
RELATED PARTY TRANSACTIONS

We are seeking a listing on the Hong Kong Stock Exchange pursuant to Chapter 19C of the Hong Kong Listing Rules by way of Introduction. Pursuant to Rule 19C.11 of the Hong Kong Listing Rules, Chapter 14A of the Hong Kong Listing Rules, governing connected transactions, does not apply to us. The following discussion of related party transactions has been prepared pursuant to the requirements of Form 20-F of the SEC, and is included in this listing document for disclosure purposes only.

CONTRACTUAL ARRANGEMENTS

PRC laws limit or prohibit foreign ownership of companies engaged in value-added telecommunication services (except for a few exceptions), internet audio-video program services, online publishing businesses, internet culture businesses (except for music), and radio and television program production businesses and other related businesses in China. Due to these restrictions, we operate our relevant business through contractual arrangements with our variable interest entities. For a description of these contractual arrangements, see “History and Corporate Structure – Contractual Arrangements.”

TRANSACTIONS WITH TENCENT

Tencent Business Cooperation

We had a master business cooperation agreement with Tencent beginning in July 2016 when Tencent acquired CMC that expired on July 12, 2018. We then entered into a new master business cooperation agreement with Tencent, which became effective on July 12, 2018. Pursuant to such master business cooperation agreement, among others:

- (i) Tencent agreed to provide support to certain products specified by our Group in terms of access and user traffic;
- (ii) Tencent and our Group agreed to certain revenue sharing mechanisms with each other in respect of certain service products offered by Tencent;
- (iii) Tencent and our Group agreed that our Group is entitled, but not obliged, to use Tencent’s online media group and data management platform as sales channels of the advertising business of our Group;
- (iv) Tencent agreed that the platform operated by our Group (the “**TME Platform**”) is permitted to continue to use the relevant social insight of Tencent’s existing users and Tencent will assist the TME Platform in such use, subject to compliance with requirements under applicable laws and regulations including user consents; and

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- (v) Tencent agreed to provide our Group with technical services for the purpose of the normal operation of our businesses and our Group will pay Tencent fees for the use of Tencent's technical services provided that the ownership of the assets to be used in Tencent's technical services (including, but not limited to, the servers) remains unchanged and Tencent's applicable rules and policies relating to the use of such assets are observed.

Co-investment in Spotify

In December 2017, (i) we issued 282,830,698 ordinary shares to Spotify AB (a wholly-owned subsidiary of Spotify Technology S.A., or Spotify), and (ii) Spotify, in exchange, issued 8,552,440 ordinary shares (after giving effect to a 40-to-one share split of Spotify's ordinary shares) to TME Hong Kong. In connection with its acquisition of our ordinary shares, Spotify agreed not to transfer our ordinary shares for a period of three years from December 15, 2017, subject to certain limited exceptions. We held an approximately 2.5% equity interest in Spotify immediately following our investment in Spotify. In connection with our investment in Spotify, on December 15, 2017, an investor agreement was entered into by and among Spotify, TME, TME Hong Kong, Tencent and a wholly-owned subsidiary of Tencent (together with TME, TME Hong Kong and Tencent, the "**Tencent Investors**") and certain Spotify parties, pursuant to which Spotify's co-founder has the sole and exclusive right to vote, in his sole and absolute discretion, any of Spotify's securities beneficially owned by the Tencent Investors or their controlled affiliates.

Co-investment in Universal Music Group

In March 2020, through one of our wholly-owned subsidiaries, we joined a consortium led by Tencent to acquire a 10% equity stake in Universal Music Group, or UMG, from its parent company, Vivendi S.E., at an enterprise value of EUR30 billion. We invested a 10% equity interest in the consortium. The foregoing transaction is referred to in this listing document as the Initial UMG Transaction and was closed in March 2020. The consortium also has the option to purchase an additional 10% equity stake in UMG at the same enterprise value as in the Initial UMG Transaction pursuant to the terms of the transaction documents. In December 2020, the consortium in the Initial UMG Transaction exercised its call option to acquire an additional 10% equity interest in UMG from Vivendi S.E. at the same enterprise value of EUR30 billion as in the Initial UMG Transaction. This transaction was closed in January 2021.

Strategic Partnership with China Literature

In March 2020, we signed a five-year strategic partnership with China Literature, which is a subsidiary of our parent company Tencent. Through this partnership arrangement, we are granted a global license to produce derivative content in the form of audiobooks of online literary works for which China Literature has the rights or the license to adapt, and the rights to sublicense, as well as the ability to distribute, existing audiobooks in China Literature's portfolio.

RELATED PARTY TRANSACTIONS

Acquisition of Shenzhen Lanren

In January 2021, we, through one of our PRC entities, entered into a definitive agreement to acquire 100% equity interest in Shenzhen Lanren, which operates *Lazy Audio*, a well-established audio platform in China, for a total consideration of RMB2.7 billion, primarily payable in cash, plus certain post-acquisition equity-settled awards to Shenzhen Lanren’s management team. The then shareholders of Shenzhen Lanren include China Literature, which is a subsidiary of our parent company Tencent, Shenzhen Lanren’s management team and other financial investors. Our acquisition of Shenzhen Lanren was completed in March 2021.

EMPLOYMENT AGREEMENTS AND INDEMNIFICATION AGREEMENTS

We have entered into employment agreements with each of our executive officers. Each of our executive officers is employed for a specified time period, which can be renewed upon both parties’ agreement before the end of the current employment term. We may terminate an executive officer’s employment for cause at any time without advance notice in certain events. We may terminate an executive officer’s employment by giving a prior written notice or by paying certain compensation. An executive officer may terminate his or her employment at any time by giving prior written notice.

Each executive officer has agreed to hold, unless expressly consented to by us, at all times during and after the termination of his or her employment agreement, in strict confidence and not to use, any of our confidential information or the confidential information of our customers and suppliers. In addition, each executive officer has agreed to be bound by certain noncompetition and nonsolicitation restrictions during the term of his or her employment and for two years following the last date of employment.

We have also entered into indemnification agreements with each of our Directors and executive officers. Under these agreements, we agree to indemnify our Directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of the Company.

SHARE INCENTIVES

The Share Incentive Plans, details of which are set out in the section headed “Directors and Senior Management — Compensation” in this listing document.

OTHER RELATED PARTY TRANSACTIONS

In the ordinary course of business, from time to time, we carry out transactions and enter into arrangements with related parties other than Tencent, none of which is considered to be material.

RELATED PARTY TRANSACTIONS

The table below sets forth the major related parties and their relationships with us as of March 31, 2022.

<u>Name of related parties</u>	<u>Relationship with the Group</u>
Tencent and its subsidiaries other than the entities controlled by the Group (“ Tencent Group ”)	The Group’s principal owner
China Literature Limited (“ China Literature ”)	Tencent’s subsidiary

The table below sets forth our significant related party transactions for the periods indicated.

	<u>For the Year Ended December 31,</u>			<u>For the Three Months Ended March 31,</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>US\$</u>
	(in millions)				
Revenues					
Online music services to Tencent Group ⁽¹⁾	355	277	364	76	12
Online music services to the Company’s associates and associates of Tencent Group	40	206	412	30	5
Social entertainment services and others to Tencent Group, the Company’s associates and associates of Tencent Group	21	213	170	24	4
Expenses					
Operation expenses recharged by Tencent Group ⁽²⁾	752	1,082	1,260	351	55
Advertising agency cost to Tencent Group ⁽³⁾	231	440	652	81	13
Content royalties to Tencent Group, the Company’s associates and associates of Tencent Group ⁽⁴⁾	132	306	541	139	22
Other costs to the Company’s associates and associates of Tencent Group	25	48	176	21	3

Notes:

- (1) Primarily include revenue from content sublicensing, online advertising and subscriptions provided to Tencent Group pursuant to the Business Cooperation Agreement.
- (2) Primarily include expenses associated with cloud services and certain administrative functions provided to us by Tencent Group.
- (3) Primarily include advertising fees paid to Tencent Group for our advertising services sold through Tencent Group.
- (4) Primarily include content royalty we paid to Tencent Group and music labels who are our associates or the associates of Tencent Group. In March 2020, we signed a five-year strategic partnership with China Literature, a subsidiary of Tencent, with an aggregate minimum guarantee of RMB250 million, and any excess portion will be shared based on a predetermined percentage. The present value of the minimum guarantee of RMB227 million was recognized as intangible assets in March 2020. Amortization expense for the year ended December 31, 2020 and 2021, and the three months ended March 31, 2022 was included in the content royalties to Tencent Group presented above.

RELATED PARTY TRANSACTIONS

The table below sets forth the balances with our related parties as of the dates indicated.

	<u>As of December 31,</u>			<u>As of March 31,</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	
	RMB	RMB	RMB	RMB	US\$
	(in millions)				
Included in accounts receivable from related parties:					
Tencent Group	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

Outstanding balances are unsecured and are payable on demand.

The table below sets forth our key management personnel compensations for the periods indicated.

	<u>For the Year Ended December 31,</u>			<u>For the Three Months Ended</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>March 31,</u>	
	RMB	RMB	RMB	RMB	US\$
	(in millions)				
Short-term employee benefits	65	62	70	17	3
Share-based compensation	<u>233</u>	<u>205</u>	<u>153</u>	<u>33</u>	<u>5</u>
	<u>298</u>	<u>267</u>	<u>223</u>	<u>50</u>	<u>8</u>