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CLOUD MUSIC INC.

雲音樂股份有限公司

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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 9899)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

Our Board is pleased to announce the unaudited consolidated results of our Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2022. These unaudited consolidated annual results have been reviewed by our Board’s audit committee together with our management.

	Year ended 31 December		
	2022	2021	Change (%)
	<i>(RMB in thousands, except percentages)</i>		
Revenue	8,992,221	6,997,622	+28.5%
Gross profit	1,293,118	142,674	+806.3%
Loss before income tax	(204,479)	(2,051,423)	-90.0%
Loss for the year	(221,494)	(2,056,092)	-89.2%
Non-IFRS measure: Adjusted net loss ⁽¹⁾	(114,573)	(1,043,712)	-89.0%

Note:

- (1) Adjusted net loss is defined as loss for the year adjusted by adding back equity-settled share-based payments and changes in fair value of convertible redeemable preferred shares. For details of the reconciliation of the loss for the year to the adjusted net loss of our Group, see “– Financial Review” below.

Non-IFRS measure

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

General notes

In this announcement: (i) “we”, “us”, and “our” refer to our Company and where the context otherwise requires, our Group; (ii) numbers may be subject to rounding and approximations to one or two decimal places; and (iii) unless otherwise stated, the exchange rates used are RMB1 to HK\$1.1195 and US\$0.1436.

KEY OPERATING DATA

The following table sets forth our MAUs of online music services for the year indicated.

	Year ended 31 December	
	2022	2021
MAUs of online music services (in millions)	189.4	182.6

Our revenues depend on our ability to monetize, to convert more users to paying users and to increase the spending of our paying users. The following table sets forth our monthly paying users and monthly ARPPU in 2021 and 2022.

	Year ended 31 December	
	2022	2021
Monthly paying users (in thousands)		
Online music services	38,267.1	28,940.4
Social entertainment services	1,332.3	683.3
Monthly ARPPU (RMB)		
Online music services ⁽¹⁾	6.6	6.7
Social entertainment services ⁽²⁾	326.0	448.1

Notes:

- (1) The revenues used to calculate the monthly ARPPU of online music services include revenues from membership subscriptions only, which amounted to RMB2,333.5 million and RMB3,037.1 million in 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 RMB3,674.2 million and RMB5,212.1 million in 2021 and 2022, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Throughout 2022, we enhanced our music-inspired offerings. We brought our users innovative features and expansive content, grew our differentiated community and elevated our content ecosystem. The success of these initiatives strengthened our commercialization capabilities. Along with our optimized operating efficiency and cost structure, we considerably narrowed our net loss in 2022 year-over-year.

Despite the industry-wide slowdown, our MAUs of online music services for 2022 still steadily climbed to 189.4 million, up 4% year-over-year. The growth was supported by our continued effort to create a better user experience and broader music listening scenarios. Meanwhile, our DAU/MAU ratio (daily active user/monthly active user ratio) stayed well above 30%, demonstrating our ability to foster continued growth across our leading music-inspired community.

We continued to secure more high-quality content in 2022, with a focus on better investment efficiency. Paired with our stronghold in fostering a leading independent artists ecosystem and enhancements to our in-house music production, we have developed a **comprehensive and differentiated content ecosystem** that encourages user stickiness, as well as users' willingness to subscribe to our diverse premium offerings. We will further explore cooperations with record labels to round out our content offerings in 2023. A remarkable example is our recently announced partnership with B'in Music, which expands our leading content library with some of most influential C-pop music.

We have worked diligently to **strengthen our monetisation capabilities** throughout 2022. Despite a more challenging industry and macro environment, our total revenues in 2022 grew 28.5% year-over-year, led by increases across our subscription-based memberships (via subscriber scale-up) and social entertainment services. Our high-quality user community, ongoing content enhancements, and innovative features supported the increase of our paying ratio, which climbed to 20.2% in 2022, up from 15.8% in 2021. Monthly ARPPU of online music services also began to recover in the second half of 2022, aided by our pricing optimization initiatives and broadened membership privileges.

We have also managed to **considerably improve profitability** in 2022. The improvement is mainly attributable to the effects of increased scale and cost optimization. **Gross margins** soared to 14.4% in 2022, compared with 2.0% in 2021, owing to our increased business scale and copyright cost structure optimization as the industry tailwinds featuring more reasonable copyright fees and payment settlement mechanisms. Our **adjusted net loss** considerably narrowed to RMB0.1 billion in 2022, compared with RMB1.0 billion in 2021, further aided by disciplined cost management and improved operating leverage. We achieved positive operating cash inflow in 2022, compared with operating cash outflow in 2021, and we have maintained a healthy financial position with ample cash balance by the year end.

In 2023, we remain committed to cultivating our community, bringing more high-quality music to our users, further strengthening our operating capabilities and improving profitability. Our plans call to:

- foster our music-oriented community ecosystem and explore innovations in social networking, via enhancements to our comprehensive product offerings, embedded with more interactive features and broadened communicative ecology;
- further diversify and enhance our content offerings with better efficiency. We plan to deepen our collaboration with copyright holders, as well as strengthen our independent artists incubation and our in-house music production;
- cultivate our users' willingness to pay and subscribe to premium offerings, via improved user experience and deepened user engagement, and broadened consumption scenarios;
- improve profitability through continued content cost optimization, enhanced operating efficiency and disciplined cost control; and
- look to IoT layouts, as well as potentially game-inspired initiatives, to further expand music listening scenarios and explore commercialization opportunities.

Content enhancement

We offer a full spectrum of content as our young users' demands become increasingly diverse and personalised. Our content library comprised more than 116 million music tracks by the end of December 2022, including music from established labels, as well as independent artists and our in-house production.

Partnerships with music labels. Music copyright licensing has opened up following the end of the online music industry monopoly. We continued to promote the reclaiming and expansion of music copyright in a disciplined manner in 2022, and thus further diversified and enriched our content offerings.

- ***Expansive catalogue of music labels.*** We have signed copyright collaborations successively with top labels including Linfair Records, SM Entertainment, TF Entertainment, YG Entertainment, KAO! INC and Pony Canyon. These collaborations add more popular music tracks from influential singers and groups to our platform, including, but not limited to, Angela Chang, SUPER JUNIOR, Girls' Generation, EXO, TFBOYS, BIGBANG, BLACKPINK and Kana Hanazawa.
- ***Digital album.*** Several premium digital albums achieved impressive sales on our platform in 2022, including “*希忘 (Xiwang) Hope*” by Chenyu Hua, “*I NEVER DIE*” and “*I LOVE*” by (G)I-DLE, “*Teen on Shuqian Street*” by Lei Zhao and “*Midnights (3am Edition)*” by Taylor Swift.

Going forward, we will look to actively negotiate with multiple copyright holders to secure more high-quality content that complements our offerings.

- At the beginning of 2023, we successfully signed a copyright collaboration agreement with **B'in Music**, adding its vast music catalogue from top artists such as Jonathan Lee and Mayday.

Independent artists. We continue to grow and empower independent artists, serving more than 611,000 registered independent artists by the end of 2022. Our content library includes approximately 2.6 million music tracks generated by our registered independent artists. Throughout 2022, we continued to actively nurture independent artists, helping them create and promote music works, and realise commercial value.

- ***Supporting musicians in content creation.*** A variety of musical forces convene on our platform such as lyricists, composers and arrangers. We have been effectively facilitating music cooperation on our platform among musicians across the creation value chain.
 - Rolled out more **creation-oriented communities** among musicians including Musicians Community (音樂人社區) and Backstage Artists Forum (幕後專區): In doing so, we promote interaction and cooperation among musicians, and better serve the music production industry.
 - ***Music knowledge sharing (音樂說)*** is a special column covering various aspects of artists' development, which offers professional contents such as professionals interviews, industry trend analysis and the exchange of ideas.
- ***Improving musicians' exposure.*** During the year, we further mobilised our internal and external resources to help musicians increase their exposure and promote their music works.
 - **Online exposure:** Launched Independent Artist Zone, comprising Original Music Discovery and Local Recommendation, expanding music discovery and consumption scenarios, and kicking off local-based operations for original music.
 - **Offline presence:** Rolled out our camping-themed music festival brand "*Cloud Village Camping Music Festival*", incorporating an offline presence to promote our musician ecosystem.
- ***Helping musicians realise commercial value.*** We take an active role in helping musicians profit on our platform by leveraging our diversified commercialisation methods and tools.
 - **Launched Musical Work Trading Platform:** musicians can realise commercial value through trading and cooperating on music works with other professionals across songwriting, mixing and arrangement, and other production services.

In-house music. In 2022, we further reinforced our in-house production capabilities, focusing on our advantageous music genres and styles. 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》), “Ruo Ba Ni” (《若把你》) and “Ta Zai Hu” (《他在乎》), further demonstrating our excellent in-house music content production capabilities.

Differentiated special planning episodes. Building upon the highly engaged user interaction, we stimulated more IP-planning projects to expand the exposure of elite music content. These initiatives entail aesthetics appreciation of distinct content offerings and the pursuit of passionate resonance, helping us cater to music enthusiasts, as well as underpin our branding proposition and user mindset.

- Following our partnership with major record labels, such as Rock Records and Linfair Records, we rolled out special episodes to revive classic songs and popularize them with the younger generation.
- We helped expand the exposure of distinct music genres through creative introductory episodes. For example, the episode titled “*100 Years History of Jazz Music*” received great user recognition.
- We rolled out more IP-themed special planning episodes to promote in-house content via well-liked topics, such as “*In the Other Hometown*,” and utilize creative endeavours to increase the exposure of lesser-known content, such as “*The Land of Silver Salt Photography*.”

Community ecosystem and product innovation

Throughout 2022, we continued to revitalise our differentiated community across our steadily growing user scale, and achieved strong and sustained user engagement levels. During the year, each daily active user spent, on average, approximately 78.9 minutes per day listening to music on our platform (2021: 78.2 minutes). As of 31 December 2022, 33.4% of music streams were attributable to platform recommendations. These metrics demonstrate the strong stickiness and activities of our high-quality user group, and distinguish our vibrant community attributes, which are mutually reinforcing within our ecosystem.

Meanwhile, we advanced our initiatives in product innovation. We are not only committed to improving user music listening experience, but also actively adding interactive features and broadening communication scenarios, which invokes music-inspired resonance and reinforces a multi-layered community ecology. We are also broadening music listening scenarios, further aided by collaborations with NetEase Games.

Optimising users' listening experience

- **Memory Coordinates (回憶坐標)**: Our newly launched feature presents users with recollections of their own personal moments and emotional connections to the song by displaying digitalised metrics of meaningful accompaniment.
- **Style Recommendation (風格推薦)**: The addition of this tab brings more personalised options to users in the daily recommendation function to better reflect diverse tastes with more accurate recommendation content.
- **Music Encyclopedia (音樂百科)**: We have rolled out the “Music Encyclopedia” function, integrating fragmented information into an encyclopedia page that contains music genre, style, instruments, BPM (beat count) and awards.
- **Initiatives to improve audio quality**: Following our successful launch of “Hi-Res,” we further introduced “Dolby Atmos (杜比全景聲),” which allows users more authentic and immersive ways to elevate their listening experience.

Fostering community atmosphere and social networking features

- Launched innovative offerings, including **Star-rated Comment Section (星評館)** presented on our home page to display emotionally touching comments, aiming to further boost our community atmosphere and motivate creators to post high-quality comments.
- Rolled out **Fans Space (樂迷團)**, an engaging and interactive gathering place for artists and their followers to strengthen bonds and establish closer connections, while encouraging user interactions to discover like-minded people for more communication.

Expanding music consumption scenarios

- **Joint collaboration with NetEase Games**. We continued to expand our internal collaboration with NetEase Games, seeking more tie-ups that utilise our strength in content to integrate users' gaming experience with diverse listening options, across *Ace Racer* and *Minecraft*, etc., as well as the newly launched popular casual game *Eggy Party (蛋仔派對)*.
- **IoT layouts**. Our foray in the IoT market covers smart devices across more aspects of peoples' lives, around travel, gatherings, sports and more. In particular, we added TV terminal layouts, extending to large-screen household scenarios, featuring *Atmosphere Space (氛圍空間)*, a new immersive companion function with a variety of soothing visuals and atmospheric sounds.

FINANCIAL REVIEW

Overview

Over the Reporting Period, we recorded a revenue of RMB9.0 billion and a gross profit of RMB1.3 billion. Our net loss amounted to RMB0.2 billion and RMB2.1 billion in 2022 and 2021, respectively. Our adjusted net loss decreased by 89.0% from RMB1.0 billion in 2021 to RMB0.1 billion in 2022. The decrease in the adjusted net loss was mainly due to the increased net revenues as well as improved cost control.

Revenue

Our revenue increased by 28.5% from RMB6,997.6 million in 2021 to RMB8,992.2 million in 2022.

Revenue from online music services increased by 12.4 % from RMB3,290.0 million in 2021 to RMB3,698.8 million in 2022, primarily due to the significant growth in revenues from sales of membership subscriptions. Revenue from sales of membership subscriptions increased from RMB2,333.5 million in 2021 to RMB3,037.1 million in 2022. MAUs of online music services grew from 182.6 million in 2021 to 189.4 million in 2022. In particular, monthly paying users of online music services expanded from 28.9 million in 2021 to 38.3 million in 2022. The growth in monthly paying users of online music services was primarily due to our continued efforts in improving user experience, innovating interactive features and enriching our content offerings. We are actively completing our music catalog and have signed copyright collaborations successively with some top labels in 2022. Our monthly ARPPU of online music services was RMB6.7 in 2021 and RMB6.6 in 2022, respectively.

Revenue from social entertainment services and others increased by 42.8% from RMB3,707.6 million in 2021 to RMB5,293.4 million in 2022. Our vibrant community culture that encourages content creation, as well as our diverse content offerings in social entertainment formats, contributed to the robust growth of our social entertainment business. As the size and engagement level of our social entertainment services' user base continued to grow, we strive to provide more music-inspired social entertainment services and products to our users. Our monthly paying users of social entertainment services expanded from 683.3 thousand in 2021 to 1,332.3 thousand in 2022, and monthly ARPPU of social entertainment services was RMB448.1 in 2021 and RMB326.0 in 2022, respectively.

Cost of Revenue

Our cost of revenue increased by 12.3% from RMB6,854.9 million in 2021 to RMB7,699.1 million in 2022, attributable to an increase in content service costs from RMB5,960.9 million in 2021 to RMB6,711.6 million in 2022. The increase of content service costs primarily due to the increase in revenue sharing fees along with the increase in revenue from social entertainment services.

Gross Profit and Gross Margin

As a result of the above, our gross profit increased from RMB142.7 million in 2021 to RMB1,293.1 million in 2022, as a result of our significant revenue increase and control over content licensing fees. In particular, our gross margin increased from 2.0% in 2021 to 14.4% in 2022.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 47.2% from RMB431.3 million in 2021 to RMB634.7 million in 2022, primarily due to increased expenses related to promoting our music-inspired social entertainment products and services.

General and Administrative Expenses

Our general and administrative expenses decreased by 35.1% from RMB264.2 million in 2021 to RMB171.6 million in 2022, primarily due to the decrease in share-based payment expenses related to the employee share incentive plans and listing expense. We incurred listing expenses of RMB65.5 million in 2021 and 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 16.3% from RMB869.1 million in 2021 to RMB1,011.1 million in 2022, primarily due to the increase in employee benefit expenses and technology development fees as a result of the expansion of our business. To deliver a satisfying music experience consistently, we are continuously innovating and improving our platform and heavily investing in research and development.

Other Income

Our other income increased from RMB72.1 million in 2021 to RMB142.3 million in 2022, primarily due to an increase in government grants and value-added tax subsidies.

Other (Losses)/Gains, Net

We recorded other gains of RMB3.0 million in 2021, while we recorded other losses of RMB2.6 million in 2022. The other losses were primarily attributable to the impairment loss for investments in associates.

Finance Income, Net

Our finance income increased from RMB48.4 million in 2021 to RMB183.1 million in 2022, primarily arising from more interest income due to the increase in short-term deposits placed during the current year.

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 RMB755.2 million in 2021, and we did not record any further changes in fair value of the convertible redeemable preferred shares in 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 RMB4.7 million in 2021 as compared to income tax expenses of RMB17.0 million in 2022, primarily due to an increase in taxable income attributable to certain of our group companies.

Loss for the Year

As a result of the above, our loss for the year decreased by 89.2% from RMB2,056.1 million in 2021 to RMB221.5 million in 2022.

Adjusted Net Loss

Our adjusted net loss decreased by 89.0% from RMB1,043.7 million in 2021 to RMB114.6 million in 2022. Adjusted net loss is a non-IFRS measure and is defined as loss for the year adjusted by adding back equity-settled share-based payments and changes in fair value of convertible redeemable preferred shares. The following table reconciles loss for the year to adjusted net loss for both years:

	For the year ended	
	31 December	
	2022	2021
	<i>(in RMB thousands)</i>	
Loss for the year attributable to the equity holders of the Company	(221,494)	(2,056,092)
Add:		
Equity-settled share-based payments ^{Note (a)}	106,921	257,142
Changes in fair value of convertible redeemable preferred shares ^{Note (b)}	–	755,238
Adjusted net loss	(114,573)	(1,043,712)

Notes:

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

Liquidity and Capital Resources

As at 31 December 2022, we funded our cash requirements principally from cash generated from operating activities. We had cash and cash equivalents of RMB0.9 billion and RMB2.9 billion as at 31 December 2021 and 2022, respectively.

Our principal uses of cash have been for funding of required working capital, capital expenditures and other recurring expenses to support the expansion of the Group's operations. Going forward, our Company intends to finance its expansion and business operations with a combination of the net proceeds received from our Company's global offering, and through sustainable growth. Any significant decrease in users of our online music services and/or social entertainment services may adversely impact our liquidity.

Gearing Ratio

As at 31 December 2022, our gearing ratio was 28.2%, representing an increase of 6.8 percentage points as compared with 21.4% as at 31 December 2021. Gearing ratio is calculated as our total liabilities divided by our total assets as at a particular date.

Significant Investments

Save as disclosed in this announcement, we did not make or hold any significant investments during the 2022 financial year.

Material Acquisitions and Disposals

We did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities, associated companies or joint ventures during the 2022 financial year.

Pledge of Assets

As at 31 December 2022, none of our assets were pledged to secure our loans and banking facilities.

Contingent Liabilities

We had no material contingent liabilities as at 31 December 2022 (31 December 2021: Nil).

Foreign Exchange Exposure

During the Reporting Period, save for the short-term bank deposits, which are denominated in U.S. dollars, substantially all of our revenues and expenditures were denominated in RMB. Accordingly, we have certain exposure to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar. Foreign exchange risk arises when commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of our subsidiaries. The functional currency of our Company is U.S. dollars whereas the functional currency of our subsidiaries, which operate in the PRC, is RMB. We currently do not have a foreign currency hedging policy in respect of transactions undertaken in foreign currency but we manage our foreign exchange risk by performing regular reviews of our net foreign exchange exposures.

Future Plans for Material Investments

We had no other plans for material investments or capital assets as at 31 December 2022, except the intended use of proceeds as disclosed in the Prospectus.

Employee and Remuneration Policy

As at 31 December 2021 and 2022, we had 1,503 and 1,540 employees, respectively. As at 31 December 2022, substantially all of our employees were based in China.

The number of employees employed by our Group varies from time to time depending on business need. Employees' remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. Our Group's compensation system is well-structured and consists of a basic salary, a performance-based bonus and long-term incentives, which is reviewed periodically. As required by regulations in China, we participate in various employee social security plans that are organised by municipal and provincial governments for our PRC-based full-time employees including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing funds. According to the relevant laws and regulations in the PRC, the amount we are required to contribute for each of our employees under such plans should be calculated based on the employee's actual salary level of the previous year, and be subject to a minimum and maximum level as from time to time prescribed by local authorities. Our Group also provides training sessions to its employees, which mainly focus on campus recruiting personnel, management personnel and professional technology personnel.

Remuneration of Directors and other senior management of our Group is reviewed by our Company's remuneration committee to the Board based on our performance and the senior managements' respective contributions to our Group.

Additionally, our Company has (i) a share incentive plan, the material terms of which are described in Prospectus dated 23 November 2021 (at Appendix IV; available on the Stock Exchange's website), and (ii) a restricted share unit plan, the material terms of which are described in our announcement dated 18 August 2022. The total remuneration cost incurred during the 2022 financial year was RMB1,203.2 million (for the 2021 financial year: RMB1,120.7 million).

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Note</i>	Year ended 31 December	
		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2	8,992,221	6,997,622
Cost of revenue	3	(7,699,103)	(6,854,948)
Gross profit		1,293,118	142,674
Selling and marketing expenses	3	(634,677)	(431,312)
General and administrative expenses	3	(171,598)	(264,216)
Research and development expenses	3	(1,011,057)	(869,146)
Other income		142,315	72,067
Other (losses)/gains, net		(2,614)	2,998
Operating loss		(384,513)	(1,346,935)
Share of results of investments accounted for using equity method		(2,722)	2,334
Finance income		183,105	48,416
Finance cost		(349)	–
Changes in fair value of convertible redeemable preferred shares		–	(755,238)
Loss before income tax		(204,479)	(2,051,423)
Income tax expense	4	(17,015)	(4,669)
Loss for the year attributable to equity holders of the Company		(221,494)	(2,056,092)
Loss per share attributable to equity holders of the Company (expressed in RMB per share)			
Basic loss per share	5	1.06	15.92
Diluted loss per share	5	1.06	15.92

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Loss for the year	(221,494)	(2,056,092)
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	–	(25,975)
Currency translation differences	519,465	195,775
Other comprehensive income for the year, net of taxes	519,465	169,800
Total comprehensive income/(loss) for the year attributable to equity holders of the Company	297,971	(1,886,292)

UNAUDITED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2022

		As at 31 December	
	<i>Note</i>	2022	2021
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		45,836	44,043
Right-of-use assets		7,824	10,505
Investments accounted for using equity method		79,032	92,914
Prepaid contents royalties		283,128	471,125
Prepayments and deposits		300	332
		<u>416,120</u>	<u>618,919</u>
		-----	-----
Current assets			
Accounts and bills receivable	7	558,141	673,650
Prepaid contents royalties		506,328	1,109,834
Prepayments, deposits and other receivables		155,918	234,909
Amounts due from group companies		138,504	128,368
Financial assets at fair value through profit or loss		-	240,772
Short-term bank deposits		6,191,529	5,527,732
Restricted cash		8,318	-
Cash and cash equivalents		2,916,534	853,454
		<u>10,475,272</u>	<u>8,768,719</u>
		-----	-----
Total assets		<u>10,891,392</u>	<u>9,387,638</u>
		-----	-----
Equity			
Equity attributable to equity holders of the Company			
Share capital		135	132
Other reserves		18,643,784	17,981,771
Accumulated losses		(10,823,860)	(10,600,233)
		<u>7,820,059</u>	<u>7,381,670</u>
		-----	-----
Liabilities			
Non-current liabilities			
Contract liabilities		55,244	50,555
Lease liabilities		5,623	7,893
		<u>60,867</u>	<u>58,448</u>
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		As at 31 December	
	<i>Note</i>	2022	2021
		RMB'000	RMB'000
Current liabilities			
Accounts payable	8	211	134
Accruals and other payables		2,234,597	1,283,771
Contract liabilities		714,259	604,614
Amounts due to group companies		53,002	56,389
Income tax payable		5,621	–
Lease liabilities		2,776	2,612
		<u>3,010,466</u>	<u>1,947,520</u>
Total liabilities		<u>3,071,333</u>	<u>2,005,968</u>
Total equity and liabilities		<u>10,891,392</u>	<u>9,387,638</u>

NOTES

1 BASIS OF PREPARATION

The unaudited consolidated financial statements (“Financial Information”) of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and financial liabilities, which are measured at fair value.

The preparation of the Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

1.1 Change in accounting policy and disclosures

(a) *New standards and amendments to standards adopted by the Group*

The Group has applied the following amendments to standards for the first time for their annual reporting period commencing on 1 January 2022:

Amendments to IAS 16	Property, plant and equipment: proceeds before intended use
Amendments to IFRS 3	Reference to the conceptual framework
Amendments to IAS 37	Onerous contracts – cost of fulfilling a contract
Annual improvements	Annual improvements to IFRSs 2018-2020

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 periods.

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

Certain new standards and amendments to 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.

		Effective for accounting periods beginning on or after
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
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2024
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 standards and amendments of standards, and has concluded on a preliminary basis that the adoption of these new and amended standards is not expected to have a significant impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 REVENUE

(a) Disaggregation of revenue from contracts with customers

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Type of goods or services:		
Online music services	3,698,781	3,289,991
Social entertainment services and others	5,293,440	3,707,631
	<u>8,992,221</u>	<u>6,997,622</u>
Timing of revenue recognition:		
A point in time	5,421,795	3,893,522
Over time	3,570,426	3,104,100
	<u>8,992,221</u>	<u>6,997,622</u>
Total	<u>8,992,221</u>	<u>6,997,622</u>

There is no significant concentration risk as no revenue from a single customer was more than 10% of the Group's total revenue for the years ended 31 December 2022 and 2021.

(b) Segment information

The CODM has been identified as the Board, 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 years ended 31 December 2022 and 2021.

During the year ended 31 December 2022, the Group principally operated in the PRC and substantial all of its revenue was generated in the PRC. All of its non-current assets were located in the PRC during the years ended 31 December 2022 and 2021.

3 EXPENSE BY NATURE

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Content service costs (Note)	6,711,646	5,960,862
Technology costs	547,257	486,806
Employee benefit expenses	1,203,220	1,120,654
Promotion and advertising expenses	563,469	372,744
Payment channel fees	313,523	254,103
Net impairment losses on financial assets	2,321	1,931
Depreciation of property, plant and equipment	22,557	15,043
Auditors' remuneration		
– Audit services related to the Group	5,820	4,000
– Other audit related services and non-audit services	1,077	2,420
Legal and professional fees	13,909	9,541
Listing expenses	–	65,470
Others	131,636	126,048
	<u>9,516,435</u>	<u>8,419,622</u>
Total cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses	<u>9,516,435</u>	<u>8,419,622</u>

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

4 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	17,015	4,669
Deferred income tax	–	–
	<u>17,015</u>	<u>4,669</u>

(a) Cayman Islands

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

(b) Hong Kong

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

(c) PRC

Under the Enterprise Income Tax (“EIT”) Law, foreign invested enterprises and domestic enterprises are subject to a unified EIT rate of 25%, except for a subsidiary of the Group in the PRC that was approved as High and New Technology Enterprise (“HNTE”) which enjoys a preferential tax rate of 15% from 2022 onwards and subject to re-approval by the related authorities in every three years.

5 LOSS PER SHARE

(a) Basic loss per share

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

	Year ended 31 December	
	2022	2021
Loss for the year attributable to equity holders of the Company (in RMB'000)	<u>(221,494)</u>	<u>(2,056,092)</u>
Weighted average number of shares outstanding	<u>208,985,465</u>	<u>129,164,825</u>
Basic loss per share (in RMB)	<u>1.06</u>	<u>15.92</u>

(b) Diluted loss per share

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

For the year ended 31 December 2022, the Company had two categories of potential ordinary shares: share options and share awards (for the year ended 31 December 2021: share options and convertible redeemable preferred shares). Diluted loss per share presented is the same as the basic loss per share as the inclusion of the potential ordinary shares in the calculation of dilutive loss per share would be anti-dilutive.

6 DIVIDENDS

No dividends have been paid or declared by the Company during each of the years ended 31 December 2022 and 2021.

7 ACCOUNTS AND BILLS RECEIVABLE

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable	559,462	676,878
Less: loss allowance	<u>(3,321)</u>	<u>(3,228)</u>
Accounts receivable, net	556,141	673,650
Bills receivable	<u>2,000</u>	<u>–</u>
	<u>558,141</u>	<u>673,650</u>

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

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	536,744	636,007
3 to 6 months	327	18,393
Over 6 months	22,391	22,478
	<u>559,462</u>	<u>676,878</u>

The loss allowances for accounts and bills receivable as at 31 December 2022 and 2021 reconcile to the opening loss allowances is as follows:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	3,228	3,297
Net impairment loss/(reversal of impairment loss) during the year	93	(69)
At 31 December	<u>3,321</u>	<u>3,228</u>

8 ACCOUNTS PAYABLE

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts payable	<u>211</u>	<u>134</u>

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

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

EVENTS AFTER THE REPORTING PERIOD

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

Compliance with the Code on Corporate Governance Practices

During the year ended 31 December 2022, the Company has adopted and complied with all applicable code provisions set out in the Corporate Governance Code contained in Part 2 of Appendix 14 to the Listing Rules except for the deviation as set out below.

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.

Our Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain a high standard of corporate governance practices of our Company.

Compliance with the Model Code for Securities Transactions by Directors

Our Company has adopted management securities dealing policies that are on terms no less stringent than the Model Code for Securities Transactions by Directors of Listed Issuers 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 year ended 31 December 2022. No incident of non-compliance of the Model Code by the relevant employees has been noted by our Company during the year ended 31 December 2022.

Scope of Work of PricewaterhouseCoopers

The figures in respect of the Group's unaudited consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

Audit Committee

Our Board has established an audit committee to the Board with written terms of reference in accordance with the Listing Rules. Our audit committee comprises our three independent non-executive Directors, namely, Mr. Ying Kit Caleb Lo, Mr. Xianfeng Gu and Mr. Zhong Xu. Mr. Ying Kit Caleb Lo is the chairman of this committee.

Our audit committee has reviewed our unaudited consolidated financial statements for the year ended 31 December 2022 and has discussed with the senior management of our Company, on matters with respect to the accounting policies and practices adopted by our Company and internal control.

Other Board Committees

In addition to our audit committee, our Board has also established a nomination committee and a remuneration committee.

Purchase, Sale or Redemption of the 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 Proceeds from the Global Offering

Our Company completed a global offering on 2 December 2021. The net proceeds from this global offering amounted to approximately HK\$3,160 million (equivalent to approximately RMB2,584 million), which will be used in the manner set out in Prospectus dated 23 November 2021 (available on the Stock Exchange's website). As at 31 December 2022, we had not utilised any net proceeds, which are held as short-term bank deposits. The Company expects to utilise the remaining net proceeds in the next 12 to 48 months.

FINAL DIVIDEND

Our Board does not recommend the payment of a final dividend for the year ended 31 December 2022.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at <http://ir.music.163.com>. Our annual report for 2022 financial year will be published on the aforesaid websites of the Stock Exchange and our Company and will be despatched to our shareholders in due course.

DEFINITIONS

“Board”	the board of directors of our Company
“China” or the “PRC”	the People’s Republic of China, and for the purpose of this announcement only, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	Cloud Music Inc.
“Director(s)”	director(s) of our Company
“Group”	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 users’ purchasing patterns tend to reflect specific hit releases, which fluctuate from period to period
“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
“Prospectus”	our Company’s prospectus dated 23 November 2021, a copy of which is available on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at http://ir.music.163.com
“Reporting Period”	the year ended 31 December 2022
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

Hong Kong, 23 February 2023

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