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CLOUD MUSIC INC.

雲音樂股份有限公司

(formerly known as Cloud Village Inc. 雲音樂股份有限公司)

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 9899)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

Our Board is pleased to announce the unaudited consolidated results of our Group for the Reporting Period, being the six months ended 30 June 2022. These interim results have been reviewed by our auditor, PricewaterhouseCoopers, in accordance with the International Standard on Review Engagement 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by our Board’s audit committee.

	Six months ended 30 June		Change (%)
	2022	2021	
	(Unaudited)	(Audited)	
	<i>(RMB in thousands, except percentages)</i>		
Revenue	4,258,716	3,183,674	+33.8%
Gross profit/(loss)	537,113	(12,856)	N/A
Loss before income tax	(266,790)	(3,806,968)	-93.0%
Loss for the period	(270,810)	(3,809,147)	-92.9%
Non-IFRS measure:			
Adjusted net loss ^{Note (1)}	(217,000)	(532,976)	-59.3%

Note:

- (1) Adjusted net loss 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, as appropriate. For details of the reconciliation of the loss for the period to the adjusted net loss of our Group, see “Financial Review” below.

Non-IFRS measure

To supplement our consolidated results, which are prepared and presented in accordance with IFRS, our Company uses adjusted net loss as an additional financial measure, which is not required by, or presented in accordance with, IFRS. We believe that this measure facilitates comparisons of operating performance from period to period and company to company by eliminating the potential impact of items that our management does not consider to be indicative of our Group's operating performance, such as certain non-cash items. The use of this non-IFRS measure has limitations as an analytical tool, and shareholders and potential investors of our Company should not consider them in isolation from, as a substitute for, analysis of, or superior to, our Group's results of operations or financial condition as reported under IFRS. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies, and may not be comparable to other similarly titled measures used by other companies. Our presentation of this non-IFRS measure should not be construed as an implication that our future results will be unaffected by unusual or non-recurring items.

General notes

In this announcement: (i) "we", "us", and "our" refer to our Company and where the context otherwise requires, our Group; (ii) numbers may be subject to rounding and approximations to one or two decimal places; and (iii) unless otherwise stated, the exchange rates used are RMB1 to HK\$1.1693 and US\$0.1490.

OUR GROUP

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

KEY OPERATING DATA⁽¹⁾

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

	Six months ended 30 June	
	2022	2021
MAUs of online music services (in millions)	181.9	184.5

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 six months ended 30 June 2022 and 2021, respectively.

	Six months ended 30 June	
	2022	2021
Monthly paying users (in thousands)		
Online music services	37,613.0	26,134.5
Social entertainment services	1,235.4	496.4
Monthly ARPPU (RMB)		
Online music services ⁽²⁾	6.5	6.8
Social entertainment services ⁽³⁾	329.8	526.5

Notes:

- (1) For the definitions of the cited key operating data, please refer to the definitions section in the Company's annual report for the financial year ended 31 December 2021.
- (2) The revenues used to calculate the monthly ARPPU of online music services include revenues from membership subscriptions only, which amounted to RMB1,064.6 million and RMB1,464.5 million for the six months ended 30 June 2021 and 2022, respectively.
- (3) The revenues used to calculate the monthly ARPPU of social entertainment services include revenues from social entertainment only, which amounted to RMB1,568.2 million and RMB2,444.9 million for the six months ended 30 June 2021 and 2022, respectively.

DEVELOPMENTS OVER THE REPORTING PERIOD

Corporate Developments

We refer to our announcement of 24 March 2022, in which we proposed to change our Company's name from "Cloud Village Inc. 雲音樂股份有限公司" to "Cloud Music Inc. 雲音樂股份有限公司". This name change was approved by our Company's shareholders at our annual general meeting held on 16 June 2022 and took effect on the same date. For more information on our name change and the change in our English short stock name from "CLOUD VILLAGE" to "CLOUD MUSIC", please see our announcement of 22 July 2022.

Business Developments

In the first half of 2022, we continued to bring innovative products and content to our followers, improving our differentiated community ecosystem and user engagement levels. Meanwhile, we also successfully strengthened our commercialisation capabilities and further optimised our content cost structure.

In the first half of 2022, our online music services MAUs stood at 181.9 million, which was largely stable on a sequential and year-over-year basis, with our DAU/MAU ratio (daily active user/monthly active user ratio) staying well above 30% in the period. We have made solid progress in growing and fostering our **leading music-inspired community** over the past years, and will continue our endeavours in doing so.

We have worked diligently to step up our monetisation efforts since 2019, and these efforts have started to bear fruit. Despite a more challenging industry environment and macro-headwinds, our total revenues for the first half of 2022 grew 33.8% year-over-year. Our commercialisation capabilities further improved with gains across both our subscription-based memberships as well as our growing social entertainment services.

In particular, our membership paying ratio reached 20.7%, soaring from 14.2% in the first half of 2021. Based on our high quality and young user community, our ongoing initiatives in content enhancement (from more labels) and premium and innovative functions (e.g. Hi-Res) for subscribers have collectively contributed to the increase in our paying user conversion over the past year.

Gross margins improved significantly as well, soaring to 12.6% in the first half of 2022, compared with a negative 0.4% gross margin in the first half of 2021. To support our margin growth, we further scaled our business, while enacting meaningful copyright cost optimisation.

Looking ahead, we are strategically broadening 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 networking, utilising user behaviours and music preferences to connect users, and providing additional social networking options;
- further diversifying and rounding out our content offerings with better efficiency, via active negotiation with copyright holders to secure more high-quality content, as well as ongoing 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, as well as potentially game-inspired initiatives, with an expectation to generate incremental contribution from these initiatives over time.

Community Ecosystem

Throughout the first half of 2022, we successfully revitalised our differentiated community with strong user engagement across our large and stable user scale. During the Reporting Period, each daily active user spent, on average, approximately 80.6 minutes per day listening to music on our platform, up from 76.9 minutes during the first half of 2021. Nearly half of our users browsed the “comments section” while listening to music. As of 30 June 2022, 31.4% of music streams were attributable to platform recommendations, up from 30.5% as of 30 June 2021. These metrics demonstrate the strong stickiness and activities of our high-quality user group and distinguish our vibrant community atmosphere and attributes, mutually reinforcing each other within our ecosystem.

Fostering an interactive music community. The interactive young generation of music lovers and new breed of talented independent artists work in harmony with our unique music content distribution mechanism and diverse array of UGC. Together, these components facilitate music-inspired content consumption from both the demand (music lovers) and supply side (artists and UGC creators). This winning combination promotes interactions among users and content creators, thus forming a self-perpetuating community ecosystem.

Our UGC-inspired community ecosystem. We cultivate our music-oriented community and UGC ecosystem through constant product improvement across multiple content formats. We develop multiple assistant tools to facilitate further UGC creation. Our vibrant UGC ecosystem is unparalleled in the market, and reinforced by our dynamic, supportive community culture. By the end of June 2022, we had accumulated 3.4 billion UGC playlists on our platform.

A focus on music-inspired connections. Our community is centred around music-inspired emotional resonances, not only between music content and audiences, but also between musicians and followers, as well as among users. In offering vibrant community features, social networking options, along with heart-warming atmosphere, we are nurturing these relationships, encouraging users, artists and content creators to interact and engage with each other.

Product and service innovations

In the first half of 2022, we advanced our initiatives to enhance user experience and community features through product innovation. The young music enthusiasts on our platform are passionate about its superior listening experience and are more willing to express and share, fulfilled by our thoughtful rollout of innovative products and services.

Optimising users listening experience

- ***Cloud Shuffle (雲隨機).*** We creatively launched the “Cloud Shuffle” to streamline users’ core listening experience. The new function allows users to shuffle songs with a suite of personalised preferences in terms of familiarity and style similarity to gauge the level of randomness and satisfy users’ diverse tastes.
- ***Hi-Res (High Resolution Audio) and Seamless Listening.*** Our newly launched *Hi-Res* function is the solution. *Hi-Res* offers higher audio quality to bring users an immersive sound experience as the artist intended. Coupled with our *Seamless Listening* and *Multi-speed Listening* innovations, we are committed to bringing superior sound quality to users.

- **Music Encyclopedia (音樂百科).** We have rolled out the “*Music Encyclopedia*” function, integrating fragmented information into an encyclopedia page that contains professional content including music genre, style, instruments, BPM (beat count), and awards. This function aims to fulfil users’ musical needs with our platform’s enhanced professional offering.

Fostering social networking features

- **Introduced more social attributes.** We rolled out *Taste Match* (合拍推薦) on the daily recommendation page. The algorithm-based tool finds new matches with similar listening tastes according to users listening behaviors. *Taste Match* recommends a list of songs of which the user may be interested in from the matching one’s favourite tracks. It represents a creative approach to recommend music and connect users.
- **Launched new social networking App – MUS.** MUS, our new music-inspired social networking app, strives to utilise music content to connect users. An individual’s homepage showcases their music preferences, based on music consumption behaviour within NetEase Cloud Music App. We believe music preference is a good reflection of individual personality, and similar music taste represents a good starting point to connect people. We believe this brand-new product provides additional social networking options to our users, further inspiring person-to-person connections among our users.

Joint-collaboration with NetEase Games

- We continued to expand our internal collaboration opportunities with NetEase Games. Following our innovative *Harry Potter Magic Radio* (哈利波特魔法電台) with NetEase’s blockbuster game, we are seeking more tie-ups to utilise our strength in content to integrate user’s gaming experience with diverse listening options. We look forward to new collaborations with NetEase Games to expand the consumption scenarios of auditory experience, as well as commercialisation.

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 106 million music tracks by the end of June 2022, including music from established labels, as well as independent artists and in-house production. Our robust library expansion, together with music inspired UGC content, brings users broad and differentiated content. Consequently, our enhanced content offerings helped strengthen our brand awareness and develop a mindset among users that encourages their willingness to pay.

Music labels. We continued to secure more high-quality content with a focus on better return on investment (ROI) in the first half of 2022. We are actively completing our music catalog and have signed copyright collaborations successively with top labels including Linfair Records, SM Entertainment and TF Entertainment, adding more popular music tracks from influential singers and groups to our platform, including, but not limited to, Angela Chang, SUPER JUNIOR, Girls' Generation, EXO and TFBOYS.

- Adding top music labels from China and abroad, as well as popular labels among young generation users, to further diversify and round out the content library on our platform, and thus better catering to users' diverse tastes and demands; and
- Content enhancement via collaboration with music labels help us further improve users' stickiness and activity on our platform.

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 prudently. Going forward, we will look to actively negotiate with multiple copyright holders to secure more high-quality content that complements our offerings. Meanwhile, we will also work alongside other industry players to foster healthier development of the overall online music industry in China.

Independent artists. Additionally, we have become a natural incubator of music talent looking for an audience, supported by our massive community and large cohort of young users with diverse tastes. We continued growing and empowering independent artists, serving more than 529,000 registered independent artists by the end of June 2022. Meanwhile, within our content library, about 2.3 million music tracks came from our registered independent artists. We continue to nurture independent artists to help them create and promote music works, as well as realise commercial value.

- ***Supporting musicians in content creation.*** NetEase Cloud Music has been effectively expanding exposure of backstage musicians to facilitate music cooperation for better returns, and building their career path.
 - As we expanded the certification scope of musicians to arranger and producer, we officially released the first industry-wide arranger award “***The First Arranger Award by NetEase Cloud Music***” to draw more attention to the backstage musical professionals. Likewise, the domestic BeatMakers community speaks highly of our vibrant transaction platform **BeatSoul** and the first **BeatMaker Contest**.

- **Improving musicians' exposure.** During the Reporting Period, we further mobilised internal and external resources to help musicians increase their exposure.
 - **Local original music zone.** We launched locally-based operations of music content that overlays content ecology of different regions. By leveraging our massive user scale and strong social attributes, the local original music zone will be a useful hinge to intertwine the operation of music content with regional attributes and lifestyles, as well as offline music event.

In-house music. In the first half of 2022, we further reinforced our in-house production capabilities with comprehensive support and elevated industry-wide exposure. We were proud to cooperate with CCTV to produce “Blooming Bauhinia” (《紫荊花盛開》), a special song dedicated to the 25th anniversary of Hong Kong’s return to China. Additionally, our in-house studios have successfully popularised a batch of hit songs, including “Goodbye Monica” (《再見莫妮卡》), further demonstrating our in-house capability to produce premium music content.

FINANCIAL REVIEW

Revenue

Our revenue increased by 33.8% from RMB3.2 billion for the six months ended 30 June 2021 to RMB4.3 billion for the six months ended 30 June 2022.

Revenue from our online music services increased by 11.2% from RMB1,604.3 million for the six months ended 30 June 2021 to RMB1,783.7 million for the six months ended 30 June 2022, primarily due to the significant growth in revenue from sales of membership subscriptions. Revenue from sales of membership subscriptions increased from RMB1,064.6 million to RMB1,464.5 million for the six months ended 30 June 2021 and 2022, respectively. In particular, monthly paying users of online music services expanded from 26.1 million for the six months ended 30 June 2021 to 37.6 million for the six months ended 30 June 2022. We have focused on providing more personalised and diversified music and music-inspired content to our users, which has significantly contributed to our paying user growth. Our monthly ARPPU of online music services decreased from RMB6.8 for the six months ended 30 June 2021 to RMB6.5 for the six months ended 30 June 2022.

Revenue from our social entertainment services and others increased by 56.7% from RMB1,579.3 million for the six months ended 30 June 2021 to RMB2,475.0 million for the six months ended 30 June 2022, as a result of the rapid growth of social entertainment services revenue. We have provided a few music-inspired social entertainment products and services, offering our users personalised and superior online social networking experiences. In particular, our monthly paying users of social entertainment services expanded from 496.4 thousand for the six months ended 30 June 2021 to 1.2 million for the six months ended 30 June 2022, and monthly ARPPU of social entertainment services was RMB526.5 for the six months ended 30 June 2021 and RMB329.8 for the same period of 2022.

Cost of Revenue

Our cost of revenue increased by 16.4% from RMB3.2 billion for the six months ended 30 June 2021 to RMB3.7 billion for the six months ended 30 June 2022, attributable to an increase in content service costs from RMB2.8 billion for the six months ended 30 June 2021 to RMB3.3 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 (Negative)/Positive Gross Margin

As a result of the above, we incurred a gross loss of RMB12.9 million, representing a negative gross margin of 0.4% for the six months ended 30 June 2021, and received a gross profit of RMB537.1 million, representing a gross profit margin of 12.6% for the six months ended 30 June 2022. Our gross margin turned from negative to positive as a result of our significant revenue increase and control over content licensing fees.

Selling and Marketing Expenses

Our selling and marketing expenses increased by RMB170.9 million from RMB154.9 million for the six months ended 30 June 2021 to RMB325.8 million for the same period of 2022, primarily due to an increase in promotion and advertising expenses related to our music-inspired social entertainment products and services.

General and Administrative Expenses

Our general and administrative expenses decreased by 39.6% from RMB130.3 million for the six months ended 30 June 2021 to RMB78.7 million for the same period of 2022. We incurred listing expenses of RMB35.6 million for the six months ended 30 June 2021 and we did not record any further listing expense after our initial public offering in December 2021.

Research and Development Expenses

Our research and development expenses increased by 14.6% from RMB420.3 million for the six months ended 30 June 2021 to RMB481.5 million for the same period of 2022, primarily due to an increase in staff-related costs, as well as increased technology development fees.

Other Income

Our other income increased by 207.8% from RMB13.5 million for the six months ended 30 June 2021 to RMB41.6 million for the same period of 2022, primarily due to an increase in government grants and value-added tax subsidies.

Other Gains, Net

Our other gains, net increased from RMB3.5 million for the six months ended 30 June 2021 to RMB6.4 million for the same period of 2022, primarily attributable to an increase of net foreign exchange gains.

Finance Income

Our finance income increased by 48.9% from RMB24.8 million for the six months ended 30 June 2021 to RMB36.9 million for the same period of 2022, primarily due to an increase in the interest income from bank deposits.

Changes in Fair Value of Convertible Redeemable Preferred Shares

Historically, we completed multiple rounds of financing by issuing convertible redeemable preferred shares to investors. We recognised fair value loss of convertible redeemable preferred shares of RMB3.1 billion for the six months ended 30 June 2021, and we did not record any further changes in fair value of the convertible redeemable preferred shares for the six months ended 30 June 2022 as such convertible redeemable preferred shares were re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares upon our initial public offering in December 2021.

Taxation

We recorded income tax expenses of RMB2.2 million for the six months ended 30 June 2021 as compared to income tax of RMB4.0 million for the same period of 2022, primarily due to an increase in taxable income attributable to certain of our group companies.

Loss for the Period

As a result of the above, our loss for the period decreased by 92.9% from RMB3.8 billion for the six months ended 30 June 2021 to RMB270.8 million for the same period of 2022.

Adjusted Net Loss

Our adjusted net loss decreased by 59.3% from RMB533.0 million for the six months ended 30 June 2021 to RMB217.0 million for the same period of 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, as appropriate. The following table reconciles the loss for the period to adjusted net loss for both period:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Audited)
	<i>(in RMB thousands)</i>	
Loss for the period attributable to the equity holders of the Company	(270,810)	(3,809,147)
Add:		
Equity-settled share-based payments ^{Note (1)}	53,810	147,503
Changes in fair value of convertible redeemable preferred shares ^{Note (2)}	–	3,128,668
Adjusted net loss	(217,000)	(532,976)

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 our Group's ability to generate revenue from its daily operations. The reconciling item is non-cash and does not result in cash outflow.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended	
		30 June	
		2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Audited)
Revenue	2	4,258,716	3,183,674
Cost of revenue	3	<u>(3,721,603)</u>	<u>(3,196,530)</u>
Gross profit/(loss)		537,113	(12,856)
Selling and marketing expenses	3	(325,800)	(154,925)
General and administrative expenses	3	(78,726)	(130,261)
Research and development expenses	3	(481,521)	(420,313)
Other income		41,558	13,500
Other gains, net		<u>6,361</u>	<u>3,540</u>
Operating loss		(301,015)	(701,315)
Share of results of investments accounted for using equity method		(2,521)	(1,780)
Finance income		36,929	24,795
Finance cost		(183)	–
Changes in fair value of convertible redeemable preferred shares		<u>–</u>	<u>(3,128,668)</u>
Loss before income tax		(266,790)	(3,806,968)
Income tax expense	4	<u>(4,020)</u>	<u>(2,179)</u>
Loss for the period attributable to equity holders of the Company		<u>(270,810)</u>	<u>(3,809,147)</u>
Loss per share attributable to equity holders of the Company (expressed in RMB per share)			
Basic loss per share	5	1.30	31.19
Diluted loss per share	5	<u>1.30</u>	<u>31.19</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Loss for the period	(270,810)	(3,809,147)
Other comprehensive income/(loss):		
Items that will not be reclassified to profit or loss		
Changes in fair value of convertible redeemable preferred shares due to own credit risk	–	(34,930)
Currency translation differences	296,738	79,422
Other comprehensive income for the period, net of taxes	296,738	44,492
Total comprehensive income/(loss) for the period attributable to equity holders of the Company	25,928	(3,764,655)

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment		48,554	44,043
Right-of-use assets		9,073	10,505
Investments accounted for using equity method		90,393	92,914
Prepaid contents royalties		358,129	471,125
Prepayments and deposits		310	332
		<u>506,459</u>	<u>618,919</u>
Current assets			
Accounts receivables	7	675,864	673,650
Prepaid contents royalties		724,339	1,109,834
Prepayments, deposits and other receivables		134,486	234,909
Amounts due from group companies		117,000	128,368
Financial assets at fair value through profit or loss		–	240,772
Short-term bank deposits		5,872,475	5,527,732
Cash and cash equivalents		1,858,716	853,454
		<u>9,382,880</u>	<u>8,768,719</u>
Total assets		<u>9,889,339</u>	<u>9,387,638</u>
Equity			
Equity attributable to equity holders of the Company			
Share capital		133	132
Other reserves		18,366,977	17,981,771
Accumulated losses		<u>(10,871,577)</u>	<u>(10,600,233)</u>
Total equity		<u>7,495,533</u>	<u>7,381,670</u>
Liabilities			
Non-current liabilities			
Contract liabilities		53,741	50,555
Lease liabilities		6,745	7,893
		<u>60,486</u>	<u>58,448</u>

	<i>Note</i>	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Current liabilities			
Accounts payables	8	457	134
Accruals and other payables		1,637,426	1,283,771
Contract liabilities		635,380	604,614
Amounts due to group companies		57,848	56,389
Lease liabilities		2,209	2,612
		<u>2,333,320</u>	<u>1,947,520</u>
Total liabilities		<u>2,393,806</u>	<u>2,005,968</u>
Total equity and liabilities		<u><u>9,889,339</u></u>	<u><u>9,387,638</u></u>

NOTES

1 BASIS OF PREPARATION

This condensed consolidated interim financial information of the Group for the six months ended 30 June 2022 (the “Interim Financial Information”) has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “IASB”).

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. Accordingly, this Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

1.1 Change in accounting policy and disclosures

The accounting policies used in the preparation of this financial information are consistent with those as described in the annual consolidated financial statements of the Group for the year ended 31 December 2021, except as set out below.

(a) *New and amended standards adopted by the Group*

A number of amended standards became applicable for the current reporting period:

Amendments to IAS 16	Regarding property, plant and equipment: proceeds before intended use
Amendments to IFRS 3	Regarding reference to the conceptual framework
Amendments to IAS 37	Regarding onerous contracts – cost of fulfilling a contract
Annual Improvements to IFRS Standards 2018-2020	Improvements to IFRSs

The amended standards listed above did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future period.

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

Certain new standards and amendments of standards have been issued but are not yet effective for the period beginning on 1 January 2022 and have not been early adopted by the Group during the six months ended 30 June 2022.

		Effective for accounting periods beginning on or after
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2023
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023
Amendments to IAS 8	Definition of accounting estimates	1 January 2023
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is in the process of making an assessment of the impact of these new and amended standards, and has concluded on a preliminary basis that the adoption of these new and amended standards is not expected to have a significant impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 REVENUE AND SEGMENT INFORMATION

(a) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Type of goods or services:		
Online music services	1,783,674	1,604,325
Social entertainment services and others	2,475,042	1,579,349
	<u>4,258,716</u>	<u>3,183,674</u>
Timing of revenue recognition:		
A point in time	2,525,548	1,705,639
Over time	1,733,168	1,478,035
	<u>4,258,716</u>	<u>3,183,674</u>

There is no concentration risk as no revenue from a single customer was more than 10% of the Group's total revenue for the six months ended 30 June 2022 and 2021.

(b) Segment information

The CODM has been identified as the Board of directors, who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group as a whole. For the purpose of internal reporting and management's operation review, the CODM considered that the Group's businesses are operated and managed as one single segment and no separate segment information was presented for the six months ended 30 June 2022 and 2021.

Since the Group domiciles and operates in the PRC, substantially all revenue and non-current assets of the Group were generated and were located in the PRC during the six months ended 30 June 2022 and 2021.

3 EXPENSES BY NATURE

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Audited)
Content service costs	3,251,129	2,759,391
Technology costs	269,839	226,554
Employee benefit expenses	573,691	550,342
Promotion and advertising expenses	293,425	122,059
Payment channel fees	146,211	125,356
Net impairment losses/(reversal of impairment losses) on financial assets	51	(69)
Depreciation of property, plant and equipment	9,223	8,672
Auditor's remuneration	4,408	1,132
Legal and professional fees	5,565	8,413
Listing expenses	–	35,630
Others	54,108	64,549
	<hr/>	<hr/>
Total cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses	4,607,650	3,902,029
	<hr/> <hr/>	<hr/> <hr/>

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

4 INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Audited)
Current income tax		
– PRC corporate income tax	4,020	2,179
Deferred income tax	–	–
	<hr/>	<hr/>
	4,020	2,179
	<hr/> <hr/>	<hr/> <hr/>

(a) **Cayman Islands**

Under the current laws of the Cayman Islands, the Company is not currently subject to tax on income or capital gains.

(b) **Hong Kong**

Subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5%. No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong.

(c) **PRC**

Under the Enterprise Income Tax (“EIT”) Law, foreign invested enterprises and domestic enterprises are subject to a unified EIT rate of 25%, except for a subsidiary of the Group in the PRC that was approved as High and New Technology Enterprise (“HNTE”) which enjoys a preferential tax rate of 15% from 2019 onwards and subject to re-approval by the related authorities in every three years.

5 LOSS PER SHARE

(a) **Basic loss per share**

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Audited)
Loss for the period attributable to equity holders of the Company (in RMB'000)	<u><u>(270,810)</u></u>	<u><u>(3,809,147)</u></u>
Weighted average number of shares outstanding	<u><u>207,995,401</u></u>	<u><u>122,126,731</u></u>
Basic loss per share (in RMB)	<u><u>1.30</u></u>	<u><u>31.19</u></u>

(b) **Diluted loss per share**

Diluted loss per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the six months ended 30 June 2022, the Company had two categories of potential ordinary shares: share options and share awards (for the six months ended 30 June 2021: share options and convertible redeemable preferred shares). Diluted loss per share presented is the same as the basic loss per share as the inclusion of the potential ordinary shares in the calculation of dilutive loss per share would be anti-dilutive.

6 DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended 30 June 2022 and 2021.

7 ACCOUNTS RECEIVABLES

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Accounts receivables	679,092	676,878
Less: loss allowance	<u>(3,228)</u>	<u>(3,228)</u>
Accounts receivables, net	<u>675,864</u>	<u>673,650</u>

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

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Up to 3 months	655,759	636,007
3 to 6 months	855	18,393
Over 6 months	<u>22,478</u>	<u>22,478</u>
	<u>679,092</u>	<u>676,878</u>

The loss allowances for accounts receivables as at 30 June 2022 and 2021 reconcile to the opening loss allowances is as follows:

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Audited)
At 1 January	3,228	3,297
Net reversal of impairment loss during the period	—	(69)
	<u>3,228</u>	<u>3,228</u>
At 30 June	<u><u>3,228</u></u>	<u><u>3,228</u></u>

8 ACCOUNTS PAYABLES

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Accounts payables	<u><u>457</u></u>	<u><u>134</u></u>

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

As at 30 June 2022 and 31 December 2021, the aging of accounts payables are all between 0 – 90 days based on invoice date.

EVENTS AFTER THE REPORTING PERIOD

As at the date of this announcement, there were no significant events that might affect our Group since the end of the Reporting Period.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

Compliance with the Code on Corporate Governance Practices

Save as disclosed below, we have complied with the applicable code provisions set out in the Corporate Governance Code contained in Part 2 of Appendix 14 to the Listing Rules during the Reporting Period.

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

In light of the amendments to the Corporate Governance Code, which came into effect on 1 January 2022 (the "**New CG Code**") and impose requirements applicable to corporate governance reports for the financial year commencing on or after 1 January 2022, our Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the latest version of the Corporate Governance Code, and maintain a high standard of corporate governance practices of our Company.

Review of Interim Results

The audit committee comprises three independent non-executive Directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial information. There is no disagreement between the Board and the audit committee regarding the accounting treatment adopted by the Company.

The interim results for the six months ended 30 June 2022 have not been audited but have been reviewed by PricewaterhouseCoopers, the auditor of the Company, in accordance with International Standard on Review Engagement 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board.

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

During the Reporting Period, neither our Company nor any of our subsidiaries had purchased, sold or redeemed any of our Company’s securities listed on the Stock Exchange.

Use of Proceeds from the Global Offering

Our Company completed a global offering on 2 December 2021. The net proceeds from this global offering amounted to HK\$3,160 million (equivalent to approximately RMB2,584 million), which will be used in the manner set out in our Prospectus (available on the Stock Exchange’s website). As at 30 June 2022, we had not utilised any net proceeds, which are held as short-term bank deposits. Our Company expects to utilise the net proceeds in the next 18 to 54 months.

INTERIM DIVIDEND

Our Board has resolved not to declare an interim dividend for the Reporting Period.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

DEFINITIONS

“Board”	the board of directors of our Company
“China”, the “PRC” or the “domestic”	the People’s Republic of China, and for the purpose of this annual report only, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	Cloud Music Inc.
“Director(s)”	director(s) of our Company
“Group” or “we”	our Company and its subsidiaries, including consolidated affiliated entities, the financials of which are consolidated into our Company’s accounts
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Prospectus”	our Company’s prospectus dated 23 November 2021, a copy of which is available on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at http://ir.music.163.com
“Reporting Period”	six months ended 30 June 2022
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

Hong Kong, 18 August 2022

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