



Cloud Music Inc.

(incorporated in the Cayman Islands with limited liability)

Stock code: 9899



2022 INTERIM
REPORT



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. William Lei Ding (*Chairperson and Chief Executive Officer*)
Mr. Yong Li
Ms. Yanfeng Wang

Non-Executive Directors

Mr. Yat Keung Li
Mr. Dewei Zheng
Mr. Feng Yu

Independent Non-executive Directors

Mr. Ying Kit Caleb Lo
Mr. Xianfeng Gu
Mr. Zhong Xu

AUDIT COMMITTEE

Mr. Ying Kit Caleb Lo (*Chairperson*)
Mr. Xianfeng Gu
Mr. Zhong Xu

REMUNERATION COMMITTEE

Mr. Zhong Xu (*Chairperson*)
Mr. Xianfeng Gu
Mr. Ying Kit Caleb Lo

NOMINATION COMMITTEE

Mr. Xianfeng Gu (*Chairperson*)
Mr. Ying Kit Caleb Lo
Mr. Zhong Xu

COMPANY SECRETARY

Ms. Wong Wai Yee Ella

AUTHORISED REPRESENTATIVES

Mr. Yong Li
Ms. Wong Wai Yee Ella

COMPLIANCE ADVISER

China International Capital Corporation Hong Kong
Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and Registered Public Interest
Entity Auditor
22/F, Prince's Building
Central, Hong Kong

REGISTERED OFFICE

P.O. Box 309, Uglan House
Grand Cayman KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place
348 Kwun Tong Road, Kowloon
Hong Kong

HEADQUARTERS

Room 1201, Block A
Hangzhou International Expo Center
No. 353 Benjing Avenue
Qianjiang Century City
Xiaoshan District, Hangzhou
Zhejiang, China

Corporate Information

LEGAL ADVISORS

As to Hong Kong law and United States law

Skadden, Arps, Slate, Meagher & Flom
42/F, Edinburgh Tower, The Landmark
15 Queen's Road Central, Hong Kong

As to PRC law

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20th Floor, China Resources Building
8 Jianguomenbei Avenue
Beijing 100005, China

As to Cayman Islands law

Maples and Calder (Hong Kong) LLP
26th Floor, Central Plaza
18 Harbour Road
Wan Chai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

PRINCIPAL BANK

Industrial and Commercial Bank of China Hangzhou Branch
No. 90, Qingchun Road
Gongshu District, Hangzhou
Zhejiang, China

STOCK CODE

9899

COMPANY WEBSITE

<http://ir.music.163.com>

Financial and Business Highlights

	Six months ended 30 June		Change (%)
	2022 (Unaudited)	2021 (Audited)	
	(RMB in thousands, except percentages)		
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	(217,000)	(532,976)	-59.3%

IFRS NUMBERS:

- 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.
- Our gross loss turned from RMB12.9 million for the six months ended 30 June 2021 to gross profit position of RMB537.1 million for the six months ended 30 June 2022.
- 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 for the same period of 2022.

NON-IFRS NUMBERS:

- 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 periods:

	Six months ended 30 June	
	2022 (Unaudited)	2021 (Audited)
	(in RMB thousands)	
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.

Financial and Business Highlights

KEY OPERATING DATA

The following table sets forth our MAUs 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 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 ^{Note (1)}	6.5	6.8
Social entertainment services ^{Note (2)}	329.8	526.5

Notes:

- (1) 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.
- (2) 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.

Management Discussion and Analysis

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 item purchases by our community and consumed on our platform.

BUSINESS REVIEW

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 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;

Management Discussion and Analysis

- exploring innovations in social networking, utilising user behaviours and music preferences to connect users, and provide 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.

Management Discussion and Analysis

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 help strengthen our brand awareness and develop a mindset among users that encourages their willingness to pay.

Management Discussion and Analysis

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 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 expand 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

Non-IFRS Measures

To supplement our consolidated results which are prepared and presented in accordance with IFRS, we use 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 operating performance, such as certain non-cash items. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider them in isolation from, as a substitute for, analysis of, or superior to, our 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.

The following table reconciles the loss for the period to adjusted net loss for both periods:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Audited)
	(in RMB thousands)	
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.

Liquidity and Capital Resources

As at 30 June 2022, we funded our cash requirements principally from cash flows from financing and cash flows from investors (including convertible redeemable preferred shares). We had cash and cash equivalents of RMB1.9 billion as at 30 June 2022 (as at 31 December 2021: RMB0.9 billion).

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

Management Discussion and Analysis

The following table sets forth a summary of our cash flows for the period indicated, respectively:

	Six months ended 30 June	
	2022 (Unaudited)	2021 (Audited)
	(in RMB thousands)	
Net cash generated from/(used in) operating activities	782,551	(748,015)
Net cash generated from/(used in) investing activities	164,586	(1,721,241)
Net cash used in financing activities	(6,453)	(64,499)
Net increase/(decrease) in cash and cash equivalents	940,684	(2,533,755)
Cash and cash equivalents at the beginning of the period	853,454	3,006,206
Exchange differences on cash and cash equivalents	64,578	3,698
Cash and cash equivalents at the end of the period	1,858,716	476,149

ADDITIONAL INFORMATION ABOUT FINANCIAL PERFORMANCE

Employee and Remuneration Policy

As at 30 June 2021 and 2022, we had 1,192 and 1,526 employees, respectively. As at 30 June 2022, substantially all of our employees were based in China.

Additionally, our Company has a share incentive plan, the material terms of which are described in our Prospectus. The total remuneration cost incurred by us for the six months ended 30 June 2022 was RMB573.7 million (for the six months ended 30 June 2021: RMB550.3 million).

Save as disclosed above, there has been no material changes to our financial performance since what was disclosed in our Company's annual report for the financial year ended 31 December 2021 that would need to be disclosed under paragraphs 32 and 40(2) of Appendix 16 to the Listing Rules. 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>.

Change of Company Name

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.

Other Information

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of Our Company or Any of Its Associated Corporations

As at 30 June 2022, the interests and short positions of our Directors or chief executives of our Company in any of our Shares, underlying shares and debentures of our Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)), as recorded in the register required to be kept by our Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code were as follows:

Interest in our Company

Name of Director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of holding^{Note (5)}	Long position/ Short position
Mr. William Lei Ding	Other ^{Note (1)}	128,364,668	61.35%	Long position
Mr. Yong Li ^{Note (2)}	Beneficial owner	300,000	0.14%	Long position
Mr. Yat Keung Li ^{Note (3)}	Beneficial owner	4,000	0.00%	Long position
Ms. Yanfeng Wang ^{Note (4)}	Beneficial owner	3,000	0.00%	Long position

Notes:

- (1) 128,364,668 shares are held by Shining Globe International Limited through NetEase. Shining Globe International Limited is wholly-owned by Shining Globe Holding Limited, which is in turn wholly-owned by a trust for which TMF (Cayman) Ltd. acts as the trustee and the beneficiaries of which include Mr. William Lei Ding and his family. Mr. William Lei Ding is also the settlor of the trust.
- (2) Mr. Yong Li is entitled to receive up to 300,000 shares pursuant to the exercise of options granted under our Company's share incentive plan.
- (3) Mr. Yat Keung Li is entitled to receive up to 4,000 shares pursuant to the exercise of options granted under our Company's share incentive plan.
- (4) Ms. Yanfeng Wang is entitled to receive up to 3,000 shares pursuant to the exercise of options granted under our Company's share incentive plan.
- (5) The calculation is based on the total number of 209,245,601 shares in issue as at 30 June 2022.

Other Information

Interest in our associated corporation – NetEase

Name of Director	Capacity/Nature of interest	Number of ADSs^{Note (3)}/ ordinary shares	Approximate percentage of holding^{Note (1)}	Long position/ Short position
Mr. William Lei Ding	Other ⁽²⁾	1,450,300,000	44.2%	Long position
Mr. Yong Li ^{Note (3)}	Beneficial owner	5,628 ADSs	0.00%	Long position
Mr. Yat Keung Li ^{Note (3)}	Beneficial owner	10,558 ADSs	0.00%	Long position
Mr. Dewei Zheng ^{Note (3)}	Beneficial owner	21,392 ADSs	0.00%	Long position
Ms. Yanfeng Wang ^{Note (3)}	Beneficial owner	3,338 ADSs 100 Shares	0.00%	Long position

Notes:

- (1) To the best knowledge of the Company, as at the Latest Practicable Date and based on publicly available information.
- (2) Shining Globe International Limited is the record holder of these 1,450,300,000 NetEase shares, which comprise 1,406,000,000 NetEase shares and 8,860,000 ADSs. As mentioned above, Shining Globe International Limited is wholly-owned by Shining Globe Holding Limited, which is in turn wholly-owned by a trust for which TMF (Cayman) Ltd. acts as the trustee and the beneficiaries of which include Mr. William Lei Ding and his family. Mr. William Lei Ding is also the settlor of the trust. This reflects the position as at 31 March 2022, which is based on the latest available published information. For more information, please refer to the annual report of NetEase, a copy of which is available for viewing on the Stock Exchange's website at www.hkexnews.hk by the end of April 2022.
- (3) The interests underlying the ADSs comprise the Director's entitlement to receive shares in NetEase pursuant to restricted share units under the 2009 Stock Incentive Plan and/or the 2019 Restricted Share Unit Plan of NetEase, where each restricted share unit represents one ADS of NetEase (being equal to five NetEase shares). This includes vested and unvested restricted share units, with the unvested portion subject to the terms and conditions of the grant.
- (4) Each ADS represents five NetEase shares.

Save as disclosed above, as at 30 June 2022, none of our Directors or chief executives of our Company had or was deemed to have any interests or short positions in our Shares, underlying Shares or debentures of our Shares or any of our Company's associated corporations which would be required to be disclosed.

Interest in our associated corporation – Zhejiang Weiyang Technology Co., Ltd.

Name of Director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of holding^{Note (1)}	Long position/ Short position
Ms. Yanfeng Wang	Beneficial owner	30,000	0.00%	Long position

Note:

- (1) To the best knowledge of the Company, as at the Latest Practicable Date and based on publicly available information.

Other Information

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2022, so far as our Directors are aware, the following persons (other than our Directors or chief executives of our Company) had interests or short positions in our Shares or underlying Shares recorded in the register required to be kept by our Company pursuant to Section 336 of the Securities and Futures Ordinance:

Name of Shareholder	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of holding^{Note (3)}	Long position/ Short position
NetEase ^{Note (1)}	Beneficial owner	128,364,668	61.35%	Long position
Alibaba Group Holding Limited ^{Note (2)}	Interest in a controlled corporation	20,733,975	9.91%	Long position
GIC Private Limited	Interest in a controlled corporation	13,923,356	6.65%	Long position
GIC (Ventures) Pte. Ltd.	Investment manager Interest in a controlled corporation	225,000 13,923,356	0.11% 6.65%	Long position Long position
GIC Special Investments Private Limited	Investment manager	13,923,356	6.65%	Long position

Notes:

- (1) Mr. Ding (through his controlled corporations) is interested in one-third or more of NetEase, and under the Securities and Futures Ordinance, is deemed to be interested in NetEase's interest in our Company. 128,364,668 shares are held by Shining Globe International Limited through NetEase. Shining Globe International Limited is wholly-owned by Shining Globe Holding Limited, which is in turn wholly-owned by a trust for which TMF (Cayman) Ltd. acts as the trustee and the beneficiaries of which include Mr. Ding and his family. Mr. Ding is also the settlor of the trust.
- (2) These interests are held through Taobao Holding Limited and Taobao China Holding Limited. Taobao China Holding Limited is a wholly-owned subsidiary of Alibaba Group Holding Limited, a company incorporated in the Cayman Islands, with its American depository shares, each representing eight ordinary shares, listed on the New York Stock Exchange, stock symbol BABA, and its ordinary shares listed on the Main Board of the Stock Exchange, stock code 9988. Under the Securities and Futures Ordinance, Alibaba Group Holding Limited, and its intermediary subsidiary entities through which it is interested in Taobao China Holding Limited (being Taobao Holding Limited), are deemed to be interested in all of our Shares interested by Taobao China Holding Limited in our Company.
- (3) The calculation is based on the total number of 209,245,601 shares in issue as at 30 June 2022.

Save as disclosed above, as at 30 June 2022 and based on publicly available information, no other person (other than our Directors or chief executives of our Company) had an interest or short position in the Shares or underlying Shares which were required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or which were required to be entered in the register required to be kept under section 336 of the Securities and Futures Ordinance.

Other Information

SHARE INCENTIVE PLANS

The 2016 Plan

We adopted an employee share incentive plan in 2016 (the “2016 Plan”). This plan is not governed by Chapter 17 of the Listing Rules. Further details of the material terms of the 2016 Plan are set out in the Prospectus.

The purpose of the 2016 Plan is to promote the success and enhance the value of our business by linking the personal interests of the employees to those of our Company’s shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to our Company’s shareholders. The 2016 Plan also intends to provide flexibility to our Company in its ability to motivate, attract, and retain the services of the employees upon whose judgement, interest, and special effort the successful conduct of the business’s operation is largely dependent.

The maximum aggregate number of Shares that may be issued pursuant to all awards pursuant to the 2016 Plan is 15,000,000 Shares, which represents approximately 7.17% of the issued Shares of our Company as at 30 June 2022. A maximum of 11,599,750 Shares remain to be issued under the 2016 Plan (including Shares underlying granted and ungranted awards), representing approximately 5.54% of the issued shares of our Company, as at 30 June 2022.

Outstanding Share Options under the 2016 Plan

As at 30 June 2022, our Company had share options outstanding under the 2016 Plan to subscribe for an aggregate of 9,818,500 shares granted to 572 grantees (including Directors and senior management of our Company, employees of our Group and NetEase Group). The exercise price of all the options granted under the 2016 Plan ranges between US\$1 and US\$11. No consideration was paid by the grantees for the outstanding options granted under the 2016 Plan.

The table below shows details of the outstanding options held under the 2016 Plan:

Name or category of grantees	Date of Grant	Vesting Period	Exercise Price (US\$)	Number of Shares underlying options outstanding as at 31 December 2021	Number of options exercised during the Reporting Period and the exercise price	Number of options lapsed during the Reporting Period	Number of options cancelled during the Reporting Period	Number of Shares underlying option outstanding as at 30 June 2022
Directors								
Mr. Yong Li	25 September 2019	4 years	US\$11 per Share	300,000	–	–	–	300,000
Ms. Yanfeng Wang	19 February 2021	1 year	US\$11 per Share	3,000	–	–	–	3,000
Mr. Yat Keung Li	18 January 2017	4 years	US\$8 per Share	4,000	–	–	–	4,000
Other connected persons								
Other 2 individuals	Between 25 May 2016 to 21 May 2018	4 years	US\$1-\$11 per Share	480,000	–	–	–	480,000
Other Grantees								
In aggregate	Between 25 May 2016 to 15 June 2021	1/4 years	US\$1-\$11 per Share	10,867,900	1,488,725, US\$1-\$11 per Share	347,675	–	9,031,500

Other Information

Unsettled Restricted Share Units under the 2016 Plan

During the Reporting Period, our Board approved the grant of 1,088,147 restricted share units under the 2016 Plan to 124 grantees, underlying 1,088,147 Shares and our Company actually granted 1,082,851 restricted share units under the 2016 Plan to 116 grantees. None of these grantees are connected persons of our Company. See our Company's announcement of 2 June 2022 for further information.

As at 30 June 2022, a total of 1,025,267 restricted share units remain to be settled (i.e., remain to be exchanged for Shares) under the 2016 Plan.

The 2022 Plan

We adopted a restricted share unit plan on 18 August 2022 (the "2022 Plan"). Further details of the material terms of the 2022 Plan are set out in the announcement of our Company on 18 August 2022. The 2022 Plan does not constitute a share option scheme under Chapter 17 of the Listing Rules.

The purpose of the 2022 Plan is to promote the success and enhance the value of our Group's business by linking personal interests of eligible participants to those of our shareholders, provide eligible participants with an incentive for outstanding performance to generate superior returns to our Company and shareholders, and to provide flexibility to our Company to motivate, attract and retain these participants.

Eligible participants shall be: (i) current directors or employees of our Group; (ii) current directors or employees of our parent, a fellow subsidiary, or an associate of our Company (as defined under the Listing Rules); or (iii) service providers that, in the opinion of the plan administrator, provide services to our Group on a continuing or recurring basis in our ordinary and usual course of business and that are in the interests of the long-term growth of our Group or to which grants of awards under the 2022 Plan would be in the interest of our Company and our shareholders as a whole, and shall include artists, performers or other suppliers and service providers.

The maximum number of new Shares that may be issued pursuant to all awards made under the 2022 Plan to eligible participants is 10,462,280 Shares, representing approximately 5.00% of the issued shares of our Company as at 30 June 2022, subject to an annual limit of 3% of the total number of Shares in issue at the relevant time. The maximum number of new Shares that may be issued pursuant to all awards made under the 2022 Plan to service provider participants is 2,077,569 Shares, representing approximately 1.00% of the issued Shares of our Company as at 30 June 2022, subject to an annual limit of 1% of the total number of Shares in issue at the relevant time.

As the 2022 Plan was adopted after the end of the Reporting Period, our Company had not granted any restricted share units under the 2022 Plan as at 30 June 2022.

Other Information

BOARD AND CORPORATE GOVERNANCE

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.

Save as disclosed below, we have complied with the 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 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.

Additionally, during the Reporting Period, our Company had fully complied with, among others, Rules 3.10 and 3.21 of the Listing Rules with respect to the composition of our Board and the Audit Committee to our Board.

Other Information

DEALINGS IN OUR COMPANY'S LISTED SECURITIES

Model Code for Securities Dealings by Directors

Our Company has adopted management securities dealing policies that are on terms no less stringent than the Model Code set out in Appendix 10 to the Listing Rules to regulate all dealings by Directors and relevant insiders in securities of our Company and other matters covered by the Model Code.

Specific enquiry has been made to all our Directors and they have confirmed that they have complied with the Model Code during the Reporting Period. No incident of non-compliance of the Model Code by the relevant employees has been noted by our Company during the Reporting Period.

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

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

USE OF NET PROCEEDS FROM GLOBAL OFFERING

Our Shares were listed on the Stock Exchange on 2 December 2021. In parallel with the listing of our Shares, our Company allotted and issued 16,000,000 new Shares under our global offering issued, which resulted in approximately HK\$3,160 million raised in net proceeds. Details of our global offering are set out in the Prospectus and our allotment results announcement published on the Stock Exchange's website on 1 December 2021.

Set out below is the status of use of proceeds from the global offering during the Reporting Period:

Purpose	% of use of proceeds	Net proceeds (HK\$ million)	Utilised during the Reporting Period (HK\$ million)	Unutilised amount as at 30 June 2022 (HK\$ million)
Continuingly cultivating our community	40%	1,264	0	1,264
Continuingly innovating and improving technological capabilities	40%	1,264	0	1,264
Selected mergers, acquisitions, and strategic investments, including to continue seeking potential businesses and assets that would provide synergies with our business and resources, particularly in areas including content sourcing, data and audio technology	10%	316	0	316
Working capital and general and administrative purposes	10%	316	0	316
Total	100%	3,160	0	3,160

There was no change in the intended use of net proceeds as disclosed in the Prospectus. Our Company will gradually apply the remaining net proceeds in the next 18 to 54 months in the manner set out in the Prospectus. See "Future Plans and Use of Proceeds" section of the Prospectus for further details.

Other Information

EVENTS AFTER THE REPORTING PERIOD

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

INTERIM DIVIDEND

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

Report on Review of Interim Financial Information

**To the Board of Directors of Cloud Music Inc.
(FORMERLY KNOWN AS CLOUD VILLAGE INC.)**
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 23 to 50, which comprises the interim condensed consolidated balance sheet of Cloud Music Inc. (formerly known as Cloud Village Inc.) (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2022 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 18 August 2022

Condensed Consolidated Statement of Profit or Loss

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Note	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Revenue	5	4,258,716	3,183,674
Cost of revenue	6	(3,721,603)	(3,196,530)
Gross profit/(loss)		537,113	(12,856)
Selling and marketing expenses	6	(325,800)	(154,925)
General and administrative expenses	6	(78,726)	(130,261)
Research and development expenses	6	(481,521)	(420,313)
Other income		41,558	13,500
Other gains, net		6,361	3,540
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	19	–	(3,128,668)
Loss before income tax		(266,790)	(3,806,968)
Income tax expense	8	(4,020)	(2,179)
Loss for the period attributable to equity holders of the Company		(270,810)	(3,809,147)
Loss per share attributable to equity holders of the Company (expressed in RMB per share)			
Basic loss per share	9	1.30	31.19
Diluted loss per share	9	1.30	31.19

Condensed Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Note	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (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	19	–	(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

AS AT 30 JUNE 2022

	Note	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	13	358,129	471,125
Prepayments and deposits		310	332
		506,459	618,919
Current assets			
Accounts receivables	12	675,864	673,650
Prepaid contents royalties	13	724,339	1,109,834
Prepayments, deposits and other receivables		134,486	234,909
Amounts due from group companies	20	117,000	128,368
Financial assets at fair value through profit or loss	11	–	240,772
Short-term bank deposits		5,872,475	5,527,732
Cash and cash equivalents		1,858,716	853,454
		9,382,880	8,768,719
Total assets		9,889,339	9,387,638
Equity			
Equity attributable to equity holders of the Company			
Share capital	14	133	132
Other reserves	15	18,366,977	17,981,771
Accumulated losses		(10,871,577)	(10,600,233)
Total equity		7,495,533	7,381,670
Liabilities			
Non-current liabilities			
Contract liabilities		53,741	50,555
Lease liabilities		6,745	7,893
		60,486	58,448

Condensed Consolidated Balance Sheet

AS AT 30 JUNE 2022

	Note	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Current liabilities			
Accounts payables	17	457	134
Accruals and other payables	18	1,637,426	1,283,771
Contract liabilities		635,380	604,614
Amounts due to group companies	20	57,848	56,389
Lease liabilities		2,209	2,612
		2,333,320	1,947,520
Total liabilities		2,393,806	2,005,968
Total equity and liabilities		9,889,339	9,387,638

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Note	Attributable to equity holders of the Company			Total RMB'000
		Share capital RMB'000	Other reserves RMB'000 (Note 15)	Accumulated losses RMB'000	
(Unaudited)					
Balance at 1 January 2022		132	17,981,771	(10,600,233)	7,381,670
Loss for the period		–	–	(270,810)	(270,810)
Other comprehensive income:					
Currency translation differences		–	296,738	–	296,738
Total comprehensive income for the period		–	296,738	(270,810)	25,928
Transactions with equity holders:					
Exercise of share options	14,15	1	34,124	–	34,125
Equity-settled share-based payments	15,16(c)	–	54,344	(534)	53,810
Total transactions with equity holders		1	88,468	(534)	87,935
Balance at 30 June 2022		133	18,366,977	(10,871,577)	7,495,533

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Note	Attributable to equity holders of the Company			Total RMB'000
		Share capital RMB'000	Other reserves RMB'000 (Note 15)	Accumulated losses RMB'000	
(Audited)					
Balance at 1 January 2021		78	3,065,596	(8,372,440)	(5,306,766)
Loss for the period		–	–	(3,809,147)	(3,809,147)
Other comprehensive (loss)/income:					
Fair value change on convertible redeemable preferred shares due to own credit risk		–	(34,930)	–	(34,930)
Currency translation differences		–	79,422	–	79,422
Total comprehensive loss for the period		–	44,492	(3,809,147)	(3,764,655)
Transactions with equity holders:					
Equity-settled share-based payments	15	–	198,300	(50,797)	147,503
Total transactions with equity holders		–	198,300	(50,797)	147,503
Balance at 30 June 2021		78	3,308,388	(12,232,384)	(8,923,918)

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Cash flows from operating activities		
Cash generated from/(used in) operations	786,645	(745,742)
Income taxes paid	(4,094)	(2,273)
Net cash generated from/(used in) operating activities	782,551	(748,015)
Cash flows from investing activities		
Purchase of property, plant and equipment	(14,751)	(9,020)
Proceeds from disposal of property, plant and equipment	1,083	543
Placement of short-term deposits	(7,725,329)	(4,177,354)
Proceeds from maturity of short-term deposits	7,612,639	1,522,297
Payments for investments in financial assets at fair value through profit or loss	–	(1,942,000)
Proceeds from disposal of financial assets at fair value through profit or loss	241,102	2,867,091
Refund of prepayment for an investment	4,906	3,500
Interest received	44,936	13,702
Net cash generated from/(used in) investing activities	164,586	(1,721,241)
Cash flows from financing activities		
Exercise of share option	27,931	–
Payment for lease liabilities	(1,734)	–
Payment for listing expenses	(32,650)	–
Interest paid	–	(64,499)
Net cash used in financing activities	(6,453)	(64,499)
Net increase/(decrease) in cash and cash equivalents	940,684	(2,533,755)
Cash and cash equivalents at beginning of the period	853,454	3,006,206
Exchange differences on cash and cash equivalents	64,578	3,698
Cash and cash equivalents at end of the period	1,858,716	476,149

Notes to the Interim Financial Information

1 GENERAL INFORMATION AND BASIS OF PREPARATION

1.1 General information

Cloud Music Inc. (formerly known as Cloud Village Inc.) (the “Company”) was incorporated in the Cayman Islands on 2 February 2016 as an exempted company with limited liability. The registered office is at PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands.

The Company changed its name from “Cloud Village Inc.” to “Cloud Music Inc.” and completed the registration in Registry of Companies in the Cayman Islands on 24 June 2022.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the operation of online platforms to provide music services and social entertainment services in the People’s Republic of China (the “PRC”).

NetEase, Inc. (“NetEase”) is the immediate holding company and the ultimate holding company of the Company. NetEase, Inc., its subsidiaries and consolidated affiliated entities, excluding the Group, are collectively referred to as “NetEase Group”.

The condensed consolidated interim financial information is presented in Renminbi (“RMB”) and all values are rounded to the nearest 1 thousand (“RMB’000”) except when otherwise indicated.

The condensed consolidated interim financial information for the six months ended 30 June 2022 is unaudited and has been reviewed by the audit committee and external auditor of the Company. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 18 August 2022.

1.2 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”).

Notes to the Interim Financial Information

2 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 to standards that have been issued but are not yet effective*

Certain new and amended standards have been issued but are not yet effective for the year 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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent with those applied to the annual consolidated financial statements for the year ended 31 December 2021.

Notes to the Interim Financial Information

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, cash flow and fair value interest rate risks, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The use of financial derivatives to manage certain risk exposures is governed by the Group's policies approved by the Board of Directors of the Company.

This condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial information as set out in annual consolidated financial statements of the Group for the year ended 31 December 2021.

There have been no changes in the risk management policies since 31 December 2021.

4.2 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at each balance sheet date by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 30 June 2022, the Group had no financial assets or financial liabilities that are measured at fair value.

The following table presents the Group's financial assets that are measured at fair value as at 31 December 2021:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Audited)				
At 31 December 2021				
Assets				
Financial assets at fair value through profit or loss				
– Wealth management products	–	240,772	–	240,772

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the six months ended 30 June 2022 and 2021.

Notes to the Interim Financial Information

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

4.2 Fair value estimation (Continued)

(a) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The following table presents the changes in level 2 items of financial assets at fair value through profit or loss for the six months ended 30 June 2022 and 2021:

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
At 1 January	240,772	971,315
Additions	–	1,942,000
Disposals	(241,102)	(2,867,091)
Change in fair value through profit or loss	330	6,616
At 30 June	–	52,840

Investments in wealth management products were mainly the investment products purchased from reputable financial institutions in the PRC. The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss.

(b) Financial instruments at amortised cost

The carrying amounts of the Group's other financial assets measured at amortised costs, including short-term bank deposits, cash and cash equivalents, amounts due from group companies, accounts receivables, other receivables and deposits and the Group's financial liabilities, including accounts payables, accruals and other payables, lease liabilities and amounts due to group companies, approximate their fair values due to their short maturities.

Notes to the Interim Financial Information

5 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
	4,258,716	3,183,674

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Timing of revenue recognition:		
A point in time	2,525,548	1,705,639
Over time	1,733,168	1,478,035
Total	4,258,716	3,183,674

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.

Notes to the Interim Financial Information

6 EXPENSES BY NATURE

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Content service costs (Note)	3,251,129	2,759,391
Technology costs	269,839	226,554
Employee benefit expenses (Note 7)	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
Total cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses	4,607,650	3,902,029

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

7 EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Salaries and bonuses	436,397	337,800
Welfare and other employee benefits	83,484	65,039
Equity-settled share-based payments	53,810	147,503
	573,691	550,342

Notes to the Interim Financial Information

8 INCOME TAX EXPENSE

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

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

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.

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.

Cayman Islands

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

Notes to the Interim Financial Information

9 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 (Unaudited)	2021 (Audited)
Loss for the period attributable to equity holders of the Company (in RMB'000)	(270,810)	(3,809,147)
Weighted average number of shares outstanding	207,995,401	122,126,731
Basic loss per share (in RMB)	1.30	31.19

(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.

10 DIVIDENDS

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

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Wealth management products	-	240,772

Notes to the Interim Financial Information

12 ACCOUNTS RECEIVABLES

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

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

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 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
At 1 January	3,228	3,297
Net reversal of impairment loss during the period	–	(69)
At 30 June	3,228	3,228

Notes to the Interim Financial Information

13 PREPAID CONTENTS ROYALTIES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Current	724,339	1,109,834
Non-current	358,129	471,125
	1,082,468	1,580,959

Prepaid contents royalties represent the prepaid license fee related to the music contents licensed from third parties.

14 SHARE CAPITAL

Authorised:

	Total number of ordinary shares '000	Nominal value of ordinary shares US\$'000	Total number of shares '000	Total nominal value of shares US\$'000
(Unaudited) At 1 January 2022 and 30 June 2022	1,000,000	100	1,000,000	100

Notes to the Interim Financial Information

14 SHARE CAPITAL (Continued)

Issued and fully paid:

	Number of Class A ordinary shares	Number of Class B ordinary shares	Number of Series A Preferred Share with no redemption rights	Number of ordinary shares	Number of shares	Nominal value of share capital RMB'000
(Unaudited)						
As at 1 January 2022	-	-	-	207,756,876	207,756,876	132
Exercise of share options	-	-	-	1,488,725	1,488,725	1
As at 30 June 2022	-	-	-	209,245,601	209,245,601	133
(Audited)						
As at 1 January 2021 and 30 June 2021	1,470,100	119,770,118	886,513	-	122,126,731	78

As at 30 June 2022 and 2021, analysis of the Company's issued shares are as follows:

	Number of shares	Nominal value of share capital RMB'000
(Unaudited)		
As at 30 June 2022		
Ordinary shares	209,245,601	133
(Audited)		
As at 30 June 2021		
Class A ordinary shares	1,470,100	1
Class B ordinary shares	119,770,118	76
Series A Preferred Shares with no redemption rights	886,513	1
	122,126,731	78

Notes to the Interim Financial Information

15 OTHER RESERVES

	Share premium RMB'000	Contributions from ultimate holding company RMB'000 (Note (a))	Share-based compensation reserve RMB'000	PRC statutory reserve RMB'000 (Note (b))	Exchange reserve RMB'000	Others RMB'000	Total RMB'000
(Unaudited)							
As at 1 January 2022	16,899,507	23,564	427,402	2,869	628,429	-	17,981,771
Exercise of share options	84,970	-	(50,846)	-	-	-	34,124
Equity-settled share-based payments	-	2,380	51,964	-	-	-	54,344
Currency translation differences	-	-	-	-	296,738	-	296,738
As at 30 June 2022	16,984,477	25,944	428,520	2,869	925,167	-	18,366,977
(Audited)							
As at 1 January 2021	2,581,975	18,439	97,259	1,821	432,654	(66,552)	3,065,596
Equity-settled share-based payments	-	2,814	195,486	-	-	-	198,300
Fair value change on convertible redeemable preferred shares due to own credit risk	-	-	-	-	-	(34,930)	(34,930)
Currency translation differences	-	-	-	-	79,422	-	79,422
As at 30 June 2021	2,581,975	21,253	292,745	1,821	512,076	(101,482)	3,308,388

Note:

(a) Contributions from ultimate holding company

The contributions from ultimate holding company represent deemed contribution from NetEase as a result of NetEase granting restricted share units to eligible grantees of the Group.

(b) PRC statutory reserve

According to the Companies Laws of the PRC and the articles of association of the relevant subsidiaries established in the PRC, PRC subsidiaries are required to transfer not less than 10% of their net profit to PRC statutory reserve before distributions are made to the equity owners. Such a transfer is not required when the balance of the PRC statutory reserve reaches 50% of the subsidiaries' registered capital. The PRC statutory reserves shall only be used to make up losses of the subsidiaries, to expand the subsidiaries' production operations, or to increase the capital of the subsidiaries. Upon approval by the resolutions of the subsidiaries' shareholder in general meetings, the subsidiaries may convert their PRC statutory reserves into registered capital and issue bonus capital to existing owners in proportion to their existing ownership structure.

Notes to the Interim Financial Information

16 SHARE-BASED COMPENSATION

The Group operates an equity-settled share-based compensation plan (i.e. share option scheme and share award scheme), under which the Group receives services from employees and others who provide similar services as employees (“Service Recipients”), as consideration for equity instruments of the Company. In addition, the controlling shareholder, NetEase, also operates certain share-based compensation plans (i.e. restricted share units (“RSUs”) plans), which may cover certain employees (the “Eligible Grantees”) of the Group. Share options, share awards and RSUs granted to the grantees of the Group are measured at the grant date based on the fair value of equity instruments and are recognised as an employee benefit expenses over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, with a corresponding increase in equity as “share-based compensation reserve” if it is related to equity instruments of the Company or as “contributions from the ultimate holding company” if it is related to equity instruments of NetEase.

At the end of each period, the Group revises its estimates of the number of options, awards and RSUs that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The total amount to be expensed is determined by reference to the fair value of the options, awards and RSUs granted:

- including any market performance conditions (e.g. the entity’s share price),
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining as an employee of the entity over a specified time period), and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or hold shares for a specific period of time).

For share options and awards with a performance condition that affects vesting, the performance condition is not considered in determining the share option’s fair value on the grant date. Performance condition should be considered when the Group is estimating the quantity of share options and awards that will vest. The Group recognises compensation expenses for share options and awards with performance conditions if and when the Group concludes that it is probable that the performance condition will be achieved, net of actual pre-vesting forfeitures over the requisite service period. The Group reassesses the probability of vesting at each reporting period for share options and awards with performance conditions and adjusts compensation expenses based on its probability assessment.

During the six months ended 30 June 2022 and 2021, the Group has a Pre-IPO Share Incentive Plan in place and was also a party to the Restricted Share Unit (“RSU”) plan of NetEase whereas restricted share units may be issued to eligible grantees of the Group.

Notes to the Interim Financial Information

16 SHARE-BASED COMPENSATION *(Continued)*

(a) Pre-IPO Share Incentive Plan of the Company

During the year ended 31 December 2016, the board of directors of the Company approved the establishment of a Pre-IPO Share Incentive Plan (the "Pre-IPO Share Incentive Plan") with the purpose of motivating, attracting and retaining those individuals for outstanding performance to generate superior returns to the shareholders of the Group. The Pre-IPO Share Incentive Plan is valid and effective for 10 years from the approval of the board of directors. The maximum aggregate number of Shares which may be issued pursuant to the Pre-IPO Share Incentive Plan is 15,000,000 Class A Ordinary Shares.

(i) Share options

The share options under the Pre-IPO Share Incentive Plan have graded vesting terms, and will be vested from the grant date over four years to five years on the condition that employees remain in service together with a performance requirement.

The options may be exercised at any time after the IPO of the Company provided the options have vested and subject to the terms of the Pre-IPO Share Incentive Plan. The options are exercisable for a maximum period of seven years after the date of grant.

Set out below are summaries of options granted under the plan:

	Number of share options	Weighted average exercise price per share option US\$
(Unaudited)		
Outstanding as at 1 January 2022	11,654,900	6.49
Exercised during the year	(1,488,725)	3.46
Forfeited during the period	(347,675)	10.61
Outstanding as at 30 June 2022	9,818,500	6.80
Vested and exercisable at 30 June 2022	7,359,375	5.45
(Audited)		
Outstanding as at 1 January 2021	11,332,600	5.87
Granted during the period	1,907,850	11.00
Forfeited during the period	(1,005,900)	7.11
Outstanding as at 30 June 2021	12,234,550	6.57
Vested and exercisable at 30 June 2021	1,936,340	5.40

Notes to the Interim Financial Information

16 SHARE-BASED COMPENSATION (Continued)

(a) Pre-IPO Share Incentive Plan of the Company (Continued)

(i) Share options (Continued)

Share options outstanding at the end of the period have the following expiry date and exercise price.

Grant date	Expiry date	Exercise price	Vesting year*	Six months ended 30 June	
				2022 (Unaudited)	2021 (Audited)
25 May 2016	25 May 2023	US\$1	4 years from grant date	3,241,600	4,289,900
29 August 2016	29 August 2023	US\$1	4 years from grant date	–	40,000
18 January 2017	18 January 2024	US\$8	4 years from grant date	419,000	567,000
10 July 2017	10 July 2024	US\$8	4 years from grant date	409,450	541,000
7 August 2017	7 August 2024	US\$8	5 years from grant date	–	–
23 November 2017	23 November 2024	US\$8	4 years from grant date	267,000	267,000
12 February 2018	12 February 2025	US\$8	4 years from grant date	122,000	170,000
21 May 2018	21 May 2025	US\$8	4 years from grant date	1,132,000	1,237,500
17 August 2018	17 August 2025	US\$8	4 years from grant date	267,250	295,000
19 November 2018	19 November 2025	US\$8	4 years from grant date	80,000	130,000
2 March 2019	2 March 2026	US\$8	4 years from grant date	115,000	185,000
21 May 2019	21 May 2026	US\$8	4 years from grant date	131,500	235,000
25 September 2019	25 September 2026	US\$11	4 years from grant date	975,750	1,020,000
22 November 2019	22 November 2026	US\$11	4 years from grant date	265,000	403,000
1 March 2020	1 March 2027	US\$11	4 years from grant date	178,000	178,000
20 May 2020	20 May 2027	US\$11	4 years from grant date	70,900	123,300
30 September 2020	30 September 2027	US\$11	4 years from grant date	389,000	480,000
24 November 2020	24 November 2027	US\$11	4 years from grant date	187,500	207,000
19 February 2021	19 February 2028	US\$11	1 year from grant date	5,000	8,000
26 February 2021	26 February 2028	US\$11	4 years from grant date	134,650	216,150
27 May 2021	27 May 2028	US\$11	4 years from grant date	1,237,050	1,433,850
15 June 2021	15 June 2028	US\$11	1 year from grant date	–	3,000
15 June 2021	15 June 2028	US\$11	4 years from grant date	190,850	204,850
Total				9,818,500	12,234,550
Weighted average remaining contractual life of options outstanding at end of the period				4.02 years	4.89 years

Notes to the Interim Financial Information

16 SHARE-BASED COMPENSATION (Continued)

(a) Pre-IPO Share Incentive Plan of the Company (Continued)

(i) Share options (Continued)

- * 20% to 100% of the options, depending on different vesting terms and performance requirements, are vested on the first anniversary of the grant date, and remaining options shall be vested in equal tranches at the anniversary of remaining vesting periods.

Based on fair value of the underlying ordinary shares, the Group has used Binomial model to determine the fair value of the share option as of the grant date. Key assumptions of the options granted during the six months ended 30 June 2021 were set as below:

	Six months ended 30 June 2021 (Audited)
Fair value per share (in US\$)	15.05 – 20.07
Exercise price (in US\$)	11
Risk-free interest rate	0.96%-1.25%
Expected life	7 years
Expected volatility	45%-49%
Dividend yield	0.00%

(ii) Share awards

During the period, the Company granted certain share awards to eligible grantees following the terms of the Pre-IPO Share Incentive Plan, subject to the satisfaction of certain performance objectives as set out in the award agreements. The share awards are granted without consideration, and the vesting period is 3 years in equal tranches.

Movements in the number of share awards granted to eligible grantees of the Group for the six months ended 2022 are as follows:

	Number of share awards	Weighted average grant date fair value HK\$
(Unaudited)		
Outstanding as at 1 January 2022	–	–
Granted during the period	1,082,851	73.95
Forfeited during the period	(57,584)	73.95
Outstanding as at 30 June 2022	1,025,267	73.95

Notes to the Interim Financial Information

16 SHARE-BASED COMPENSATION *(Continued)*

(b) Restricted share units plan of NetEase Group

2019 Restricted Share Unit Plan of NetEase Group

In October 2019, NetEase adopted a 2019 restricted share unit plan for the employees, directors and consultants of NetEase and its subsidiaries (the "2019 Plan"). The 2019 Plan has a ten-year term and a maximum number of 322,458,300 ordinary shares of NetEase is available for issuance pursuant to all awards under the plan.

NetEase granted certain RSUs (or the "share-based awards") to certain eligible grantees of the Group. These RSUs will be vested from the grant date over one year to five years on the condition that employees and others remain in service with performance requirement.

All, one-second, one-fourth or one-fifth of the relevant RSUs, depending on different vesting terms and performance requirements, are vested on the first anniversary of the grant date, and remaining RSUs shall be vested in equal tranches at the anniversary of remaining vesting periods.

Movement in the number of RSUs granted to eligible grantees of the Group for the six months ended 30 June 2021 and 2022 are as follows:

	Number of RSUs	Weighted average grant date fair value US\$
(Unaudited)		
Outstanding as at 1 January 2022	22,612	62.93
Granted during the period	5,325	96.72
Vested and transferred during the period	(5,922)	34.27
Forfeited during the period	(1,216)	61.46
Outstanding as at 30 June 2022	20,799	79.83
(Audited)		
Outstanding as at 1 January 2021	42,161	57.29
Granted during the period	1,753	109.03
Vested and transferred during the period	(14,105)	53.69
Forfeited during the period	(1,633)	65.01
Outstanding as at 30 June 2021	28,176	61.86

The equity-settled share-based payment of RSUs was measured based on the fair value of NetEase's ordinary shares on the date of grant.

Notes to the Interim Financial Information

16 SHARE-BASED COMPENSATION *(Continued)*

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the six months ended 30 June 2022 and 2021 as part of employee benefit expenses were as follows:

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Share options issued under the Pre-IPO Share Incentive Plan	45,749	144,689
Share awards granted under the Pre-IPO Share Incentive Plan to eligible grantees	5,681	–
RSUs granted under the NetEase Group Restricted Shares Units Plan to eligible grantees of the Group	2,380	2,814
	53,810	147,503

17 ACCOUNTS PAYABLES

	As at	As at
	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Accounts payables	457	134

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

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

Notes to the Interim Financial Information

18 ACCRUALS AND OTHER PAYABLES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Current liabilities		
Accrued content service costs	1,166,954	765,014
Accrued expenses	176,468	153,188
Accrued listing expenses	4,552	92,737
Accrued salaries and staff benefits	168,537	179,003
Deposits from customers	44,829	47,822
Other taxes payable	46,002	15,008
Others	30,084	30,999
	1,637,426	1,283,771

19 CONVERTIBLE REDEEMABLE PREFERRED SHARES

Historically, the Company has completed four rounds of financing by issuing convertible redeemable preferred shares to investors. In December 2021, the Company completed IPO on the Main Board of the Stock Exchange of Hong Kong Limited. Upon listing, all of the preferred shares were automatically converted into ordinary shares, and the related liabilities were derecognised.

The movements of the convertible redeemable preferred shares during the period ended 30 June 2021 are set out as below:

	RMB'000
(Audited)	
At 1 January 2021	11,162,403
Change in fair value through profit or loss	3,128,668
Change in fair value through other comprehensive income	34,930
Currency translation differences	(114,801)
At 30 June 2021	14,211,200

Notes to the Interim Financial Information

20 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions in addition to the related party information shown elsewhere in this interim financial information:

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the six months ended 30 June 2022:

Name of related parties	Relationship with the Group
NetEase and its subsidiaries other than the entities controlled by the Group (the "NetEase Group")	The Company's principal shareholder

(a) Transactions

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Purchase of property, plant and equipment from NetEase Group	1,678	2,324
Purchase of goods from NetEase Group	3,229	2,704
Purchase of technology and other services from NetEase Group	233,894	222,343
Provision of advertising services to NetEase Group	198,809	270,723
Provision of other services to NetEase Group	11,505	9,936
Sales of property, plant and equipment to NetEase Group	738	400

Transactions with related parties were determined based on prices and terms mutually agreed by the relevant parties involved.

(b) Balances with related parties

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
	Amounts due from NetEase Group	117,000
Amounts due to NetEase Group	57,848	56,389

Note: Outstanding balances are in trade nature, unsecured, interest-free and are repayable on demand.

Notes to the Interim Financial Information

20 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management personnel compensation

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Salaries and bonuses	5,227	4,973
Welfare and other employee benefits	260	213
Equity-settled share-based payments	818	29,972
	6,305	35,158

21 CONTINGENT LIABILITIES

As at 30 June 2022, the Group has no material contingent liabilities.

Definitions

“Board”	the board of directors of our Company
“China” or the “PRC”	the People’s Republic of China, and for the purpose of this interim 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
“DAUs of online music services”	the number of users that accessed the NetEase Cloud Music application at least once during a given day through mobile devices or PC devices, as the case may be; duplicate access is eliminated from the calculation based on our estimates by user account
“Group”	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
“MAUs of online music services”	the monthly average number of users in a given period that have accessed the NetEase Cloud Music application at least once in a given month through mobile devices or PC devices, as the case may be; duplicate access is eliminated from the calculation based on our estimates by user account
“Monthly ARPPU of online music services”	the monthly average of the revenues from membership subscriptions for that period divided by the number of monthly paying users of online music services for that period
“Monthly ARPPU of social entertainment services”	the monthly average of the revenues of the social entertainment services for that period divided by the number of monthly paying users of social entertainment services for that period
“Monthly paying users of online music services”	the average of the number of user whose membership subscription packages remain active as of the last day of each month in a given period. Monthly paying users of online music services for any given period excludes the number of users who only purchase digital music singles and albums during such period because these user purchasing patterns tend to reflect specific hit releases, which fluctuate from period to period

Definitions

“Monthly paying users of social entertainment services”	the average of the number of users who contribute revenues to our social entertainment services for each month in a given period
“NetEase”	NetEase, Inc., an exempted company incorporated in the Cayman Islands with limited liability on 6 July 1999 (Nasdaq: NTES; SEHK: 9999) and considered our controlling shareholder under the Listing Rules
“NetEase Group”	NetEase and its subsidiaries and consolidated affiliated entities, and unless the context otherwise requires, excluding our Group
“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
“Registered Independent Artists”	the artists who have registered on our platform to qualify for publishing their songs and have published at least one song on our platform
“Reporting Period”	six months ended 30 June 2022
“Share(s)”	shares of our Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited