The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in the Accountant's Report of our Company, the text of which is set out in Appendix IA to this listing document. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. 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, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this listing document, including the sections headed "Risk Factors" and "Business."

Unless the context otherwise requires, our fiscal year ends on December 31 and references to fiscal years 2019, 2020 and 2021 are to the fiscal years ended December 31, 2019, 2020 and 2021, respectively. Unless the context otherwise requires, financial information in this section is described on a consolidated basis.

OVERVIEW

We offer an all-in-one entertainment experience for people to discover, listen, sing, watch, perform and socialize around music. To bring a more diversified experience to our users, we have also expanded our platform to offer long-form audio services. We believe music and audio content can deliver experiences that are visual, immersive, interactive, socially engaging and fun.

Today, we are the largest online music entertainment platform in China in terms of MAU, according to iResearch, with 604 million online music mobile MAUs and 162 million social entertainment mobile MAUs in the first quarter of 2022. We also had China's largest music content library as of March 31, 2022 in terms of number of tracks, according to iResearch.

Our revenues increased from RMB25.4 billion in 2019 to RMB29.2 billion in 2020, and further to RMB31.2 billion in 2021, and we recorded revenues of RMB6.6 billion (US$1.0 billion) in the first quarter of 2022. We achieved a net profit of RMB4.0 billion in 2019, RMB4.2 billion in 2020, RMB3.2 billion in 2021 and RMB0.6 billion (US$0.1 billion) in the first quarter of 2022.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

General Factors Affecting Our Results of Operations

Our business and results of operations are affected by a number of general factors affecting China's online music and audio entertainment industry, which include:

- our growth strategies;
- our future business development, financial condition and results of operations;
- our ability to retain, grow and engage our user base and expand our content and experience offerings;
- the evolving regulatory environment;
- our ability to retain key personnel and attract new talent;
- competition in China's online music and audio entertainment industry;
- general economic, political, demographic and business conditions in China and globally; and
- changes in global economy including any adverse impacts of the COVID-19 outbreak.

Unfavorable changes in any of these general conditions could negatively affect demand for our services and materially and adversely affect our results of operations.

Specific Factors Affecting Our Results of Operations

Our ability to maintain our user base and further increase their engagement level

We generate revenues primarily through the sales of memberships and virtual gifts. Therefore, our ability to generate revenues is affected by the number of our users and the levels of their engagement. Our ability to continue to maintain our user base and increase user engagement is driven by various factors, including our ability to increase the breadth and attractiveness of our content offerings, provide smart content recommendations, deliver a differentiated user experience; encourage users to use multiple services across our platform, improve the social interaction features of our platform, and enhance our brand reputation.

We adopt a holistic approach to operating our online music services and social entertainment services to foster the collaboration between them. We leverage our strong product functions and content recommendation and technology capabilities to further enhance product integration between these two services. For example, users can directly access the singing page of a song on our social entertainment apps from the listening page of the song on our online music apps. We also provide real-time recommendations of live streaming content based on what music our users are listening to on our online music apps.

The following table sets forth details of our mobile MAUs for the periods indicated. These figures have not been adjusted to eliminate duplicate access of different products and services by the same user, if any, during any given period.

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2019	2020	2021	2021	2022
			(in millions)		
Online music mobile MAUs	653	644	622	615	604
Social entertainment mobile MAUs	240	240	203	224	162

For online music services, we experienced a gradual decrease in our already-massive base of mobile MAUs during the Track Record Period, primarily due to churn of our users. As advised by iResearch, it is normal that once an online platform reaches a substantial scale, some users could from time to time be drawn to other forms, content and services of online music and entertainment as a result of increasingly intensified competition from other platforms. Our historical loss of mobile MAUs was mainly due to increasing competition within the online music and entertainment industry as users may be constantly looking for new content, product formats and diversified user experiences. In addition to evolving competition dynamics among platforms, the churn of users on a scaled platform is a common industry phenomenon faced by all key players in China's online music market, including us and our peers, according to iResearch. Nevertheless, we continued to strengthen the engagement of our core user base by enhancing original content production capabilities, expanding and diversifying music catalog, and launching innovative product features. Leveraging our high-quality content offerings and services, we believe we will continue to benefit from our expanded sales channels and paying user loyalty. Additionally, we strategically seek to focus on driving the paying ratios and monetization efficiencies of our online music services to maximize the monetization potential of our already-massive base of mobile MAUs.

For our social entertainment business, we experienced a decrease in our social entertainment mobile MAUs during the Track Record Period, primarily due to increased market competition and weakened macroeconomic environment that has negatively impacted our users' consumption on our platform. China's music-centric social entertainment services market in which we operate is rapidly evolving with increasingly intensified competition. In recent years, China's music-centric social entertainment services market has been characterized by changing user needs and preferences, increasing competition, and heightened regulations. In particular, we are facing increased competition from not only other online music platforms but also providers of new content formats, such as audio and short-form videos, which has and is expected to continue to, put pressure on our short-term growth in terms of the overall user base and monetization of our social entertainment services. The increased competition has also driven music-centric social entertainment platforms like us to devote more resources to diversifying content offerings and exploring new monetization strategies in order to meet changing user preferences and remain competitive. For further details, see "Industry Overview — China Music-Centric Social Entertainment Services Market Overview — Competitive Landscape," and "Industry Overview — China Music-Centric Social Entertainment Services Market Overview — Emerging Trends, Challenges & Opportunities in China's Music-Centric Social Entertainment Services Market." To drive user engagement in the long term, we are seeking to further improve our competitiveness through continuous product innovations and a variety of new initiatives such as audio live streaming and virtual interactive product offerings.

Certain factors may cause the actual results to be materially different from our expectations. See "Risk Factors — Risks Relating to Our Business and Industry — If we fail to anticipate user preferences to provide content catering to user demands, our ability to attract and retain users may be materially and adversely affected."

Our ability to increase paying ratio and strengthen our monetization capability

Our results of operations depend on our ability to convert our vast user base into paying users and drive their spending on our platforms.

The table below sets forth the number of paying users, paying ratio and monthly ARPPU for our online music services and social entertainment services for the periods indicated. These figures have not been adjusted to eliminate duplicate access of different products and services by the same user, if any, during any given period.

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2019	2020	2021	2021	2022
Paying users[1] (in millions)					
Online music services	33.7	49.4	68.6	60.9	80.2
Social entertainment services	11.6	11.7	10.3	11.3	8.3
Paying ratio[1]					
Online music services	5.2%	7.7%	11.0%	9.9%	13.3%
Social entertainment services	4.8%	4.9%	5.1%	5.0%	5.1%
Monthly ARPPU[1] (RMB)					
Online music services[2]	8.8	9.4	8.9	9.3	8.3
Social entertainment services[3]	131.3	141.1	160.0	149.7	161.8

Notes:

(1) For definitions, see "Glossary of Technical Terms."

(2) The revenues used to calculate the monthly ARPPU of online music services include revenue from subscriptions only. The revenue from subscriptions for the periods indicated was RMB3,563 million, RMB5,560 million, RMB7,333 million, RMB1,692 million and RMB1,993 million (US$314 million), respectively.

(3) The revenues used to calculate the monthly ARPPU of social entertainment services include revenue from social entertainment and others, including advertising services provided on our social entertainment platforms.

Over the years, as we continued to improve the content library, product features and user experience of our online music services continued to scale, we have been able to continuously grow our paying ratios and revenues for our online music services, thereby creating long-term value for our content partners and China's music industry as a whole. Meanwhile, we also continued to develop our social entertainment services which currently still generate a majority portion of our total revenues. This is because users in China historically had a relatively lower willingness to pay for online music services as compared with more developed markets, and therefore we, in the past, mainly focused on providing attractive music content and functionalities for our online music services, with a view towards gradually cultivating users' habits and willingness to pay in the long term. Compared to online music services, our social entertainment services provide more opportunities for user interactions and thus lead to more paid consumption scenarios that allow users to pay (e.g., through purchasing and sending virtual gifts). This resulted in social entertainment services accounting for a majority portion of our total revenues during the Track Record Period. In the foreseeable future, we will continue to drive the paying user conversion and revenues of our online music services as the more important contributor to the overall monetization of our platform. In the meantime, we will also endeavor to maintain the competitiveness of our social entertainment services to improve our overall financial performance going forward.

Our ability to continue to monetize our user base is affected by a number of factors, such as our ability to enhance user engagement, our ability to cultivate users' willingness to pay for online music services and social entertainment services, as well as our ability to integrate more monetization models including, for example, the pay-for-streaming model and advertising services, into the overall user experience on our platform. See "Business — How We Generate Revenues — Online Music Services" for more information of the pay-for-streaming model. Monetization of our user base is also affected by our ability to optimize our pricing strategy and fee models. We also seek to explore new monetization opportunities by leveraging our comprehensive content offerings, vast user base and strong relationships with music labels and other content providers. Our ability to monetize may also be affected by macroeconomic factors affecting China's economy in general and its online music and audio entertainment industry in particular. See "Risk Factors — Risks Related to Doing Business in China — We face risks related to accidents, disasters and public health challenges in China and globally."

Our ability to continue to deliver diverse, attractive and relevant content offerings

We believe that users are attracted to our platform and choose to pay for our services primarily because of the diverse and attractive content we offer. Accordingly, we have focused our content strategies on offering a wide range of content catering to users' tastes and preferences, as well as improving our platform, including our curation and recommendation capabilities.

We currently have the largest library of music content in China across a wide range of content formats, including songs, karaoke songs, live streaming of music performances, recorded video and audio content, as well as reviews and articles. Our continued success largely depends on our ability to stay abreast of users' evolving needs and preferences and dynamics in the entertainment industry. We seek to identify trend-setting and potentially popular content, which in turn allows us to offer more comprehensive content.

We plan to continue to enrich our content portfolio. For example, we intend to continuously invest in original content production to meet user demands for diverse forms of music entertainment. We will also continue to provide our indie musicians with useful tools and collaborative opportunities to realize their full potential while differentiating our content offerings.

Our ability to enhance returns on our spending on content

Our ability to enhance returns on our spending on content depends on our ability to identify new content and effectively monetize our content while maintaining our commitment to copyright protection.

Our service costs mainly include content-related cost, which mainly comprise: (i) royalties paid to music labels and other content partners for content used to support both our online music services and social entertainment services; and (ii) revenues shared with performers and/or their talent agencies and other content providers which are primarily associated with our social entertainment services. Service costs have historically accounted for the majority of our cost of revenues as we have made substantial investments in building and enriching our portfolio of licensed content and attracting performers to perform on our platform.

Our results of operations and our ability to sustain profitability may also be affected by our obligations to make payments for royalties to the licensors under our license agreements. See "Business — Our Content — Content Sourcing Arrangements" for more information about the pricing structure of our licensed content.

We are committed to protecting music copyright, and our leading role in China's music copyright protection efforts has made us a preferred partner for major domestic and international music labels and other content partners. This has helped us maintain long-term collaborative relationships with our content partners, which, in turn, enables us to source content on commercially reasonable terms.

We believe that our collaborative relationships with content partners and our diversified monetization models enable us to maintain and enhance returns on content spending without compromising our commitment to copyright protection.

IMPACTS OF THE COVID-19 PANDEMIC

The COVID-19 pandemic has, since its initial outbreak, affected our business and results of operations in different ways but the overall impacts during the Track Record Period had not been material due to the online, digital nature of our business model and the consumption patterns of online music and audio entertainment services.

With respect to its impacts on our financial performance, we experienced a temporary decrease in revenue from social entertainment services and others in the first quarter of 2020 when the COVID-19 pandemic initially peaked in China. This was attributable primarily to the temporary decrease in users' purchases for online entertainment amid the uncertainty surrounding the COVID-19 outbreak, which was consistent with industry norm. As the COVID-19 situations improved in China after the first quarter of 2020, levels of user activities for social entertainment services and others recovered steadily in the second quarter of 2020, as demonstrated by a year-over-year revenue growth as compared to the same period in 2019.

On the other hand, during the pandemic, people are spending more time online at home, while craving to stay connected with their families and friends. This has created a unique opportunity for our platform to connect people via online music and audio entertainment. For example, users have increasingly used our virtual karaoke room functions to sing, chat, play and socialize with each other. Our virtual live concerts, offering an online-merge-offline music listening experience, have also amassed a wide audience amid the COVID-19 pandemic.

There are no comparable recent events that provide guidance on the effect the COVID-19 outbreak as a global pandemic may have, and, as a result, the ultimate impacts of the pandemic are highly uncertain and subject to changes, even though conditions have been gradually improving. Variations of the COVID-19 virus, including notably the Omicron variant, have caused new outbreaks in China and across the world. For example, the recent resurgence of the Omicron variant in China since the beginning of 2022 resulted in city-wide lockdowns in a number of Chinese cities with heightened prevention measures adopted across China to curb the outbreak. This caused disruptions to varying degrees to normal business activities in China. Our revenues generated from advertising services also experienced a decrease during the first quarter of 2022, primarily due to downturn in market and economic conditions amid the resurgence of the COVID-19 in some major cities in China.

Nevertheless, the latest COVID-19 outbreak in China had not materially adversely affected our business, results of operations or financial condition as of the Latest Practicable Date, on the basis that (i) we mainly operate our business online, which had been less directly impacted by the city-wide lockdowns or other heightened prevention measures, (ii) we have taken precautionary measures in line with government guidelines to minimize the risks of the COVID-19 to our employees, and to ease the impact of the COVID-19 on our normal business operations, and (iii) the pandemic situation across China has been gradually improving with major cities resuming normal social and economic activities from recent lockdowns.

The extent to which the COVID-19 pandemic may continue to impact our business will depend on future developments, which are highly uncertain and unpredictable, such as the duration of the pandemic, the effectiveness of travel restrictions and other measures to contain the outbreak and its impact, such as social distancing, quarantines and lockdowns. See also “Risk Factors — Risks Related to Doing Business in China — We face risks related to accidents, disasters and public health challenges in China and globally.”

As of June 30, 2022, our cash and cash equivalents were RMB10,044 million (US$1,500 million). Our principal sources of liquidity have been cash generated from our operating activities. We believe this level of liquidity, coupled with our existing cash balance and strong monetization capabilities, is sufficient to allow us to successfully weather adverse changes and economic downturns during an extended period of uncertainty caused by the COVID-19 pandemic.

KEY COMPONENTS OF RESULTS OF OPERATIONS

Revenues

We derive our revenues from (i) online music services; and (ii) social entertainment services and others.

The following table sets forth a breakdown of our revenues, in absolute amounts and as percentages of total revenues, for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,				
	2019		2020		2021		2021		2022		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in millions, except for percentages)										
							(unaudited)				
Revenues											
Online music services	7,152	28.1	9,349	32.1	11,467	36.7	2,749	35.1	2,616	413	39.4
Social entertainment services and others	18,282	71.9	19,804	67.9	19,777	63.3	5,075	64.9	4,028	635	60.6
Total revenues	**25,434**	**100.0**	**29,153**	**100.0**	**31,244**	**100.0**	**7,824**	**100.0**	**6,644**	**1,048**	**100.0**

Online music services. We generate revenues from our online music services primarily from subscriptions, namely from paid music and audio through sale of subscription packages for a fixed monthly fee. In 2019, 2020 and 2021 and the three months ended March 31, 2021 and 2022, revenue from music subscriptions was RMB3,563 million, RMB5,560 million, RMB7,333 million, RMB1,692 million and RMB1,993 million (US$314 million), respectively. In addition, we also generate a smaller portion of online music revenues from: (i) offering display and performance-based advertising solutions on our platform with pricing arrangements based on various factors, including the form and size of the advertisements, level of sponsorship and popularity of the content; (ii) selling digital music singles and albums to users on our platform; (iii) providing various other music and long-form audio-related services, such as providing integrated and technology-driven music solutions to smart device and automobile manufacturers; and (iv) sublicensing music content licensed from content providers to other online music platforms and other third parties.

Social entertainment services and others. We generate our social entertainment and other services revenues through live streaming, online karaoke, sales of music-related merchandise and certain other services. We generate revenues from live streaming and online karaoke services primarily through sales of virtual gifts. Generally, a portion of the revenues is shared with the content creators, including live streaming performers and their agents, based on an agreed-upon percentage. We also generate a small portion of the revenues from offering display and performance-based advertising solutions on our platform and selling premium memberships to our users. We expect that the growth in our revenue from social entertainment services and others will moderate, and such revenue may be subject to downward pressure in the foreseeable future, due to a combination of multiple factors. These factors include increasing competition and changing industry and macro environment. See also "Risk Factors — Risks Relating to Our Business and Industry — Our business operations may be adversely affected by the heightened regulatory oversight and scrutiny on live streaming platforms and performers." We are working to increase our competitiveness through ongoing product innovations and by building additional verticals in social entertainment such as audio live streaming, international expansion and virtual interactive product offerings.

In addition, we generate a small portion of revenues through the sales of music-related merchandise, including headsets, smart speakers and other hardware products. See "Business — A Unique Online Music Entertainment Experience — Other Music Services."

Our chief operating decision maker has determined that we have only one reportable segment.

Cost of revenues

The following table sets forth the components of our cost of revenues, in absolute amounts and as percentages of total cost of revenues, for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,				
	2019		2020		2021		2021		2022		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in millions, except for percentages)										
							(unaudited)				
Cost of revenues											
Service costs	14,967	89.3	17,478	88.0	18,992	87.0	4,673	87.2	4,114	649	86.0
Other cost of revenues	1,794	10.7	2,373	12.0	2,848	13.0	685	12.8	670	106	14.0
Total cost of revenues	**16,761**	**100.0**	**19,851**	**100.0**	**21,840**	**100.0**	**5,358**	**100.0**	**4,784**	**755**	**100.0**

Our cost of revenues primarily includes service costs, which mainly comprise (i) content costs, which primarily consist of royalties paid to music labels and other content partners and our in-house production costs. Such costs are used to support both our online music services and social entertainment services; (ii) fees paid to content creators pursuant to revenue sharing arrangements associated with our social entertainment services, including live streaming performers, their agencies and other users who perform on our platform; and (iii) content delivery costs relating primarily to server, cloud services and bandwidth costs paid to telecommunications carriers and other related service providers which are used to support both our online music services and social entertainment services.

Other cost of revenues includes employee benefits expenses, advertising agency fees and others. Employee benefit expenses consist primarily of the salaries and other benefits paid to our employees supporting the operations of our platform. Advertising agency fees consist primarily of commissions paid to advertising agencies. Others mainly include fees paid to online payment gateways and costs associated with sales of music-related merchandise.

Our music content is critical to expanding our product offerings, attracting users and driving monetization for our online music services over time. Music content also drives the growth of our social entertainment services. For example, users may engage in online karaoke singing of a track that they discover through listening to music via our online music services. As such, we believe music content helps drive user engagement and monetization opportunities for our social entertainment services.

We expect that our cost of revenues including, in particular, our service costs, will fluctuate in absolute amount in the foreseeable future as it is affected by various factors as discussed above.

Operating expenses

The following table sets forth a breakdown of our operating expenses, in absolute amounts and as percentages of total operating expenses, for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,				
	2019		2020		2021		2021		2022		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in millions, except for percentages)						(unaudited)				
Operating expenses											
Selling and marketing expenses	2,041	43.0	2,475	44.4	2,678	40.0	672	43.2	330	52	24.6
General and administrative expenses(1)	2,703	57.0	3,101	55.6	4,009	60.0	883	56.8	1,012	160	75.4
Total operating expenses	**4,744**	**100.0**	**5,576**	**100.0**	**6,687**	**100.0**	**1,555**	**100.0**	**1,342**	**212**	**100.0**

Note:

(1) Includes R&D expenses of RMB1,159 million, RMB1,667 million and RMB2,339 million, RMB504 million and RMB596 million (US$94 million) in 2019, 2020 and 2021 and the three months ended March 31, 2021 and 2022, respectively.

Selling and marketing expenses. Our selling and marketing expenses consist primarily of (i) branding and user acquisition costs; (ii) salaries and other benefits paid to our sales and marketing personnel; and (iii) amortization of intangible assets resulting from acquisitions. We will continue to manage selling and marketing expenses as we keep on managing external promotion channels' efficiency and better utilizing internal traffic to attract users and promote our brand.

General and administrative expenses. Our general and administrative expenses consist primarily of (i) R&D expenses, including salaries and other benefits paid to our R&D personnel; (ii) salaries and other benefits paid to our general and administrative personnel; (iii) fees and expenses associated with the legal, accounting and other professional services; and (iv) amortization of intangible assets resulting from acquisitions. We will continue to manage our general and administrative expenses as we continue to improve our operational efficiencies while continuously investing in research and development to expand our competitive advantages in product and technology innovations.

Other gains, net

Our other gains, net primarily include tax rebates, gains and losses from investments and fair value change, and government grants. We recorded other gains of RMB78 million, RMB362 million, RMB553 million, RMB99 million and RMB81 million (US$13 million) in 2019, 2020 and 2021 and the three months ended March 31, 2021 and 2022, respectively.

TAXATION

We had income tax expense of RMB563 million, RMB456 million, RMB417 million, RMB127 million and RMB90 million (US$14 million) in 2019, 2020, 2021 and the three months ended March 31, 2021 and 2022, respectively. We are subject to various rates of income tax under different jurisdictions. The following summarizes major factors affecting our applicable tax rates in the Cayman Islands, Hong Kong and the PRC.

Cayman Islands

We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gains in the Cayman Islands. Additionally, upon payment of dividends by us to our shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Our subsidiaries in Hong Kong, including Tencent Music Entertainment Hong Kong Limited, our wholly-owned subsidiary, are subject to Hong Kong profits tax on their taxable income generated from the operations in Hong Kong at a uniform tax rate of 16.5%. Under the current tax laws of Hong Kong, our subsidiaries in Hong Kong are exempted from income tax on their foreign-derived income and there is no withholding tax in Hong Kong on remittance of dividends. Dividends from Tencent Music Entertainment Hong Kong Limited is not subject to Hong Kong profits tax.

PRC

Under the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), or the EIT Law, which became effective on January 1, 2008, and relevant EIT laws and regulations, foreign invested enterprises and domestic enterprises are subject to a unified EIT rate of 25%, except for available preferential tax treatments, including tax concession for enterprise approved as “High and New Technology Enterprise” (“HNTE”) “Software Enterprise” (“SE”) and “Key Software Enterprise” (“KSE”), and enterprises established in certain special economic development zones. Qualified HNTE is eligible for a preferential EIT rate of 15%, and qualified SE is entitled to an exemption from income tax for the first two years, commencing from the end of the first profitable year, and a reduction of half of EIT rate for the following three years and qualified KSE is eligible for a preferential EIT rate of 10%.

Beijing Kuwo and a subsidiary of the Group, Guangzhou Fanxing Entertainment Information Technology Co., Ltd. ("Fanxing"), have been recognized as HNTE by relevant regulatory authorities and were entitled to preferential EIT rate of 15% for the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2021 and 2022. Guangzhou Kugou has also been recognized as HNTE by the relevant regulatory authorities and was entitled to a preferential EIT rate of 15% for the years ended December 31, 2019 and 2020. For the year ended December 31, 2021 and the three months ended March 31, 2021 and 2022, Guangzhou Kugou was under the unified EIT rate of 25%. Yeelion Online and TME Tech Shenzhen were qualified as SE and have entitled to tax holidays starting from the year ended December 31, 2017 (i.e., their first profitable year in 2017). TME Tech Shenzhen and Yeelion Online were further qualified as KSE and have entitled to a preferential EIT rate of 10% for the year ended December 31, 2019. For the years ended December 31, 2020 and 2021 and the three months ended March 31, 2021, TME Tech Shenzhen and Yeelion Online were entitled to a reduced EIT rate of 12.5%. For the three months ended March 31, 2022, TME Tech Shenzhen and Yeelion Online were both recognized as an HNTE by relevant regulatory authorities and therefore were entitled to a preferential EIT rate of 15%. Yeelion Online Network Technology (Tianjin) Co., Ltd. and Guangzhou Shiyinlian Software Technology Co., Ltd. were qualified as SEs and have been entitled to tax holidays starting from the year ended December 31, 2019 and 2020 (i.e., their first profitable year in 2019), and they were entitled to a reduced EIT rate of 12.5% for the year ended December 31, 2021 and the three months ended March 31, 2021 and 2022.

Furthermore, the Group also has certain subsidiaries subject to other preferential tax treatment for certain reduced tax rates ranging from 2.5% to 10% during the Track Record Period.

As a Cayman Islands holding company, we may receive dividends from our PRC subsidiaries through Tencent Music Entertainment Hong Kong Limited. Dividends paid by our wholly foreign-owned subsidiaries in China to Tencent Music Entertainment Hong Kong Limited will be subject to a withholding tax rate of 10%, unless Tencent Music Entertainment Hong Kong Limited satisfies all the requirements under the Arrangement between Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) and receives approval from the relevant tax authority. If Tencent Music Entertainment Hong Kong Limited satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to Tencent Music Entertainment Hong Kong Limited would be subject to withholding tax at the standard rate of 5%.

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a "resident enterprise" under the PRC EIT Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See "Risk Factors — Risks Related to Doing Business in China — We may be classified as a 'PRC resident enterprise' for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders and ADS holders and have a material adverse effect on our results of operations and the value of your investment."

RESULTS OF OPERATIONS

The following table summarizes our consolidated results of operations and as percentages of total revenues for the periods presented.

	For the Year Ended December 31,						For the Three Months Ended March 31,				
	2019		2020		2021		2021		2022		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in millions, except for percentages)										
							(unaudited)				
Revenues											
Online music services	7,152	28.1	9,349	32.1	11,467	36.7	2,749	35.1	2,616	413	39.4
Social entertainment services and others	18,282	71.9	19,804	67.9	19,777	63.3	5,075	64.9	4,028	635	60.6
Total revenues	**25,434**	**100.0**	**29,153**	**100.0**	**31,244**	**100.0**	**7,824**	**100.0**	**6,644**	**1,048**	**100.0**
Cost of revenues(1)(3)	**(16,761)**	**(65.9)**	**(19,851)**	**(68.1)**	**(21,840)**	**(69.9)**	**(5,358)**	**(68.5)**	**(4,784)**	**(755)**	**(72.0)**
Gross profit	8,673	34.1	9,302	31.9	9,404	30.1	2,466	31.5	1,860	293	28.0
Operating expenses											
Selling and marketing expenses(1)	(2,041)	(8.0)	(2,475)	(8.5)	(2,678)	(8.6)	(672)	(8.6)	(330)	(52)	(5.0)
General and administrative expenses(1)	(2,703)	(10.6)	(3,101)	(10.6)	(4,009)	(12.8)	(883)	(11.3)	(1,012)	(160)	(15.2)
Total operating expenses	**(4,744)**	**(18.7)**	**(5,576)**	**(19.1)**	**(6,687)**	**(21.4)**	**(1,555)**	**(19.9)**	**(1,342)**	**(212)**	**(20.2)**
Interest income	615	2.4	622	2.1	530	1.7	154	2.0	150	24	2.3
Other gains, net	78	0.3	362	1.2	553	1.8	99	1.3	81	13	1.2
Operating profit	**4,622**	**18.2**	**4,710**	**16.2**	**3,800**	**12.2**	**1,164**	**14.9**	**749**	**118**	**11.3**
Share of net (loss)/profit of investments accounted for using equity method	(18)	(0.1)	19	0.1	(47)	(0.2)	(27)	(0.3)	20	3	0.3
Finance cost(2)	(64)	(0.3)	(97)	(0.3)	(121)	(0.4)	(31)	(0.4)	(30)	(5)	(0.5)
Profit before income tax	**4,540**	**17.9**	**4,632**	**15.9**	**3,632**	**11.6**	**1,106**	**14.1**	**739**	**117**	**11.1**
Income tax expense	(563)	(2.2)	(456)	(1.6)	(417)	(1.3)	(127)	(1.6)	(90)	(14)	(1.4)
Profit for the year/period	**3,977**	**15.6**	**4,176**	**14.3**	**3,215**	**10.3**	**979**	**12.5**	**649**	**102**	**9.8**
Attributable to:											
Equity holders of the Company	3,982	15.7	4,155	14.3	3,029	9.7	926	11.8	609	96	9.2
Non-controlling interests	(5)	0.0	21	0.1	186	0.6	53	0.7	40	6	0.6
	3,977	**15.6**	**4,176**	**14.3**	**3,215**	**10.3**	**979**	**12.5**	**649**	**102**	**9.8**

Notes:

(1) Share-based compensation expenses were allocated for the periods presented as follows:

	For the Year Ended December 31,			For the Three Months Ended March 31,		
	2019	2020	2021	2021	2022	
	RMB	RMB	RMB	RMB	RMB	US$
	(in millions)					
				(unaudited)		
Cost of revenues	41	41	56	12	16	3
Selling and marketing expenses	12	24	31	8	9	1
General and administrative expenses	466	504	665	142	164	26
Total	**519**	**569**	**752**	**162**	**189**	**30**

(2) Finance cost mainly comprises of interest on notes we issued and lease liabilities.

(3) Components of our cost of revenues, in absolute amounts and as percentages of total cost of revenues, were as follows:

	For the Year Ended December 31,						For the Three Months Ended March 31,				
	2019		2020		2021		2021		2022		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in millions, except for percentages)										
							(unaudited)				
Cost of revenues											
Service costs	14,967	89.3	17,478	88.0	18,992	87.0	4,673	87.2	4,114	649	86.0
Other cost of revenues	1,794	10.7	2,373	12.0	2,848	13.0	685	12.8	670	106	14.0
Total cost of revenues	**16,761**	**100.0**	**19,851**	**100.0**	**21,840**	**100.0**	**5,358**	**100.0**	**4,784**	**755**	**100.0**

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021

Revenues

Our revenues decreased by 15.1% from RMB7,824 million in the three months ended March 31, 2021 to RMB6,644 million (US$1,048 million) in the same period in 2022.

Online music services

Our revenues generated from online music services decreased by 4.8% from RMB2,749 million in the three months ended March 31, 2021 to RMB2,616 million (US$413 million) in the same period in 2022.

Our revenues generated from music subscriptions increased by 17.8% from RMB1,692 million in the three months ended March 31, 2021 to RMB1,993 million (US$314 million) in the three months ended March 31, 2022, which was mainly attributable to the increase in the number of paying users by 31.7%, as we benefited from expanded sales channels and paying user loyalty due to the range of high-quality content and services we provide, partially offset by a decrease in ARPPU from RMB9.3 in the three months ended March 31, 2021 to RMB8.3 in the same period in 2022. The decrease in ARPPU was mainly due to promotions we offered to attract users.

Our revenues generated from advertising experienced a decline due to the regulatory restrictions on advertising format and downturn in market and economic conditions amid the resurgence of the COVID-19 in some major cities in China. Specifically, since the second half of 2021, the MIIT has launched a series of regulatory campaigns which imposed certain restrictions on splash ads in order to improve user experience on online platforms. These new regulations restrict the use of splash ads to redirect user traffic and require online platforms to provide users with the option to skip splash ads. Such restrictions have generally compromised advertising effectiveness of splash ads on China's online platforms, which in turn led to a decrease in our advertising revenues. Sublicensing revenues also decreased due to restructuring of agreements with certain music labels.

Social entertainment services and others

Our revenues generated from social entertainment services and others decreased by 20.6% from RMB5,075 million in the three months ended March 31, 2021 to RMB4,028 million (US$635 million) in the same period in 2022. On a year-over-year basis, ARPPU increased by 8.1% in the three months ended March 31, 2022 while paying users decreased by 26.5%. The decrease in revenue and paying users was mainly due to the impact of increased market competition and weakened macroeconomic environment that has negatively impacted our users' consumption on our platform. China's music-centric social entertainment services market in which we operate is rapidly evolving and increasingly intensified. In recent years, China's music-centric social entertainment services market has been characterized by changing user needs and preferences, increasing competition, and heightened regulations. For further details, see "Industry Overview — China Music-Centric Social Entertainment Services Market Overview — Emerging Trends, Challenges & Opportunities in China's Music-Centric Social Entertainment Services Market."

Cost of revenues

Our cost of revenues decreased by 10.7% from RMB5,358 million in the three months ended March 31, 2021 to RMB4,784 million (US$755 million) in the same period in 2022, primarily driven by the decrease in service costs by 12.0% from RMB4,673 million in the three months ended March 31, 2021 to RMB4,114 million (US$649 million) in the same period in 2022. This was primarily due to the decrease in revenue sharing fees resulting from decrease in revenues from social entertainment services and lower content costs as a result of our improved efficiency.

Other cost of revenues decreased by 2.2% from RMB685 million in the three months ended March 31, 2021 to RMB670 million (US$106 million) in the same period in 2022, which was primarily attributable to the decrease in agency fees resulting from decrease in revenues from advertising services, partially offset by increased payment channel fees and staff costs.

Gross profit

As a result of the foregoing, our gross profit decreased by 24.6% from RMB2,466 million in the three months ended March 31, 2021 to RMB1,860 million (US$293 million) in the same period in 2022. Our gross margin decreased from 31.5% in the three months ended March 31, 2021 to 28.0% in the same period in 2022. This decrease in gross margin was primarily because the decrease in our total revenues outpaced the decrease in our total cost of revenues as a major portion of our total cost of revenues did not decrease in proportion to revenue decrease. Specifically, certain content sourcing costs (e.g., content royalties that were prepaid to music labels the amount of which was not directly and entirely linked to revenue), labor costs (mainly tied to employee headcounts which did not materially change over the relevant period) and costs incurred to support and maintain our IT infrastructure (e.g., bandwidth costs of a fixed nature relative to changes in revenue) did not decrease in proportion to revenue decrease. Accordingly, our total revenues decreased by 15.1% from the three months ended March 31, 2021 to the same period of 2022, whereas our total cost of revenues decreased only by 10.7% during the same period.

Operating expenses

Our operating expenses decreased by 13.7% from RMB1,555 million in the three months ended March 31, 2021 to RMB1,342 million (US$212 million) in the same period in 2022. Operating expenses as a percentage of total revenues slightly increased to 20.2% in the first quarter of 2022 from 19.9% in the same period of 2021.

Selling and marketing expenses

Our selling and marketing expenses decreased by 50.9% from RMB672 million in the three months ended March 31, 2021 to RMB330 million (US$52 million) in the same period in 2022, which was primarily due to improved control over marketing expenses and optimization of the overall promotion structure to improve marketing efficiency.

General and administrative expenses

Our general and administrative expenses increased by 14.6% from RMB883 million in the three months ended March 31, 2021 to RMB1,012 million (US$160 million) in the same period in 2022, primarily due to increased investment in research and development to enhance our competitive advantages in product and technology innovations, as well as post-acquisition awards, share-based compensation expenses and amortization of intangible assets arising from the acquisition of Shenzhen Lanren.

Interest income

Our interest income was RMB150 million (US$24 million) in the three months ended March 31, 2022, as compared to RMB154 million in the three months ended March 31, 2021.

Other gains, net

Our other gains, net, were RMB81 million (US$13 million) in the three months ended March 31, 2022, as compared to other gains, net, of RMB99 million in the three months ended March 31, 2021. The decrease was mainly attributable to less tax rebate received, partially offset by gains from investments during the period.

Operating profit

As a result of the foregoing, our operating profit for the period decreased by 35.7% to RMB749 million (US$118 million) in the three months ended March 31, 2022 from RMB1,164 million in the three months ended March 31, 2021. Operating margin decreased to 11.3% in the three months ended March 31, 2022 from 14.9% in the three months ended March 31, 2021.

Finance cost

Our finance cost was RMB30 million (US$5 million) in the three months ended March 31, 2022, as compared to RMB31 million in the three months ended March 31, 2021, which was mainly interest expenses related to the notes issued in September 2020.

Income tax expense

We had an income tax expense of RMB90 million (US$14 million) and RMB127 million in the three months ended March 31, 2022 and 2021, respectively. Our effective tax rate was 12.2% in the three months ended March 31, 2022, as compared to 11.5% in the three months ended March 31, 2021. The increase in our effective tax rate was mainly because some of our entities were entitled to different tax benefits in 2021 and 2022.

Profit for the period

As a result of the foregoing, our profit for the period decreased from RMB979 million in the three months ended March 31, 2021 to RMB649 million (US$102 million) in the three months ended March 31, 2022.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenues

Our revenues increased by 7.2% from RMB29,153 million in 2020 to RMB31,244 million in 2021.

Online music services

Our revenues generated from online music services increased by 22.7% from RMB9,349 million in 2020 to RMB11,467 million in 2021, mainly driven by strong growth in music subscription revenues, supplemented by growth in advertising revenues and long-form audio, despite a decrease in sales of digital albums and sublicensing revenues.

Our revenues generated from music subscriptions increased by 31.9% from RMB5,560 million in 2020 to RMB7,333 million in 2021, which was mainly attributable to the increase in the number of paying users by 38.9%, as we benefited from expanded sales channels and paying user loyalty due to the range of high-quality content and services we provide, partially offset by a decrease in ARPPU from RMB9.4 in 2020 to RMB8.9 in 2021. The decrease in ARPPU was mainly due to additional promotions in the second half of 2021.

Social entertainment services and others

Our revenues generated from social entertainment services and others slightly decreased by 0.1% from RMB19,804 million in 2020 to RMB19,777 million in 2021. On a year-over-year basis, ARPPU increased by 13.4% in 2021 while paying users decreased by 12.0%. The decrease in revenue and paying users was mainly due to the impact from increasing competition and weakened macroeconomic environment that has negatively impacted our users' consumption on our platform.

Cost of revenues

Our cost of revenues increased by 10.0% from RMB19,851 million in 2020 to RMB21,840 million in 2021, primarily driven by increases in service costs by 8.7% from RMB17,478 million in 2020 to RMB18,992 million in 2021. The increase in service costs was primarily due to the increased investments in new products, original content production and content costs, such as *Tencent Musician Platform* and long-form audio, to strengthen our platform's competitiveness.

Other cost of revenues increased by 20.0% from RMB2,373 million in 2020 to RMB2,848 million in 2021, which was primarily attributable to higher agency fees and payment channel fees.

Gross profit

As a result of the foregoing, our gross profit increased by 1.1% from RMB9,302 million in 2020 to RMB9,404 million in 2021. Our gross margin decreased from 31.9% in 2020 to 30.1% in 2021. This slight decrease in gross margin was mainly attributable to the increase in revenue sharing costs related to our social entertainment services. Such decrease was also attributable to the increased investments in new product and content offerings and content costs, including upfront investments in long-form audio and other content which were still at early monetization stages.

Operating expenses

Our operating expenses increased by 19.9% from RMB5,576 million in 2020 to RMB6,687 million in 2021.

Selling and marketing expenses

Our selling and marketing expenses increased by 8.2% from RMB2,475 million in 2020 to RMB2,678 million in 2021, which was primarily due to increased spending to promote existing products and brands to strengthen our competitiveness.

General and administrative expenses

Our general and administrative expenses increased by 29.3% from RMB3,101 million in 2020 to RMB4,009 million in 2021 primarily due to increased R&D expenses from RMB1,667 million to RMB2,339 million to expand our competitive advantages in product and technology innovations, as well as post-acquisition awards, share-based compensation expenses and amortization of intangible assets arising from the acquisition of Shenzhen Lanren.

Interest income

Our interest income was RMB530 million in 2021, as compared to RMB622 million in 2020. The decrease was primarily due to decreased balances of our cash and cash equivalents and term deposits and decrease in interest rate.

Other gains, net

Our other gains, net, were RMB553 million in 2021, as compared to other gains, net, of RMB362 million in 2020. The increase was mainly attributable to tax rebate received during the year and fair value change of investments.

Operating Profit

As a result of the foregoing, our operating profit for the period decreased by 19.3% to RMB3,800 million in 2021 from RMB4,710 million in 2020. Operating margin decreased to 12.2% in 2021 from 16.2% in 2020.

Finance cost

Our finance cost was RMB121 million in 2021, as compared to RMB97 million in 2020. The increase was primarily due to interest expenses related to the notes issued in September 2020.

Income tax expense

We had an income tax expense of RMB417 million and RMB456 million in 2021 and 2020, respectively. Our effective tax rate was 11.5% in 2021, as compared to 9.8% in 2020. The lower effective tax rate in 2020 was because some of our entities were qualified for certain tax benefits in 2020.

Profit for the year

As a result of the foregoing, our profit for the year decreased from RMB4,176 million in 2020 to RMB3,215 million in 2021.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenues

Our revenues increased by 14.6% from RMB25,434 million in 2019 to RMB29,153 million in 2020.

Online music services

Our revenues generated from online music services increased by 30.7% from RMB7,152 million in 2019 to RMB9,349 million in 2020, mainly driven by strong growth in music subscription revenues and advertising revenues, supplemented by growth in sales of digital albums, despite a decrease in sublicensing revenues.

Our revenues generated from music subscriptions increased by 56.0% from RMB3,563 million in 2019 to RMB5,560 million in 2020, which was mainly attributable to the increase in the number of paying users and the monthly ARPPU as a result of continuous user retention improvements and effective monetization measures to driver paying user conversion.

Social entertainment services and others

Our revenues generated from social entertainment services and others increased by 8.3% from RMB18,282 million in 2019 to RMB19,804 million in 2020, primarily driven by the revenue growth in online karaoke service, supplemented by growth in live streaming services. Our revenues generated from advertising services offered on social entertainment platform grew significantly as we continue to develop advertising business and improve monetization of the platform, which also resulted in a higher ARPPU in 2020.

Cost of revenues

Our cost of revenues increased by 18.4% from RMB16,761 million in 2019 to RMB19,851 million in 2020, primarily driven by increases in service costs by 16.8% from RMB14,967 million in 2019 to RMB17,478 million in 2020. The increase in service costs was primarily due to higher revenue sharing fees to strengthen our platforms' competitiveness, as well as increased content costs related to new and existing products such as long-form audio, *TME Live*, and variety shows.

Other cost of revenues increased by 32.3% from RMB1,794 million in 2019 to RMB2,373 million in 2020, which was primarily attributable to higher agency fees and payment channel fees.

Gross profit

As a result of the foregoing, our gross profit increased by 7.3% from RMB8,673 million in 2019 to RMB9,302 million in 2020. Our gross margin decreased from 34.1% in 2019 to 31.9% in 2020. The decrease in gross margin was mainly attributable to the increase in revenue sharing costs related to our social entertainment services, as well as the impact from increased investments in new products and content offerings.

Operating expenses

Our operating expenses increased by 17.5% from RMB4,744 million in 2019 to RMB5,576 million in 2020.

Selling and marketing expenses

Our selling and marketing expenses increased by 21.3% from RMB2,041 million in 2019 to RMB2,475 million in 2020, which was primarily due to increased spending to promote existing products and brands to strengthen our products' competitiveness and to promote our new product and content offerings such as long-form audio, *Kugou Changchang* and *TME Live*. Such new offerings were still ramping up in terms of revenue generation as we incurred material initial investments in promoting such offerings to drive our future growth.

General and administrative expenses

Our general and administrative expenses increased by 14.7% from RMB2,703 million in 2019 to RMB3,101 million in 2020, primarily due to our increased investment in research and development in existing and new products to expand our competitive advantages in product and technology innovations.

Interest income

Our interest income was RMB622 million in 2020, as compared to RMB615 million in 2019. The increase was primarily due to increased balances of our cash and cash equivalents and term deposits, partially offset by the decrease in domestic and abroad interest rate.

Other gains, net

Our other gains, net, were RMB362 million in 2020, as compared to other gains, net, of RMB78 million in 2019. The increase was mainly attributable to tax rebate received during the year and investment gains as a result of fair value changes.

Operating Profit

As a result of the foregoing, our operating profit for the period increased by 1.9% to RMB4,710 million in 2020 from RMB4,622 million in 2019. Operating margin decreased to 16.2% in 2020 from 18.2% in 2019. The decrease was mainly due to the decrease in gross margin.

Finance cost

Our finance cost was RMB97 million in 2020, as compared to RMB64 million in 2019. The increase was primarily due to interest expenses related to the notes issued in September 2020.

Income tax expense

We had an income tax expense of RMB456 million and RMB563 million in 2020 and 2019, respectively. Our effective tax rate was 9.8% in 2020, as compared to 12.4% in 2019. The decrease of the effective tax rate was mainly because some of our entities became qualified for certain tax benefits in 2020.

Profit for the year

As a result of the foregoing, our profit for the year increased from RMB3,977 million in 2019 to RMB4,176 million in 2020.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity have been cash generated from operating activities. As of March 31, 2022, we had RMB8,353 million (US$1,318 million) in cash and cash equivalents. Our cash and cash equivalents consist primarily of bank deposits and highly liquid investments, which have original maturities of three months or less when purchased.

On December 17, 2019, we announced a share repurchase program under which we may repurchase up to US$400 million of our Class A ordinary shares in the form of ADSs pursuant to relevant SEC rules during a twelve-month period commencing on December 15, 2019 (the "2019 Share Repurchase Program"). On March 28, 2021, we announced another share repurchase program under which we may repurchase up to US$1 billion of our Class A ordinary shares in the form of ADSs pursuant to the relevant SEC rules (the "2021 Share Repurchase Program"). The first half of the 2021 Share Repurchase Program has completed during a twelve-month period commencing on March 29, 2021, while the second half is approved to perform during a twelve-month period commencing on December 15, 2021. We currently plan to fund repurchases from our existing cash balance. As of the Latest Practicable Date, we had repurchased ADSs from the open market for an aggregate amount of approximately US$19 million in cash pursuant to the 2019 Share Repurchase Program, and approximately US$822 million in cash pursuant to the 2021 Share Repurchase Program.

On September 3, 2020, we issued an aggregate of US$300 million senior unsecured notes due in 2025 (the "2025 Notes"), with annual interest rate of 1.375%, and an aggregate of US$500 million senior unsecured notes due in 2030 (the "2030 Notes," together with the 2025 Notes, the "Senior Unsecured Notes"), with annual interest rate of 2.000%. The net proceeds from the notes offering were used for general corporate purposes. Both the 2025 Notes and the 2030 Notes remained outstanding as of the Latest Practicable Date. We are not subject to any financial covenants or other significant restrictions under these notes. In 2021, we paid an aggregate of US$14 million in interest payments related to these notes.

We intend to finance our future working capital requirements and capital expenditures from cash generated from operating activities. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to issue debt or equity securities or obtain additional credit facilities. Financing may be unavailable in the amounts we need or on terms acceptable to us, if at all. Issuance of additional equity securities, including convertible debt securities, would dilute our earnings per share. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

The following table presents our selected consolidated cash flow data for the periods indicated.

	For the Year Ended December 31,			For the Three Months Ended March 31,		
	2019	2020	2021	2021	2022	
	RMB	RMB	RMB	RMB	RMB	US$
			(in millions)			
				(unaudited)		
Net cash generated from operating activities	6,200	4,885	5,239	1,878	2,494	393
Net cash used in investing activities	(8,102)	(14,206)	(5,999)	(2,382)	(329)	(52)
Net cash (used in)/generated from financing activities	(31)	5,292	(3,710)	(372)	(395)	(62)
Net (decrease)/increase in cash and cash equivalents	(1,933)	(4,029)	(4,470)	(876)	1,770	279
Cash and cash equivalents at beginning of the year/period	**17,356**	**15,426**	**11,128**	**11,128**	**6,591**	**1,040**
Exchange differences on cash and cash equivalents	3	(269)	(67)	22	(8)	(1)
Cash and cash equivalents at end of the year/period	**15,426**	**11,128**	**6,591**	**10,274**	**8,353**	**1,318**

Operating Activities

In the three months ended March 31, 2022, net cash generated from operating activities was RMB2,494 million (US$393 million). The difference between our profit before income tax of RMB739 million (US$117 million) and the net cash generated from operating activities was mainly due to (i) the decrease in accounts receivable of RMB1,093 million (US$172 million), (ii) the increase in accounts payable of RMB854 million (US$135 million); (iii) depreciation and amortization of RMB297 million (US$47 million), and (iv) non-cash share-based compensation expense of RMB158 million (US$25 million), partially offset by the decreases in other operating liabilities of RMB647 million (US$102 million) and income tax paid of RMB88 million (US$14 million). The decrease in accounts receivable was primarily because the majority of our accounts receivable as of December 31, 2021 were subsequently settled in January 2022.

In 2021, our net cash generated from operating activities was RMB5,239 million. The difference between our profit before income tax of RMB3,632 million and the net cash generated from operating activities was mainly due to (i) depreciation and amortization of RMB1,001 million, (ii) the increase in accounts payable and other liabilities of RMB940 million, (iii) non-cash share-based compensation expense of RMB647 million and (iv) decrease in other operating assets of RMB408 million, partially offset by (i) the increase in accounts receivable of RMB769 million, and (ii) the income tax paid of RMB589 million. The increase in accounts payable and other liabilities mainly resulted from the increased payable for operational costs and expenses. The increase in accounts receivable was primarily due to the slower collection in the fourth quarter 2021.

In 2020, our net cash generated from operating activities was RMB4,885 million. The difference between our profit before income tax of RMB4,632 million and the net cash generated from operating activities was mainly due to (i) the increase in accounts payable and other liabilities of RMB902 million, (ii) depreciation and amortization of RMB824 million and (iii) non-cash share-based compensation expense of RMB569 million, partially offset by (i) the increase in other operating assets of RMB887 million, (ii) the income tax paid of RMB637 million and (iii) the increase in accounts receivable of RMB520 million.

In 2019, our net cash generated from operating activities was RMB6,200 million. The difference between our profit before income tax of RMB4,540 million and the net cash generated from operating activities was mainly due to (i) the increase in other operating liabilities of RMB1,164 million, largely due to our overall business growth, (ii) the increase in accounts payable of RMB717 million and (iii) depreciation and amortization of RMB583 million, partially offset by (i) the increase in accounts receivable of RMB733 million and (ii) interest income of RMB615 million.

Investing Activities

In the three months ended March 31, 2022, net cash used in investing activities was RMB329 million (US$52 million), which was primarily attributable to (i) placement of term deposits with initial terms of over three months of RMB5,811 million (US$917 million), (ii) purchase of land use right of RMB526 million (US$83 million), (iii) payment for equity investments of RMB150 million (US$24 million) and (iv) purchase of intangible assets of RMB119 million (US$19 million), the majority of which were offset by receipt from maturity of term deposits with initial terms of over three months of RMB6,394 million (US$1,009 million).

In 2021, net cash used in investing activities was RMB5,999 million, which was primarily attributable to (i) placement of term deposits with initial terms of over three months of

RMB15,153 million, (ii) payments for business combination of RMB2,078 million, (iii) purchase of land use right of RMB1,504 million, (iv) payment for equity investments of RMB1,480 million, (v) purchase of intangible assets of RMB1,095 million and (vi) net placement of short-term investments of RMB877 million, partially offset by (i) receipt from maturity of term deposits with initial terms of over three months of RMB15,892 million and (ii) proceeds from disposal of FVOCI/ FVPL of RMB363 million.

In 2020, net cash used in investing activities was RMB14,206 million, which was primarily attributable to (i) placement of term deposits with initial terms of over three months of RMB30,643 million, (ii) payments for investment in UMG and other equity investments of RMB2,002 million, (iii) purchase of financial assets of RMB919 million, (iv) payment for business combination of RMB540 million, (v) purchase of intangible assets of RMB393 million and (vi) our purchases of property, plant and equipment of RMB108 million, partially offset by receipt from maturity of term deposits with initial terms of over three months of RMB20,332 million.

In 2019, net cash used in investing activities was RMB8,102 million, which was primarily attributable to (i) placement of term deposits with initial terms of over three months of RMB12,050 million, (ii) purchase of intangible assets of RMB191 million and (iii) our purchases of property, plant and equipment of RMB95 million, partially offset by receipt from maturity of term deposits with initial terms of over three months of RMB4,550 million.

Financing Activities

In the three months ended March 31, 2022, net cash used in financing activities was RMB395 million (US$62 million), which was mainly due to (i) payment for repurchase of ordinary shares of RMB319 million (US$50 million), (ii) payment for interests of RMB49 million (US$ 8 million) and (iii) payment for principal elements of lease liabilities of RMB29 million (US$5 million).

In 2021, net cash used in financing activities was RMB3,710 million, which was mainly due to (i) payment for repurchase of ordinary shares of RMB3,479 million, (ii) payment for lease liabilities of RMB130 million and (iii) shares withheld for share award schemes of RMB105 million.

In 2020, net cash generated from financing activities was RMB5,292 million, which was mainly due to (i) proceeds received from the notes offering of RMB5,400 million and (ii) proceeds from exercise of share options of RMB163 million, partially offset by the (i) payment for repurchase of ordinary shares of RMB134 million, (ii) payment for lease liabilities of RMB84 million and (iii) shares withheld for share award schemes of RMB46 million.

In 2019, net cash used in financing activities was RMB31 million, which was mainly due to (i) payment for acquisition of non-controlling interests in non-wholly-owned subsidiaries of RMB79 million, (ii) payment for lease liabilities of RMB63 million and (iii) shares withheld for share award schemes of RMB31 million, partially offset by the proceeds from exercise of share options of RMB127 million.

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

Accounts receivable

Our accounts receivable represents amounts due from customers for goods sold or services performed in the ordinary course of business. An accounts receivable is recorded when we have an unconditional right to consideration and upon invoicing the customer based on the payment schedule provided in the relevant agreements. Our accounts receivable is generally due for settlement within 30 to 90 days and is therefore all classified as current assets.

Our accounts receivable increased from RMB2,198 million as of December 31, 2019 to RMB2,800 million as of December 31, 2020, and further to RMB3,610 million as of December 31, 2021, which was generally in line with our overall business growth over the periods. The increase in amount as of December 31, 2021 as compared to December 31, 2020 was also partially due to the prolonged collection of accounts receivable in the fourth quarter of 2021. Our accounts receivable decreased from RMB3,610 million as of December 31, 2021 to RMB2,513 million (US$396 million) as of March 31, 2022, primarily because the majority of accounts receivable as of December 31, 2021 were subsequently collected in January 2022.

The following table sets forth the turnover days of our accounts receivable for the periods indicated.

	For the year ended December 31,			For the three months ended March 31,
	2019	2020	2021	2022
Accounts receivable turnover days[1]	26.4	31.4	37.4	41.5

Note:

(1) Accounts receivable turnover days are based on the average balance of accounts receivable divided by total revenues for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the fiscal years ended December 31, 2019, 2020, 2021 is 365 days, 366 days, 365 days, respectively. The number of days for the three months ended March 31, 2022 is 90 days.

Our accounts receivable turnover days increased from 26.4 days in 2019 to 31.4 days in 2020, and further to 37.4 days in 2021, mainly because the average accounts receivable increased at a higher rate than revenue growth in the relevant periods, which in turn was primarily due to slower collection of accounts receivable in the fourth quarter of each of 2020 and 2021. Our accounts receivable turnover days were 41.5 days in the three months ended March 31, 2022.

Throughout the Track Record Period, we had not experienced material recoverability issues with respect to our accounts receivable. We have policies in place to ensure that credit terms are granted to customers with an appropriate credit history and we perform periodic credit evaluations for these customers. We also have dedicated internal teams responsible for continually monitoring the credit profiles and operating and financial conditions of our customers and proactively following up with our customers to ensure recoverability. In addition, we had recorded loss allowances for our accounts receivable during the Track Record Period by applying the simplified approach in accordance with IFRS 9. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our loss allowances for accounts receivable amounted to RMB11 million, RMB14 million, RMB20 million and RMB23 million (US$4 million), respectively. The provision matrix with respect to these loss allowances is determined based on historical observed default rates over the expected life of the receivable with similar credit risk characteristics and is adjusted for forward-looking estimates. The historical observed default rates are updated based on the payment profiles of receivable over a period of 12 months, and changes in the forward-looking estimates are analyzed at year or period end. Therefore, we believe sufficient provision had been made for our accounts receivable throughout the Track Record Period.

RMB1,501 million or 59.2% of our accounts receivable as of March 31, 2022 were subsequently settled as of June 30, 2022.

Prepayments, deposits and other assets

The following table sets forth our prepayments, deposits and other assets as of the dates indicated.

	As of December 31,			As of March 31,	
	2019	2020	2021	2022	
	RMB	RMB	RMB	RMB	US$
			(in millions)		
Non-current portion					
Prepaid content royalties	816	956	743	675	106
Subtotal	**816**	**956**	**743**	**675**	**106**
Current portion					
Prepaid content royalties	1,600	1,882	1,755	1,586	250
Value-added tax recoverable	153	149	136	139	22
Prepaid vendors deposits and other receivables	199	484	404	392	62
Prepaid promotion and other expenses	133	239	329	410	65
Receivable from Tencent	50	39	51	52	8
Others	85	53	56	111	18
Subtotal	**2,220**	**2,846**	**2,731**	**2,690**	**424**
Total	**3,036**	**3,802**	**3,474**	**3,365**	**531**

The current portion of our prepayments, deposits and other assets consists primarily of (i) prepaid content royalties associated with our licensing agreements, (ii) value-added tax recoverable, (iii) prepaid vendors deposits and other receivables, (iv) prepaid promotion and other expenses, (v) receivable from Tencent mainly arising from payments collected by Tencent, and (vi) others.

The current portion of our prepayments, deposits and other assets increased from RMB2,220 million as of December 31, 2019 to RMB2,846 million as of December 31, 2020, primarily due to the increases in (i) prepaid vendors deposits and other receivables, and (ii) prepaid content royalties. The current portion of our prepayments, deposits and other assets decreased from RMB2,846 million as of December 31, 2020 to RMB2,731 million as of December 31, 2021, and further to RMB2,690 million (US$424 million) as of March 31, 2022, attributable primarily to the decreased prepaid content royalties.

The non-current portion of our prepayments, deposits and other assets consists of our non-current prepaid content royalties associated with our licensing agreements. Our non-current prepaid content royalties increased from RMB816 million as of December 31, 2019 to RMB956 million as of December 31, 2020, and subsequently decreased to RMB743 million as of December 31, 2021, and further to RMB675 million (US$106 million) as of March 31, 2022.

Intangible assets

Our intangible assets primarily represent domain name, trademark and other internet audio and video program transmission license, copyrights, supplier resources, corporate customer relationships, non-compete agreement and others. We had intangible assets of RMB1,622 million, RMB2,020 million, RMB2,829 million and RMB2,692 million (US$425 million) as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively.

Goodwill

We recorded goodwill of RMB17,140 million, RMB17,492 million, RMB19,121 million and RMB19,126 million (US$3,017 million) as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. The goodwill as of these dates arose primarily from the acquisitions we made as part of our effort to expand our business. These acquisitions mainly include our acquisition of CMC in 2016, a long-form audio company in 2021 and certain music contents and other music related businesses from time to time.

The following table sets out movement of our goodwill during the periods indicated.

	For the Year Ended December 31,			For the Three Months Ended March 31,
	2019	2020	2021	2022
	RMB	RMB	RMB	RMB
		(in millions)		
At January 1	17,088	17,140	17,492	19,121
Business combinations	52	352	1,641	5
Disposals	—	—	(12)	—
At December 31/March 31	17,140	17,492	19,121	19,126

For the purpose of goodwill impairment tests, goodwill was allocated to the group of cash-generating units, or CGUs, that below the level of operating segment of our Group, including goodwill related to (i) online music and social entertainment operations, which mainly arose from Tencent's acquisition of our Company in 2016 and our acquisition of Shenzhen Lanren in 2021, and (ii) certain music content business and others, as below:

	As of December 31,			As of March 31,
	2019	2020	2021	2022
	RMB	RMB	RMB	RMB
	(in millions)			
Online music and social entertainment operations	16,262	16,262	17,842	17,842
Music content business and others	878	1,230	1,279	1,284
	17,140	17,492	19,121	19,126

Our Group carries out its impairment testing on goodwill at each reporting period end by comparing the recoverable amounts of CGUs or groups of CGUs to their carrying amounts. The recoverable amount of a CGU (or groups of CGUs) is the higher of its fair value less costs of disposal and its value in use.

During the Track Record Period, value in use approach was used in deriving the recoverable amounts of each of the above allocated goodwill, which calculated based on five-year financial projects using discount cash flows. No impairment loss was recognized as a result of the impairment assessment performed during the Track Record Period.

For online music and social entertainment operations as stated above, value in use using discounted cash flows was calculated based on five-year financial projections with an annual revenue growth of not more than 15%, 13%, 5% and 5%, plus a terminal value related to cash flows beyond the projection period extrapolated at an estimated terminal growth rate of not more than 3%, as of December 31, 2019, 2020 and 2021, and March 31, 2022, respectively. Pre-tax discount rate of 13.5%, 13.0%, 14.0% and 14.0% were applied, as of December 31, 2019, 2020 and 2021, and March 31, 2022, respectively, which reflected assessment of time value and specific risks relating to the industries in which our Group operates.

For music content business and others, value in use using discounted cash flows was calculated, generally, based on five-year financial projections with an average compound annual revenue growth of not more than 32%, 22%, 26% and 26%, plus an estimated terminal growth rate of not more than 3%, as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. Pre-tax discount rates of ranging from 17.0% to 18.0%, ranging from 16.0% to 17.5%, 16.0% and 16.0% were applied, as of December 31, 2019, 2020 and 2021, and March 31, 2022, respectively, which reflected assessment of time value and specific risks relating to the industries in which our Group operates.

Our management leveraged their experiences in the industries and provided forecast based on past performance and their anticipation of future business and market developments.

Management has not identified reasonably possible change in key assumptions that could cause carrying amounts of the above CGUs (or groups of CGUs) to exceed the recoverable amounts as headroom of more than RMB7.2 billion, RMB10.2 billion, RMB5.1 billion and RMB4.4 billion as of December 31, 2019, 2020 and 2021, and March 31, 2022, respectively, for online music and social entertainment operations and headroom of more than RMB0.1 billion, RMB0.1 billion, RMB2.6 billion and RMB2.4 billion as of December 31, 2019, 2020 and 2021, and March 31, 2022, respectively, for music content business and others, were resulted from the impairment reviews over their respective carrying amounts.

For the online music and social entertainment operations, if the annual revenue growth rate decreases by 3.6, 4.5, 2.5 and 2.1 percentage points as of December 31, 2019, 2020 and 2021, and March 31, 2022, respectively or pre-tax discount rate increases by 4.3, 6.5, 2.9 and 2.4 percentage points as of December 31, 2019, 2020 and 2021, and March 31, 2022, respectively, the headroom will be eliminated.

For the music content business and others, if the annual revenue growth rate decreases by 1.9, 1.3, 12.1 and 11.6 percentage points as of December 31, 2019, 2020 and 2021, and March 31, 2022, respectively or pre-tax discount rate increases by 1.6, 0.9, 21.6 and 17.2 percentage points as of December 31, 2019, 2020 and 2021, and March 31, 2022, respectively, the headroom will be eliminated.

Financial assets at fair value

Financial assets at fair value through other comprehensive income

Our financial assets at fair value through other comprehensive income consist primarily of our equity investments in certain listed companies. Our financial assets at fair value through other comprehensive income amounted to RMB4,461 million, RMB9,771 million and RMB7,302 million and RMB4,904 million (US$774 million) as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. As of December 31, 2019, our financial assets at fair value through other comprehensive income mainly represented our equity investment in Spotify Technology S.A. As of December 31, 2020 and 2021 and March 31, 2022, our financial assets at fair value through other comprehensive income mainly represented our equity investment in Spotify Technology S.A. and Warner Music Group Corp. The fluctuation of our financial assets at fair value through other comprehensive income throughout the Track Record Period was attributable primarily to fair value changes in these financial assets as a result of changes in valuation of our investee companies.

The table below sets out movement of our financial assets at fair value through other comprehensive income during the periods indicated.

	For the Year Ended December 31,			For the Three Months Ended March 31,		
	2019	2020	2021	2021	2022	
	RMB	RMB	RMB	RMB	RMB	US$
	(in millions)					
				(unaudited)		
At January 1	3,331	4,461	9,771	9,771	7,302	1,152
Additions	—	708	—	—	—	—
Disposal	—	—	(163)	—	—	—
Fair value change	1,031	5,219	(2,218)	(1,404)	(2,366)	(373)
Currency translation difference	99	(617)	(178)	65	(32)	(5)
At December 31 / March 31	4,461	9,771	7,302	8,432	4,904	(774)

For details, see Note 18(a) to the Accountant's Report included in Appendix IA to this listing document.

At the helm of our M&A department, our equity investment activities are guided by a comprehensive set of internal policies and procedures. See "—Other Investments" below for details.

Other investments

Our other investments, which are designated as financial assets at fair value through profit or loss, consist primarily of our equity investments in certain private companies. Our other investments amounted to RMB255 million, RMB386 million, RMB236 million and RMB385 million (US$61 million) as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. The fluctuation of our other investments throughout the Track Record Period was primarily due to the dynamics of our investment portfolio. For details, see Note 18(b) to the Accountant's Report of our Company, the text of which is set out in Appendix IA to this listing document.

Our M&A department is responsible for identifying potential opportunities for investments that are complementary to our growth strategies and formulating investment proposals for approval by our Executive Chairman of the Board of Directors, our investment committee and/or our Board, as the case may be, depending on the size of the investment. The current head of our M&A department has over ten years of extensive experience in corporate finance and M&As for companies in China and overseas. When formulating an investment proposal, our M&A department will thoroughly assess the proposed investment based on various criteria, including but not limited to (i) the target's geographic locations, (ii) the size and growth potential of the target and the industry in which it operates, (iii) the target's potential to complement our existing business, (iv) the target's operating history and track record of growth, (v) the target's technological capabilities and (vi) the quality of the target's senior management and leadership. We closely monitor the operational and financial performance of our investee companies. From time to time, we may decide to dispose of a portion or all of our interests in an investee for financial returns or achieve business or strategic objectives. Our internal procedures for exit decisions are substantially similar to the procedures for investment decisions.

Short-term investments

During the Track Record Period, the short-term investments made by us were structured deposit with variable returns issued by commercial banks. Our short-term investments amounted to RMB6 million, nil, RMB1,029 million and RMB1,088 million (US$172 million) as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. The movements of our short-term investments during the Track Record Period were primarily attributable to the dynamics of our investment portfolio.

To monitor and control the investment risks associated with our short-term investment portfolio, we have adopted a comprehensive set of internal policies and guidelines. Spearheaded by our Chief Financial Officer, who supervises our capital management practices and has been highly involved in our historical investments, our capital management department develops investment plans and proposes potential short-term investments accordingly. Prior to making any material short-term investments or modifying our existing investment portfolio, the proposal shall be approved by our Chief Financial Officer. For qualifications and management expertise of our Chief Financial Officer, see "Directors and Senior Management." Our investment strategy related to short-term investments focuses on minimizing 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. We primarily invest in products issued by reputable commercial banks with relatively low risks. We make investment decisions related to short-term investments on a case-by-case basis after thoroughly considering a number of factors, including but not limited to macro-economic environment, general market conditions, risk control and credit of issuing banks, our own working capital conditions, and the expected profit or potential loss of the investment. We have put in place robust internal control measures and procedures to manage our short-term investments, including review and reconciliation of accounts against bank statements on a monthly basis.

The fair value of our financial assets at fair value through profit or loss, including other investments and short-term investments, is determined by using valuation techniques, including discounted cash flows approach and comparable transactions. In relation to the valuation of level 3 financial assets, in particular, our Directors have reviewed the terms of agreements relating to these assets, and carefully considered all information especially those non-market related information input, such as the asset under management, the discount rate and the underlying of the unlisted equity, which required management assessment and estimates. Based on the above procedures, our Directors are of the view that the valuation analysis performed on level 3 financial assets is fair and reasonable and the financial statements of our Group are properly prepared. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the level 3 financial assets.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3.3 of the Accountant's Report of our Company, the text of which is set out in Appendix IA to this Document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, for the Track Record Period is set out on page IA-1 to IA-3 of Appendix IA to this Document.

In relation to the valuation of the financial assets classified within level 3 of the fair value measurement, the Joint Sponsors have undertaken the following key due diligence steps: (a) discussed with the Company the nature and details of the financial assets, including the non-market related information which required management assessment and estimate; (b) discussed with the Company the key bases, assumptions and methodologies for the valuation of the relevant financial assets; (c) discussed with the Company their assessment of the valuation of the financial assets; and (d) discussed with the Reporting Accountant on the audit procedures performed in accordance with the relevant auditing standards and reviewed the relevant notes in the Accountant's Report of our Company, the text of which is set out in Appendix IA to this listing document. Based on the due diligence conducted described above, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the fair value measurement of the relevant financial assets.

See also "Risk Factors – Risks Related to Our Business and Industry – Our results of operations, financial conditions and prospects may be adversely affected by fair value changes of financial assets through other comprehensive income and financial assets at fair value through profit or loss, the valuation of which is uncertain due to the use of unobservable inputs that require judgment and assumptions that are inherently uncertain."

Investments accounted for using equity method

Our investments accounted for using equity method consists primarily of our investments in certain of our associates and joint ventures. The table below sets out the balance of these investments accounted for using equity method as of the dates indicated.

	As of December 31,			As of March 31,	
	2019	2020	2021	2022	
	RMB	RMB	RMB	RMB	US$
			(in millions)		
Investments accounted for using equity method					
Investments in associates	422	2,196	3,522	3,576	564
Investments in joint ventures	67	59	77	76	12
Total	**489**	**2,255**	**3,599**	**3,652**	**576**

The table below sets out share of loss or profit of our investments accounted for using equity method during the periods indicated.

	For the Year Ended December 31,			For the Three Months Ended March 31,		
	2019	2020	2021	2021	2022	
	RMB	RMB	RMB	RMB	RMB	US$
	(in millions)					
				(unaudited)		
Share of (loss)/profit of investments accounted for using equity method:						
Associates	(9)	23	(45)	(26)	20	3
Joint ventures	(9)	(4)	(2)	(1)	—	—
	(18)	**19**	**(47)**	**(27)**	**20**	**3**

The table below sets out movement of our investments in associates and joint ventures during the periods indicated.

	For the Year Ended December 31,			For the Three Months Ended March 31,		
	2019	2020	2021	2021	2022	
	RMB	RMB	RMB	RMB	RMB	US$
	(in millions)					
				(unaudited)		
At January 1	236	489	2,255	2,255	3,599	568
Additions[1]	333	1,923	1,550	1,308	70	11
Business combinations	—	4	—	—	—	—
Share of (loss)/profit, net	(18)	19	(47)	(27)	20	3
Share of other comprehensive (losses)/income	(1)	(9)	4	(17)	15	2
Disposal	(1)	—	—	—	—	—
Step acquisition accounted for as business combination	—	(21)	(26)	—	(18)	(3)
Impairment provision[2]	(43)	(4)	—	—	—	—
Capital reduction	—	—	—	—	(20)	(3)
Currency translation difference	3	(146)	(60)	32	(14)	(2)
Dividend received	(20)	—	(77)	—	—	—
At December 31 / March 31	489	2,255	3,599	3,551	3,652	576

Notes:

(1) In March 2020, our Group completed the investment of 9.94% equity interest in a consortium, Concerto Partners LLC ("Concerto"), which is led by Tencent to acquire a 10% equity stake in Universal Music Group ("UMG"), for an investment consideration of EUR200 million (equivalent to approximately RMB1,531 million).
In January 2021, our Group completed the additional investment in Concerto by exercising a call option granted to us in the initial UMG investment for an investment consideration of EUR161 million (equivalent to approximately RMB1,270 million) in the same proportion of our Group's equity stake.

(2) Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investments maybe impaired, including but not limited to their financial positions, business performances and market capitalization. During the years ended December 31, 2019 and 2020, the impairment losses mainly were resulted from revisions of financial business outlook of the associates and changes in the market environment of the underlying business. During the year ended December 31, 2021, and the three months ended March 31, 2021 and 2022, no impairment loss was recognized.

(3) The associates and joint ventures of our Group have been accounted for by using equity method based on the financial information of the associates and joint ventures prepared under the accounting policies generally consistent with those

of our Group. None of our Group's associates and joint ventures are considered individually material to our Group and the aggregate amount of our Group's share of those individually immaterial associates and joint ventures' total comprehensive income or loss, comprised the share of profit or loss and other comprehensive income or loss as presented above, was loss of RMB19 million, income of RMB10 million, loss of RMB43 million, loss of RMB44 million and income of RMB35 million for the years ended December 31, 2019, 2020 and 2021, and three months ended March 31, 2021 and 2022, respectively.

As of December 31, 2019, 2020 and 2021 and March 31, 2022, we had such investments accounted for using equity method of RMB489 million, RMB2,255 million, RMB3,599 million and RMB3,652 million (US$576 million), respectively. The increase in our investments accounted for using equity method from 2019 to 2020 and further to 2021 was primarily because we joined a consortium led by Tencent to acquire equity stake in UMG from its parent company. For further details, see "History and Corporate Structure — Corporate Structure — Major Acquisition and Disposal — Transaction with UMG," "Risk Factors — Risks Related to Our Business and Industry — Our investments accounted for using equity method and the share of results of these investments may affect our results of operations," and Note 17 to the Accountant's Report of our Company, the text of which is set out in Appendix IA to this listing document. There are no material contingent liabilities relating to our interests in the investments accounted for using equity method.

Notes payable

Our notes payable during the Track Record Period represented our Senior Unsecured Notes. Notes payable is initially recognized at fair value and subsequently carried at amortized cost. The table below sets forth the details of our notes payable as of the dates indicated.

		Carrying amount as of						
	Principal amount	December 31, 2019	December 31, 2020	December 31, 2021	March 31, 2022		Interest rate (per annum)	Due
	US$	RMB	RMB (in millions)	RMB	RMB	US$		
2025 Notes	300	—	1,945	1,903	1,895	299	1.375%	2025
2030 Notes	500	—	3,230	3,159	3,146	496	2.000%	2030
	800	—	5,175	5,062	5,041	795		

For details, see Note 25 to the Accountant's Report of our Company, the text of which is set out in Appendix IA to this listing document.

Accounts payable

Our accounts payable represented unpaid liabilities relating to operational costs and expenses during the Track Record Period, prior to the end of each fiscal year or period. Accounts payable are recognized initially at their fair value and are subsequently measured at amortized cost using the effective interest method.

Our accounts payable amounted to RMB2,559 million, RMB3,701 million, RMB4,422 million and RMB5,272 million (US$832 million) as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. The increase in our accounts payable during the Track Record Period was generally in line with our overall business growth.

RMB1,878 million or 36.3% of our accounts payable as of March 31, 2022 were subsequently settled as of June 30, 2022.

WORKING CAPITAL

We recorded net current assets of RMB18,424 million, RMB22,085 million, RMB16,341 million, RMB14,198 million (US$2,240 million) and RMB15.8 billion (US$2.4 billion) as of December 31, 2019, 2020 and 2021, March 31, 2022 and June 30, 2022, respectively. The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of March 31,		As of June 30,	
	2019	2020	2021	2022		2022	
	RMB	RMB	RMB	RMB	US$	RMB	US$
						(unaudited)	
	(in millions)						
Current assets:							
Inventories	26	18	24	23	4	23	3
Accounts receivable	2,198	2,800	3,610	2,513	396	2,898	433
Prepayments, deposits and other assets	2,220	2,846	2,731	2,690	424	3,398	507
Other investments	38	37	37	37	6	37	6
Short-term investments	6	—	1,029	1,088	172	1,116	167
Term deposits	7,000	14,858	12,769	10,556	1,665	10,202	1,523
Cash and cash equivalents	15,426	11,128	6,591	8,353	1,318	10,044	1,500
Total current assets	**26,914**	**31,687**	**26,791**	**25,260**	**3,985**	**27,718**	**4,138**
Current liabilities:							
Accounts payable	2,559	3,565	4,329	5,179	817	5,738	857
Other payables and other liabilities	3,782	3,881	3,832	3,500	552	3,787	565
Current tax liabilities	386	445	363	425	67	393	59
Lease liabilities	69	103	92	86	14	88	13
Deferred revenue	1,694	1,608	1,834	1,872	295	1,895	283
Total current liabilities	**8,490**	**9,602**	**10,450**	**11,062**	**1,745**	**11,901**	**1,777**
Net current assets	**18,424**	**22,085**	**16,341**	**14,198**	**2,240**	**15,817**	**2,361**

Our current assets increased from RMB26,914 million as of December 31, 2019 to RMB31,687 million as of December 31, 2020, primarily attributable to the increased term deposits. Our current assets decreased from RMB31,687 million as of December 31, 2020 to RMB26,791 million as of December 31, 2021, mainly due to the decreased cash and cash equivalents as a result of payments for share repurchases in accordance with our share repurchase program and placement of non-current term deposits. Our current assets further decreased to RMB25,260 million (US$3,985 million) as of March 31, 2022, primarily due to placement of non-current term deposits. Our current assets increased from RMB25.3 billion as of March 31, 2022 to RMB27.7 billion (US$4.1 billion) as of June 30, 2022, primarily due to (i) increased cash and cash equivalents; and

(ii) increased prepayments, deposits and other assets as a result of increases in prepaid content royalties.

Our current liabilities increased from RMB8,490 million as of December 31, 2019 to RMB9,602 million as of December 31, 2020, to RMB10,450 million as of December 31, 2021, and further to RMB11,062 million (US$1,745 million) as of March 31, 2022, attributable primarily to the increased accounts payable for operational costs and expenses. Our current liabilities increased from RMB11.1 billion as of March 31, 2022 to RMB11.9 billion (US$1.8 billion) as of June 30, 2022, attributable primarily to the increased accounts payable for operational costs and expenses.

As of the Latest Practicable Date, we had not incurred any material indebtedness and expenses subsequent to March 31, 2022.

Our Directors are of the opinion that, taking into account the cash and cash equivalents on hand as of the date of this listing document and the financial resources available to us, including internally generated funds, we have sufficient working capital for our present requirement, which is, for at least the next 12 months from the date of this document. For a detailed discussion on our cash position, being the balance sheet item that has material impact on our liquidity, as well as material changes in various working capital items, see "– Liquidity and Capital Resources."

INDEBTEDNESS

The following table sets forth our indebtedness as of the dates indicated.

	As of December 31,			As of June 30,	
	2019	2020	2021	2022	
	RMB	RMB	RMB	RMB	US$
	(in millions)				
				(unaudited)	
Current:					
Lease liabilities	69	103	92	88	13
Non-current:					
Lease liabilities	78	218	205	378	56
Notes payable	—	5,175	5,062	5,331	796
Total	147	5,496	5,359	5,797	865

Banking facilities

As of the Latest Practicable Date, we had two available credit facilities granted by a PRC bank with an aggregate committed credit of RMB1 billion. None of these credit facilities had been drawn down as of the Latest Practicable Date.

Lease liabilities

Our lease liabilities represent the present value of outstanding lease payments under our lease agreements.

The carrying amount of our lease liabilities increased from RMB147 million as of December 31, 2019 to RMB321 million as of December 31, 2020, primarily due to the new office lease agreement we signed in 2020. The carrying amount of our lease liabilities decreased to RMB297 million as of December 31, 2021 primarily due to the lease payments that we had made over the period. The carrying amount of our lease liabilities increased from RMB297 million as of December 31, 2021 to RMB466 million (US$69 million) as of June 30, 2022, primarily due to the entry into of new lease agreements.

Notes payable

Our notes payable during the Track Record Period represented our Senior Unsecured Notes. Notes payable is initially recognized at fair value and subsequently carried at amortized cost.

Contingent liabilities

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we did not have any material contingent liabilities.

CAPITAL EXPENDITURES

Our capital expenditures are incurred primarily in connection with purchases of property, plant and equipment, land use rights and intangible assets. Our capital expenditures were RMB286 million, RMB501 million, RMB2,758 million and RMB663 million (US$105 million) in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. We intend to fund our future capital expenditures with our existing cash balance and cash generated from operating activities. We will continue to make capital expenditures to meet the expected growth of our business.

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations and commitments as of March 31, 2022.

	Payments Due by Period		
	Total	**Less than 1 year**	**1-5 years**
		(RMB in millions)	
Operating commitments[1]	239	222	17
Content royalties[2]	2,874	1,735	1,139

Notes:

(1) Represent our future minimum commitments under non-cancelable operating arrangements, which are mainly related to rental of bandwidth.

(2) Represent the minimum royalty payments associated with license agreements to which we are subject.

In addition, we had commitments of approximately RMB600 million to invest in equity interest of certain entities.

Other than the Senior Unsecured Notes as disclosed in the section headed "— Liquidity and Capital Resources," we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of March 31, 2022.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements and the notes thereto. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us. We did not have any off-balance sheet arrangements as of March 31, 2022.

HOLDING COMPANY STRUCTURE

Tencent Music Entertainment Group is a holding company with no material operations of its own. We conduct our operations primarily through our PRC subsidiaries and the VIEs. As a result, our ability to pay dividends depends upon dividends paid by our subsidiaries which, in turn, depends on the payment of the service fees and royalty payments to our PRC subsidiaries by the VIEs in the PRC pursuant to certain contractual arrangements. See "History and Corporate Structure — Contractual Arrangements." In 2019, 2020, 2021 and the three months ended March 31, 2022, the amount of services fees paid to our PRC subsidiaries from the VIEs pursuant to the foregoing contractual arrangements was RMB11,769 million, RMB15,372 million, RMB17,743 million and RMB5,184 million (US$818 million), respectively. If our subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us.

In addition, our subsidiaries in China are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with the Accounting Standards for Business Enterprise as promulgated by the MOF, or PRC GAAP. In accordance with PRC company laws, our PRC subsidiaries and the VIEs in China must make appropriations from their after-tax profit to non-distributable reserve funds including (i) statutory surplus fund and (ii) discretionary surplus fund. The appropriation to the statutory surplus fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of our PRC subsidiaries and the VIEs. Appropriation to discretionary surplus fund is made at the discretion of our PRC subsidiaries and the VIEs.

As an offshore holding company, we are permitted under PRC laws and regulations to provide funding from the proceeds of our offshore fund raising activities to our PRC subsidiaries only through loans or capital contributions, and to the VIEs only through loans, in each case subject to the satisfaction of the applicable regulatory registration and approval requirements. See "Risk Factors — Risks Related to Doing Business in China — PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and regulatory control of currency conversion may delay or prevent us from using the proceeds of our financing activities to make loans to or make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business." As a result, there is uncertainty with respect to our ability to provide prompt financial support to our PRC subsidiaries and the VIEs when needed. Notwithstanding the foregoing, our PRC subsidiaries may use their own retained earnings (rather than Renminbi converted from foreign currency denominated capital) to provide financial support to the VIEs either through entrustment loans from our PRC subsidiaries to the VIEs or direct loans to such VIEs' nominee shareholders, which would be contributed to the consolidated variable entity as capital injections. Such direct loans to the nominee shareholders would be eliminated in our consolidated financial statements against the VIE's share capital. During the Track Record Period, our wholly-owned PRC subsidiaries only generated a minimal portion of our total revenues because substantially all of our businesses are subject to foreign investment restrictions under PRC law and therefore can only be conducted through the VIEs. In contrast, most of our assets are held by our offshore incorporated entities and wholly-owned PRC subsidiaries, mostly in the forms of goodwill and cash that do not generate revenues.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time.

The following table sets out balances with related parties as of the dates indicated.

	As of December 31,			As of March 31,	
	2019	2020	2021	2022	
	RMB	RMB	RMB	RMB	US$
	(in millions)				
Included in accounts receivable from related parties:					
Tencent Group[1]	1,653	1,993	2,510	1,416	223
The Company's associates and associates of Tencent Group	49	48	90	100	16
Included in prepayments, deposits and other assets from related parties:					
Tencent Group	50	39	51	52	8
The Company's associates and associates of Tencent Group	23	64	142	219	35
Included in accounts payable to related parties:					
Tencent Group	215	763	719	1,548	244
The Company's associates and associates of Tencent Group	15	37	198	113	18
Included in other payables and accruals to related parties:					
Tencent Group	382	237	440	442	70
The Company's associates and associates of Tencent Group	19	46	55	63	10

Note:

(1) The balance arose mainly from user payments collected through various payment channels of Tencent pursuant to our master business cooperation agreement with Tencent.

As of December 31, 2019, 2020 and 2021 and March 31, 2022, balances included in prepayments, deposits and other assets from related parties of nil, nil, RMB10 million and RMB41 million, and balances included in other payables and accruals to related parties of RMB11 million, RMB31 million, nil and RMB1 million, respectively, were non-trade in nature and the remaining balances were trade in nature. For details relating to our related party transactions, see "Related Party Transactions" and Note 32 to the Accountant's Report of our Company, the text of which is set out in Appendix IA to this listing document. Our Directors believe that our transactions with related parties during the Track Record Period were conducted in the ordinary course of business on an arm's length basis and they did not distort our track record results or cause our historical results to become non-reflective of our future performance.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

Interest rate risk

Other than term deposits with initial terms of over three months and cash and cash equivalents, we have no other significant interest-bearing assets. Our exposure to changes in interest rates is attributable to our notes payable issued during the Track Record Period, which carried at fixed rates and do not expose us to cash flow interest-rate risk. Accordingly, we do not anticipate any significant impact on our financial performance resulting from changes in interest rates.

Foreign exchange risk

Substantially all of our revenues are denominated in Renminbi. The Renminbi is not freely convertible into foreign currencies for capital account transactions. The value of the Renminbi against the 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. In July 2005, the PRC government changed its decades-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation subsided and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. While depreciating approximately by 5% in 2018, the Renminbi in 2019 depreciated approximately by 1% against the U.S. dollar, and appreciated approximately by 6% against the U.S. dollar in 2020 and appreciated approximately by 2% against U.S. dollar in 2021. In addition, since October 1, 2016, the Renminbi has joined the International Monetary Fund's basket of currencies that make up the Special Drawing Right, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

As of the Latest Practicable Date, we had not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of Renminbi against the U.S. dollar would reduce the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, servicing our outstanding debt, or for other business purposes, appreciation of the U.S. dollar against the Renminbi would reduce the U.S. dollar amounts available to us.

We have performed sensitivity analysis based on the net exposure to each of the exposure arising from U.S. dollar and Renminbi at end of each reporting period. As of March 31, 2022, the impact on the post-tax profit of the Group arising from a reasonable change in the foreign exchange rates of U.S. dollar and Renminbi is immaterial and therefore no quantitative impact of the sensitivity analysis is presented for foreign exchange risk.

Inflation risk

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2019, 2020 and 2021 and March 31, 2022 were increases of 4.5%, 0.2%, 1.5% and 1.5%, respectively. Although we have not in the past been materially affected by inflation since our inception, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") as issued by International Accounting Standards Board ("IASB"). Significant accounting policies followed by us in the preparation of the accompanying consolidated financial statements are summarized below:

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of other investments, financial assets at fair value through other comprehensive income, short-term investments, and other financial liabilities which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires us to exercise its judgement in the process of applying our accounting policies.

Revenue Recognition

We generate revenues primarily from provision of music entertainment services, such as paid music, virtual gifts sales and content sublicensing, and online advertising. Revenue is recognized 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 revenues primarily include revenues from subscriptions, sale of digital music singles and albums, content sublicensing and online advertising on the Group's online music platforms.

We provide to users certain subscription packages which entitle paying subscribers a fixed amount of non-accumulating downloads per month and access to pay-for-streaming content with certain privilege features on its music platforms. The subscription fee for these packages is time-based and is collected upfront from subscribers. The terms of time-based subscriptions range from one month to twelve months. The receipt of subscription fee is initially recorded as deferred revenue. We satisfy its various performance obligations by providing services throughout the subscription period and revenue is recognized over time accordingly.

We also provide users to purchase early release access to certain new digital music singles and albums. These singles and albums can be downloaded and streamed only through our platform. Such music singles and albums will be made available to all users to access after the initial launch period which is generally three months. We consider that it provides the early access to the newly launched singles and albums within its platform as opposed to providing functional intellectual property to the users. As a result, the performance obligation of providing early access is satisfied, and revenue is recognized over time accordingly.

The above services can be paid directly by users by way of online payment channels or through various third party platforms. We record revenue on gross basis according to the criteria stated in (c) below and recognizes service fees levied by online payment channels or third party platforms ("Channel Fees") as the cost of revenues in the same period as the related revenue is recognized.

We sublicense certain of our music content to other music platforms for a fixed period of time, typically one year, that falls within the original license period of the underlying content. We are obliged to replicate the licensed content library for any subsequent changes in the content, including any new content or removal of existing content, updated by the content partners any time during the sublicensing period. As a result, we determine sublicensing of content as a single performance obligation. Revenues from sublicensing the content are recognized over the sublicensing period. We only recognize revenue when it is highly probable that this will not result in a significant reversal of revenue when any uncertainty is resolved. We do not adjust the promised amount of consideration for the effects of any significant financing component as the sublicensing period is typically one year.

Advertising revenues are primarily generated through display ads on our platforms. Advertising contracts are signed to establish the fixed prices and advertising services to be provided based on cost per display ("CPD") or cost per mille ("CPM") arrangements. When the collectability is reasonably assured, advertising revenues from the CPD arrangements that are display ads for an agreed period of time, are recognized ratably over the contract period of display based on a time-based measure of progress as the performance obligation is expended evenly over the period, while revenue from the CPM arrangements are recognized based on the number of times that the advertisement has been displayed. We allocate revenue to each performance obligation on a relative stand-alone selling price basis which is determined with reference to the prices charged to customers.

We also entered into contracts with third-party advertising agencies or entities controlled by Tencent, which represent us in negotiation and contracting with advertisers. We share with these advertising agencies a portion of the revenues we derives from the advertisers. Revenues are recognized on a gross or net basis based on an assessment made according to the criteria stated in (c) below. If revenue for advertising derived through these advertising agencies are recorded at the gross amount, the portion remitted to advertising agencies, including any cash incentive in the form of commissions, is recorded as cost of revenues. If revenue for advertising derived through these advertising agencies are recorded at the net amount, the related cash incentives, in the form of commissions paid/payable to any advertising agencies based on volume and performance, are accounted for as a reduction of revenue, based on expected performance.

(b) Revenue from social entertainment services and others

We offer virtual gifts to users for free or sell virtual gifts to users on our online karaoke and live streaming platforms. The virtual gifts are sold to users at different specified prices as pre-determined by us. The utilization of each virtual gift sold to users is considered as the performance obligation and 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.

Virtual gifts are categorized as consumable, time-based and durable. Consumable items are consumed upon purchase and use while time-based items could be used for a fixed period. We do not have further obligations to the user after the virtual gifts are consumed immediately or after the stated period for time-based items. The revenue for the sale of consumable virtual gifts on the online karaoke and online broadcasting platforms is recognized immediately when a virtual item is consumed or, in the case of a time-based virtual item, recognized ratably over the useful life of the items, which generally does not exceed one year. We recognize the revenue for sale of durable virtual gifts over their estimated lifespans of no longer than six months, which are determined by us based on the expected service period derived from past experiences, given there is an implicit obligation of us to maintain the virtual gifts operated on its platforms.

We may share with performers a portion of the revenues derived from the sales of the virtual gifts on the online karaoke and live streaming platforms. Revenues for the sales of virtual gifts are recorded at the gross amount, with the portion remitted to performers recorded as cost of revenues, as we consider ourselves the primary obligor in the sales of virtual gifts with us possesses the latitude in establishing prices; and the rights to determine the specifications or change the virtual gifts.

We also generate revenue from online karaoke and live streaming services by selling premium memberships that provide paying users with certain privileges. The fees for these packages are time-based ranging from one month to twelve months and are collected up-front from the respective subscribers. The receipt of the subscription fees is initially recorded as deferred revenue. We satisfy our performance obligation by providing services over the subscription period and revenue is recognized ratably over the subscription period.

(c) Principal and agent consideration

We report the 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 revenues of ours on a gross or net basis is based on an evaluation made of various factors, including but not limited to whether we (i) are the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) changes the product or performs part of the service; (iv) has involvement in the determination of product and service specifications.

We do not disclose the information about the remaining performance obligations as the performance obligations of us have an expected duration of one year or less.

(d) Contract liabilities and contract costs

A contract liability is our obligation to transfer goods or services to a customer for which we have received a consideration (or an amount of consideration is due) from the customer.

Contract costs include incremental costs of obtaining a contract and costs to fulfill a contract. The contract costs are amortized using a method which is consistent with the pattern of recognition of the respective revenues. We have applied the practical expedient to recognize the contract cost relating to obtain a contract as an expense when incurred, if otherwise the amortization period is one year or less.

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 our subsidiaries and associates operate and generate taxable income. We periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized 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 and does not give rise to equal taxable and deductible temporary differences. 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 realized or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where we are 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.

(c) Offsetting

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 realize the asset and settle the liability simultaneously.

(d) Uncertain tax positions

In determining the amount of current and deferred income tax, we take into account the impact of uncertain tax positions and whether additional taxes, interest or penalties may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes us to change its judgment regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Recoverability of Non-Financial Assets

We test annually whether goodwill has suffered any impairment. Goodwill and other non-financial assets, mainly including property, plant and equipment, right-of-use assets, intangible assets, as well as investments accounted for using equity method 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 sell. These calculations require the use of judgments and estimates.

Our judgment 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 us in assessing impairment, including the revenue growth and margin, terminal growth rates and pre-tax discount rates assumptions adopted in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect our 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 income statement.

Share-based Compensation Expenses and Valuation of Our Ordinary Shares

We operate a number of equity-settled share-based compensation plan (including share option schemes and share award schemes), under which we receive services from employees as consideration for equity instruments (including stock options and restricted shares units ("RSUs")) of us. In addition, the controlling shareholder, Tencent, also operates certain share-based compensation plans (mainly share option schemes and share award schemes) which may cover our employees. Share awards granted to our employees are measured at the grant date based on the fair value of equity instruments and are recognized as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to 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 Tencent.

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using Binomial model (the "Binomial Model"). The determination of the fair value is affected by the share price as well as assumptions regarding a number of complex and subjective variables, including the expected share price volatility, expected forfeiture rate, risk-free interest rates, contract life and expected dividends. For grant of award shares, the total amount to be expensed is determined by reference to the fair value of the Company or market price of Tencent's shares at the grant date.

Forfeitures are estimated at the time of grant and revised in the subsequent periods if actual forfeitures differ from those estimates.

If a share-based arrangement involving a compound financial instrument issued by us, which includes a debt component (i.e. the counterparty's right to demand payment in cash) and an equity component (i.e. the counterparty's right to demand settlement in equity instruments rather than in cash), to any party other than employees, we measure the equity component of the compound financial instrument as the difference between the fair value of the goods or services received and the fair value of the debt component, at the date when the goods or services are received. If a compound financial instrument issued by us to the employees, we first measure the fair value of the debt component, and then measure the fair value of the equity component—taking into account that the counterparty must forfeit the right to receive cash in order to receive the equity instrument. The fair value of the compound financial instrument is the sum of the fair values of the two components. The debt component will be accounted for as a cash-settled share-based payment transaction; and the equity component will be accounted for as an equity-settled share-based payment.

Consolidation of VIEs

We exercise control over the VIEs and have the right to recognize and receive substantially all the economic benefits through the Contractual Arrangements. We consider that it controls the VIEs notwithstanding the fact that it does not hold direct equity interests in the VIEs, as it has power over the financial and operating policies of the VIEs and receive substantially all the economic benefits from the business activities of the VIEs through the Contractual Arrangements. Accordingly, all these VIEs are accounted for as controlled structured entities and their financial statements have also been consolidated by the Company.

Recent Accounting Pronouncements

For detailed discussion on recent accounting pronouncements, see Note 2.2 to the Accountant's Report of our Company, the text of which is set out in Appendix IA to this listing document.

DIVIDEND

We currently have no plan to declare or pay any dividends in the near future on our shares or ADSs, as we currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. During the Track Record Period, no dividend was paid or declared by us.

Our Board of Directors has discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our Board of Directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the Board of Directors may deem relevant. If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the Class A ordinary shares underlying the ADSs to the depositary, as the registered holder of such Class A ordinary shares, and the depositary then will pay such amounts to the ADS holders in proportion to the Class A ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder.

DISTRIBUTABLE RESERVES

As of March 31, 2022, we did not have any distributable reserves.

LISTING EXPENSES

We expect to incur listing expenses of approximately RMB74.7 million consisting of (i) Sponsor-related expenses of approximately RMB22.2 million, and (ii) non-sponsor-related expenses of approximately RMB52.5 million, which are further comprised of fees and expenses of legal advisers and accountants of RMB40.1 million and other fees and expenses of RMB12.4 million. Listing expenses are recognized in our consolidated statements of comprehensive income/loss as and when they are incurred.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is to illustrate the effect of the Listing on our consolidated net tangible assets attributable to the shareholders as of March 31, 2022 as if the Listing had taken place on that date.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets had the Listing been completed as of March 31, 2022 or any future dates.

	Audited consolidated net tangible assets of our Group attributable to the equity holders of the Company as at March 31, 2022	Estimated listing expense	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company as at March 31, 2022	Unaudited pro forma adjusted net tangible assets per Share		Unaudited pro forma adjusted net tangible assets per ADS	
	RMB in millions	RMB in millions	RMB in millions	RMB	HK$	RMB	HK$
Based on 3,261,741,670 Shares	26,614	(75)	26,539	8.14	10.03	16.27	20.07

See "Appendix II — Unaudited Pro Forma Financial Information" for further details.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of this listing document, there has not been any material adverse change in our financial or trading position or prospects since March 31, 2022, and there is no event since March 31, 2022 which would materially affect the information shown in the Accountant's Report of our Company, the text of which is set out in Appendix IA to this listing document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.