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 网易云音乐
CLOUD VILLAGE INC.
雲音樂股份有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 9899)

**FINANCIAL AND BUSINESS REVIEW FOR THE THREE MONTHS
ENDED 31 MARCH 2022**

The board of directors (the “**Board**”) of Cloud Village Inc. (the “**Company**” and together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited financial information and operational information of the Group for the three months ended 31 March 2022.

KEY FINANCIAL INFORMATION

	Three months ended 31 March		
	2022	2021	Change (%)
	<i>(RMB in thousands, except percentages)</i>		
Revenue	2,067,206	1,491,167	+38.6%
Cost of revenue	(1,815,649)	(1,545,118)	+17.5%
Gross profit/(loss)	251,557	(53,951)	-566.3%
Loss for the period	(180,027)	(1,665,236)	-89.2%
Non-IFRS Measure:			
Adjusted net loss	(151,719)	(283,896)	-46.6%

IFRS NUMBERS:

- Our revenue increased by 38.6% from RMB1.5 billion for the three months ended 31 March 2021 to RMB2.1 billion for the three months ended 31 March 2022.
- Our gross loss turned from RMB54.0 million for the three months ended 31 March 2021 to gross profit of RMB251.6 million for the three months ended 31 March 2022.
- Our loss for the period decreased by 89.2% from RMB1.7 billion for the three months ended 31 March 2021 to RMB0.2 billion for the three months ended 31 March 2022.

NON-IFRS NUMBERS:

- Our adjusted net loss decreased by 46.6% from RMB283.9 million for the three months ended 31 March 2021 to RMB151.7 million for the three months ended 31 March 2022. Adjusted net loss is a non-IFRS measure and is defined as loss for the period adjusted by adding back equity-settled share-based payments and changes in fair value of convertible redeemable preferred shares. The following table reconciles loss for the period to adjusted net loss for both periods:

	Three months ended	
	31 March	
	2022	2021
	<i>(in RMB thousands)</i>	
Loss for the period attributable to the equity holders of our company	(180,027)	(1,665,236)
Add:		
Equity-settled share-based payments ⁽¹⁾	28,308	48,056
Changes in fair value of convertible redeemable preferred shares ⁽²⁾	–	1,333,284
Adjusted net loss	(151,719)	(283,896)

Notes:

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

KEY OPERATING DATA

The following table sets forth our MAUs (monthly active users) of online music services for the periods indicated.

	Three months ended	
	31 March	
	2022	2021
MAUs of online music services (in millions)	181.7	183.1

Our revenues depend on our ability to monetise, to convert more users into paying users and to increase the spending of our paying users. The following table sets forth our monthly paying users and monthly ARPPU (average revenue per paying user) for the three months ended 31 March 2022 and 2021, respectively.

	Three months ended 31 March	
	2022	2021
Monthly paying users (in thousands)		
Online music services	36,741.7	24,290.0
Social entertainment services	1,181.7	438.1
Monthly ARPPU (RMB)		
Online music services ⁽¹⁾	6.4	7.1
Social entertainment services ⁽²⁾	329.8	553.3

Notes:

- (1) The revenues used to calculate the monthly ARPPU of online music services include revenues from membership subscriptions only, which amounted to RMB514.4 million and RMB710.2 million for the three months ended 31 March 2021 and 2022, respectively.
- (2) The revenues used to calculate the monthly ARPPU of social entertainment services include revenues from social entertainment only, which amounted to RMB727.2 million and RMB1,169.2 million for the three months ended 31 March 2021 and 2022, respectively.

BUSINESS OVERVIEW

Our first quarter performance represents a solid start to 2022. We continued to improve our differentiated community ecosystem and users' engagement through product innovation and content enhancement. At the same time, we successfully increased our profitability by strengthening our commercialisation capabilities and optimising our content cost structure.

In the first quarter of 2022, our MAUs of online music services stood at 181.7 million, largely stable both year-over-year and quarter-over-quarter, with our DAU/MAU ratio (daily average user/monthly average user ratio) staying well above 30% in the quarter. We also continued to improve our monetisation capabilities in the first quarter of 2022, demonstrated by revenue growth of 38.6% year-over-year, with our membership paying ratio reaching 20.2% based on content and service enhancement. Gross margins reached 12.2% in the first quarter of 2022, compared with a negative gross margin of 3.6% in the first quarter of 2021.

In the online music industry, we are optimistic that our differentiated content and product offerings, along with unparalleled community features and strengthened monetisation capabilities, well positioned NetEase Cloud Music to deliver a solid performance. Looking ahead, we will strive to continue advancing our competitive edge amid a healthier industry environment.

Our social entertainment services also achieved strong growth in the first quarter of 2022 against the backdrop of an industry-wide slowdown, attributable to our differentiated audio-based product and service offerings.

Looking ahead, we are strategically expanding our prospects by:

- Fostering our music-oriented community ecosystem via enhancements to our comprehensive and innovative product offerings, embedded with more interactive features and ecology, along with advanced tools and technologies to liberate UGC (user-generated content) content creation;
- Exploring innovations in social function, utilising user behavior and music preference to connect users with each other, providing additional social options;
- Further diversifying and rounding out our content offerings with better investment efficiency, via active negotiation with copyright holders to secure more high-quality content, as well as constant progress in independent artists incubation and in-house music production;
- Cultivating our users' willingness to pay and pursuing commercialisation potential, via improved user experience and deepened user engagement, innovative products and content offerings, and broadened consumption scenarios; and
- Looking to include layouts in IoT and at expansion opportunities in overseas markets, and potentially game-inspired initiatives, with an expectation to generate incremental contribution from these initiatives over time.

Community ecosystem

Throughout the first quarter of 2022, we successfully revitalised our differentiated community with strong user engagement across our large and stable user scale. In the first quarter of 2022, each daily active user spent approximately 82.0 minutes per day on average listening to music on our platform, up from 76.5 minutes during the first quarter of 2021. Meanwhile, nearly half of our users browsed the “comments section” while listening to music demonstrating high engagement levels. As of March 2022, 33% of music streams were attributable to platform recommendations, up from 28% in March 2021, showcasing our robust technology.

UGC-inspired community ecosystem. In the first quarter of 2022, we continued fostering our music-oriented community and UGC ecosystem through constant product improvement across multiple content formats. Meanwhile, we continued developing multiple assistant tools to facilitate further UGC creation on our platform, which will also enhance our vibrant UGC-oriented community and users' engagement. Our UGC ecosystem is unparalleled in the market, aided by our strong and supportive community culture. By the end of the first quarter of 2022, we had accumulated 3.25 billion UGC playlists on our platform.

Invigorating an immersive and comprehensive content community. On top of the music comments section and playlist, we continued diversifying the content offerings on our platform, to create a one-stop, immersive and comprehensive music-oriented content community, including Moments, music blogs (Mlogs), Podcasts, etc. Our UGC-oriented Podcast covered approximately 20% of our total user base during the first quarter of 2022, which further augments our all-in-one comprehensive offerings across online music and audio entertainment.

Product and service innovations

In the first quarter of 2022, we advanced our initiatives to enhance user experience and community features through product innovation:

- **Joint-collaboration with NetEase Games.** We are actively seeking internal collaboration opportunities with NetEase Games, beginning with a joint program with *NARAKA: BLADEPOINT* (永劫無間) in December 2021 to promote our membership subscription, followed by *Harry Potter: Magic Awakened* (哈利波特魔法覺醒), etc. In the first quarter of 2022, we made a step in our cooperation with NetEase Games, as we integrated our Podcast content with the game. More specifically, we introduced our innovative *Harry Potter Magic Radio* (哈利波特魔法電台), a joint-collaboration with NetEase's blockbuster game, which allows users and gamers to enjoy *Harry Potter*-themed podcast content within the game. With this step, we believe we have laid the foundation for a new collaboration model, with both internal and external partners, leveraging our expertise in audio-based services.
- **Optimising user experience.** We continued to elevate users' experience in the first quarter of 2022 by launching multiple innovative user-oriented functions, including Seamless Listening and Multi-speed Listening, to cater to users' diverse and personalised music listening preferences and demands.
- **Propelled brand.** In the first quarter of 2022, we also conducted multiple content-oriented and event-driven campaigns to further strengthen our brand awareness and influence, including but not limited to the NetEase Cloud Level 8 Certificate (網易雲八級證書) and the NetEase Musicians 2021 Annual Review (網易音樂人 2021 年度盤點).

Content enhancement

We offer a full spectrum of various content as our young users' demands are increasingly diverse and personalised. Our content library consisted of more than 90 million music tracks by the end of March 2022, including music from established labels as well as independent artists. Our robust library, together with music-inspired UGC content, brings users broad and differentiated content.

Music labels. We continued to secure more high-quality content with a focus on better return on investment (ROI) in the first quarter of 2022. We are actively completing our major Chinese music library and signed copyright collaborations with Linfair Records, adding music tracks from popular singers to our platform, including but not limited to, Angela Chang (張韶涵) and Christine Fan (范瑋琪). More importantly, we are pleased to see favourable industry trends with more reasonable copyright fees and cost structures, which provide us with the flexibility to optimise our investments in content using a more disciplined approach.

Going forward, we are open to collaborating and will actively negotiate with multiple copyright holders with a goal of securing more high-quality content that complements our content offerings. Meanwhile, we will also work alongside other industry players to foster healthier development of the overall online music industry in China for the benefit of all music lovers.

Independent artists. In addition to music labels, we have become a natural incubator of music talent looking for an audience, empowered by our massive community and large cohort of young users with diverse and personalised tastes. By the end of March 2022, we were serving more than 450,000 registered independent artists on our platform, representing an approximately 70% year-over-year growth. Meanwhile, within our content library, about 2.0 million music tracks came from our registered independent artists.

FINANCIAL REVIEW

Revenue

Our revenue increased by 38.6% from RMB1.5 billion for the three months ended 31 March 2021 to RMB2.1 billion for the three months ended 31 March 2022.

Revenue from online music services increased by 16.5% from RMB759.5 million for the three months ended 31 March 2021 to RMB884.8 million for the three months ended 31 March 2022, primarily due to the significant growth in revenues from sales of membership subscriptions. Revenue from sales of membership subscriptions increased from RMB514.4 million for the three months ended 31 March 2021 to RMB710.2 million for the three months ended 31 March 2022, as a result of monthly paying users of online music services expanded from 24.3 million for the three months ended 31 March 2021 to 36.7 million for the three months ended 31 March 2022. Our monthly ARPPU of online music services decreased from RMB7.1 for the three months ended 31 March 2021 to RMB6.4 for the three months ended 31 March 2022, primarily because we increased our use of joint membership packages in cooperation with other platforms, in which our membership subscriptions were sold at a discount to promote our subscriptions and broaden the reach of our services.

Revenue from social entertainment services and others increased by 61.6% from RMB731.7 million for the three months ended 31 March 2021 to RMB1,182.4 million for the three months ended 31 March 2022, as a result of the rapid growth of social entertainment services revenue. In particular, our monthly paying users of social entertainment services expanded from 438.1 thousand for the three months ended 31 March 2021 to 1,181.7 thousand for the three months ended 31 March 2022, and monthly ARPPU of social entertainment services was RMB553.3 for the three months ended 31 March 2021 and RMB329.8 for the same period of 2022.

Cost of Revenue

Our cost of revenue increased by 17.5% from RMB1.5 billion for the three months ended 31 March 2021 to RMB1.8 billion for the three months ended 31 March 2022, attributable to an increase in content service costs, from RMB1.4 billion for the three months ended 31 March 2021 to RMB1.6 billion for the same period of 2022, as a result of an increase in revenue sharing fees along with an increase in revenue from social entertainment services.

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

As a result of the above, we incurred a gross loss of RMB54.0 million, representing a negative gross margin of 3.6% for the three months ended 31 March 2021, and received a gross profit of RMB251.6 million, representing a gross profit margin of 12.2% for the three months ended 31 March 2022. Our gross margin turned from negative to positive as a result of our significant revenue increase and control over content licensing fees.

Loss for the Period

Our loss for the period decreased by 89.2% from RMB1.7 billion for the three months ended 31 March 2021 to RMB0.2 billion for the three months ended 31 March 2022. We recognised fair value loss of convertible redeemable preferred shares of RMB1.3 billion for the three months ended 31 March 2021, and we did not record any further changes in fair value of the convertible redeemable preferred shares for the three months ended 31 March 2022 as such convertible redeemable preferred shares were re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares in our initial public offering in December 2021.

The Board wishes to remind shareholders and potential investors that the information contained in this announcement is unaudited and is based on preliminary internal information of the Group, which may differ from figures to be disclosed in the audited or unaudited consolidated financial statements to be published by the Company on an annual or half-yearly basis due to various uncertainties during the process of collating such information.

As such, the above information, which is preliminary in nature, is provided for investors' reference only. Investors are advised to exercise caution and to not place undue reliance on such data when dealing in the securities of the Company.

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

Hong Kong, 24 May 2022

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