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 网易云音乐
CLOUD VILLAGE INC.
雲音樂股份有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 9899)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

Our Board is pleased to announce the audited consolidated results of our company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2021. These audited results have been reviewed by our Board’s audit committee together with our management.

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

Note:

- (1) Adjusted net loss is defined as loss for the year adjusted by adding back equity-settled share-based payments and changes in fair value of convertible redeemable preferred shares. For details of the reconciliation of the loss for the year to the adjusted net loss of our group, see “– Financial Review” below.

Non-IFRS measure

To supplement our consolidated results, which are prepared and presented in accordance with International Financial Reporting Standards (“**IFRSs**”), our company uses adjusted net loss as an additional financial measure, which is not required by, or presented in accordance with, IFRSs. 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 group’s operating performance, such as certain non-cash items. The use of this non-IFRS measure has limitations as an analytical tool, and shareholders and potential investors of our company should not consider them in isolation from, as a substitute for, analysis of, or superior to, our group’s results of operations or financial condition as reported under IFRSs. 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.

General notes

In this announcement: (i) “we”, “us”, “our” and “our company” refer to our company and where the context otherwise requires, our group; (ii) numbers may be subject to rounding and approximations to one or two decimal places; and (iii) unless otherwise stated, the exchange rates used are RMB1 to HK\$1.2231 and US\$0.1568.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

The Online Music Entertainment Market in China

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

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

Business Overview

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

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

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

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

Looking ahead, we are strategically expanding our prospects by:

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

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

Product and service innovations

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

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

Content enhancement

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

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

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

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

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

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

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

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

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

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

Future Development

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

- (a) *Relentlessly innovating our products and services.* We will continue to relentlessly innovate and refine our products and services while deepening our understanding of users' evolving needs and preferences. By creating a more intelligent, thoughtful user experience, we believe we will further strengthen our ability to attract and engage users and to increase their loyalty and commitment to our products and services. We will also continue to enrich and diversify our music and music-inspired content to deepen our connection with our users and strengthen our market position. At the same time, we will actively explore new business models to keep our finger on the pulse to ensure that we remain adaptive to trends in the online music entertainment industry.
- (b) *Further developing our community.* We will focus on providing more personalised and diversified music and music-inspired content to our users, while continuing to encourage and empower them to create content. In particular, we will uphold our commitment to supporting independent artists, attracting and cultivating them by leveraging our unique, engaging community culture, organising various online and offline events, and inspiring them to continually create high-quality content on our platform. We are committed to improving user engagement and deepening users' connection with each other and with our platform. By further stimulating user participation and content creation, we believe we are able to organically grow our user base, increase user stickiness and improve paying user conversion.

- (c) *Continuing to invest in technological capabilities.* We will continue to invest in improving our technological capabilities to better understand our users and improve user experience. In particular, we will invest in research and development for artificial intelligence, machine learning and data analytics to gain more insight into our users' needs and preferences and to refine our ability to make personalised content recommendations. At the same time, we will continue to invest in and upgrade our AI-enabled creative assistance technologies to empower independent artists and users in their creative pursuits. We may also explore virtual reality and augmented reality technologies to offer a more engaging experience of music and music-inspired content, especially in our music-inspired social entertainment services space.
- (d) *Pursuing win-win collaboration with our partners.* Leveraging our brand, user base, community culture and technological capabilities, we will continue to deepen our collaboration with a variety of partners, such as content partners, brands and advertisers and technology companies, to strengthen our synergy with them and to achieve more win-win situations. For example, we are able to achieve further content enrichment and revenue diversification while empowering our partners with our valuable user and content pool. We will seek to explore new business models with existing and potential partners to realise the steady, long-term growth of our platform.
- (e) *Further diversifying our monetisation capabilities.* In response to the continuously evolving needs of our users, we will continue to leverage our innovations to explore new monetisation channels, further diversifying our sources of income and realising the commercial potential of our platform. We will continue to enrich our content offerings and commercialise our platform. For our online music services, we will continue to strengthen our leadership position in music streaming services through diversified music content offerings that appeal to our users. For our social entertainment services, we plan to expand our offerings of music-inspired content, such as audio and video live streaming content by attracting premium performers to our platform. We will also promote our paid content and services available in our community and therefore increase the number of paying users.

Financial Review

Overview

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

Revenue

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

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

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

Cost of Revenue

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

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

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

Selling and Marketing Expenses

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

General and Administrative Expenses

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

Research and Development Expenses

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

Other Income

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

Other (Losses)/Gains, Net

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

Finance Income

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

Changes in Fair Value of Convertible Redeemable Preferred Shares

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

Taxation

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

Loss for the Year

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

Adjusted Net Loss

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

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

Notes:

- (a) Equity-settled share-based payments mainly represent share-based compensation expenses incurred in connection with our pre-IPO share incentive plan approved and adopted by our company in 2016. Share-based compensation expenses are not expected to result in future cash payments and are not indicative of our core operating results. The reconciling item is non-cash and does not result in cash outflow.
- (b) Changes in fair value of the convertible redeemable preferred shares are not directly related to our group's ability to generate revenue from its daily operations, and we did not record any further changes in fair value of the convertible redeemable preferred shares as such convertible redeemable preferred shares were re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares in our initial public offering in December 2021. The reconciling item is non-cash and does not result in cash outflow.

Liquidity and Capital Resources

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

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

Significant Investments

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

Material Acquisitions and Disposals

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

Pledge of Assets

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

Contingent Liabilities

Our group had no material contingent liabilities as at 31 December 2021 (31 December 2020: Nil).

Foreign Exchange Exposure

During the reporting period, save for the net proceeds received from our company's global offering, which are denominated in Hong Kong dollars, substantially all of our revenues and expenditures were denominated in RMB. Accordingly, we have certain exposure to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar. Foreign exchange risk arises when 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 our company is U.S. dollars whereas the functional currency of our subsidiaries, which operate in the PRC, is RMB. We currently do not have a foreign currency hedging policy in respect of transactions undertaken in foreign currency but it manages its foreign exchange risk by performing regular reviews of our net foreign exchange exposures.

Future Plans for Material Investments

Our company has no other plans for material investments or capital assets, except the intended use of proceeds as disclosed in the prospectus.

Employee and Remuneration Policy

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

The number of employees employed by our group varies from time to time depending on business need. Employees' remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. Our group's compensation system is well-structured and consists of a basic salary, a performance-based bonus and long-term incentives, which is reviewed periodically. 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. According to the relevant laws and regulations in the PRC, the amount we are required to contribute for each of our employees under such plans should be calculated based on the employee's actual salary level of the previous year, and be subject to a minimum and maximum level as from time to time prescribed by local authorities. Our group also provides training sessions to its employees, which mainly focus on campus recruiting personnel, management personnel and professional technology personnel.

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

Additionally, our company has a share incentive plan, the material terms of which are described in our company's prospectus dated 23 November 2021 (at Appendix IV; available on the Stock Exchange's website). The total remuneration cost incurred by us during the reporting period was RMB1,120.7 million (2020: RMB646.6 million).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Note	Year ended 31 December	
		2021	2020
		RMB'000	RMB'000
Revenue	2	6,997,622	4,895,731
Cost of revenue	3	<u>(6,854,948)</u>	<u>(5,491,066)</u>
Gross profit/(loss)		142,674	(595,335)
Selling and marketing expenses	3	(431,312)	(327,323)
General and administrative expenses	3	(264,216)	(96,909)
Research and development expenses	3	(869,146)	(576,457)
Other income		72,067	71,251
Other gains/(losses), net		<u>2,998</u>	<u>(17)</u>
Operating loss		(1,346,935)	(1,524,790)
Share of results of investments accounted for using equity method		2,334	(3,658)
Finance income		48,416	100,642
Changes in fair value of Convertible redeemable Preferred Shares	9	(755,238)	(1,361,581)
Loss on buy-back of Convertible redeemable Preferred Shares		<u>-</u>	<u>(160,500)</u>
Loss before income tax		(2,051,423)	(2,949,887)
Income tax expense	4	<u>(4,669)</u>	<u>(1,576)</u>
Loss for the year attributable to equity holders of our company		<u>(2,056,092)</u>	<u>(2,951,463)</u>
Loss per share attributable to equity holders of our company (expressed in RMB per share)			
Basic loss per share	5	15.92	24.22
Diluted loss per share	5	<u>15.92</u>	<u>24.22</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

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

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

NOTES

1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance Cap.622.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and financial liabilities, which are measured at fair value.

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

1.1 Change in accounting policy and disclosures

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

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

(b) *New standards and amendments of standards not yet adopted*

Certain new standards and amendments of 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 year ended 31 December 2021.

		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 REVENUE AND SEGMENT INFORMATION

(a) Disaggregation of revenue from contracts with customers

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

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

(b) Segment information

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

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

3 EXPENSES BY NATURE

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

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

4 INCOME TAX EXPENSE

The income tax expense of the Group is analysed as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	4,669	1,576
Deferred income tax	–	–
	<u> </u>	<u> </u>
	<u>4,669</u>	<u>1,576</u>

(a) **Cayman Islands**

Under the current laws of the Cayman Islands, our 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.

5 LOSS PER SHARE

(a) **Basic loss per share**

Basic loss per share is calculated by dividing the loss attributable to equity holders of our company by the weighted average number of shares outstanding during the year.

	Year ended 31 December	
	2021	2020
Loss for the year attributable to equity holders of our company (in RMB'000)	<u>(2,056,092)</u>	<u>(2,951,463)</u>
Weighted average number of shares outstanding	<u>129,164,825</u>	<u>121,874,826</u>
Basic loss per share (in RMB)	<u>15.92</u>	<u>24.22</u>

(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 year ended 31 December 2021 and 2020, our 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.

6 DIVIDENDS

No dividends have been paid or declared by our company during each of the years ended 31 December 2021 and 2020.

7 ACCOUNTS RECEIVABLES

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivables	676,878	257,672
Less: loss allowance	(3,228)	(3,297)
Accounts receivables, net	<u>673,650</u>	<u>254,375</u>

The Group generally allows a credit period of 0 to 180 days to its customers depending on different revenue streams. Aging analysis of accounts receivables based on invoice date is as follows:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	636,007	185,397
3 to 6 months	18,393	68,974
Over 6 months	22,478	3,301
	<u>676,878</u>	<u>257,672</u>

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

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

8 ACCOUNTS PAYABLES

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts payables	<u>134</u>	<u>1,400</u>

Accounts payables are unsecured and are usually paid within 30 days of recognition and denominated in RMB.

As at 31 December 2021 and 2020, the aging of accounts payables are all between 0-90 days based on invoice date.

9 CONVERTIBLE REDEEMABLE PREFERRED SHARES

Since the date of incorporation, our 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 movements of the Convertible redeemable Preferred Shares are set out as below:

	<i>RMB'000</i>
At 1 January 2021	11,162,403
Change in fair value through profit or loss	755,238
Change in fair value through other comprehensive income	25,975
Currency translation differences	(271,670)
Conversion of Convertible redeemable Preferred Shares to ordinary shares	<u>(11,671,946)</u>
At 31 December 2021	<u><u>–</u></u>
At 1 January 2020	10,763,816
Buy-back of Convertible redeemable Preferred Shares	(302,150)
Change in fair value through profit or loss	1,361,581
Change in fair value through other comprehensive income	97,436
Currency translation differences	<u>(758,280)</u>
At 31 December 2020	<u><u>11,162,403</u></u>

All convertible redeemable preferred shares were converted into ordinary shares upon completion of the Global Offering by our company on 2 December 2021. Also the cumulative loss recognised in other comprehensive income related to the convertible redeemable preferred shares and convertible notes due to changes of fair value in the liability's credit risk of RMB92,527,000 was transferred from other reserves to accumulated losses upon IPO. The fair value of each convertible redeemable preferred share at the conversion date is the offer price (HK\$205) in the Global Offering.

EVENTS AFTER THE REPORTING PERIOD

As at the date of this announcement, there were no significant events that might affect our group since the end of the reporting period.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Our Board is committed to achieving high standards of corporate governance that it believes are crucial to our group's development and safeguard the interests of our shareholders.

Compliance with the Code on Corporate Governance Practices

Our company adopted the principles and code provisions of the Corporate Governance Code contained in Part 2 of Appendix 14 to the Listing Rules as the basis of our corporate governance practices.

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

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

Save as disclosed above, we have complied with the code provisions set out in the Corporate Governance Code since 2 December 2021 and up to the date of this announcement. Our company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain a high standard of corporate governance practices of our company.

Compliance with the Model Code for Securities Transactions by Directors

Our company adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code of conduct regarding our directors' dealings in the securities of our company. Having made specific enquiries with our directors, our directors have confirmed that they have strictly complied with the required standards set out in the Model Code from the date of our listing on 2 December 2021 to 31 December 2021.

Scope of work of PricewaterhouseCoopers

The figures in respect of the Group's consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

Audit Committee

Our Board has established an audit committee to the Board with written terms of reference in accordance with the Listing Rules. Our audit committee comprises our three independent non-executive directors, namely, Mr. Ying Kit Caleb Lo, Mr. Xianfeng Gu and Mr. Zhong Xu. Mr. Ying Kit Caleb Lo is the chairman of this committee.

Our audit committee has reviewed our audited consolidated financial statements for the year ended 31 December 2021 and has discussed with our auditor, as well as the senior management of our company, on matters with respect to the accounting policies and practices adopted by our company and internal control.

Other Board Committees

In addition to our audit committee, our Board has also established a nomination committee and a remuneration committee.

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

Since the date of our listing on 2 December 2021 and until the end of the reporting period, neither our company nor any of our subsidiaries has purchased, sold or redeemed any of our company's securities listed on the Stock Exchange.

Use of Proceeds from the Global Offering

Our company completed a global offering on 2 December 2021. The net proceeds from this global offering amounted to approximately HK\$3,160 million (equivalent to approximately RMB2,584 million), which will be used in the manner set out in our company's prospectus dated 23 November 2021 (available on the Stock Exchange's website). As at 31 December 2021, we had approximately HK\$3,160 million (equivalent to approximately RMB2,584 million) remaining in net proceeds, which are held as short-term bank deposits. Our Company expects to utilise the remaining net proceeds in the next 24 to 36 months.

FINAL DIVIDEND

Our Board does not recommend the payment of a final dividend for the year ended 31 December 2021.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of our company at <http://ir.music.163.com>. Our annual report for 2021 financial year will be published on the aforesaid websites of the Stock Exchange and our company and will be despatched to our shareholders in due course.

DEFINITIONS

- “**Board**” the board of directors of our company
- “**Listing Rules**” the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
- “**Stock Exchange**” The Stock Exchange of Hong Kong Limited

By Order of the Board
Cloud Village Inc.
Mr. William Lei Ding
Chairman of the Board

Hong Kong, 24 March 2022

As at the date of this announcement, the Board comprises Mr. William Lei Ding, Mr. Yong Li and Ms. Yanfeng Wang as executive directors, Mr. Yat Keung Li, Mr. Dewei Zheng and Mr. Feng Yu as non-executive directors, and Mr. Ying Kit Caleb Lo, Mr. Xianfeng Gu and Mr. Zhong Xu as independent non-executive directors.