) - 162,759 162,759 Accounts receivables (Note 19) 373,898 - 373,898 Deposits and other receivables 18,314 - 18,314 Amounts due from group companies 18,461 - 18,461 Short-term bank deposits (Note 22) 5,166,923 - 5,166,923 Cash and cash equivalents (Note 23) 911,266 - 911,266 Financial assets at fair value through profit or loss (Note 18) - 338,742 As at 31 December 2020 Long-term bank deposits (Note 22) 190,000 - 190,000 Accounts receivables (Note 19) 254,375 - 254,375 Deposits and other receivables 24,869 - 24,869 Amounts due from group companies 171,682 - 171,682 Short-term bank deposits (Note 22) 816,917 - 816,917 Cash and cash equivalents (Note 23) 3,006,206 - 3,006,206 Financial assets at fair value through profit or loss (Note 18) - 971,315 Cash and cash equivalents (Note 23) 3,006,206 - 3,006,206 Financial assets at fair value through profit or loss (Note 18) - 971,315 As at 30 June 2021 As at 30 June 2021 Accounts receivables (Note 19) 463,646 - 463,646 Application of the receivables 30,283 - 30,283 Amounts due from group companies 173,420 - 173,420 Cash and cash equivalents (Note 22) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 3,622,897 -		RMB'000	RMB'000	RMB'000
Deposits and other receivables	As at 31 December 2018			
Amounts due from group companies 2,134,151 2,134,151 Short-term bank deposits (Note 22) 2,892,839 2,892,839 2,892,839 551,279 551,279 51		300,420	_	300,420
Short-term bank deposits (Note 22)	Deposits and other receivables	21,760	_	21,760
Cash and cash equivalents (Note 23) 551,279 — 551,279 Financial assets at fair value through profit or loss (Note 18) — — 162,759 162,759 Loss (Note 18) — — 162,759 6,063,208 As at 31 December 2019 Accounts receivables (Note 19) 373,898 — 373,898 Deposits and other receivables 18,314 — 18,314 Amounts due from group companies 18,461 — 18,461 Short-term bank deposits (Note 22) 5,166,923 — 5,166,923 Cash and cash equivalents (Note 23) 911,266 — 911,266 Financial assets at fair value through profit or loss (Note 18) — 338,742 338,742 As at 31 December 2020 — — 338,742 6,827,604 As at 31 December 2020 — 190,000 — 190,000 Accounts receivables (Note 29) 254,375 — 254,375 Deposits and other receivables 24,869 — 24,869 Amounts due from group companies 171,68			_	
Financial assets at fair value through profit or loss (Note 18)		2,892,839	_	2,892,839
Sy00,449 162,759 6,063,208		551,279	_	551,279
As at 31 December 2019 Accounts receivables (Note 19)	loss (Note 18)		162,759	162,759
Accounts receivables (Note 19) 373,898 - 373,898 Deposits and other receivables 18,314 - 18,314 Amounts due from group companies 18,461 - 18,461 Short-term bank deposits (Note 22) 5,166,923 - 5,166,923 Cash and cash equivalents (Note 23) 911,266 - 911,266 Financial assets at fair value through profit or loss (Note 18) - 338,742 338,742 As at 31 December 2020 Long-term bank deposits (Note 22) 190,000 - 190,000 Accounts receivables (Note 19) 254,375 - 254,375 Deposits and other receivables 24,869 - 24,869 Amounts due from group companies 171,682 - 171,682 Short-term bank deposits (Note 22) 816,917 - 816,917 Cash and cash equivalents (Note 23) 3,006,206 - 3,006,206 Financial assets at fair value through profit or loss (Note 18) - 971,315 As at 30 June 2021 Accounts receivables (Note 19) 463,646 - 463,646 Deposits and other receivables 30,283 - 30,283 Amounts due from group companies 173,420 - 173,420 Short-term bank deposits (Note 22) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 476,149 - 476,149 Financial assets at fair value through profit or loss (Note 18) - 476,149 Financial assets at fair value through profit or loss (Note 18) - 476,149 Financial assets at fair value through profit or loss (Note 18) - 52,840 52,840 52,840		5,900,449	162,759	6,063,208
Accounts receivables (Note 19) 373,898 - 373,898 Deposits and other receivables 18,314 - 18,314 Amounts due from group companies 18,461 - 18,461 Short-term bank deposits (Note 22) 5,166,923 - 5,166,923 Cash and cash equivalents (Note 23) 911,266 - 911,266 Financial assets at fair value through profit or loss (Note 18) - 338,742 338,742 As at 31 December 2020 Long-term bank deposits (Note 22) 190,000 - 190,000 Accounts receivables (Note 19) 254,375 - 254,375 Deposits and other receivables 24,869 - 24,869 Amounts due from group companies 171,682 - 171,682 Short-term bank deposits (Note 22) 816,917 - 816,917 Cash and cash equivalents (Note 23) 3,006,206 - 3,006,206 Financial assets at fair value through profit or loss (Note 18) - 971,315 As at 30 June 2021 Accounts receivables (Note 19) 463,646 - 463,646 Deposits and other receivables 30,283 - 30,283 Amounts due from group companies 173,420 - 173,420 Short-term bank deposits (Note 22) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 476,149 - 476,149 Financial assets at fair value through profit or loss (Note 18) - 476,149 Financial assets at fair value through profit or loss (Note 18) - 476,149 Financial assets at fair value through profit or loss (Note 18) - 52,840 52,840 52,840	As at 31 December 2019			
Deposits and other receivables		373,898	_	373.898
Amounts due from group companies 18,461 — 18,461 Short-term bank deposits (Note 22) 5,166,923 — 5,166,923 Cash and cash equivalents (Note 23) 911,266 — 911,266 Financial assets at fair value through profit or loss (Note 18) — 338,742 338,742 As at 31 December 2020 — 190,000 — 190,000 Accounts receivables (Note 19) 254,375 — 254,375 Deposits and other receivables 24,869 — 24,869 Amounts due from group companies 171,682 — 171,682 Short-term bank deposits (Note 22) 816,917 — 816,917 Cash and cash equivalents (Note 23) 3,006,206 — 3,006,206 Financial assets at fair value through profit or loss (Note 18) — 971,315 971,315 As at 30 June 2021 — 463,646 — 463,646 Deposits and other receivables 30,283 — 30,283 Amounts due from group companies 173,420 — 173,420 Short-term bank deposits (Note 22) 3,622,897 — 3,622,897			_	
Cash and cash equivalents (Note 23) 911,266 — 911,266 Financial assets at fair value through profit or loss (Note 18) — 338,742 338,742 As at 31 December 2020 — 190,000 — 190,000 Accounts receivables (Note 19) 254,375 — 254,375 Deposits and other receivables 24,869 — 24,869 Amounts due from group companies 171,682 — 171,682 Short-term bank deposits (Note 22) 816,917 — 816,917 Cash and cash equivalents (Note 23) 3,006,206 — 3,006,206 Financial assets at fair value through profit or loss (Note 18) — 971,315 971,315 As at 30 June 2021 — 463,646 — 463,646 Deposits and other receivables 30,283 — 30,283 Amounts due from group companies 173,420 — 173,420 Short-term bank deposits (Note 22) 3,622,897 — 3,622,897 Cash and cash equivalents (Note 23) 476,149 — 476,149 Financial assets at fair value through profit or loss (Note 18) — 52,840		18,461	_	18,461
Financial assets at fair value through profit or loss (Note 18)	Short-term bank deposits (Note 22)	5,166,923	_	5,166,923
Loss (Note 18)		911,266	_	911,266
Long-term bank deposits (Note 22) 190,000 - 190,000 Accounts receivables (Note 19) 254,375 - 254,375 - 254,375 Deposits and other receivables 24,869 - 24,869 Amounts due from group companies 171,682 - 171,682 Short-term bank deposits (Note 22) 816,917 - 816,917 - 816,917 Cash and cash equivalents (Note 23) 3,006,206 - 3,006,206 Financial assets at fair value through profit or loss (Note 18) - 971,315 971,315 4,464,049 971,315 5,435,364 As at 30 June 2021 Accounts receivables (Note 19) 463,646 - 463,646 Deposits and other receivables 30,283 - 30,283 Amounts due from group companies 173,420 - 173,420 Short-term bank deposits (Note 22) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 476,149 - 476,149 Financial assets at fair value through profit or loss (Note 18) - 52,840 52,840		_	338,742	338,742
Long-term bank deposits (Note 22)		6,488,862	338,742	6,827,604
Long-term bank deposits (Note 22)	As at 31 December 2020			
Accounts receivables (Note 19)		190.000	_	190.000
Deposits and other receivables 24,869 – 24,869 Amounts due from group companies 171,682 – 171,682 Short-term bank deposits (Note 22) 816,917 – 816,917 Cash and cash equivalents (Note 23) 3,006,206 – 3,006,206 Financial assets at fair value through profit or loss (Note 18) – 971,315 971,315 As at 30 June 2021 463,646 – 463,646 Deposits and other receivables 30,283 – 30,283 Amounts due from group companies 173,420 – 173,420 Short-term bank deposits (Note 22) 3,622,897 – 3,622,897 Cash and cash equivalents (Note 23) 476,149 – 476,149 Financial assets at fair value through profit or loss (Note 18) – 52,840 52,840			_	
Amounts due from group companies 171,682 – 171,682 Short-term bank deposits (Note 22) 816,917 – 816,917 Cash and cash equivalents (Note 23) 3,006,206 – 3,006,206 Financial assets at fair value through profit or loss (Note 18) – 971,315 971,315 As at 30 June 2021 463,646 – 463,646 Deposits and other receivables 30,283 – 30,283 Amounts due from group companies 173,420 – 173,420 Short-term bank deposits (Note 22) 3,622,897 – 3,622,897 Cash and cash equivalents (Note 23) 476,149 – 476,149 Financial assets at fair value through profit or loss (Note 18) – 52,840 52,840			_	
Cash and cash equivalents (Note 23) 3,006,206 - 3,006,206 Financial assets at fair value through profit or loss (Note 18) - 971,315 971,315 4,464,049 971,315 5,435,364 As at 30 June 2021 - 463,646 - 463,646 Deposits and other receivables 30,283 - 30,283 Amounts due from group companies 173,420 - 173,420 Short-term bank deposits (Note 22) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 476,149 - 476,149 Financial assets at fair value through profit or loss (Note 18) - 52,840 52,840	=		_	
Financial assets at fair value through profit or loss (Note 18) — 971,315 971,315 4,464,049 971,315 5,435,364 As at 30 June 2021 — 463,646 — 463,646 Deposits and other receivables 30,283 — 30,283 Amounts due from group companies 173,420 — 173,420 Short-term bank deposits (Note 22) 3,622,897 — 3,622,897 Cash and cash equivalents (Note 23) 476,149 — 476,149 Financial assets at fair value through profit or loss (Note 18) — 52,840 52,840	Short-term bank deposits (Note 22)	816,917	_	816,917
loss (Note 18) – 971,315 971,315 4,464,049 971,315 5,435,364 As at 30 June 2021 Accounts receivables (Note 19) 463,646 – 463,646 Deposits and other receivables 30,283 – 30,283 Amounts due from group companies 173,420 – 173,420 Short-term bank deposits (Note 22) 3,622,897 – 3,622,897 Cash and cash equivalents (Note 23) 476,149 – 476,149 Financial assets at fair value through profit or loss (Note 18) – 52,840 52,840		3,006,206	-	3,006,206
As at 30 June 2021 Accounts receivables (Note 19)		_	971,315	971,315
Accounts receivables (Note 19) 463,646 - 463,646 Deposits and other receivables 30,283 - 30,283 Amounts due from group companies 173,420 - 173,420 Short-term bank deposits (Note 22) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 476,149 - 476,149 Financial assets at fair value through profit or loss (Note 18) - 52,840 52,840		4,464,049	971,315	5,435,364
Deposits and other receivables 30,283 – 30,283 Amounts due from group companies 173,420 – 173,420 Short-term bank deposits (Note 22) 3,622,897 – 3,622,897 Cash and cash equivalents (Note 23) 476,149 – 476,149 Financial assets at fair value through profit or loss (Note 18) – 52,840 52,840	As at 30 June 2021			
Amounts due from group companies 173,420 – 173,420 Short-term bank deposits (Note 22) 3,622,897 – 3,622,897 Cash and cash equivalents (Note 23) 476,149 – 476,149 Financial assets at fair value through profit or loss (Note 18) – 52,840 52,840	Accounts receivables (Note 19)	463,646	_	463,646
Short-term bank deposits (Note 22) 3,622,897 - 3,622,897 Cash and cash equivalents (Note 23) 476,149 - 476,149 Financial assets at fair value through profit or loss (Note 18) - 52,840 52,840	Deposits and other receivables	30,283	_	30,283
Cash and cash equivalents (Note 23)	Amounts due from group companies	173,420	_	173,420
Financial assets at fair value through profit or loss (Note 18)	Short-term bank deposits (Note 22)	3,622,897	_	3,622,897
loss (Note 18)		476,149	-	476,149
4,766,395 52,840 4,819,235			52,840	52,840
		4,766,395	52,840	4,819,235

Financial liabilities	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Total
	RMB'000	RMB'000	RMB'000
A - 44 21 D 1010			
As at 31 December 2018 Accounts payables (Note 27)	103,275	-	103,275
non-financial liabilities)	273,685	_	273,685
Amounts due to group companies (<i>Note 33</i>) Convertible redeemable Preferred Shares	3,198,920	-	3,198,920
(Note 30)	_	5,051,120	5,051,120
profit or loss		34,316	34,316
	3,575,880	5,085,436	8,661,316
As at 31 December 2019			
Accounts payables (Note 27)	125,877	_	125,877
non-financial liabilities)	531,843	_	531,843
Amounts due to group companies (<i>Note 33</i>) Convertible redeemable Preferred Shares	239,117	_	239,117
(Note 30)		10,763,816	10,763,816
	896,837	10,763,816	11,660,653
As at 31 December 2020			
Accounts payables (Note 27)	1,400	-	1,400
non-financial liabilities)	1,478,885	_	1,478,885
Amounts due to group companies (<i>Note 33</i>) Convertible redeemable Preferred Shares	145,800	_	145,800
(Note 30)		11,162,403	11,162,403
	1,626,085	11,162,403	12,788,488
As at 30 June 2021			
Accounts payables (Note 27)	522	_	522
non-financial liabilities)	915,868	-	915,868
Amounts due to group companies (<i>Note 33</i>) Convertible redeemable Preferred Shares	153,765	_	153,765
(Note 30)	_	14,211,200	14,211,200
Lease liabilities	388		388
	1,070,543	14,211,200	15,281,743

33 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 this Historical Financial Information:

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the Track Record Period:

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 owner

(a) Transactions

	Year ended 31 December		Six months ended 30 June		
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Purchase of property, plant and equipment					
from group companies	4,349	11,333	9,245	7,930	2,324
Purchase of goods from group companies	1,532	5,558	8,702	4,254	2,704
Purchase of technology and other services					
from group companies	231,601	324,227	403,203	177,222	222,343
Provide advertising services to					
group companies	27,863	52,310	464,434	185,446	270,723
Provide other services to group companies	3,735	11,961	18,833	6,671	9,936
Sales of property, plant and equipment to					
group companies	828	2,635	1,051	48	400
Sales of goods to group companies	14,019	652	152	_	-
Finance cost charged by group companies	58,039	33,581	_	_	-

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	r	As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from group companies: (i) Trade				
NetEase Group (Note (i))	25,302	18,461	171,680	173,420
(ii) Non-trade				
NetEase Group (Note (i))	2,108,849	_	2	
Amounts due to group companies: (i) Trade				
NetEase Group (Note (i)) (ii) Non-trade	199,257	171,588	74,152	153,765
NetEase Group (Notes (i) and (iii)) (iii) Borrowings:	198,599	67,529	71,648	-
NetEase Group (Note (ii))	2,801,064	_	_	_

Note (i): Outstanding balances are unsecured, interest-free and are repayable on demand.

Note (ii): Outstanding balances are unsecured with interest rate at 3.92% and are repayable on demand.

Note (iii): Non-trade related amounts due to NetEase Group will be fully settled before Listing.

(c) Key management personnel compensation

	Year ended 31 December		Six months en	ded 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries and bonus	5,721	10,899	9,961	4,619	4,973
Welfare and other employee benefits	351	394	381	194	213
Equity-settled share-based payments	425	448	394	281	29,972
	6,497	11,741	10,736	5,094	35,158

34 CONTINGENT LIABILITIES

As at 31 December 2018, 2019 and 2020 and 30 June 2021, there were no material contingent liabilities to the Group.

35 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Saved as disclosed in Note 30(d), no other material subsequent event occurs after 30 June 2021.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2021 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2021.

The information set forth in this appendix does not form part of the Accountant's Report from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 June 2021 and based on the audited consolidated net tangible liabilities attributable to equity holders of the Company as at 30 June 2021 and adjusted as described below.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as of 30 June 2021 or at any future dates.

	Audited consolidated net tangible liabilities attributable to equity holders of the Company as at 30 June 2021 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Estimated impact related to the conversion of convertible redeemable preferred shares ⁽³⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2021	Unaudited padjusted net	t tangible
	RMB'000	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$190.00 per Share Based on an Offer Price of HK\$220.00	(8,923,918)	2,403,541	14,211,200	7,690,823	37.02	45.14
per Share	(8,923,918)	2,791,242	14,211,200	8,078,524	38.88	47.41

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible liabilities attributable to equity holders of the Company as at 30 June 2021 is extracted from the Accountant's Report as set out in Appendix I to this prospectus, which is based on the audited consolidated net liabilities of the Group attributable to equity holders of the Company as at 30 June 2021 of approximately RMB8,923,918,000.
- (2) The estimated net proceeds to be received by the Company from the Global Offering are based on the indicative Offer Price of HK\$190.00 per Share and HK\$220.00 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company, and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any Shares which may be issued under the Pre-IPO Share Incentive Plan or any Shares which may be issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.
- (3) Upon the Listing and the completion of the Global Offering, all the Preferred Shares will be automatically converted into Class A Ordinary Shares. The convertible redeemable preferred shares which were accounted for as liabilities will be re-designated from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company will be increased by RMB14,211,200,000, being the carrying amount of the convertible redeemable preferred shares which were accounted for as liabilities as of 30 June 2021.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 207,756,876 Shares were in issue assuming that the Global Offering and the conversion of the Preferred Shares to Class A Ordinary Shares had been completed on 30 June 2021 but does not take into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any Shares which may be issued under the Pre-IPO Share Incentive Plan or any Shares which may be issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.
- (5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at rate of RMB1 to HK\$1.2194. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (6) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2021.

B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Cloud Village Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Cloud Village Inc. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30 June 2021, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 23 November 2021, in connection with the proposed initial public offering of the shares of the Company (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 30 June 2021 as if the proposed initial public offering had taken place at 30 June 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the period ended 30 June 2021, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7, Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 30 June 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The engagement also involves evaluating the overall presentation of the unaudited proforma financial information.

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

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) or standards and practices of any professional body in any other overseas jurisdiction and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants
Hong Kong, 23 November 2021

Set out below is a summary of certain provisions of the Memorandum and Articles of our Company and of certain aspects of the Cayman Companies Act.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 February 2016 under the Cayman Companies Act. Our Company's constitutional documents consist of its Memorandum and Articles.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on 5 August 2021 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in "Documents delivered to the Registrar of Companies and available for inspection."

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on 5 August 2021 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$100,000 divided into 1,000,000,000 ordinary shares of US\$0.0001 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Act and to any special rights conferred on any

shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Act expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Act and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his/her retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his/her office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his/her interest in such contract or arrangement is material, declare the nature of his/her interest at the earliest meeting of the board of Directors at which it is practicable for him/her to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he/she is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his/her close associates (or, if required by the Listing Rules, his/her other associates) has any material interest, and if he/she shall do so his/her vote shall not be counted (nor is he/she to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- the giving to such Director or any of his/her close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him/her or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his/her close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his/her close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his/her close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his/her close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates: and
- (v) any contract or arrangement in which the Director or any of his/her close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/her/their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he/she has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his/her ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

A single shareholder holding more than 50% of the total issued shares in the capital of the Company and/or exercising or controlling the exercise of more than 50% of the voting rights of the total issued shares in the capital of the Company shall be entitled but not obliged to nominate at least a majority of the total number of persons on the Board for election to serve as Directors in accordance with the Articles.

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his/her period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him/her in respect of the termination of his/her appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may also by ordinary resolution appoint another person in his/her place. Any Director so appointed shall hold office during such time only as the Director in whose place he/she is appointed would have held the same if he/she had not been removed.

The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his/her intention to propose such person for election and also notice in writing signed by the person to be proposed of his/her willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he/she resigns his/her office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he/she is or may be suffering from mental disorder or is otherwise incapable of managing his/her affairs and the Directors resolve that his/her office be vacated:
- (iii) if, without leave, he/she is absent from meetings of the Directors (unless an alternate Director appointed by him/her attends) for 12 consecutive months, and the Directors resolve that his/her office be vacated:
- (iv) if he/she becomes bankrupt or has a receiving order made against him/her or suspends payment or compounds with his/her creditors generally;
- (v) if he/she ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he/she is removed from office by notice in writing served upon him/her signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he/she shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the 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. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairperson of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Act; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Act.

2.6 Special resolution — majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member Present (as defined below) shall have one vote for each share registered in his/her name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders be Present at any meeting that one of the said persons so Present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he/she is or may be suffering from mental disorder or is otherwise incapable of managing his/her affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him/her payable to the Company in respect of his/her shares shall be entitled to be Present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairperson of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he/she represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

For the purposes of the Articles, the following terms are defined to have the following meanings (and shall have the same meanings when used in this section):

"Communication Facilities" means video, video-conferencing, internet or online conferencing applications, telephone or tele-conferencing and/or any other video-communications, internet or online conferencing application or telecommunications facilities by means of which all Persons participating in a meeting are capable of hearing and being heard by each other.

"Person" means any natural person, firm, company, joint venture, partnership, corporation, association or other entity (whether or not having a separate legal personality) or any of them as the context so requires.

"Present" means, in respect of any Person, such Person's presence at a general meeting of members, which may be satisfied by means of such Person or, if a corporation or other non-natural Person, its duly authorised representative (or, in the case of any member, a proxy which has been validly appointed by such member in accordance with the Articles), being (a) physically present at the meeting; or (b) in the case of any meeting at which Communication Facilities are permitted in accordance with the Articles, connected by means of the use of such Communication Facilities.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any 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 the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the 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 the Directors shall be reimbursed to them by the Company.

If the Directors wish to make such facilities available for a specific general meeting or all general meetings of the Company, attendance and participation in any general meeting of the Company may, in addition to physical attendance, be by means of Communication Facilities.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Act or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss

account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his/her period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. The notice of any general meeting (including a postponed or reconvened meeting held pursuant to the Articles) at which Communication Facilities will be utilised must disclose the Communication Facilities that will be used, including the procedures to be followed by any member or other participant of the meeting who wishes to utilise such Communication Facilities for the purposes of attending and participating in such meeting, including attending and casting any vote thereat. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date.

Where a general meeting is postponed:

- (a) the Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning or black rainstorm warning being in force on the day of the general meeting;
- (b) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and
- (c) only the business set out in the notice of the original meeting shall be transacted at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be transacted at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where new business is to be transacted at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles of Association.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer:
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Act and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him/her to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided

that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his/her or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his/her proxy to attend and vote instead of him/her and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his/her proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his/her discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him/her at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his/her

shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him/her to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is Present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairperson which shall not be treated as part of the business of the meeting.

One or more members of the Company holding in aggregate not less than one-third of the issued and outstanding shares entitled to vote on any resolution which is proposed to be voted on at the general meeting Present shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member Present.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be Present if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he/she deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Act, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 February 2016 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account." At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in Foss v. Harbottle (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his/her view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his/her shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The undertaking is for a period of twenty years from 16 February 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in "Documents delivered to the Registrar of Companies and available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR GROUP

Incorporation

Our Company was incorporated under the laws of the Cayman Islands on 2 February 2016 as an exempted company with limited liability. Upon our incorporation, our authorised share capital was US\$10,000 divided into 100,000,000 ordinary shares with a par value of US\$0.0001 each. On 23 August 2017, our Company increased its share capital by 900,000,000 shares, following which, our authorised share capital became US\$100,000 divided into 1,000,000,000 shares with a par value of US\$0.0001 each.

Our registered office address is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles is set out in Appendix III.

Our registered place of business in Hong Kong is at 54/F, Hopewell Centre, 183 Queen's Road East, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 11 June 2021 with the Registrar of Companies in Hong Kong. Mr. Cary Cheng and Ms. Wong Wai Yee Ella have been appointed as the authorised representatives of our Company for the acceptance of service of process in Hong Kong. The address for service of process is the address of our registered place of business in Hong Kong.

Changes in share capital of our Company

The following sets out the changes in our Company's issued share capital within the two years immediately preceding the date of this document:

- (a) On 3 December 2019, our Company issued 20,733,975 Series B2 Preferred Shares to Taobao China Holding Limited.
- (b) On 4 December 2019, our Company issued 10,366,988 Series B2 Preferred Shares to Novel Entertainment Limited.
- (c) On 14 April 2020, our Company cancelled 2,052,978 Series A Preferred Shares.

Save as disclosed above and in "— Resolutions of our Shareholders dated 5 August 2021" below, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this document.

Upon the Listing and pursuant to the Memorandum of Association, each Class B Ordinary Share and Preferred Share will convert into one Class A Ordinary Share, following which, each Class A Ordinary Share will be re-designated and re-classified as an ordinary share of the Company with a par value of US\$0.0001 each.

Changes in the share capital of members of our Group

A summary of the corporate information and the particulars of our subsidiaries are set out in Note 16 to the Accountant's Report in Appendix I.

The following sets out the changes in the authorised share capital or registered capital of members of our Group within the two years immediately preceding the date of this document:

- In March 2019, the registered capital of WFOE was increased from US\$410.75 million to US\$589.25 million.
- In June 2019, the registered capital of WFOE was increased from US\$589.25 million to US\$800.25 million.
- In October 2019, the registered capital of WFOE was increased from US\$800.25 million to US\$870.00 million.
- In December 2019, the registered capital of WFOE was increased from US\$870.00 million to US\$1,006.85 million.
- In March 2020, the registered capital of WFOE was increased from US\$1,006.85 million to US\$1,173.00 million.
- In June 2020, the registered capital of WFOE was increased from US\$1,173.00 million to US\$1,219.00 million.
- In June 2021, the registered capital of WFOE was increased from US\$1,219.00 million to US\$1,309.00 million.

Save as disclosed above, there has been no alteration in the share capital of any member of our Group within the two years immediately preceding the date of this document.

Resolutions of our Shareholders dated 5 August 2021

Resolutions of our Shareholders were passed on 5 August 2021, pursuant to which, among others, conditional upon the conditions of the Global Offering (as set out in this document) being fulfilled:

- (a) the Memorandum and the Articles were approved and adopted effective conditional on and immediately prior to the Listing on the Listing Date;
- (b) the Global Offering, Listing and Over-allotment Option were approved, and our Directors were authorised to negotiate and agree the Offer Price and to allot and issue the Offer Shares (including pursuant to the Over-allotment Option);
- (c) a general mandate (the "Sale Mandate") was granted to our Directors to allot, issue and deal with any Shares or securities convertible into Shares and to make or grant offers, agreements or options which would or might require Shares to be allotted, issued or dealt with, provided that the number of Shares so allotted, issued or dealt with or agreed to be allotted, issued or dealt with by our Directors, shall not exceed 20% of the total number of Shares in issue immediately following the completion of Global Offering;
- (d) a general mandate (the "**Repurchase Mandate**") was granted to our Directors to repurchase our own Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Global Offering;

(e) the Sale Mandate was extended by the addition to the total number of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the total number of the Shares purchased by our Company pursuant to the Repurchase Mandate, provided that such extended amount shall not exceed 10% of the total number of the Shares in issue immediately following completion of the Global Offering.

Each of the general mandates referred to above will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;
- the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

Explanatory statement on repurchase of our own securities

The following summarises restrictions imposed by the Listing Rules on share repurchases by a company listed on the Stock Exchange and provides further information about the repurchase of our own securities.

Shareholders' approval

A listed company whose primary listing is on the Stock Exchange may only purchase its shares on the Stock Exchange, either directly or indirectly, if: (i) the shares proposed to be purchased are fully-paid up, and (ii) its shareholders have given a specific approval or general mandate by way of an ordinary resolution of shareholders.

Size of mandate

The exercise in full of the Repurchase Mandate, on the basis of 207,756,876 Shares in issue immediately following completion of the Global Offering (assuming the Presumptions), could accordingly result in up to approximately 20,775,688 Shares being repurchased by our Company.

The total number of shares which a listed company may repurchase on the Stock Exchange may not exceed 10% of the number of issued shares as at the date of the shareholder approval.

Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

Source of funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles and the applicable laws and regulations of the Cayman Islands.

Our Company shall not purchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any purchases by our Company may be made out of profits or out of an issue of new shares made for the purpose of the purchase or, if authorised by its Memorandum and Articles and subject to the Companies Ordinance, out of capital, and, in the case of any premium payable on the purchase out of profits or from sums standing to the credit of our share premium account or, if authorised by its Memorandum and Articles and subject to the Companies Ordinance, out of capital.

Suspension of repurchase

A listed company shall not repurchase its shares on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the issuer to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), until the date of the results announcement, the company may not repurchase its shares on the Stock Exchange unless there are exceptional circumstances.

Trading restrictions

A listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

A listed company may not repurchase its shares if that repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

Status of repurchased Shares

The listing of all repurchased shares (whether through the Stock Exchange or otherwise) shall be automatically cancelled and the relevant documents of title must be cancelled and destroyed as soon as reasonably practicable.

Close associates and core connected persons

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates have a present intention, in the event the Repurchase Mandate is approved, to sell any Shares to our Company.

No core connected person of our Company has notified our Company that they have a present intention to sell Shares to our Company, or have undertaken to do so, if the Repurchase Mandate is approved.

A listed company shall not knowingly purchase its shares on the Stock Exchange from a core connected person (namely a director, chief executive or substantial shareholder of the company or any of its subsidiaries, or a close associate of any of them), and a core connected person shall not knowingly sell their interest in shares of the company to it.

Takeover implications

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

General

If the Repurchase Mandate were to be carried out in full at any time, there may be a material adverse impact on our working capital or gearing position (as compared with the position disclosed in our most recent published audited accounts). However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would have a material adverse effect on our working capital or gearing position.

Our Directors have undertaken to the Stock Exchange to will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

We have not made any repurchases of our Shares in the previous six months.

FURTHER INFORMATION ABOUT OUR BUSINESS

Summary of material contracts

The following are contracts (not being contracts entered into in the ordinary course of business) entered into by any member of our Group within the two years immediately preceding the date of this document that are or may be material:

- (a) an amended and restated cooperation agreement dated 18 May 2021 entered into between Hangzhou Yuedu Technology Co., Ltd. (杭州樂讀科技有限公司) ("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;
- (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 Culture Creativity Co., Ltd. (杭州熱歌文化創意有限公司) ("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;
- (1) 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;

- (p) a cornerstone investment agreement dated 6 August 2021 entered into between the Company, NetEase, Inc., China International Capital Corporation Hong Kong Securities Limited, Credit Suisse (Hong Kong) Limited and Merrill Lynch (Asia Pacific) Limited pursuant to which NetEase, Inc. agreed to subscribe for Offer Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US\$200 million;
- (q) a cornerstone investment agreement dated 22 November 2021 entered into between the Company, Sony Music Entertainment, China International Capital Corporation Hong Kong Securities Limited, Credit Suisse (Hong Kong) Limited and Merrill Lynch (Asia Pacific) Limited pursuant to which Sony Music Entertainment agreed to subscribe for Offer Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US\$100 million;
- (r) a cornerstone investment agreement dated 18 November 2021 entered into between the Company, Orbis Investment Management Limited (as investment manager for the Orbis Funds as listed in Schedule 2 of the agreement), China International Capital Corporation Hong Kong Securities Limited, Credit Suisse (Hong Kong) Limited and Merrill Lynch (Asia Pacific) Limited pursuant to which Orbis Investment Management Limited (as investment manager for the Orbis Funds as listed in Schedule 2 of the agreement) agreed to subscribe for Offer Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US\$50 million; and
- (s) the Hong Kong Underwriting Agreement.

Intellectual property rights

Save as disclosed below, as of the Latest Practicable Date, there were no other trademarks, service marks, patents, intellectual property rights, or industrial property rights which are or may be material in relation to our business.

Trademarks registered in China

As at the Latest Practicable Date, we had registered the following trademarks in China which we consider to be or may be material to our business:

No.	Trademark	Registered owner	Class	Registration number	Expiry date (dd/mm/yyyy)
110.	— II auciliai k	- Owner	Class	— Humber	(dd/IIIII/yyyy)
1.	乐读	Hangzhou Yuedu	38	17136108	20/8/2026
2.	乐读	Hangzhou Yuedu	45	17136252	20/8/2026
3.	云村	Cloud Village Limited	41	23629378	6/4/2028
4.	云村	Cloud Village Limited	45	23642583	6/4/2028
5.	CLOUD VILLAGE	Cloud Village Limited	45	23641803	20/9/2028
6.	硬地围炉夜	WFOE	41	35346232	27/8/2029
7.	云梯计划	WFOE	35	43261132	27/11/2030
8.	云圈	WFOE	38	44489381	27/11/2030
9.	声波	WFOE	45	45322468	27/12/2030
10.	心遇	WFOE	45	46552676	13/1/2031
11.	不曾遗忘的符号	WFOE	41	48190599	6/3/2031
12.	到播幕	WFOE	41	47748583	20/4/2031

Trademarks pending transfer in China

As at the Latest Practicable Date, we had no trademarks pending transfer in China which we consider to be or may be material to our business.

Trademarks registered in Hong Kong

As at the Latest Practicable Date, we had registered the following trademarks in Hong Kong which we consider to be or may be material to our business:

No.	Trademark	Registration number	Class	Registration Owner	Expiry date (dd/mm/yyyy)
1	CLOUD VILLAGE	304110704	9 41 45	Cloud Village Limited	17/4/2027
2	cloud village 云村 雲村	304110713	9 41 45	Cloud Village Limited	17/4/2027

Trademark applications pending in China

As at the Latest Practicable Date, we had applied for the registration of the following trademarks in China which we consider to be or may be material to our business:

No.	Trademark	Applicant	Class	Application number	Application date
1.	顺 声 波	WFOE	38	55119350	12/4/2021

Trademark applications pending in Hong Kong

As at the Latest Practicable Date, we had no trademark applications pending in Hong Kong which we consider to be or may be material to our business.

Copyrights

As at the Latest Practicable Date, we had registered the following computer software copyrights which we consider to be or may be material to our business:

No.	Copyright	Registered owner	Version	Registration number	Registration date
1.	網易雲音樂Window Phone客戶端軟件 [簡稱:網易雲音樂]	WFOE	V1.2.2	2016SR309440	27/10/2016
2.	網易雲音樂系統軟件 [簡稱:網易雲音樂]	WFOE	V2.0.0	2016SR309451	27/10/2016
3.	網易雲音樂mac客戶 端軟件[簡稱:網易 雲音樂]	WFOE	V1.0.0	2016SR309453	27/10/2016
4.	網易雲音樂windows 客戶端軟件	WFOE	V1.0.0	2016SR309464	27/10/2016
5.	網易雲音樂iPad客戶 端軟件[簡稱:網易 雲音樂HD]	WFOE	V1.0.0	2016SR309469	27/10/2016
6.	網易LOOK直播軟件 (Android版)[簡稱 :LOOK直播軟件]	WFOE	V1.0.1	2018SR790241	28/9/2018
7.	網易雲音樂Android 客戶端app應用軟 件	WFOE	V5.6.0	2019SR0071431	22/1/2019
8.	網易雲音樂iOS客戶 端app應用軟件	WFOE	V5.6.0	2019SR0070735	22/1/2019
9.	網易雲音樂鯨雲音效軟件	WFOE	V1.0	2019SR0152085	18/2/2019
10.	聲波Android客戶端 APP軟件	WFOE	V1.0.0	2019SR1131325	8/11/2019
11.	聲波iOS客戶端APP 軟件	WFOE	V1.0.0	2020SR0121619	4/2/2020
12.	音街APP軟件 (Android版)	WFOE	V1.0	2020SR0035852	8/1/2020
13.	音街APP軟件(iOS 版)	WFOE	V1.0	2020SR0035525	8/1/2020
14.	心遇android客戶端 app應用軟件	WFOE	V1.0.0	2020SR0579988	5/6/2020
15.	心遇ios客戶端app應 用軟件	WFOE	V1.0.0	2020SR0670443	23/6/2020
16.	網易雲音樂Android 版App應用軟件 v8.0	WFOE	V8.0	2021SR0897140	16/6/2021
17.	網易雲音樂IOS版 App應用軟件v8.0	WFOE	V8.0	2021SR08971068	16/6/2021

As at the Latest Practicable Date, we had registered the following product-related copyrights which we consider to be or may be material to our business:

No.	Copyright	Registered owner	Registration number	Registration date
1.	網易雲音樂組合標誌	WFOE	國作登字-2017- F-00321823	23/1/2017
2.	網易雲音樂播放界面	WFOE	國作登字-2017- L-00321824	23/1/2017
3.	網易雲音樂圖形標誌	WFOE	國作登字-2017- F-00321831	23/1/2017
4.	黑色五視圖 – 吉祥物"西西"	WFOE	浙作登字11- 2016-F14599	29/11/2016
5.	白色五視圖 – 吉祥物"多多"	WFOE	浙作登字11- 2016-F14602	29/11/2016
6.	鯨雲音效icon	WFOE	浙作登字11- 2018-F- 12153	17/9/2018
7.	鯨雲音效logo	WFOE	新作登字11- 2018-F- 12152	17/9/2018
8.	網易雲抱抱 – 圖案LOGO	WFOE	浙作登字11- 2020-F- 17289	9/9/2020
9.	網易雲音樂新版播放界面	WFOE	渝作登字-2020- F-10067587	10/12/2020
10.	陌生人正在一起聽	WFOE	渝作登字-2021- F-10071408	18/2/2021
11.	圖案 – 黑膠VIP	Hangzhou Yuedu	浙作登字11- 2020-F- 22653	6/11/2020

Patents

As at the Latest Practicable Date, we owned the following patents which we consider to be or may be material to our business:

No.	Class	Registration number	Patent name	Registered owner	Expiry date
1.	design	201430294807.1	帶音樂播放功能界面 的手機	WFOE	19/8/2024
2.	design	201530059199.0	帶音樂播放功能界面	WFOE	19/8/2024
3.	design	201530059258.4	的手機 帶音樂播放功能界面 的手機	WFOE	19/8/2024
4.	design	201530059215.6	帶音樂播放功能界面 的手機	WFOE	19/8/2024
5.	design	201530059182.5	帶音樂播放功能界面 的手機	WFOE	19/8/2024

No.	Class	Registration number	Patent name	Registered owner	Expiry date
6.	invention	201310279017.0	一種試聽音頻的方法 及裝置	WFOE	3/7/2033
7.	design	201630169159.6	帶圖形用戶界面的通 訊設備	WFOE	9/5/2026
8.	design	201630225042.5	用於通訊設備的圖形 用戶界面	WFOE	6/6/2026
9.	invention	201210592120.6	一種實現界面上多控 件整合的方法和裝 置	WFOE	30/12/2032
10.	design	201630336152.9	用於通訊設備的圖形 用戶界面	WFOE	21/7/2026
11.	design	201630310302.9	用於通訊設備的圖形 用戶界面	WFOE	8/7/2026
12.	invention	201410675042.5	一種製作鈴音的方法 及裝置	WFOE	21/11/2034
13.	invention	201310024262.7	一種實現媒體應用的 方法、裝置及系統	WFOE	22/1/2033
14.	invention	201310632376.X	一種分享歌詞的方法 及裝置	WFOE	29/11/2033
15.	design	201730271418.0	用於手機的圖形用戶 界面	WFOE	27/6/2027
16.	invention	201510126141.2	一種在操作系統平台 上設置應用的皮膚 的方法、裝置及設 備	WFOE	20/3/2035
17.	design	201730311468.7	用於移動終端的圖形 用戶界面	WFOE	14/7/2027
18.	invention	201410380101.6	一種在媒體應用中使 用的方法及裝置	WFOE	4/8/2034
19.	invention	201310403575.3	一種行為引導方法及 裝置	WFOE	6/9/2033
20.	invention	201410827225.4	一種音頻文件緩存方 法和設備	WFOE	26/12/2034
21.	design	201830006604.6	用於手機的圖形用戶界面	WFOE	8/1/2028
22.	invention	201410612798.5	一種音頻文件的提示 方法和設備	WFOE	4/11/2034
23.	design	201830012558.0	帶圖形用戶界面的手 機	WFOE	11/1/2028
24.	design	201830006874.7	用於手機的圖形用戶 界面	WFOE	8/1/2028
25.	design	201830005209.6	用於手機的圖形用戶 界面	WFOE	5/1/2028
26.	design	201830009892.0	用於通信設備的圖形 用戶界面	WFOE	10/1/2028
27.	design	201830020853.0	用於手機的圖形用戶 界面	WFOE	17/1/2028
28. 29.	invention design	201410662605.7 201730372246.6	圖片分享方法和設備 用於手機的圖形用戶 界面	WFOE WFOE	19/11/2034 14/8/2027

No.	Class	Registration number	Patent name	Registered owner	Expiry date
30.	design	201830212191.7	用於手機的圖形用戶 界面	WFOE	8/1/2028
31.	design	201830212187.0	用於手機的圖形用戶 界面	WFOE	8/1/2028
32.	design	201830157808.X	用於手機的圖形用戶 界面	WFOE	14/8/2027
33.	design	201830021397.1	用於手機的圖形用戶 界面	WFOE	17/1/2028
34.	design	201730674365.7	用於通訊設備的圖形 用戶界面	WFOE	27/12/2027
35.	design	201730676963.8	用於通訊設備的圖形 用戶界面	WFOE	28/12/2027
36.	invention	201610575981.1	一種在文件中提供計 算的方法和裝置	WFOE	18/7/2036
37.	design	201830417111.1	用於手機的圖形用戶 界面	WFOE	31/7/2028
38.	design	201830390406.4	用於手機的圖形用戶 界面	WFOE	19/7/2028
39.	design	201830383022.X	用於手機的圖形用戶 界面	WFOE	16/7/2028
40.	design	201830383024.9	用於手機的圖形用戶 界面	WFOE	16/7/2028
41.	invention	201610294035.X	一種多媒體資源播放 操作控制方法和裝 置	WFOE	4/5/2036
42.	invention	201611124036.6	一種音頻文件的合成 方法和設備	WFOE	8/12/2036
43.	design	201830494838.X	用於手機的圖形用戶 界面	WFOE	4/9/2028
44.	invention	201610401813.0	一種跑步數據處理方 法和裝置	WFOE	6/6/2036
45.	invention	201710218616.X	一種移動終端信息推 送方法及裝置	WFOE	5/4/2037
46.	invention	201610585368.8	一種通過終端進行鳴 笛的方法和裝置	WFOE	20/7/2036
47.	invention	201610807763.6	一種交友的方法和裝 置	WFOE	5/9/2036
48.	invention	201810044487.1	信息處理方法、介 質、裝置和計算設 備	WFOE	17/1/2038
49.	invention	201611140128.3	一種通過目標應用設 置按鍵功能的方法 和裝置	WFOE	12/12/2036
50.	invention	201811336435.8	動態預覽圖的生成方 法、系統、介質和 電子設備	WFOE	9/11/2038
51.	invention	201810912990.4	音頻數據處理方法及 裝置、介質和計算 設備	WFOE	10/8/2038

No.	Class	Registration number	Patent name	Registered owner	Expiry date
52.	invention	201910674459.2	信息展示方法、裝 置、介質和計算設 備	WFOE	24/7/2039
53.	invention	201910143581.7	曲目點播交互方法、 介質、裝置和計算 設備	WFOE	26/2/2039
54.	invention	201711449389.8	信息推薦方法及裝 置、存儲介質和電 子設備	WFOE	27/12/2037
55.	design	202030732507.2	顯示屏的帶剪輯視頻 功能圖形用戶界面	WFOE	30/11/2030
56.	invention	201810774453.8	藍牙連接方法、介質 和第一、第二電子 設備以及計算設備	WFOE	13/7/2038
57.	invention	201811528792.4	信息處理方法、系 統、介質和計算設 備	WFOE	13/12/2038
58.	design	202130198744.X	顯示屏幕面板的帶直 播功能圖形用戶界 面	WFOE	21/10/2030
59.	design	202030732452.5	顯示屏幕面板的帶音 樂卡片功能圖形用 戶界面	WFOE	30/11/2030
60.	invention	202010463795.5	多媒體文件選取方 法、裝置、設備及 計算機可讀存儲介 質	WFOE	27/5/2040
61.	design	202030733913.0	顯示屏的帶選擇音樂 功能圖形用戶界面	WFOE	30/11/2030
62.	design	202030537033.6	帶有投票功能圖形用 戶界面的顯示屏幕 面板	WFOE	10/9/2030
63.	invention	201810858371.1	直播房間管理方法、 裝置、電子設備及 存儲介質	WFOE	31/7/2038
64.	design	202030628730.2	顯示屏幕面板的帶直 播功能圖形用戶界 面	WFOE	21/10/2030
65.	invention	201610620482.X	一種數據推送方法及 裝置	WFOE	29/7/2036
66.	invention	201910072167.1	信息展示方法和裝置、以及用於信息 搜索的方法和裝置	WFOE	25/1/2039
67.	design	202030801213.0	顯示屏幕面板的帶生 成虛擬形象功能圖 形用戶界面	WFOE	24/12/2030
68.	design	202130116767.1	顯示屏幕面板的帶編 輯視頻功能圖形用 戶界面	WFOE	3/3/2031

Domain names

As at the Latest Practicable Date, we owned the following domain names which we consider to be or may be material to our business:

No.	Domain name	Registered owner	Expiry date	
1	musicyuedu.com	Hangzhou Yuedu	5/1/2022	
2.	imledu.com	Hangzhou Yuedu	7/1/2022	
3.	imyuedu.com	Hangzhou Yuedu	9/1/2022	
4.	music.移动	Hangzhou Yuedu	17/4/2022	
5.	云音乐.在线	Hangzhou Yuedu	29/10/2022	
6.	163cn.tv	Hangzhou Yuedu	25/8/2022	
7.	meetycdn.com	Cloud Village Limited	8/2/2023	
8.	baecdn.com	Cloud Village Limited	8/2/2023	

FURTHER INFORMATION ABOUT OUR DIRECTORS

Particulars of Directors' service contracts and appointment letters

Executive Directors

Each of our executive Directors entered into a service contract with our Company on 21 November 2021. The term of appointment shall be for an initial term of three years from the Listing Date (subject to retirement as and when required under the Articles of Association). Either party may terminate the agreement by giving prior written notice.

Non-executive Directors

Each of our non-executive Directors entered into an appointment letter with our Company on 21 November 2021. The term of appointment shall be for an initial term of three years from the Listing Date (subject to retirement as and when required under the Articles of Association). Either party may terminate the agreement by giving prior written notice.

Independent non-executive Directors

Each of our independent non-executive Directors entered into an appointment letter with our Company on 21 November 2021. The term of appointment shall be for an initial term of three years from the Listing Date (subject to retirement as and when required under the Articles of Association). Either party may terminate the agreement by giving prior written notice.

For the annual director fees and other remuneration received by our Directors, see Note 10 to the Accountant's Report in Appendix I.

Remuneration of Directors

- (a) Save as disclosed in this document, none of our Directors has or is proposed to have a service contract with any member of our Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).
- (b) The aggregate amount of remuneration paid and benefits in kind granted to our Directors by our Group in respect of the year ended 31 December 2020 was approximately RMB3.8 million.

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(c) Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors by any member of our Group in respect of the years ending 31 December 2021 is approximately RMB4.0 million.

Disclosure of interests

Interests and short positions of our Directors in the share capital of our Company or our associated corporations following completion of the Global Offering

Immediately following completion of the Global Offering (assuming the Presumptions and without taking into account of, as applicable, (i) any change to the share capital of NetEase since the Latest Practicable Date up until completion of the Global Offering; and (ii) any dealings in the securities of NetEase by the Directors since the Latest Practicable Date up until completion of the Global Offering), the interests or short positions of our Directors and chief executives in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the 'Model Code for Securities Transactions by Directors of Listed Issuers' contained in the Listing Rules, to be notified to our Company and the Stock Exchange are set out below:

Interest in our Company

Name of director	Nature of interest	Number of issued Shares	Number of Shares under outstanding options granted	Approximate percentage of interest in our Company immediately after the Global Offering ⁽¹⁾
Mr. Yong Li	Beneficial Interest underlying options granted under the Pre-IPO Share Incentive Plan	N/A	300,000	0.14%
Ms. Yanfeng Wang	Beneficial Interest underlying options granted under the Pre-IPO Share Incentive Plan	N/A	3,000	0.00%
Mr. Yat Keung Li	Beneficial Interest underlying options granted under the Pre-IPO Share Incentive Plan	N/A	4,000	0.00%

Note:

⁽¹⁾ Percentages calculated taking into account the Presumptions.

Interest in our associated corporations

Except as specifically noted, the following table sets forth the directors' or chief executives' beneficial ownership of NetEase's shares ("NetEase Shares") as of Latest Practicable Date and based on the Form 20-F filed by NetEase with the SEC on 28 April 2021.

The calculations in the table below are based on 3,354,903,391 NetEase Shares outstanding as of Latest Practicable Date and based on the Form 20-F filed by NetEase with the SEC on 28 April 2021.

Beneficial ownership is determined in accordance with SEC rules and regulations. In calculating the number of Shares beneficially owned by a person and the percentage of ownership held by that person, NetEase has included shares that the person has a right to acquire within 60 days, including through the exercise of any option, warrant or other right, the vesting of any restricted share units, or the conversion of any other security. These shares are not included when calculating the percentage of ownership held by any other person. Ordinary shares held by a shareholder are determined in accordance with NetEase's register of members.

The following table sets out our Directors' or chief executives' interest in NetEase as at the Latest Practicable Date and based on the Form 20-F filed by NetEase with the SEC on 28 April 2021:

	Ordinary shares beneficially owned**		
	Number of NetEase Shares	% of Beneficial Ownership	
Directors and Executive Officers: William Lei Ding ⁽¹⁾	1,450,300,000 ⁽¹⁾	43.2 ⁽¹⁾	

Notes:

- ** Beneficial ownership information disclosed herein represents direct and indirect holdings of entities owned, controlled or otherwise affiliated with the applicable holder as determined in accordance with the rules and regulations of the SEC.
- (1) Based on the Form 20-F filed by NetEase with the SEC on 28 April 2021. Shining Globe International Limited is the record owner of 1,450,300,000 NetEase Shares, consisting of 1,406,000,000 ordinary shares and 8,860,000 ADSs (each ADS representing 5 ordinary shares). Shining Globe International Limited is wholly-owned by Shining Globe Holding Limited, which is in turn wholly-owned by Shining Globe Trust (the "Trust"), for which TMF (Cayman) Ltd. acts as the trustee. William Lei Ding, the founder, chief executive officer and a director of NetEase, is the sole director of Shining Globe International Limited and the settlor of the Trust, retaining the investment and dispositive powers with respect to the assets of the Trust. The beneficiaries of the Trust are William Lei Ding and his family.

The following table lists out the Directors' or chief executives' interests in the other associated corporations:

Associated corporation	Name of director	Nature of interest	Number of ADSs ⁽³⁾ / ordinary shares	Interest in associated corporation ⁽¹⁾
NetEase	Yong Li ⁽²⁾	Beneficial interest	17,549 ADSs	0.00%
	Yat Keung Li ⁽²⁾	Beneficial interest	23,694 ADSs	0.00%
	Yanfeng Wang ⁽²⁾	Beneficial	2,705 ADSs	0.00%
		interest	100 shares	0.00%
	Dewei Zheng ⁽²⁾	Beneficial interest	20,440 ADSs	0.00%
Associated corporation	Name of director	Nature of interest	Number of shares	Interest in associated corporation ⁽¹⁾
Zhejiang Weiyang Technology Co., Ltd.	Yanfeng Wang	Beneficial interest underlying share awards	30,000 shares	0.00%

Note:

- (1) To the best knowledge of the Company, as at the Latest Practicable Date and based on publicly available information.
- (2) The interests underlying the ADSs comprise of 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.
- (3) Each ADS represents five NetEase Shares.

Interests and short positions disclosable under Divisions 2 and 3 of Part XV of the SFO

For information, so far as is known to our Directors or chief executive, of each person, other than our Director or chief executive, who immediately following completion of the Global Offering (assuming the Presumptions) will have an interest or short position in the Shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group, see "Substantial shareholders."

Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the Global Offering, be interested, directly or indirectly, in 10% or more of the nominal of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital.

SHARE INCENTIVE PLAN

Pre-IPO Share Incentive Plan

Overview

The following is a summary of the principal terms of the Pre-IPO Share Incentive Plan of our Company as approved and adopted by the Board in 2016, as amended from time to time. The terms of this plan are not subject to Chapter 17 of the Listing Rules as this plan does not involve the grant of options by our Company to subscribe for new shares upon our Listing.

Purpose

The purpose of the Pre-IPO Share Incentive Plan is to promote the success and enhance the value of the Company's business by linking the personal interests of the employees to those of the shareholders of the Company and by providing such individuals with an incentive for outstanding performance to generate superior returns to the shareholders of the Company. The Pre-IPO Share Incentive Plan also intends to provide flexibility to the 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.

Eligibility

Persons eligible to participate in the Pre-IPO Share Incentive Plan include employees of the Company, any parent, subsidiary or affiliate of the Company or any related entity to which a participant provides services as an employee (a "Service Recipient"), directors of the Company, any parent, subsidiary or any related entity of the Company, and consultant or adviser rendering services to a Service Recipient. Eligibility is determined by the Board or a committee of members of the Board to whom the Board delegates the authority to grant or amend awards to participants (the "Committee").

Maximum number of Shares

The maximum aggregate number of Shares which may be issued pursuant to all awards pursuant to the Pre-IPO Share Incentive Plan is 15,000,000 Shares.

Administration

The Pre-IPO Share Incentive Plan is administered by the Board or the Committee. Reference to the Committee shall refer to the Board in absence of the Committee. The full Board, acting by majority of its members in office, will conduct the general administration of the Pre-IPO Share Incentive Plan if required by applicable laws and with respect to awards granted to the Committee members, Independent Directors and executive officers of the Company.

The Committee has the exclusive power, authority and discretion to:

- (a) designate participants to receive awards;
- (b) determine the type or types of awards to be granted to each participant;
- (c) determine the number of awards to be granted and the number of Shares to which an award will relate;
- (d) determine the terms and conditions of any award granted pursuant to the Pre-IPO Share Incentive Plan, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an award, based in each case on such considerations as the Committee in its sole discretion determines;
- (e) Determine whether, to what extent, and pursuant to what circumstances an award may be settled in, or the exercise price of an award may be paid in, cash, Shares, other awards, or other property, or an award may be cancelled, forfeited, or surrendered;
- (f) prescribe the form of each award agreement, which need not be identical for each participant;
- (g) decide all other matters that must be determined in connection with an award, including any adjustments or amendments to the terms of outstanding awards;
- (h) establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Pre-IPO Share Incentive Plan:
- (i) interpret the terms of, and any matter arising pursuant to, the Pre-IPO Share Incentive Plan or any award agreement;
- (i) reduce the exercise price per Share subject to an option; and
- (k) make all other decisions and determinations that may be required pursuant to the Pre-IPO Share Incentive Plan or as the Committee deems necessary or advisable to administer the Pre-IPO Share Incentive Plan, including design and adopt from time to time new types of awards that are in compliance with applicable laws.

Grant of Awards

Awards include, among other things, options, restricted shares, restricted share units, share appreciation right, dividend equivalents and share payment ("Award(s)"). All Awards are evidenced by an award agreement between the Company and the participant.

Options

The Committee is authorised to grant options to participants on the terms and conditions as set out in the Pre-IPO Share Incentive Plan. The award agreement evidencing the options shall include such additional provisions as may be specified by the Committee.

The exercise price per share subject to an option is determined by the 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 Committee whose determination will be final, binding and conclusive, and the re-pricing will be effective without the approval of the Shareholders or participants. The exercise price per share however shall not be increased without the approval of the relevant participants.

The 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 the Pre-IPO Share Incentive Plan shall not exceed ten years, except otherwise provided in the award agreement. The 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 Committee determines the methods by which the exercise price of an Option may be paid.

No options may be granted under the terms of the Pre-IPO Share Incentive Plan after the Listing.

Restricted Shares

The Committee is authorised to make awards of restricted shares to any participants selected by the Committee in such number and subject to such terms and conditions as determined by the Committee. the terms and conditions as set out in the Pre-IPO Share Incentive Plan.

Restricted shares are subject to such restrictions on transferability and other restrictions as the Committee may impose. The restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such instalments, or otherwise as the Committee determines at the time of the grant of the award or thereafter. After the restrictions have lapsed, the participant shall be entitled to have any legend or legends removed from his or her share certificate, and the shares shall be freely transferable by the participant, subject to applicable legal restrictions.

Restricted Share Units

The Committee may grant restricted share units to participants as the Committee in its sole discretion shall determine at any time and from time to time. The award agreement evidencing the restricted share units shall specify any vesting conditions, the number of restricted share units granted, and such other terms and conditions as the Committee, in its sole discretion, shall determine.

The Committee in its sole discretion shall determine the number of restricted share units to be granted to such participant. The Committee may in its discretion set performance objectives or other vesting criteria which, depending on the extent to which they are met, will determine the number or value of restricted share units that will be paid out to the participants.

The Committee shall also specify the date(s) on which the restricted share units shall become fully vested and nonforfeitable at the time of grant. Upon vesting, the Committee, in its sole discretion, may pay restricted share units in the form of cash, in Shares or in a combination thereof.

Share Appreciation Right

The Committee may grant share appreciation right to any participants it selects, which will be subject to such terms and conditions not inconsistent with the Pre-IPO Share Incentive Plan as the Committee shall impose.

A share appreciation right entitles the participant to exercise all or specified portion of the right and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the right from the fair market value of a share on the date of exercise of the right by the number of shares with respect to which the right shall have been exercised, subject to any limitations the Committee may impose. Payment of such amount will be made in cash, in shares, or a combination of both as determined by the Committee and set out in the award agreement.

Dividend Equivalents

The Committee may grant dividend equivalents to any participant it selected, based on the dividends declared on the shares that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional Shares by such formula and at such time and subject to such limitations as may be determined by the Committee.

Share Payment

The Committee may grant share payments to any participant it selected. The share payments granted would be made in the manner determined from time to time by the Committee; provided, that unless otherwise determined by the Committee the share payments shall be made in lieu of base salary, bonus, or other cash compensation otherwise payable to such participant. The number of shares shall be determined by the Committee and may be based upon the performance criteria or other specific criteria determined appropriate by the Committee, determined on the date such share payment is made or on any date thereafter.

Limits on transfer

No right or interest of a participant in any Award may be pledged, encumbered, or hypothecated to or in favour of any party other than any of the Company, the parents, subsidiaries and related entities of the Company, or shall be subject to any lien, obligation, or liability of such participant to any other party other than any of the Company, the parents, subsidiaries and related entities of the Company.

Except as otherwise provided by the Committee, no Award shall be assigned, transferred, or otherwise disposed of by a participant other than by will or the laws of descent and distribution. The Committee by express provision in the award agreement or an amendment thereto may permit an Award to be transferred to, exercised by and paid to certain persons or entities related to the participant, including but not limited to members of the participant's family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the participant's family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be on a basis consistent with the Company's lawful issue of securities.

Adjustments

In the event of any dividend, share sub-division, consolidation or exchange of shares, amalgamation, arrangement or consolidation, spin-off, recapitalisation or other distribution (other than normal cash dividends) of Company assets to its shareholders, or any other change affecting the shares of Shares or the share price of a Share, the Committee shall make such proportionate adjustments, if any, as necessary to reflect such change with respect to (a) the aggregate number and type of shares that may be issued under the Pre-IPO Share Incentive Plan; (b) the terms and conditions of any outstanding Awards; and (c) the grant or exercise price per share for any outstanding Awards under the Pre-IPO Share Incentive Plan.

Amendment, modification and termination

With the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Pre-IPO Share Incentive Plan; provided, however, that to the extent necessary and desirable to comply with any applicable laws, regulation, or stock exchange rule, and unless the Company decides to follow home country practice not to seek the shareholder approval for any amendment or modification of the Plan, the Company shall obtain shareholder approval of any Pre-IPO Share Incentive Plan amendment in such a manner and to such a degree as required, including any amendment to the Pre-IPO Share Incentive Plan that (i) increases the number of shares available under the Pre-IPO Share Incentive Plan (other than any adjustment as provided in the Pre-IPO Share Incentive Plan), (ii) permits the Committee to extend the exercise period for an option beyond ten years from the date of grant, or (iii) results in a change in eligibility requirements.

Term of the Pre-IPO Share Incentive Plan

Unless terminated or extended by the Board, the Pre-IPO Share Incentive Plan will terminate ten years after its adoption date. Any options that are still outstanding shall remain outstanding according to the terms of the Plan and the applicable award agreement.

Outstanding options granted under the Pre-IPO Share Incentive Plan

As of the Latest Practicable Date, the Company has granted only options under the Pre-IPO Share Incentive Plan. The outstanding options were granted to 632 grantees (including Directors and senior management of the Company, employees of the Group and NetEase Group). All the options under the Pre-IPO Share Incentive Plan were granted between 25 May 2016 and 15 June 2021 (both days inclusive) and our Company will not grant further options under the Pre-IPO Share Incentive Plan after the Listing. The exercise price of all the options granted under the Pre-IPO Share Incentive Plan ranges between US\$1 and US\$11. No consideration was paid by the grantees for the outstanding options granted under the Pre-IPO Share Incentive Plan.

The remaining 11,748,650 Shares underlying the outstanding granted options under the Pre-IPO Share Incentive Plan represent 5.65% of the issued Shares immediately following the completion of the Global Offering (assuming the Presumptions) and 5.35% of the issued Shares immediately following the completion of the Global Offering (assuming the Presumptions, but as enlarged by the issue of the remaining Shares underlying the outstanding granted options under the Pre-IPO Share Incentive Plan). Assuming all Shares underlying options that are outstanding, or may be granted, under the Pre-IPO Share Incentive Plan before Listing, the dilution effect would be 6.11% of the issued Shares immediately following completion of the Global Offering (assuming the Presumptions, but as enlarged by the issue of the Shares issuable under the Pre-IPO Share Incentive Plan).

The grant of options under the Pre-IPO Share Incentive Plan to the grantees as set out below has been approved by the Board.

The table below sets out the details of the outstanding options granted to the Directors, senior management and other connected persons of our Company. No other outstanding options were granted to connected persons of our Company other than those listed in the table below.

Name	Role	Address	Date of grant	Vesting period (2)	Exercise price	Number of Shares under the outstanding options granted	Approximate percentage of issued shares immediately after completion of the Global Offering ⁽¹⁾
Directors							
Mr. Yong Li	Executive Director, Vice president of business intelligence	Room 801, No. 58, Lane 97, Yuanjing Road, Putuo District, Shanghai, China	25 September 2019	4 years from the date of grant	US\$11 per Share	300,000	0.14%
Ms. Yanfeng Wang	Executive Director	Room 604, Building 10, Bo Jin Ming Zhu, No. 38 Ping'an Road, Binjiang District, Hangzhou, Zhejiang Province China	19 February 2021	1 year from the date of grant	US\$11 per Share	3,000	0.00%
Mr. Yat Keung Li	Non-executive Director	46C, Tower 7, Phase 4, Bel-Air, Pokfulam, Hong Kong	18 January 2017	4 years from the date of grant	US\$8 per Share	4,000	0.00%
Senior				8			
management Mr. Yiwen Zhu	Senior Vice President	1-2-601, Da Xue Yuan, Hangzhou, Zhejiang Province, China	25 May 2016	4 years from the date of grant	US\$1 per Share	400,000	0.19%
Mr. Bo Ding	Vice President of Content	1402, Building No. 9, North Anhua Lane, Dongcheng District, Beijing, China	25 May 2016	4 years from the date of grant	US\$1 per Share	450,000	0.22%
Mr. Cai Cao	Vice President of Technology	30-1-301, Rainbow City, Binjiang, Hangzhou, Zhejiang, China	25 May 2016	4 years from the date of grant	US\$1 per Share	400,000	0.19%
Ms. Ju Lu	Vice President of Finance	Room 303, No. 83, Longbai Fourth Village, Minhang District, Shanghai, China	21 May 2019 to 27 May 2021	4 years from the date of grant	US\$8 to US\$11 per Share	80,000	0.04%
Other connected							
persons Mr. Zhaoxuan Yang ⁽³⁾	Other connected person	Flat B, 25/F, Tower 2, Pacific Palisades, 1 Braemar Hill Road, North Point, Hong Kong	21 May 2018	4 years from the date of grant	US\$8 per Share	300,000	0.14%
Ms. Jianqin Tao ⁽³⁾	Other connected person	No. 2500, Longhua Road, Xuhui District, Shanghai, China	25 May 2016 to 21 May 2018	4 years from the date of grant	US\$1 to US\$8 per Share	180,000	0.09%
Subtotal					9 grantees	2,117,000	1.02%

Notes:

- (1) Percentages take into account the Presumptions.
- (2) The exercise period of the options under the Pre-IPO Share Incentive Plan commences from the vesting commencement date of the relevant options and end tenth anniversary of the grant date, subject to the terms of the Plan and the share option agreement signed by the grantee, including a lock-up period of 6 to 12 months from the Listing Date for any options that vest on the Listing Date. No consideration was paid by the grantees for the outstanding options granted under the Pre-IPO Share Incentive Plan.
- (3) These grantees are former directors of the Company who were on the board of directors within the past 12 months of the date of Listing, and as such, will be connected persons of our Company upon Listing.

The table below sets out the details of the outstanding options granted to the remaining 623 grantees under the Pre-IPO Share Incentive Plan, who are not Directors, members of the senior management or connected persons of our Company:

Range of Shares underlying outstanding Options	Total number of grantees	Date of grant	Vesting period ⁽²⁾	Exercise price	Number of Shares under the outstanding options granted	Approximate percentage of issued shares immediately after completion of the Global Offering ⁽¹⁾
0 Share to 19,999 Shares	484	Between 25 May 2016 to 15 June 2021	1 year to 4 years from the date of grant	US\$1 to US\$11 per Share	2,777,300	1.34%
20,000 Shares to 99,999 Shares	132	Between 25 May 2016 to 15 June 2021	1 year to 4 years from the date of grant	US\$1 to US\$11 per Share	5,131,350	2.47%
100,000 Shares or above	7	Between 25 May 2016 to 27 May 2021	4 years from the date of grant	US\$1 to US\$11 per Share	1,723,000	0.83%
Subtotal				623 grantees	9,631,650	4.64%

Notes:

- (1) Percentages take into account the Presumptions.
- (2) The exercise period of the options under the Pre-IPO Share Incentive Plan commences from the vesting commencement date of the relevant options and end tenth anniversary of the grant date, subject to the terms of the Plan and the share option agreement signed by the grantee, including a lock-up period of 6 to 12 months from the Listing Date for any options that vest on the Listing Date. No consideration was paid by the grantees for the outstanding options granted under the Pre-IPO Share Incentive Plan.

The table below sets out the details of the 15 grantees that have been granted options corresponding to at least 80,000 shares each under the Pre-IPO Share Incentive Plan, who are not Directors, members of the senior management or connected persons of our Company:

1	Position	Date of grant	Vesting period ⁽²⁾	Exercise price	Number of Shares under the outstanding option granted ⁽¹⁾	Approximate percentage of issued shares immediately after completion of the Global Offering ⁽¹⁾
Grantee 1	Technical expert	25 May 2016	4 years from the date of grant	US\$1 per Share	900,000	0.43%
Grantee 2	Technical expert	Between 25 May 2016 to 18 January 2017	4 years from the date of grant	US\$1 to US\$8 per Share	160,000	0.08%
Grantee 3	Consultant from NetEase	Between 25 May 2016 to 18 January 2017	4 years from the date of grant	US\$1 to US\$8 per Share	160,000	0.08%
Grantee 4	Technical expert	Between 23 November 2017 to 25 September 2019	4 years from the date of grant	US\$8 to US\$11 per Share	155,000	0.07%
Grantee 5	Head of business	Between 25 May 2016 to 18 January 2017	4 years from the date of grant	US\$1 to US\$8 per Share	144,000	0.07%
Grantee 6	Technical expert	Between 25 May 2016 to 27 May 2021	4 years from the date of grant	US\$1 to US\$11 per Share	104,000	0.05%
Grantee 7	Technical expert	25 September 2019	4 years from the date of grant	US\$11 per Share	100,000	0.05%
Grantee 8	Technical expert	Between 25 May 2016 to 25 September 2019	4 years from the date of grant	US\$1 to US\$11 per Share	95,000	0.05%
Grantee 9	Head of business	Between 17 August 2018 to 15 June 2021	4 years from the date of grant	US\$8 to US\$11 per Share	94,600	0.05%
Grantee 10	Head of business	Between 21 May 2018 to 25 September 2019	4 years from the date of grant	US\$8 to US\$11 per Share	90,000	0.04%

	Position	Date of grant	Vesting period ⁽²⁾	Exercise price	Number of Shares under the outstanding option granted ⁽¹⁾	Approximate percentage of issued shares immediately after completion of the Global Offering ⁽¹⁾
Grantee 11	Technical expert	Between 29 August 2016 to 25 September 2019	4 years from the date of grant	US\$1 to US\$11 per Share	85,000	0.04%
Grantee 12	Technical expert	Between 25 May 2016 to 18 January 2017	4 years from the date of grant	US\$1 to US\$8 per Share	80,000	0.04%
Grantee 13	Head of business	22 November 2019	4 years from the date of grant	US\$11 per Share	80,000	0.04%
Grantee 14	Consultant from NetEase	25 May 2016	4 years from the date of grant	US\$1 per Share	80,000	0.04%
Grantee 15	Consultant from NetEase	25 September 2019	4 years from the date of grant	US\$11 per Share	80,000	0.04%

Notes:

⁽¹⁾ Percentages take into account the Presumptions.

⁽²⁾ The exercise period of the options under the Pre-IPO Share Incentive Plan commences from the vesting commencement date of the relevant options and end tenth anniversary of the grant date, subject to the terms of the Plan and the share option agreement signed by the grantee, including a lock-up period of 6 to 12 months from the Listing Date for any options that vest on the Listing Date. No consideration was paid by the grantees for the outstanding options granted under the Pre-IPO Share Incentive Plan.

OTHER INFORMATION

Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall upon any member of our Group.

Litigation

Save as disclosed in this document, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company that would have a material adverse effect on our Company's results of operations or financial condition.

Joint Sponsors

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors will receive an aggregate of US\$1.5 million for acting as the sponsor for the Listing.

Consent of experts

This document contains statements made by the following experts:

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited (in alphabetical order)	A licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Credit Suisse (Hong Kong) Limited (in alphabetical order)	A licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), and type 9 (asset management) of the regulated activities as defined under the SFO
Merrill Lynch (Asia Pacific) Limited (in alphabetical order)	A licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
JunHe LLP	Qualified PRC Lawyers
Maples and Calder (Hong Kong) LLP	Cayman Islands attorneys-at-law

APPENDIX IV	STATUTORY AND GENERAL INFORMATION

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants under the Professional Accountants Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Cap. 588)
China Insights Industry Consultancy Limited	Industry consultant

As at the Latest Practicable Date, none of the experts named above has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Each of the experts named above have given and have not withdrawn their respective written consent to the issue of this document with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

Bilingual document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Preliminary expenses

We have not incurred any material preliminary expenses in relation to the incorporation of our Company.

Disclaimers

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
 - (i) there are no commissions (but not including commission to sub-underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company; and
 - (ii) there are no commissions, discounts, brokerages or other special terms granted in connection with the issue or sale of any capital of any member of our Group, and no Directors, promoters or experts named in "— Other information — Consent of experts" received any such payment or benefit.

- (b) Save as disclosed in this document:
 - (i) there are no founder, management or deferred shares in our Company or any member of our Group;
 - (ii) we do not have any promoter and no cash, securities or other benefit has been paid, allotted or given within the two years immediately preceding the date of this document, or are proposed to be paid, allotted or given to any promoters;
 - (iii) none of the Directors or the experts named in "— Other information Consent of experts" above has any interest, direct or indirect, in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
 - (iv) there are no bank overdrafts or other similar indebtedness by our Company or any member of our Group;
 - (v) there are no hire purchase commitments, guarantees or other material contingent liabilities of our Company or any member of our Group;
 - (vi) there are no outstanding debentures of our Company or any member of our Group;
 - (vii) there is no other stock exchange on which any part of the equity or debt securities of our Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought;
 - (viii) no capital of any member of our Group is under option, or is agreed conditionally or unconditionally to be put under option; and
 - (ix) there are no contracts or arrangements subsisting at the date of this document in which a Director is materially interested or which is significant in relation to the business of our Group.

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of the Green Application Form;
- (b) the written consents referred to in "Statutory and general information Other information Consent of experts" in Appendix IV; and
- (c) copies of the material contracts referred to in "Statutory and general information Further information about our business Summary of material contracts" in Appendix IV.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on the websites of the Stock Exchange at www.hkexnews.hk and the Company at http://ir.music.163.com up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and the Articles;
- (b) the material contracts referred to in "Statutory and general information Further information about our business Summary of material contracts" in Appendix IV;
- (c) the service contracts and the letters of appointment with our Directors referred to in "Statutory and general information Further information about our Directors Particulars of Directors' service contracts and appointment letters" in Appendix IV;
- (d) the report issued by China Insights Industry Consultancy Limited, a summary of which is set forth in "Industry";
- (e) the PRC legal opinion issued by JunHe LLP, our PRC Legal Adviser on PRC law, in respect of certain general corporate matters and property interests in the PRC of our Group;
- (f) the Accountant's Report and the report on the unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the texts of which are set out in Appendices I and II;
- (g) the audited consolidated financial statements of our Group for the three years ended 31 December 2020 and the six months ended 30 June 2021;
- (h) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal adviser on Cayman Islands law, summarising certain aspects of Cayman company law referred to in Appendix III;
- (i) the Cayman Companies Act;
- (j) the written consents referred to in "Statutory and general information Other information Consent of experts" in Appendix IV; and

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

(k) the terms of the Pre-IPO Share Incentive Plan.

METEASE CLOUD MUSIC

