



# Cloud Music Inc.

(incorporated in the Cayman Islands with limited liability)  
Stock code: 9899



2022 ANNUAL  
REPORT

# CONTENTS

---

Corporate Information	2
Financial and Business Highlights	4
Management Discussion and Analysis	6
Report of Directors	16
Directors and Senior Management	32
Other Information	36
Corporate Governance Report	45
Environmental, Social and Governance Report	60
Independent Auditor's Report	117
Consolidated Statement of Profit or Loss	122
Consolidated Statement of Comprehensive Income	123
Consolidated Balance Sheet	124
Consolidated Statement of Changes in Equity	126
Consolidated Statement of Cash Flows	128
Notes to the Consolidated Financial Statements	129
Five Year Financial Summary	197
Definitions	198

# Corporate Information

## BOARD OF DIRECTORS

### *Executive Directors*

Mr. William Lei Ding (*Chairman 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*

JunHe LLP  
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

	Year ended 31 December		
	2022	2021	Change (%)
	(RMB in thousands, except percentages)		
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	(114,573)	(1,043,712)	-89.0%

### IFRS NUMBERS:

- Our revenue increased by 28.5% from RMB7.0 billion in 2021 to RMB9.0 billion in 2022.
- Our gross profit increased by 806.3% from RMB0.1 billion in 2021 to RMB1.3 billion in 2022.
- Our loss for the year decreased by 89.2% from RMB2.1 billion in 2021 to RMB0.2 billion in 2022.

### NON-IFRS NUMBERS:

- Our adjusted net loss decreased by 89.0% from RMB1.0 billion in 2021 to RMB0.1 billion 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
	(in RMB thousands)	
Loss for the year attributable to the equity holders of our company	(221,494)	(2,056,092)
Add:		
Equity-settled share-based payments <sup>(1)</sup>	106,921	257,142
Changes in fair value of convertible redeemable preferred shares <sup>(2)</sup>	–	755,238
Adjusted net loss	(114,573)	(1,043,712)

Notes:

- (1) Equity-settled share-based payments mainly represent share-based compensation expenses incurred in connection with our share incentive plan adopted by our 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.
- (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, 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.

## Financial and Business Highlights

For the calculation and reconciliation of this non-IFRS measure, please refer to the page 14 of this annual report.

### KEY OPERATING DATA

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

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

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 in 2021 and 2022.

	For the 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 <sup>(1)</sup>	6.6	6.7
Social entertainment services <sup>(2)</sup>	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

## 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 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.

## Management Discussion and Analysis

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 prudent 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.



## Management Discussion and Analysis

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 commercialization 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.

## Management Discussion and Analysis

***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 utilised 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.

## Management Discussion and Analysis

- **Style Recommendation (風格推薦):** The addition of this tab brings more personalized 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 Egg 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.

# Management Discussion and Analysis

## FINANCIAL REVIEW

The following table sets forth our consolidated statements of profit or loss, both in absolute amounts and as percentages of our total revenues, for the years ended 31 December 2022 and 2021, respectively:

	Year ended 31 December			
	2022		2021	
	RMB	%	RMB	%
	(RMB in thousands, except percentages)			
<b>Revenue</b>	<b>8,992,221</b>	<b>100.0</b>	6,997,622	100.0
Cost of revenue	(7,699,103)	(85.6)	(6,854,948)	(98.0)
<b>Gross profit</b>	<b>1,293,118</b>	<b>14.4</b>	142,674	2.0
Selling and marketing expenses	(634,677)	(7.1)	(431,312)	(6.1)
General and administrative expenses	(171,598)	(1.9)	(264,216)	(3.7)
Research and development expenses	(1,011,057)	(11.3)	(869,146)	(12.4)
Other income	142,315	1.6	72,067	1.0
Other (losses)/gains, net	(2,614)	(0.0)	2,998	0.0
Operating loss	(384,513)	(4.3)	(1,346,935)	(19.2)
Share of results of investments accounted for using equity method	(2,722)	(0.0)	2,334	0.0
Finance income	183,105	2.0	48,416	0.7
Finance cost	(349)	(0.0)	–	–
Changes in fair value of convertible redeemable preferred shares	–	–	(755,238)	(10.8)
<b>Loss before income tax</b>	<b>(204,479)</b>	<b>(2.3)</b>	(2,051,423)	(29.3)
Income tax expense	(17,015)	(0.2)	(4,669)	(0.0)
Loss for the year attributable to equity holders of the Company	(221,494)	(2.5)	(2,056,092)	(29.3)
Non-IFRS measure:				
Adjusted net loss <sup>(1)</sup>	(114,573)	(1.3)	(1,043,712)	(14.9)

Notes:

- (1) Adjusted net loss is a non-IFRS measure. We define “adjusted net loss” as loss for the year adjusted by adding back equity-settled share-based payments and changes in fair value of convertible redeemable preferred shares. Adjusted net loss is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net loss has limitations as an analytical tool, and you should not consider it in isolation from, as a substitute for analysis of, or superior to, our results of operations or financial condition as reported under IFRS. For more details, see “– Non-IFRS Measure” in this section.

# Management Discussion and Analysis

## **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.

# Management Discussion and Analysis

## **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.

## Management Discussion and Analysis

### Non-IFRS Measure

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 sets forth a reconciliation of our adjusted net loss for the years ended 31 December 2021 and 2022, respectively.

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

## Management Discussion and Analysis

### 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.

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

	Year ended 31 December	
	2022	2021
	(in RMB thousands)	
Operating cash outflows before movement in working capital	<b>(239,457)</b>	(1,079,564)
Changes in working capital	<b>2,093,729</b>	176,896
Income taxes paid	<b>(11,364)</b>	(5,744)
Net cash generated from/(used in) operating activities	<b>1,842,908</b>	(908,412)
Net cash generated from/(used in) investing activities	<b>158,589</b>	(3,862,405)
Net cash (used in)/generated from financing activities	<b>(2,911)</b>	2,614,174
Net increase/(decrease) in cash and cash equivalents	<b>1,998,586</b>	(2,156,643)
Cash and cash equivalents at the beginning of the year	<b>853,454</b>	3,006,206
Exchange differences on cash and cash equivalents	<b>64,494</b>	3,891
Cash and cash equivalents at the end of the year	<b>2,916,534</b>	853,454



## Report of Directors

Our board is pleased to present this report of Directors together with the consolidated financial statements of our group for the 2022 financial year.

### OVERVIEW OF OUR BOARD

Our Directors who held office during the Reporting Period and up to the Latest Practicable Date are:

#### ***Executive Directors:***

Mr. William Lei Ding (*Chairman 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

Biographical details of our Directors are set out in “Directors and Senior Management” at pages 32 to 35 of this annual report.

In accordance with Article 16.20 of our articles of association, Mr. Yat Keung Li, Mr. Xianfeng Gu, and Mr. Zhong Xu shall retire at our upcoming annual general meeting. Each of these Directors, being eligible, will offer themselves for re-election at our upcoming annual general meeting.

# Report of Directors

## OVERVIEW OF OUR COMPANY

Our company was incorporated in the Cayman Islands on 2 February 2016 as an exempted limited liability company. Our shares were listed on the Main Board of the Stock Exchange on 2 December 2021.

### *Our Business*

We operate an online music platform in China. We provide community-centric online music services and social entertainment services for music enthusiasts. NetEase Cloud Music empowers music enthusiasts to connect with one another and to discover, enjoy, share and create music and music-inspired content.

### *Subsidiaries*

Particulars of our company's subsidiaries are set out in Note 17 to the consolidated financial statements.

### *Purchase, Sale or Redemption of our company's Listed Securities*

Neither our company nor any of its subsidiaries purchased, sold or redeemed any of our securities listed on the Stock Exchange during the Reporting Period.

### *Public Float*

Based on information that is publicly available to our company and within the knowledge of our Directors as at the Latest Practicable Date, our company had maintained the prescribed percentage of public float under the Listing Rules.

## OVERVIEW OF OUR PERFORMANCE OVER THE REPORTING PERIOD

A fair review of the business of our group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of our group's financial performance and an indication of likely future developments in our group's business is set out in "Management Discussion and Analysis" of this annual report. Those discussions form part of this report. Events affecting our company that have occurred since the end of the 2022 financial year are set out in "Important Events After the Reporting Period" in this annual report. An account of our company's key relationships with our employees, customers and suppliers and others that have a significant impact on our company is set out in our "Environmental, Social and Governance Report" at pages 60 to 116 of this annual report.

### *Results of our Group*

The results of our group for the Reporting Period are set out in the consolidated statement of profit or loss at page 122 of this annual report.

### *Financial Summary*

A summary of the consolidated results and the assets and liabilities of our group for the last five financial years, as extracted from the consolidated financial statements, is set out at page 197 of this annual report. This summary does not form part of the consolidated financial statements.

# Report of Directors

## ***Pre-emptive Rights***

There are no provisions for pre-emptive rights under our articles of association or the laws of the Cayman Islands that would oblige our company to offer new shares on a pro-rata basis to our Shareholders.

## ***Tax Relief and Exemption***

Our Directors are not aware of any tax relief and exemption available to our Shareholders by reason of their holding of our securities.

## ***Property, Plant and Equipment***

Details of movements in the property, plant and equipment of our company and our group during the Reporting Period are set out in Note 15 to the consolidated financial statements.

## ***Share Capital and Shares Issued***

Our company has one class of shares with a nominal or par value of US\$0.0001 each. Details of movements in the share capital of our company, and details of our shares issued, during the Reporting Period are set out in Note 25 to the consolidated financial statements.

## ***Donation***

During the Reporting Period, our group made charitable donations of RMB571,338.00 (2021: RMB30,000.00).

## ***Debenture Issued***

Our group did not issue any debenture during the Reporting Period.

## ***Equity-linked Agreements***

Save as disclosed in "Share Incentive Plans" at pages 39 to 44 of this annual report, no equity-linked agreements were entered into by our group, or existed during the Reporting Period.

## ***Dividends***

Our board does not recommend the distribution of a final dividend for the Reporting Period.

No Shareholder has waived or agreed to waive any dividends for the 2022 financial year.

## ***Permitted Indemnity***

Pursuant to our articles of association and subject to the applicable laws and regulations, every Director shall be indemnified out of the assets of our company against all losses or liabilities incurred or sustained which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force over the Reporting Period. Our company has taken out liability insurance to provide appropriate coverage for the Directors.

## Report of Directors

### ***Distributable Reserves***

Our company may pay dividends out of either profits or share premium account provided that immediately following the payment of such dividends, our company will be in a position to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2022, our company had distributable reserves of RMB14,192.4 million (2021: RMB13,861.5 million).

Details of movements in the reserves of our group and our company during the Reporting Period are set out in the consolidated statement of changes in equity at pages 126 to 127 and in Note 36(b) to the consolidated financial statements, respectively.

### ***Bank Loans and Other Borrowings***

As at 31 December 2022, our group did not have any bank loans or other borrowings.

### ***Pledge of Assets***

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

### ***Gearing Ratio***

As at 31 December 2022, our gearing ratio was 28.2%. 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 report, we did not make or hold any significant investments (including any investment in an investee company with a value of 5 percent or more of our company's total assets) during 2022.

### ***Material Acquisitions and Disposals***

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

### ***Major Customers and Suppliers***

During the Reporting Period, revenue from our group's top five customers, which are primarily media and internet companies, accounted for 10.3% (2021: 13.9%) of our group's revenue in the same year.

During the Reporting Period, cost of revenue from our group's five largest suppliers accounted for 14.9% (2021: 18.6%) of our group's total cost of revenue amount in the same year. Our group's largest supplier for the 2022 financial year accounted for approximately 3.9% (2021: 4.7%) of our group's total cost of revenue amount for the same year.

During the Reporting Period, our group did not experience any significant disputes with its customers or suppliers.

## Report of Directors

### *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. Our group also provides training sessions to its employees, which mainly focus on campus recruiting personnel, management personnel and professional technology personnel.

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. These plans are defined contribution plans, under which, we and our PRC-based employees who are participants are required to make monthly contributions in the amount specified under PRC laws and regulations, which are calculated based on the employee's actual salary level in the previous year, subject to certain ceilings imposed. There are no forfeited contributions for these defined contribution plans as the contributions are fully vested to the employees upon payment to the scheme. The prescribed percentages are determined by the PRC government and differ across municipalities and provinces in Mainland China. See Note 2.17 to the consolidated financial statements for more information on defined contribution plans.

The range of applicable percentages for these state-managed contribution plans for the 2022 financial year as applicable to our group are listed below:

	<b>Percentages</b>
Pension insurance	14% to 16%
Medical insurance	6.85% to 10%
Unemployment insurance	0.32% to 0.5%
Work-related injury insurance	0.1% to 0.4%
Housing provident fund	7% to 12%

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

Additionally, our company has a share incentive plan and a share award scheme, the material terms of which are described in Appendix IV to the Prospectus and announcement of the Company dated 18 August 2022, respectively. The total remuneration cost incurred by us during the Reporting Period was RMB1,203.2 million (2021 financial year: RMB1,120.7 million).

# Report of Directors

## PRINCIPAL RISKS AND UNCERTAINTIES

The following list is a summary of certain principal risks and uncertainties facing our group, some of which are beyond our control:

- (a) ability to achieve or maintain profitability in the future;
- (b) ability to accurately predict and effectively cater to changing user preferences in terms of content and product offerings;
- (c) ability to protect, maintain and enhance our brand and community culture;
- (d) uncertainties with compliance with laws and regulations in the PRC and other jurisdictions relating to data privacy and security;
- (e) uncertainties with respect to the enactment, interpretation and implementation of certain laws, regulations and government policies in the PRC;
- (f) ability to effectively execute monetisation strategies;
- (g) intense competition for users, users' time and attention, content, talent, advertising customers and other resources; and
- (h) risks related to industry, business and operations.

The above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in our shares.

## CONTRACTS WITH CONTROLLING SHAREHOLDER AND MANAGEMENT

NetEase is the controlling Shareholder (as defined under the Listing Rules) of our company. Save as disclosed in the Prospectus and in this annual report, to the best knowledge and belief of our Directors, NetEase has no contracts of significance with us or have any competing business which would require disclosure under Rule 8.10 of the Listing Rules.

Save as disclosed in the Prospectus and in this annual report, no contract, concerning the management and administration of the whole or any substantial part of the business of our company was entered into or existed during the Reporting Period.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

Our group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

To the best of our knowledge, our group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of our group. During the Reporting Period, there was no material breach of, or non-compliance with, applicable laws and regulations by our group.

## MATERIAL LITIGATION

Our company was not involved in any material litigation or arbitration during the Reporting Period. Our Directors are also not aware of any material litigation or claims that are pending or threatened against our group during the Reporting Period.

# Report of Directors

## INFORMATION RELATING TO OUR DIRECTORS

### *Directors' Service Contracts*

Each of our executive Directors entered into a service contract with our company on 21 November 2021 for an initial term of three years from the Listing Date. Either party may terminate the agreement by giving prior written notice.

Each of the non-executive Directors entered into an appointment letter with our company on 21 November 2021 for an initial term of three years from the Listing Date. Either party may terminate the agreement by giving prior written notice.

Each of the independent non-executive Directors entered into an appointment letter with our company on 21 November 2021 for an initial term of three years from the Listing Date. Either party may terminate the agreement by giving prior written notice.

The above appointments are subject to the provisions of retirement of directors under our articles of association.

None of the Directors proposed for re-election at our upcoming annual general meeting has a service contract with members of our group that is not determinable by our group within one year without payment of compensation, other than statutory compensation.

### *Directors' Interests in Transactions, Arrangements or Contracts of Significance*

Save as disclosed at pages 24 to 27 and in Note 10 to the consolidated financial statements, none of our Directors nor any entity connected with our Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which our company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended 31 December 2022.

### *Directors' Rights to Acquire Shares or Debenture*

Save as disclosed in this annual report, at no time during the Reporting Period was our company or any of its subsidiaries a party to any arrangements to enable our Directors to acquire benefits by means of the acquisition of shares in, or debentures of, our company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of our company or any other body corporate, or had exercised any such right.

### *Emolument Policy and Directors' Remuneration*

In compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code, our company has established a remuneration committee to assist our board in formulating remuneration policies. Remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for our independent non-executive Directors, their remuneration is determined by our board upon recommendation from our board's remuneration committee. Our Directors and the senior management personnel are eligible participants of our share incentive plan (details of which are summarised in "Share Incentive Plans" at pages 39 to 44 of this annual report). Details of the remuneration of our Directors, senior management (which is also our key management) and the five highest paid individuals are set out in Note 10, 34(c) and 9 to the consolidated financial statements.

## Report of Directors

None of our Directors waived or agreed to waive any remuneration and there were no emoluments paid by our group to any of our Directors or the five highest paid individuals as an inducement to join, or upon joining our group, or as compensation for loss of office.

Over the Reporting Period, the aggregate amount of remuneration (including basic salaries, housing allowances, other allowances, and benefits in kind, contributions to pension plans and discretionary bonuses) for our Directors was approximately RMB9.3 million (as set out in Note 10 to the consolidated financial statements).

### *Directors' Interests in Competing Business*

During the Reporting Period, none of our Directors control a business similar to principal business of our group that competes or is likely to compete, either directly or indirectly, with our group's business, which would require disclosure under Rule 8.10 of the Listing Rules.

### *Continuing Disclosure Obligations pursuant to the Listing Rules*

Save as disclosed in the Prospectus and in this annual report, our company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, our group engaged in certain transactions with the following persons that constituted continuing connected transactions under the Listing Rules.

Name of connected person	Relationship
Registered shareholders that hold 10% or more of the equity interest in the Onshore Holdcos <sup>(Note)</sup>	our substantial shareholder
NetEase	our substantial shareholder

Set out below is a summary of the non-exempt and partially-exempt continuing connected transactions of our group during the Reporting Period.

Note:

The Onshore Holdcos are Hangzhou Yuedu Technology Co., Ltd. (杭州樂讀科技有限公司) ("Hangzhou Yuedu"), which operates online programmes, online performances and live streaming businesses and Hangzhou Rege Culture Creativity Co., Ltd. (杭州熱歌文化創意有限公司) ("Hangzhou Rege"), through which our company makes minority investments related to our business. The registered shareholders of Hangzhou Yuedu are Mr. William Lei Ding as to 99% and Mr. Dong Zhang as to 1% and the registered shareholder of Hangzhou Rege is Mr. Yong Peng as to 100%. Mr. Peng is a business partner of NetEase and an independent third party.



## Report of Directors

### ***Contractual Arrangements***

We engage in radio and television programme production and operation, commercial internet cultural activities and value-added telecommunications services. Under PRC laws and regulations, foreign ownership is prohibited in entities engaging in radio and television programme production and operation and the internet cultural business (except for music) and restricted in entities engaging in value-added telecommunications service providers (in addition to imposing a qualification requirement on the foreign owners).

As a result of these foreign ownership restrictions, these businesses are operated by our consolidated affiliated entities, which are in turn, controlled by us and from which we derive the economic benefits through a series of contractual arrangements. These contractual arrangements are narrowly tailored to achieve our business purpose and minimise the potential for conflict with relevant PRC laws and regulations.

For further details of the relevant foreign ownership regulations in the PRC and a discussion of the material terms of the agreements underlying our contractual arrangements are set out in the “Contractual Arrangements” section of the Prospectus.

### ***Risks relating to the Contractual Arrangements and actions taken to mitigate the risks***

We believe the following risks are associated with our contractual arrangements. Further details of these risks are set out in the “Risk Factors” section of the Prospectus.

- (a) If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with PRC regulations on foreign investment in internet and other related businesses, or if these regulations or their interpretation change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.
- (b) We rely on contractual arrangements with our VIEs and their shareholders for our operations in China, which may not be as effective in providing operational control as direct ownership.
- (c) We may lose the ability to use and enjoy assets held by our VIEs and their subsidiaries that are important to our business if our VIEs and their subsidiaries declare bankruptcy or become subject to a dissolution or liquidation proceeding.
- (d) Contractual arrangements we have entered into with our VIEs may be subject to scrutiny by the PRC tax authorities. A finding that we owe additional taxes could negatively affect our financial condition and the value of your investment.
- (e) If the chops of our PRC subsidiaries, our VIEs and their subsidiaries, are not kept safely, are stolen or are used by unauthorised persons or for unauthorised purposes, the corporate governance of these entities could be severely and adversely compromised.
- (f) The shareholders of Hangzhou Yuedu may have potential conflicts of interest with us, which may materially and adversely affect our business.
- (g) Substantial uncertainties exist with respect to how the Foreign Investment Law may impact the viability of our current corporate structure and operations.

## Report of Directors

### *Summary of the agreements underlying our contractual arrangements*

The material contractual arrangements in place during the Reporting Period include:

- (a) an operating agreement dated 9 November 2022 entered into among Hangzhou NetEase Cloud Music Technology Co., Ltd. (杭州網易雲音樂科技有限公司) (“**WFOE**”), Hangzhou Yuedu Technology Co., Ltd. (“**Hangzhou Yuedu**”), William Lei Ding (丁磊) (“**Mr. Ding**”) and Dong Zhang (張棟) (“**Mr. Zhang**”), pursuant to which WFOE agreed to be the guarantor of Hangzhou Yuedu in, and provide full guarantee for the performance of the, contracts, agreements or transactions entered into between Hangzhou Yuedu and third-parties in connection with Hangzhou Yuedu’s business and operations. As counter-guarantee, Hangzhou Yuedu agreed to pledge its accounts receivable in its operations and assets to WFOE.
- (b) an exclusive purchase option agreement dated 9 November 2022 entered into among WFOE, Mr. Zhang and Hangzhou Yuedu, pursuant to which, (i) Mr. Zhang irrevocably granted to WFOE an option to purchase (or a person designated by WFOE to purchase) part or all of the equity interests held by Mr. Zhang in Hangzhou Yuedu at a purchase price equal to the outstanding loans owed by Mr. Zhang to WFOE under the loan agreement (detailed in (e) below); and (ii) Hangzhou Yuedu irrevocably granted to WFOE an option to purchase (or a person designated by the WFOE to purchase) part or all of the assets held by Hangzhou Yuedu or its subsidiaries at the minimum purchase price permitted under PRC laws and regulations.
- (c) an equity pledge agreement dated 9 November 2022 entered into between WFOE and Mr. Zhang, pursuant to which Mr. Zhang pledged to WFOE a first security interest in all of Mr. Zhang’s rights, title and interests in Hangzhou Yuedu.
- (d) a shareholder voting right trust agreement dated 9 November 2022 entered into between WFOE and Mr. Zhang, and agreed and accepted by Hangzhou Yuedu, pursuant to which Mr. Zhang irrevocably entrusted WFOE (and the person designated by WFOE) to exercise on Mr. Zhang’s behalf all shareholder’s voting rights and all other shareholder’s rights at the shareholders’ meeting of Hangzhou Yuedu.
- (e) a loan agreement dated 9 November 2022 entered into between WFOE and Mr. Zhang, pursuant to which WFOE shall provide to Mr. Zhang interest-free loan(s) to pay for the capital contribution towards the registered capital of Hangzhou Yuedu.

Items (a) to (e) are referred to as the “**November Agreements**”.

- (f) an amended and restated operating agreement dated 18 May 2021 entered into among WFOE, Hangzhou Yuedu, Mr. Ding and Yiwen Zhu (朱一聞) (“**Mr. Zhu**”). This agreement was terminated on 9 November 2022 as a result of Mr. Zhu ceasing to have any interest in Hangzhou Yuedu (and therefore, ceasing to be a registered shareholder of Hangzhou Yuedu).
- (g) an amended and restated exclusive purchase option agreement dated 18 May 2021 entered into among WFOE, Mr. Zhu and Hangzhou Yuedu. This agreement was terminated on 9 November 2022 as a result of Mr. Zhu ceasing to have any interest in Hangzhou Yuedu (and therefore, ceasing to be a registered shareholder of Hangzhou Yuedu).
- (h) an amended and restated equity pledge agreement dated 18 May 2021 entered into between WFOE and Mr. Zhu. This agreement was terminated on 9 November 2022 as a result of Mr. Zhu ceasing to have any interest in Hangzhou Yuedu (and therefore, ceasing to be a registered shareholder of Hangzhou Yuedu).

## Report of Directors

- (i) an amended and restated shareholder voting right trust agreement dated 18 May 2021 entered into between WFOE and Mr. Zhu, and agreed and accepted by Hangzhou Yuedu. This agreement was terminated on 9 November 2022 as a result of Mr. Zhu ceasing to have any interest in Hangzhou Yuedu (and therefore, ceasing to be a registered shareholder of Hangzhou Yuedu).
- (j) an amended and restated loan agreement dated 18 May 2021 entered into between WFOE and Mr. Zhu. This agreement was terminated on 9 November 2022 as a result of Mr. Zhu ceasing to have any interest in Hangzhou Yuedu (and therefore, ceasing to be a registered shareholder of Hangzhou Yuedu).

Items (f) to (j) are referred to as the “**May Agreements**”. Save for the parties to the agreements, the terms and conditions of the May Agreements are substantially the same as those of the November Agreements.

- (k) an amended and restated cooperation agreement dated 18 May 2021 entered into between Hangzhou Yuedu and WFOE, pursuant to which the parties would cooperate to provide clients with, among other things, internet information services, technical support and maintenance services relating to the research and development and operation of computer softwares, internet technology services, and technology development, technical assistance and support for electronic publishing and telecommunications.
- (l) an amended and restated exclusive purchase option agreement dated 18 May 2021 entered into among WFOE, Mr. Ding and Hangzhou Yuedu, pursuant to which (i) Mr. Ding irrevocably granted to WFOE an option to purchase (or a person designated by WFOE to purchase) part or all of the equity interests held by Mr. Ding in Hangzhou Yuedu at a purchase price equal to outstanding loans owed by Mr. Ding to WFOE under the loan agreement entered into between WFOE and Mr. Ding on the same date; and (ii) Hangzhou Yuedu irrevocably granted to WFOE an option to purchase (or a person designated by WFOE to purchase) part or all of the assets held by Hangzhou Yuedu or its subsidiaries at the minimum purchase price permitted under PRC laws and regulations.
- (m) an amended and restated equity pledge agreement dated 18 May 2021 entered into between WFOE and Mr. Ding, pursuant to which Mr. Ding pledged to WFOE a first security interest in all of Mr. Ding’s rights, title and interests in Hangzhou Yuedu.
- (n) an amended and restated shareholder voting right trust agreement dated 18 May 2021 entered into between WFOE and Mr. Ding, and agreed and accepted by Hangzhou Yuedu, pursuant to which Mr. Ding irrevocably entrusted WFOE (and the person designated by WFOE) to exercise on Mr. Ding’s behalf all shareholder’s voting rights and all other shareholder’s rights at the shareholders’ meeting of Hangzhou Yuedu.
- (o) an amended and restated loan agreement dated 18 May 2021 entered into between WFOE and Mr. Ding, pursuant to which WFOE shall provide to Mr. Ding interest-free loan(s) to pay for the capital contribution towards the registered capital of Hangzhou Yuedu.
- (p) a cooperation agreement dated 18 May 2021 entered into between Hangzhou Rege and WFOE, pursuant to which the parties would cooperate to provide clients with, among other things, supply of music licence, innovation consultancy services, technical support and maintenance services relating to the research and development and operation of computer softwares, internet technology services, and technology development, technical assistance and support for electronic publishing and telecommunications.

## Report of Directors

- (q) an amended and restated operating agreement dated 18 May 2021 entered into among WFOE, Hangzhou Rege and Yong Peng (彭勇) (“**Mr. Peng**”), pursuant to which WFOE agreed to be the guarantor of Hangzhou Rege in, and to provide full guarantee for the performance of the, contracts, agreements or transactions entered into between Hangzhou Rege and third-parties in connection with Hangzhou Rege’s business and operations. As counter-guarantee, Hangzhou Rege agreed to pledge its accounts receivable in its operations and assets to WFOE.
- (r) an amended and restated exclusive purchase option agreement dated 18 May 2021 entered into among the WFOE, Mr. Peng and Hangzhou Rege, pursuant to which (i) Mr. Peng irrevocably granted to WFOE an option to purchase (or a person designated by the WFOE to purchase) part or all of the equity interests held by Mr. Peng in Hangzhou Rege at a purchase price equal to the original and any additional paid-in capital paid by Mr. Peng for the equity interest; and (ii) Hangzhou Rege irrevocably granted to WFOE an option to purchase (or a person designated by WFOE to purchase) part or all of the assets held by Hangzhou Rege or its subsidiaries at the minimum purchase price permitted under PRC laws and regulations.
- (s) an amended and restated equity pledge agreement dated 18 May 2021 entered into between WFOE and Mr. Peng, pursuant to which Mr. Peng pledged to WFOE a first security interest in all of Mr. Peng’s rights, title and interests in Hangzhou Rege.
- (t) an amended and restated shareholder voting right trust agreement dated 18 May 2021 entered into between WFOE and Mr. Peng, and agreed and accepted by Hangzhou Rege, pursuant to which Mr. Peng irrevocably entrusted WFOE (and the person designated by WFOE) to exercise on Mr. Peng’s behalf all shareholder’s voting rights and all other shareholder’s rights at the shareholders’ meeting of Hangzhou Rege.

Substantially all of our group’s total revenue and net assets are derived from our consolidated affiliated entities that are subject to the contractual arrangements. The total revenue and net assets derived from our consolidated affiliated entities that are subject to the contractual arrangements is approximately RMB8,828.6 million during the Reporting Period and approximately RMB43.7 million as at 31 December 2022, respectively.

### ***Other continuing connected transactions with NetEase Group***

On 5 August 2021, we entered into a framework agreement with NetEase Group (the “**NetEase Group Framework Agreement**”), pursuant to which:

- (a) our group would provide to NetEase Group, (i) advertising services (the “**Advertising Services CCTs**”), and (ii) other services (the “**Other Services CCTs**”); and
- (b) NetEase Group would provide to our group, among others, (i) advertising agency services (the “**Advertising Agency Services CCTs**”), (ii) bandwidth, server custody and rack services (the “**Bandwidth, Server Custody and Rack Services CCTs**”), (iii) information technology services (the “**Information Technology CCTs**”), (iv) shared services (the “**Shared Services CCTs**”), and (v) product procurement (the “**Product Procurement CCTs**”).

The terms of the NetEase Group Framework Agreement were entered into on normal commercial terms (or better) after arm’s length negotiations and the transactions under the NetEase Group Framework Agreement commenced on the 2 December 2021 and will continue until 31 December 2023 (both dates inclusive).

Further details of each transaction under NetEase Group Framework Agreement, including historical transaction amounts, pricing policy and annual caps set are set out in the “Connected Transactions” section of the Prospectus.

## Report of Directors

### *Annual cap and actual transaction amounts*

The annual caps and actual transaction amounts of the continuing connected transactions with NetEase Group during the Reporting Period are set out below:

<b>Transaction</b>	<b>Annual Cap for the Reporting Period RMB million</b>	<b>Transaction Amount in the Reporting Period RMB million</b>
Other Services CCTs	34.9	19.7
Bandwidth, Server Custody and Rack Services CCTs	119.7	96.5
Shared Services CCTs	50.0	47.5
Product Procurement CCTs	32.9	10.4
Advertising Services CCTs	N/A (see below)	411.6
Advertising Agency Services CCTs	N/A (see below)	–
Information Technology CCTs	342.6	337.4

For the Share Services CCTs, our company revised the original annual cap for the Reporting Period from RMB36.7 million to RMB50.0 million. For further details, please refer to the announcement of the Company dated 16 November 2022.

For the Advertising Services CCTs and Advertising Agency Services CCTs, we are of the view that it would not be appropriate to set a fixed monetary annual cap on these transactions given that advertising is another method to monetise our business and the transaction amounts under these transactions would correlate with the growth of our business, and we expect and intend to grow our advertising revenue with time and do not consider it appropriate or in the interests of our Shareholders to assign a cap on this revenue stream. Instead, we will determine the transaction amount in accordance with the below two pricing formulae.

The pricing policy for the Advertising Services CCTs is based on the following formula:

$$\text{Quantity of advertising units} \times \text{Base rate for each advertising unit} \times \text{Discounted rate} \times (1 - \text{rebate ratio})$$

The pricing policy for the Advertising Agency Services CCTs is based on the following formula:

$$\text{Quantity of advertising units} \times \text{Base rate for each advertising unit} \times \text{Discounted rate} \times \text{Rebate ratio}$$

These pricing formulae are in accordance with market practice for advertising services conducted in the online music entertainment industry, and takes into account the following factors:

- a base rate for each advertising unit, determined with reference to market rates;
- the volume/quantity of each advertising unit, according to the request of the end-advertising client;
- a discounted rate, which provides our group with greater flexibility to tailor the end price according to, among other factors, the end-advertising client, campaign, seasonality, overall market factors; and
- a rebate ratio, which represents the percentage charged by NetEase Group to our group for services they had provided us in the overall process.

## Report of Directors

### ***Implication under the Listing Rules and Confirmations***

#### ***Waivers applied for under the Listing Rules***

For the purposes of Chapter 14A of the Listing Rules, our consolidated affiliated entities are treated as connected persons of our company, and as such, the contractual arrangements are considered continuing connected transactions for our company.

We have applied for, and the Stock Exchange has granted us, in respect of the contractual arrangements, (i) a waiver from strict compliance with the announcement, circular and independent shareholders' approval (including recommendation from an independent financial adviser) requirements under Chapter 14A of the Listing Rules; (ii) a waiver from strict compliance with the requirement to set a term of not exceeding three years under Rule 14A.52 of the Listing Rules; and (iii) a waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53(1) of the Listing Rules, subject to certain conditions set out in the Prospectus.

In relation to the transactions under the NetEase Group Framework Agreement, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement, circular and independent shareholders' approval (including recommendation from an independent financial adviser) requirements under the Chapter 14A of the Listing Rules, as the case may be, subject to certain conditions set out in the Prospectus.

In addition, for the Advertising Services CCTs and Advertising Agency Services CCTs, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements to set an annual monetary cap under Rule 14A.53(1) of the Listing Rules, subject to certain conditions set out in the Prospectus.

For more information, please refer to the "Connected Transactions" section of the Prospectus for details of these waivers.

#### ***Confirmation from Independent Non-executive Directors***

Our independent non-executive Directors have reviewed the continuing connected transactions of our group that are subject to the annual reporting requirement during the Reporting Period and have confirmed that these transactions were all entered into in accordance with the matters set out in Rule 14A.55 of the Listing Rules.

## Report of Directors

### *Confirmations from our company's Independent Auditor*

PricewaterhouseCoopers, the auditor of our company, has confirmed in a letter to our board that, with respect to the continuing connected transactions mentioned above during the Reporting Period:

- (a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.
- (b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.
- (c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- (d) with respect to the aggregate amount of each of the continuing connected transactions (other than the Advertising Services CCTs and the Advertising Agency Services CCTs and those transactions with consolidated affiliated entities under the contractual arrangements) set out in the attached list of continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.
- (e) with respect of the disclosed continuing connected transactions with the consolidated affiliated entities under the contractual arrangements, nothing has come to their attention that causes them to believe that dividends or other distributions have been made by the consolidated affiliated entities to the respective holders of the equity interests of the consolidated affiliated entities which are not otherwise subsequently assigned or transferred to the Group.

During the Reporting Period, save as disclosed in "Continuing Connected Transactions" of this annual report, no related party transactions disclosed in Note 34 to the financial statements constituted a connected transaction or continuing connected transaction that would be subject to the disclosure or annual review requirements pursuant to the Listing Rules. Our company has complied with the disclosure and annual review requirements prescribed in Chapter 14A of the Listing Rules with respect to these continuing connected transactions entered into by our group during the Reporting Period.

### **USE OF NET PROCEEDS FROM GLOBAL OFFERING**

Our company's shares were listed on the Stock Exchange on 2 December 2021. In parallel with the Listing, our company allotted and issued 16,000,000 new shares under our global offering issued, which resulted in approximately HK\$3,160 million (equivalent to approximately RMB2,584 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.

## Report of Directors

Set out below is the status of use of proceeds from the global offering as at 31 December 2022.

<b>Purpose</b>	<b>% of use of proceeds</b>	<b>Net proceeds (HK\$ million)</b>	<b>Utilised for the year ended 31 December 2022 (HK\$ million)</b>	<b>Unutilised amount as at 31 December 2022 (HK\$ million)</b>
Continuously cultivating our community	40%	1,264	–	1,264
Continuously innovating and improving technological capabilities	40%	1,264	–	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	–	316
Working capital and general and administrative purposes	10%	316	–	316
<b>Total</b>	<b>100%</b>	<b>3,160</b>	<b>–</b>	<b>3,160</b>

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 12 to 48 months in the manner set out in the Prospectus. See “Future Plans and Use of Proceeds” section of the Prospectus for further details.

### AUDITOR

The consolidated financial statements of our group have been audited by PricewaterhouseCoopers, Certified Public Accountants and Registered Public Interest Entity Auditor, who will retire and, being eligible, offer themselves for reappointment at our upcoming annual general meeting.

### IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this annual report, no important events affecting our company occurred since the end of the Reporting Period and up to the Latest Practicable Date.

By the order of our board of Directors

**Mr. William Lei Ding**

*Chairman*

Hong Kong

13 March 2023



## Directors and Senior Management

Our board consists of three executive Directors, three non-executive Directors and three independent non-executive Directors.

### DIRECTORS

#### *Executive Directors*

**Mr. William Lei Ding**, aged 51, is an executive Director and the chief executive officer of our company and chairperson of our board. Mr. Ding is the founder of NetEase, and has served as a director since its inception in July 1999 and as its chief executive officer since November 2005. Between 1999 to 2005, Mr. Ding served a number of roles within NetEase, including the chief architect, the acting chief executive officer, acting chief operating officer, and co-chief technology officer of NetEase. Mr. Ding currently serves on the board of directors of Youdao, Inc. (NYSE: DAO) since January 2015. Mr. Ding received a Bachelor of Science degree in Communication Technology from the University of Electronic Science and Technology of China.

**Mr. Yong Li**, aged 45, is an executive Director and the vice president of business intelligence of our company. Mr. Li joined NetEase in April 2019 and served as a vice president of Kaola. Prior to joining our company, Mr. Li was a senior technical expert in Tencent Holdings Limited from July 2010 to April 2015. He then served as vice president at Vipshop Holdings Ltd. from April 2015 to June 2018. Mr. Li served as a general manager of operations at Hillhouse Capital in 2018. Mr. Li received a bachelor's degree in information management in July 1999 and a master's degree in statistics in January 2002 from Anhui University of Finance and Economics. He also received his doctoral degree in informatics from Nanjing University in September 2004. Mr. Li served as a post-doctoral researcher in computer science at Tsinghua University from September 2004 to September 2006.

**Ms. Yanfeng Wang**, aged 36, is an executive Director. She is one of the directors for self-produced content in our company since July 2020, and is also responsible for our group's brand communication, since 2015. Prior to that, she was a senior editor and column writer at NetEase Media between May 2013 to March 2015, and a senior editor at Phoenix New Media Limited from June 2011 to May 2013. Ms. Wang received a bachelor's degree in Chinese Language and Literature from Beijing Normal University in July 2008. She also received her master's degree in Literature from Communication University of China in June 2011.

#### *Non-executive Directors*

**Mr. Yat Keung Li**, aged 50, is a non-executive Director. Mr. Li currently serves as the Vice president of NetEase. Mr. Li first joined NetEase in 2003 and took several senior roles in marketing, business partnership and corporate development within the group. Prior to NetEase, Mr. Li successively served as an account manager and associate account director at DDB Group Hong Kong from August 1999 to October 2003, and as a brand executive at Leo Burnett Hong Kong from January 1998 to July 1999. Mr. Li received his Bachelor of Science in Physics from the University of Hong Kong in November 1996.

**Mr. Dewei Zheng**, aged 39, is a non-executive Director. Mr. Zheng joined NetEase in July 2005 and worked at the games promotion department until July 2009, and served as the sales director of the games market department from August 2009 to August 2012. He then served as the sales director, senior sales director and chief marketing officer of the marketing channel centre at NetEase from September 2012 to September 2018. Mr. Zheng has been serving as the senior chief marketing officer at NetEase Games since January 2019, and the chairperson and chief executive officer of Xi'an Yunrui Network Technology Co., Ltd. (西安雲睿網絡科技有限公司). Mr. Zheng received a bachelor's degree in Information Management and Information System from Sichuan University in July 2005.

## Directors and Senior Management

**Mr. Feng Yu**, aged 46, is a non-executive Director. Mr. Yu joined Alibaba Group in March 2006 and currently serves as the vice president of the Taobao user development and operation centre at Alibaba Group Holding Limited (NYSE: BABA; SEHK: 9988). Mr. Yu received his Bachelor of Science in Applied Mathematics from Zhejiang University in June 2000. He also received his Master of Business Administration from China Europe International Business School in November 2016.

### *Independent Non-executive Directors*

**Mr. Ying Kit Caleb Lo**, aged 61, is an independent non-executive Director, and the chairperson of the audit committee and a member of the remuneration committee and nomination committee. Mr. Lo served at Motorola for more than 10 years since 1992 in China and Singapore and held several positions of finance management including the finance controller. Mr. Lo then joined Hangzhou H3C Technologies Co., Ltd. and has served as a vice president and the chief financial officer, during which he concurrently served as a vice president and the chief financial officer of the China region of HP Inc. (NYSE: HPQ) from May 2014 to August 2015. Mr. Lo then served as CFO and Co-President of New H3C Group prior to joining JiHu Information Technology (Hubei) Co., Ltd as CFO in September 2021, a JV of GitLab Inc. Mr. Lo has the appropriate professional accounting or related financial management experience for the purpose of Rule 3.10(2) of the Listing Rules. Mr. Lo received his CPA certificate from University of Illinois in February 1995 and he was admitted as a CPA in Hong Kong in October 1995. He is also a member of the American Institute of Certified Public Accountants, and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lo received his diploma in Business Administration from Hong Kong Shue Yan College in July 1986. He received his Master of Business Administration from Oklahoma City University in May 1991.

**Mr. Xianfeng Gu**, aged 52, is an independent non-executive Director, and the chairperson of the nomination committee and a member of the audit committee and remuneration committee. Mr. Gu has worked at Stony Brook University since June 2004 and has served as a tenured professor since September 2009, and an Empire Innovation Professor since January 2021. He was previously an assistant professor at University of Florida from August 2003 to May 2004. Mr. Gu received a bachelor's degree in Computer Science from Tsinghua University in July 1994. He also received his Ph.D. degree in Computer Science from Harvard University in March 2003.

**Mr. Zhong Xu**, aged 54, is an independent non-executive Director, and the chairperson of the remuneration committee and a member of the audit committee and nomination committee. Mr. Xu has won various international competitions as a pianist, including the First Prize at the Maria Canals International Piano Competition in 1988, the Third Prize at the Hamamatsu International Piano Competition in 1991, the Santander Prize of Honour at the Santander Paloma O'Shea International Piano Competition in 1992, the First Prize and three other awards at the Tokyo International Piano Competition in 1992 and the Fourth Prize at the Tchaikovsky International Piano Competition in Moscow in 1994. He was awarded the "Chevalier de L'Ordre des Arts et des Lettres" in 2010, and the "Officier de L'Ordre des Arts et des Lettres" in 2018 by the Ministry of Culture and Communication of France. Mr. Xu has served as the Principal Director of Fondazione Arena di Verona, the General Director of Shanghai Opera House, the Chief Conductor of Suzhou Symphony Orchestra, the dean of the School of Music at Soochow University and one of the International Chairs at Royal Welsh College of Music and Drama. He previously served as the Artistic Director of Teatro Massimo Bellini and the Music Director of Israel Haifa Symphony Orchestra. Mr. Xu started his study in Piano in November 1986 at Le Conservatoire national superieur de musique et de danse de Paris. He is also recognised as a level 1 conductor by the Assessment Committee of the Qualification for Senior Professional and Technical Occupations in the Art Categories under the Shanghai Municipal Human Resources and Social Security Bureau.

## Directors and Senior Management

### SENIOR MANAGEMENT

Mr. Ding is an executive Director, the chairman and chief executive officer of our company. Please refer to the above section for his biography.

**Mr. Dong Zhang**, aged 42, is the vice president of the commercialization and marketing of our company. He joined the Company in November 2022. From May 2013 to November 2022, Mr. Zhang served a number of positions within NetEase, including general manager of marketing and vice president of distribution. Prior to joining NetEase, Mr. Zhang worked as a product manager at Tencent Interactive Entertainment and as a product director at Giant Interactive. Mr. Zhang received his bachelor's degree in Biochemistry and Molecular Biology from Peking University in July 2002.

**Mr. Xing Zhang**, aged 40, is the vice president of products of our company. He joined the Company in January 2023. From July 2007 to September 2014, Mr. Zhang served a number of positions within NetEase, including product planner and product director. He then worked as a product director at Alibaba from March 2015 to May 2021, and as a product director at ByteDance from May 2021 to December 2022. Mr. Zhang received his bachelor's degree in Information Engineering from Zhejiang University in June 2005 and his master's degree in Design and Art from Zhejiang University in June 2007.

**Ms. Yuan Wei**, aged 28, is the vice president of copyrights of our company. She joined the Company in April 2021 and served positions including business assistant for CEO and copyright director. Prior to joining the Company, Ms. Wei worked for the Diversity Alliance in the United States, Milan Records under Sony Music Entertainment, and was responsible for music and strategic cooperation at BIGO from August 2019 to April 2021. Ms. Wei received her bachelor's degree in Law from China University of Political Science and Law in June 2017, and her master's degree in Entertainment, Media, and Intellectual Property Law from the University of California, Los Angeles in May 2018.

**Ms. Ju Lu**, aged 42, is the vice president of finance of our company. She has served as our financial controller since joining in 2018. Previously, she served as the chief financial officer at UNIS-WDC Storage Co., Ltd. (紫光西部數據有限公司) from May 2016 to February 2018. She was the finance controller at StormNet Information Technology (Shanghai) Co., Ltd. (戰上風信息技術(上海)有限公司) from March 2011 to March 2016. Ms. Lu also worked at Ernst & Young Hua Ming LLP from September 2002 to December 2010 and left as a senior manager. Ms. Lu received her CICPA qualification from the Shanghai Institute of Certified Public Accountants and her AICPA qualification from the Missouri State Board of Accountancy in the U.S. She also obtained a legal professional qualification certificate from the Ministry of Justice of PRC in March 2019. She received her Bachelor of Economics degree in Accounting from Fudan University in July 2002.

## Directors and Senior Management

### COMPANY SECRETARY

**Ms. Wong Wai Yee Ella**, aged 47, is our company secretary. Ms. Wong is also a Director of Corporate Services of Tricor Services Limited and has been providing corporate secretarial and compliance services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Wong currently holds company secretary or joint company secretary positions in China Minsheng Banking Corp., Ltd. 中國民生銀行股份有限公司(SEHK: 1988), China Vered Financial Holding Corporation Limited 中微金融控股有限公司(SEHK: 245), China Harmony Auto Holding Limited 中國和諧汽車控股有限公司(SEHK: 3836), Precision Tsugami (China) Corporation Limited 津上精密機床(中國)有限公司(SEHK: 1651), and Vedan International (Holdings) Limited 味丹國際(控股)有限公司(SEHK: 2317), and SenseTime Group Inc. 商湯集團股份有限公司(SEHK: 0020).

Ms. Wong is a Chartered Secretary, Chartered Governance Professional, Fellow of The Hong Kong Chartered Governance Institute (HKCGI) (formerly "The Hong Kong Institute of Chartered Secretaries" (HKICS)) and Fellow of The Chartered Governance Institute (CGI) (formerly "The Institute of Chartered Secretaries and Administrators" (ICSA)).

## 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 31 December 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*

<b>Name of Director</b>	<b>Capacity/Nature of interest</b>	<b>Number of ordinary shares</b>	<b>Approximate percentage of holding<sup>(5)</sup></b>	<b>Long position/ Short position</b>
Mr. William Lei Ding	Other <sup>(1)</sup>	129,034,168	60.89%	Long position
Mr. Yong Li <sup>(2)</sup>	Beneficial owner	300,000	0.14%	Long position
Mr. Yat Keung Li <sup>(3)</sup>	Beneficial owner	4,000	0.00%	Long position
Ms. Yanfeng Wang <sup>(4)</sup>	Beneficial owner	3,000	0.00%	Long position

Notes:

- (1) 129,034,168 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 211,906,086 shares in issue as at 31 December 2022.

## Other Information

### Interest in our associated corporation – NetEase

Name of Director	Capacity/Nature of interest	Number of ADSs <sup>(3)</sup> /ordinary shares	Interest in associated corporation <sup>(1)</sup>	Long position/Short position
Mr. William Lei Ding	Other <sup>(2)</sup>	1,450,300,000	45.0%	Long position
Mr. Yong Li <sup>(3)</sup>	Beneficial owner	5,628 ADSs	0.00%	Long position
Mr. Yat Keung Li <sup>(3)</sup>	Beneficial owner	10,558 ADSs	0.00%	Long position
Mr. Dawei Zheng <sup>(3)</sup>	Beneficial owner	21,392 ADSs	0.00%	Long position
Ms. Yanfeng Wang <sup>(3)</sup>	Beneficial owner	3,959 ADSs 100 shares	0.00%	Long position

#### Notes:

- (1) To the best knowledge of our 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 2023, 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/will be available for viewing on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by the end of April 2023.
- (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.

Save as disclosed above, as at 31 December 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 company or any of its associated corporations.

## Other Information

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

As at 31 December 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 of our company as 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 <sup>(4)</sup>	Long position/ Short position
NetEase <sup>(1)</sup>	Beneficial owner	129,034,168	60.89%	Long position
Shining Globe Holding Limited <sup>(1)</sup>	Beneficial owner	129,034,168	60.89%	Long position
TMF (Cayman) Ltd. <sup>(1)</sup>	Beneficial owner	129,034,168	60.89%	Long position
Alibaba Group Holding Limited <sup>(2)</sup>	Interest in a controlled corporation	20,733,975	9.78%	Long position
Taobao Holding Limited <sup>(2)</sup>	Interest in a controlled corporation	20,733,975	9.78%	Long position
Taobao China Holding Limited <sup>(2)</sup>	Beneficial owner	20,733,975	9.78%	Long position
GIC Private Limited <sup>(3)</sup>	Interest in a controlled corporation	13,923,356	6.57%	Long position
	Investment manager	225,000	0.11%	Long position
GIC (Ventures) Pte. Ltd. <sup>(3)</sup>	Interest in a controlled corporation	13,923,356	6.57%	Long position
GIC Special Investments Private Limited <sup>(3)</sup>	Investment manager	13,923,356	6.57%	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. 129,034,168 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) 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) 225,000 shares are beneficially held by GIC Private Limited. The remaining shares represent (i) 10,366,988 shares held by Novel Entertainment Limited; (ii) 1,329,770 shares held by Sincere Jovial Limited; and (iii) 2,226,598 shares held by LVC Cloudy Paradise LP, each of which hold less than 5% interest in our company. These shareholders are controlled by corporations or investment managers that are ultimately controlled by GIC Private Limited through, among others, its wholly-owned entities GIC (Ventures) Pte. Ltd. and GIC Special Investments Private Limited. Under the Securities and Futures Ordinance, GIC Private Limited and entities through which it controls (as defined under the Securities and Futures Ordinance and includes corporations in which it controls one-third or more and investment managers) are deemed to be interested in all of the shares held by Novel Entertainment Limited, Sincere Jovial Limited and LVC Cloudy Paradise LP in our company on an aggregated basis.
- (4) The calculation is based on the total number of 211,906,086 shares in issue as at 31 December 2022.

## Other Information

Save as disclosed above, as at the date 31 December 2022 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 of our company 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.

### SHARE INCENTIVE PLANS

#### *Details of Share Incentive Plans of our Company*

##### *Overview*

##### **Adoption**

Our company had two share incentive plans in effect during the Reporting Period: (a) the Pre-IPO Share Incentive Plan (the “**2016 Plan**”), which was adopted before our Listing; and (b) the 2022 Restricted Share Unit Plan (the “**2022 Plan**”, and together with the 2016 Plan, the “**Plans**”), which was adopted on 18 August 2022. As of the date of this report, neither Plans were governed by Chapter 17 of the Listing Rules and both rely on the transitional arrangements in respect of the new Chapter 17 rules that took effect on 1 January 2023.

##### **Purpose of the Plans**

The purpose of the Plans is to promote the success and enhance the value of our company’s business by linking the personal interests of employees to those of the shareholders of our company and by providing such individuals with an incentive for outstanding performance to generate superior returns to our company’s shareholders. The Plans also intend 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.

##### **Awards**

Under the 2016 Plan, prior to Listing, our company granted share options (“**options**”) to eligible participants; upon and after Listing, we ceased granting options and will only grant share awards in the form of restricted share units (“**RSUs**”) under this plan.

Under the 2022 Plan, we may only grant RSUs to eligible participants.

##### **Further details of the Plans**

The following table summarises the material terms of the Plans. For further information about the 2016 Plan, please see pages IV-20 to IV-24 of Appendix IV to the Prospectus. For further information about the 2022 Plan, please see our company’s announcement dated 18 August 2022 titled “Adoption of 2022 RSU Plan”. Both documents are accessible on the Stock Exchange’s website ( [www.hkexnews.hk](http://www.hkexnews.hk)) and our company’s website ( <http://ir.music.163.com>).



## Other Information

	2016 Plan	2022 Plan
Scheme mandate limit	15,000,000 shares	10,462,280 shares
Service provider sublimit	N/A	2,077,569 shares
Number of shares available for issue pursuant to awards granted and ungranted under the plan <i>(assuming no granted awards have lapsed or are cancelled or satisfied in a manner other than issuing new shares)</i>	8,588,290 shares, representing 4.05% of our company's total issued share number as at 31 December 2022.	10,462,280 shares, representing 4.94% of our company's total issued share number as at 31 December 2022.
Eligible participants	<p>Eligibility is determined by the plan administrator, and includes:</p> <ul style="list-style-type: none"> <li>employees of our company, our parent, a subsidiary or affiliate of our company, or any related entity to which a participant provides services as an employee (a "<b>service provider</b>"); and</li> <li>directors of our company, our parent, a subsidiary or related entity of our company, or consultant or adviser rendering services to a service provider.</li> </ul>	<p>Eligibility is determined by the plan administrator, and includes:</p> <ul style="list-style-type: none"> <li>directors and employees of our company and its subsidiaries ("<b>employee participants</b>");</li> <li>directors and employees of our parent and a fellow subsidiary or associated company of our company ("<b>related entity participants</b>"); and</li> <li>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 RSU 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 ("<b>service provider participants</b>").</li> </ul>
Maximum entitlement of each participant	None	None
Exercise period for options	from the vesting date and within 10 years from date of grant	N/A

## Other Information

	2016 Plan	2022 Plan
Vesting period	A period to be determined by the plan administrator.	A minimum of 12 months from the date of grant, except limited circumstances. The limited circumstances are: (i) immediately prior to a Corporate Transaction (as defined in the 2022 Plan) taking place; and (ii) when the plan administrator considers it appropriate, in the interest of our group and aligned with the purpose of the 2022 Plan, to be determined on a case-by-case basis.
Consideration payable for accepting a grant	None, unless otherwise specified by the plan administrator.	None, unless otherwise specified by the plan administrator.
Basis of determining the exercise price of options	Determined by the plan committee and set forth in the award agreement which may be a fixed or variable price related to the fair market value of the shares.	N/A
Basis of determining the purchase price of awards (where any)	The purchase price is nil.	The purchase price is nil.
Scheme life (unless terminated earlier by our board)	10 years from adoption date, with a scheme life of approximately 4 years remaining.	10 years from adoption date, with a scheme life of approximately 9 years remaining.

## Other Information

### Details of grants made under the Plans

#### 2016 Plan

The following table sets out details of grantees holding outstanding options under the 2016 Plan during the Reporting Period:

Name or category of grantee <sup>(1)</sup>	Position/Relationship	Date of grant	Vesting period (from date of grant)	Exercise Period	Exercise price per share	Details of movements during the Reporting Period					Outstanding as at beginning of Reporting Period	Cancelled/lapsed during the Reporting Period	Exercised during the Reporting Period	Outstanding as at end of Reporting Period	Closing price of our shares immediately before the date of grant	Fair value of options on date of grant and the accounting standard and policy adopted <sup>(2)</sup>	Weighted average closing price of our shares immediately before the exercise date
						Exercise price per share	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/lapsed during the Reporting Period	Outstanding as at end of Reporting Period							
Mr. Yong Li	Director	25 September 2019	4 years	from the vesting date and within 10 years from date of grant	US\$11	300,000	Nil	Nil	Nil	300,000	Nil	Nil	300,000	N/A	N/A	N/A	
Ms. Yanfeng Wang	Director	19 February 2021	1 year	from the vesting date and within 10 years from date of grant	US\$11	3,000	Nil	Nil	Nil	3,000	Nil	Nil	3,000	N/A	N/A	N/A	
Mr. Yat Keung Li	Director	18 January 2017	4 years	from the vesting date and within 10 years from date of grant	US\$8	4,000	Nil	Nil	Nil	4,000	Nil	Nil	4,000	N/A	N/A	N/A	
445 grantees	Employee participants	25 May 2016 to 15 June 2021	1 year to 4 years	from the vesting date and within 10 years from date of grant	US\$1 to US\$11	8,728,900	Nil	2,876,360	629,400	5,223,140	Nil	Nil	5,223,140	N/A	N/A	N/A	
70 grantees	Related entity participants	25 May 2016 to 15 June 2021	1 year to 4 years	from the vesting date and within 10 years from date of grant	US\$1 to US\$11	2,619,000	Nil	917,850	69,250	1,631,900	Nil	Nil	1,631,900	N/A	N/A	N/A	
<b>Total</b>						<b>11,654,900</b>	<b>Nil</b>	<b>3,794,210</b>	<b>698,650</b>	<b>7,162,040</b>							

Notes:

- (1) With respect to each award granted, upon each vesting date, the portion of the award that vests shall depend on the grantee meeting a specified threshold in their performance evaluations during the one-year period prior to the vesting date.
- (2) The fair value of awards were calculated according to the binomial option pricing model. The fair value was determined based on a number of factors, please refer to Note 27 to the "Notes to the Consolidated Financial Statements". For the relevant accounting standard and policy adopted, please see Note 2.18 to the "Notes to the Consolidated Financial Statements".

## Other Information

The following table sets out details of grantees holding unvested RSUs under the 2016 Plan during the Reporting Period. The purchase price for these RSUs was nil.

**Details of movements during the Reporting Period**

Name or category of grantee <sup>(1)</sup>	Position/ Relationship	Date of grant	Vesting period (from date of grant)	Outstanding		Cancelled/ lapsed during the Reporting Period	Outstanding as at end of Reporting Period	Closing price of our shares immediately before the date of grant	Fair value of RSUs on date of grant and the accounting standard and policy adopted <sup>(2)</sup>	Weighted average closing price of our shares immediately before the vesting date
				as at beginning of Reporting Period	Granted during the Reporting Period					
160 grantees	Employee participants	2 June 2022 to 22 November 2022	3 month to 3 years	-	1,498,130	188,707	1,086,400	HKD71.50 to HKD88.35	HKD63.60 to HKD73.95	HKD67.66
<b>Total</b>				-	1,498,130	188,707	1,086,400			

Notes:

- (1) With respect to each award granted, upon each vesting date, the portion of the award that vests shall depend on the grantee meeting a specified threshold in their performance evaluations during the one-year period prior to the vesting date.
- (2) The fair value of awards was determined based on a number of factors, please refer to Note 27 to the "Notes to the Consolidated Financial Statements". For the relevant accounting standard and policy adopted, please see Note 2.18 to the "Notes to the Consolidated Financial Statements".

## Other Information

### 2022 Plan

During the Reporting Period, our company did not grant any awards under the 2022 Plan.

# Corporate Governance Report

Our board is pleased to present the corporate governance report for our company for the 2022 financial year.

The Company has adhered to efficient and advance corporate governance principles and constantly improves its corporate governance to ensuring that Company's operations are sustainable and in line with the long-term interests of the Company and its shareholders as a whole. In 2022, all the meetings including shareholders' meeting, the Board and its subordinate committees operated soundly. By improving its transparency, accountability and efficiency, the Company believes that the benefits of its stakeholders (including employees and whom it does business and the communities as well) will be maximized.

Corporate governance provides the framework within which the board forms their decisions and instructs management of the Group to conduct its businesses with a view to ensuring that its objectives are met. The Board is committed to continuously developing robust corporate governance practices that are intended to ensure the satisfaction of its stakeholders, that the risk management system is well functioned, and that the high standards of ethics are maintained.

## CORPORATE GOVERNANCE PRACTICES

Our board is committed to achieve high corporate governance standards that it believes are crucial to our group's development and safeguarding the interests of our shareholders.

During the year ended 31 December 2022, our company has adopted and complied with all applicable code provisions of 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, 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.

## MODEL CODE FOR SECURITIES TRANSACTIONS

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 period from the Listing Date to 31 December 2022. No incident of non-compliance of the Model Code by the relevant employees has been noted by our company during the Reporting Period.

# Corporate Governance Report

## BOARD OF DIRECTORS

### *Board Composition*

During the Reporting Period and as at the Latest Practicable Date, our board comprised three executive Directors, three non-executive Directors and three independent non-executive Directors.

For details on the members of our board and their biographies, see “Directors and Senior Management” at pages 32 to 35 of this annual report.

Save as disclosed in this report, none of our Directors and members of senior management are related to other Directors or members of senior management.

### *Chairman and Chief Executive Officer*

The positions of Chairman and Chief Executive Officer are held by Mr. William Lei Ding. Please refer to “Corporate Governance Practices” above for further details.

### *Board Meetings, Committee Meetings and General Meetings*

A summary of the attendance record of the Directors at our board meetings and committee meetings during the Reporting Period is set out in the following table below:

Name of Director	Board	Remuneration Committee	Nomination Committee	Audit Committee	General Meeting
<b>Executive Directors:</b>					
Mr. William Lei Ding	4/4	0/0	0/0	0/0	1/1
Mr. Yong Li	4/4	0/0	0/0	0/0	1/1
Ms. Yanfeng Wang	4/4	0/0	0/0	0/0	1/1
<b>Non-executive Directors:</b>					
Mr. Yat Keung Li	4/4	0/0	0/0	0/0	1/1
Mr. Dewei Zheng	4/4	0/0	0/0	0/0	1/1
Mr. Feng Yu <sup>(1)</sup>	2/4	0/0	0/0	0/0	1/1
<b>Independent Non-executive Directors:</b>					
Mr. Ying Kit Caleb Lo	4/4	1/1	1/1	2/2	1/1
Mr. Xianfeng Gu	4/4	1/1	1/1	2/2	1/1
Mr. Zhong Xu	4/4	1/1	1/1	2/2	1/1

Note:

- (1) Mr. Feng Yu could not attend two of the Board meetings due to other arrangement. He has reviewed the relevant Board meeting proposals before the meetings and authorised an alternate in writing to vote on his behalf so as to ensure his views were fully reflected in the meetings.

Apart from regular board meetings, the Chairman of our board also held a meeting with the independent non-executive Directors without the presence of executive Directors during the Reporting Period.

# Corporate Governance Report

## ***Independence of Independent Non-Executive Directors***

During the Reporting Period, our board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of our board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Our board has received from each of the independent non-executive Directors a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent. Following annual review, the Board and the Nomination Committee were satisfied with the independence of each of the independent non-executive Directors with reference to the criteria laid down in the Listing Rules.

## ***Board Independence Evaluation***

The Company has established a Board Independence Evaluation Mechanism during the year which sets out the processes and procedures to ensure a strong independent element on the Board, which allows the Board effectively exercises independent judgment to better safeguard Shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board and the Nomination Committee will conduct annual review on its independence. The Board Independence Evaluation Report will be presented to the Board which will collectively discuss the results and the action plan for improvement, if appropriate.

During the year ended 31 December 2022, all Directors has completed the independence evaluation in the form of a questionnaire individually and supplemented by individual interviews. The Board Independence Evaluation Report was presented to the Board and the evaluation results were satisfactory.

During the year ended 31 December 2022, the Board and the Nomination Committee reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism and the results were satisfactory.

## ***Appointment, Re-election and Removal of Directors***

The procedures and process of appointment, re-election and removal of Directors are laid down in our articles of association. Our board's nomination committee is responsible for reviewing the composition of our board, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors.

At every annual general meeting of our company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he/she retires and shall be eligible for re-election thereat. Our articles of association also provides that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the next following general meeting after appointment. The retiring Directors shall be eligible for re-election.



# Corporate Governance Report

## ***Responsibilities, Accountabilities and Contributions of the Board and Management***

Our board should assume responsibility for leadership and control of our company, and is collectively responsible for directing and supervising our company's affairs.

Our board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors our group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to our board for its efficient and effective functioning.

All Directors have full and timely access to all the information of our company and may, upon request, seek independent professional advice in appropriate circumstances, at our company's expenses for discharging their duties to our company.

The Directors shall disclose to our company details of other offices held by them.

Our board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of our company. Responsibilities relating to implementing decisions of our board, directing and coordinating the daily operation and management of our company are delegated to the management.

# Corporate Governance Report

## ***Continuous Professional Development of Directors***

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to our board remains informed and relevant.

Every newly appointed Director should receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of our company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for our Directors would be arranged and reading material on relevant topics would be provided to our Directors where appropriate. All Directors are encouraged to attend relevant training courses at our company's expenses.

During the Reporting Period, the Company organized one training session conducted by the qualified professionals for independent non-executive Directors. Such training session covered a wide range of relevant topics including directors' duties and responsibilities, risk management and internal controls etc. In addition, relevant reading materials including directors' manual, legal and regulatory updates and seminar handouts have been provided to all Directors for their reference and study.

## ***Directors' and Officers' Liabilities Insurance***

Our company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against Directors, officers and senior management of our company arising out of corporate activities. See also "Permitted Indemnity" at page 18 of this annual report.

## **BOARD COMMITTEES**

Our board has established three committees, namely, the audit committee, the remuneration committee, and the nomination committee for overseeing particular aspects of our company's affairs. Each of these committees is established with defined written terms of reference. Copies of these terms of reference are available on the Stock Exchange's website.

### ***Audit Committee***

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The audit committee comprises three independent non-executive Directors, namely Mr. Xianfeng Gu, Mr. Ying Kit Caleb Lo and Mr. Zhong Xu, with Mr. Ying Kit Caleb Lo (being our independent non-executive Director with the appropriate professional qualifications) as chairman of the audit committee.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of our group, review and approve connected transactions and provide advice and comments to our board.

The audit committee held two meetings to review the interim and annual financial results and reports for 2022 financial year and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works, and arrangements for employees to raise concerns about possible improprieties.

The audit committee also met twice with the external auditors without the presence of the executive Directors.

# Corporate Governance Report

## *Remuneration Committee*

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The remuneration committee comprises three independent non-executive Directors, namely Mr. Xianfeng Gu, Mr. Ying Kit Caleb Lo and Mr. Zhong Xu, with Mr. Zhong Xu as chairman of the remuneration committee.

The primary duties of the remuneration committee are to review and make recommendations to our board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management.

During the Reporting Period, the remuneration committee met once to report to our board on the remuneration packages of individual executive Directors and senior management.

Details of the Directors' remuneration for the year ended 31 December 2022 are set out in Note 10 to the consolidated financial statements.

The remuneration of the senior management (other than Directors) of our group by band for the 2022 financial year is set out below:

<b>Remuneration Bands (HKD)</b>	<b>Number of Persons</b>
HK\$0-HK\$2,500,000	1
HK\$2,500,001-HK\$5,000,000	4

The Company's remuneration policy is to ensure that the remuneration offered to employees, including Directors and senior management, is based on skill, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages of Executive Directors are also determined with reference to the factors such as the level of remuneration paid by comparable companies, the time commitment and responsibilities of Directors, and the employment conditions of the Company and its subsidiaries. The remuneration for the Executive Directors comprises basic salary, pensions and performance bonus. Executive Directors shall receive awards to be granted under the Company's share incentive plan. The remuneration policy for non-executive Directors and independent non-executive Directors is to ensure that, under the relevant service contracts, non-Executive Directors and Independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs, including their participation in Board committees. The remuneration for the Independent non-executive Directors mainly comprises Director's fee which is determined with reference to their duties and responsibilities by the Board. Independent non-executive Directors shall not receive options and awards to be granted under the Company's share incentive plan. Individual Directors and senior management have not been involved in deciding their own remuneration.

## *Nomination Committee*

We have established a nomination committee with written terms of reference in compliance with the Corporate Governance Code. The nomination committee comprises three independent non-executive Directors, namely Mr. Xianfeng Gu, Mr. Ying Kit Caleb Lo and Mr. Zhong Xu, with Mr. Xianfeng Gu as chairperson of the nomination committee.

The primary duties of the nomination committee are to make recommendations to our board on the appointment of Directors and management of our board's succession.

During the Reporting Period, the nomination committee held one meeting to review the structure, size and composition of our board, assess the independence of the independent non-executive Directors and consider the qualifications of the retiring Directors standing for election at the forthcoming annual general meeting, and recommend to our board on any measurable objectives for implementing the Board diversity policy.

# Corporate Governance Report

## BOARD POLICIES AND CORPORATE GOVERNANCE FUNCTIONS

### *Board Diversity Policy*

Our company has adopted a board diversity policy which sets out the approach to achieve diversity of our board. Our company recognises and embraces the benefits of having a diverse board of directors and sees increasing diversity at our board level, including gender diversity, as an essential element in maintaining our company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. In reviewing and assessing suitable candidates to serve as a director of our company, the nomination committee will consider a number of aspects, including but not limited to gender (including avoiding a single gender board), age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. The nomination committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on our board and recommend them to our board for adoption. The nomination committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. As at the date of this report, the Company has achieved gender diversity with a female director on the Board and two female managers in the senior management team. For more details such as the gender ratio in the workforce, please refer to page 72 to 80 of the "Environmental, Social and Governance Report".

The Company aims to maintain an appropriate balance of skills, experience and diversity of perspectives on the Board that are relevant to the Company's business growth. The Company is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered. The nomination committee will report annually a summary of this policy and, where applicable, measurable objectives that the Board has adopted for implementation of this policy and the progress made towards achieving these objectives in the Company's corporate governance report.

### *Director Nomination Policy*

Our company has adopted a director nomination policy in accordance with the Corporate Governance Code. The director nomination policy sets out the selection criteria and process and our board's succession planning considerations in relation to nomination and appointment of directors of our company and aims to ensure that our board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of our company's business.

The nomination committee shall identify, consider and recommend to our board appropriate candidates to serve as Directors and to make recommendations to our Shareholders. The ultimate responsibility for selection and appointment of Directors rests with our entire board.

The nomination procedures and the process set out in this policy is as follows:

- (i) The nomination committee shall nominate candidates for the consideration of the Board. The nomination committee may propose candidates who were not nominated by the Board. The Board shall have the final decision on all matters in relation to its nomination of any candidates to stand for election at a general meeting of the Company.
- (ii) A candidate nominated by the Board to stand for election at a general meeting (the "Board Candidate") will submit the necessary personal information, together with their written consent to be elected as a Director and to the publication of their personal information for the purpose of or in relation to their standing for election as a Director. The nomination committee may request the Board Candidate to provide additional information and documents if they consider necessary.

## Corporate Governance Report

- (iii) A circular will be sent to Shareholders (the “Shareholder Circular”) to provide information of the Board Candidate. The Shareholder Circular will include the personal information of the Board Candidate as required by the applicable laws, rules and regulations, inter alia, their name, brief biography (including qualifications and relevant experience), independence and proposed remuneration.
- (iv) The Board Candidate shall not assume that they have been nominated by the Board to stand for election at the general meeting prior to the despatch of the Shareholder Circular.

Where appropriate, the nomination committee and/or the Board should make recommendation to Shareholders in respect of the proposed election of Director at the general meeting.

The director nomination policy sets out the non-exhaustive factors for assessing the suitability and the potential contribution to our board of a proposed candidate, including but not limited to the following:

- reputation for integrity;
- professional qualifications and skills;
- accomplishment and experience in the industry of our company;
- commitment in respect of available time and relevant interest;
- independence of proposed independent non-executive Directors; and
- diversity of our board in all aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The director nomination policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. The nomination committee and/or the Board should review the overall contribution and service to the Company of the retiring Director and determine whether the retiring Director continues to meet the criteria as set out above. Where appropriate, the nomination committee and/or the Board should make recommendation to Shareholders in respect of the proposed election of Directors at the general meeting.

The nomination committee will review the director nomination policy, from time to time and as appropriate, to ensure its effectiveness.

# Corporate Governance Report

## ***Corporate Governance Function***

Our board is responsible for performing the functions set out in code provision A.2.1 of the Corporate Governance Code.

Our board would review our company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, our company's policies and practices on compliance with legal and regulatory requirements, and our company's compliance with the Corporate Governance Code and disclosure in its Corporate Governance Report.

Our Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of our company may from time to time and as the circumstances require provide updated written training materials relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

## ***Dividend Policy***

Our company has adopted a dividend policy on payment of dividends in accordance with code provision F.1.1 of the Corporate Governance Code.

Our company does not have any pre-determined dividend payout ratio. According to the dividend policy, payment of dividends depends on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors may deem relevant. Dividends may be proposed and/or declared by our board during a financial year and any final dividend for a financial year will be subject to our Shareholders' approval.

## **FINANCIAL STATEMENTS, INTERNAL CONTROL AND RISK MANAGEMENT**

### ***Directors' Responsibility in Respect of the Financial Statements***

Our Directors acknowledge their responsibility for preparing the financial statements of our company for the 2022 financial year.

Our Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon our company's ability to continue as a going concern.

The statement of the independent auditor of our company, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report at pages 117 to 121 of this annual report.

# Corporate Governance Report

## *Auditors' Responsibility and Remuneration*

Our company appointed PricewaterhouseCoopers as the external auditor for the 2022 financial year. A statement by PricewaterhouseCoopers about their reporting responsibilities for the financial statements is included in the Independent Auditor's Report at pages 117 to 121.

Details of the fees paid and payable in respect of the audit and non-audit services (represent the interim review services) provided by PricewaterhouseCoopers for the 2022 financial year are set out in the table below:

<b>Services rendered for our company</b>	<b>Total fees paid and payable</b> RMB'000
Audit services related to our group	5,820
Non-audit services	980
<b>Total</b>	<b>6,800</b>

## *Risk Management and Internal Controls*

Our board acknowledges its responsibility for our company's risk management and internal control systems and reviewing their effectiveness. The risk management and internal control measures are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. During the Reporting Period, our board conducted an annual review on the effectiveness of the risk management internal control system of our company and considered the system effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

### *Risk Management*

Our company recognises that risk management is critical to the success of the business operation. Key operational risks faced by our company include changes in the general market conditions and the regulatory environment of China's internet, music, live streaming and online telecommunications and publishing industries.

Our company has adopted a consolidated set of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor key risks (including but not limited to financial reporting risks, information system risks, compliance and intellectual property right risks, internal control risks, human resources risks and investment risks) associated with the strategic objectives on an on-going basis. The audit committee, and ultimately our Directors, supervise the implementation of risk management policies. Risks identified by management will be analysed on the basis of likelihood and impact, and will be properly followed up and mitigated by our group and reported to our Directors.

Our company consider that our Directors and members of the senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control. See "Directors and Senior Management" at pages 32 to 35 for details of their qualification and experiences.

# Corporate Governance Report

## Internal Control

Our board is responsible for establishing the internal control system and reviewing its effectiveness. Our company established an internal control function to develop and maintain an appropriate internal control framework. In addition, an internal audit function was also established to perform independent monitoring responsibilities.

Our company regularly reviews and enhances the internal control system. Below is a summary of the internal control policies, measures and procedures our company has implemented:

- (a) We maintain internal procedures to ensure that we have obtained all material requisite licences, permits and approvals for our business operation, and conduct regular reviews to monitor the status and effectiveness of those licences and approvals. Relevant business departments work with related functional departments to obtain requisite governmental approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.
- (b) To comply with the rapidly evolving laws and regulations in the internet industry, we have professional teams in our group to enforce our strict internal procedures, which include without limitation monitoring laws and regulations updated from time to time and conducting relevant researches and studies; monitoring notices, instructions and requirements issued by the regulatory authorities and communicating with relevant authorities to obtain further instructions when necessary; collecting external professional opinions on any new laws and regulations; issuing appropriate plans of compliance for each product and ensuring the implementation of such plans; carry out supervision, inspection and feedback on the implementation.
- (c) To comply with the laws and regulations relating to live-streaming entertainment business, we have established various regulating mechanisms including the Management of Practices of Live Streaming Performers 《主播管理規範》, the Management of Practices on Users 《用戶管理規範》 and Penalties on Violation of the Rules by Live Streaming Talent Agencies 《LOOK 直播公會違規處罰規則》. We have also established a comprehensive review system on live streams that covers all sections from the registration of performers, to the process of live streaming, and to the reporting after the end of the live streaming programs. The specific actions include but are not limited to the following:
  - Firstly, we have established a management and security system. For instance, we have implemented a stringent real-name basis system through which performers are required to registered with information such as their real name and ID numbers. Such information will be verified by authorised third-party organisations using biometrics technologies such as face recognition and identity authentication, to match the face of performers with their identity information and confirm the validity of such identity information. During the face recognition process, after obtaining the consent from the performers, the system will capture the face information of the performers through camera, and will instruct the performers perform certain actions, such as blinking and opening the mouth, to confirm it is a real person. The authorised third-party organisation will compare the pictures captured by the camera with photos in the performers' ID cards to verify whether the performers are the holders of such ID cards. The content review system adopts a "machine + manual" approach, with the help from technologies such as AI capture and key words detection, voice recognition, and risk characteristic models. The review team is on 24/7 shifts to ensure sufficient manpower to monitor all live stream content.



## Corporate Governance Report

- Secondly, we have established a protection mechanism for minor users. We have set up and continuous upgrade the youth review mode, which cover various aspects of minor usage, including Internet addiction and virtual gifting. We have also set up multiple real-name authentication portals. Any user identified as a minor user by real-name authentication cannot be registered as a live streaming performer or top up in the live streaming service.
  - Finally, we have established a management mechanism of live streaming performers. We have set up penalties for prohibited conducts such as spreading vulgar content in live streaming rooms and inducing minors to make virtual gifting. The penalties include but not limited to warning, closing live streaming room, banning performance, freezing account, blocking or suspending settlement of revenue sharing for the month and suspending provision of publicity and promotion resources. We have also a tagging system for contents of live streaming programmes and a grading system based on quality of live streaming programmes and performers, and different levels are allocated with different resources.
- (d) Our Directors (who are responsible for monitoring the corporate governance of our group), with help from the legal advisers, also periodically review the compliance status with all relevant laws and regulations.
- (e) Our board has established the audit committee, which: (i) makes recommendations to our Directors on the appointment and removal of external auditors; and (ii) reviews the financial statements and renders advice in respect of financial reporting as well as oversees internal control procedures of our group.
- (f) Our company has engaged China International Capital Corporation Hong Kong Securities Limited as its compliance adviser to provide advice to our Directors and management team regarding matters relating to the Listing Rules. The compliance adviser has helped and will continue to help to ensure the use of funding complies with what is disclosed in the "Future Plans and Use of Proceeds" section of the Prospectus after the Listing, as well as to provide support and advice regarding requirements of relevant regulatory authorities in a timely fashion.

The Company has adopted the Whistleblowing Policy for employees of the Company and those who deal with the Company to raise concerns, in confidence and anonymity, with the internal audit department ("IA") about possible improprieties in any matters related to the Company.

The Company has also adopted the Anti-Corruption Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. Employees can also make anonymous reports to the IA which is responsible for investigating the reported incidents and taking appropriate measures. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organises anti-corruption training and inspections to ensure the effectiveness of anti-corruption and anti-bribery.

Our company regulates the handling and dissemination of inside information as set out in various inside information disclosure procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

### COMPANY SECRETARY

Ms. Wong Wai Yee Ella has been appointed as our company's company secretary. Ms. Wong's primary contact person at our company is Ms. Ju Lu, vice president of finance of our company. See "Directors and Senior Management" at page 35 in this annual report for Ms. Wong's biography.

In the 2022 financial year, Ms. Wong has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

# Corporate Governance Report

## SHAREHOLDER RIGHTS AND COMMUNICATIONS

### *Convening of Extraordinary General Meetings by Shareholders*

Pursuant to article 12.3 of our articles of association, our board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the written requisition of one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of our company which carry the right of voting at general meetings of our company. The written requisition shall be deposited at the principal office of our company in Hong Kong or, in the event our company ceases to have such a principal office, the registered office of our company, specifying the objects of the meeting and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed to convene a meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of our Directors shall be reimbursed to them by our company.

### *Putting Forward Proposals at General Meetings*

There are no provisions allowing Shareholders to propose new resolutions at general meetings under the Companies Act of Cayman Islands (as revised and amended from time to time) or our articles of association. However, Shareholders who wish to put forward proposals at general meetings may achieve this by means of convening an extraordinary general meeting following the procedures set out in paragraph above.

For the procedures for our Shareholders to propose a candidate for election as a director of our company, please see our company's website at <http://ir.music.163.com>.

### *Putting Forward Enquiries to the Board and Contact Details*

For putting forward any enquiries to our board, Shareholders may send written enquiries to our company as follows:

Attn.: The Board of Directors Cloud Music Inc.

Room 1201, Block A Hangzhou International Expo Center

No. 353 Benjing Avenue, Qianjiang Century City, Xiaoshan District

Hangzhou, Zhejiang Province, China.

Our company will not normally deal with verbal or anonymous enquiries.

# Corporate Governance Report

## *Communication with Shareholders and Investors Relations*

Our company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of our group's business performance and strategies. Our company endeavours to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the forthcoming annual general meeting, our Directors (or their delegates as appropriate) will be available to meet Shareholders and answer their enquiries.

To promote effective communication, our company maintains a website at <http://ir.music.163.com>, where information and updates on our company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

### **(a) Corporate Communication**

"Corporate Communication" as defined under the Listing Rules refers to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to the following documents of the Company: (i) the annual report (with Directors' report, annual accounts together with a copy of the auditor's report) and, where applicable, its summary financial report; (ii) the interim report and, where applicable, its summary interim report; (iii) the quarterly results; (iv) a notice of meeting; (v) a circular; and (vi) a proxy form. The Corporate Communication of the Company will be published on the Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)) in a timely manner as required by the Listing Rules. Corporate Communication will be provided to Shareholders and non-registered holders of the Company's securities in both English and Chinese versions or where permitted, in a single language, in a timely manner as required by the Listing Rules. Shareholders and non-registered holders of the Company's securities shall have the right to choose the language (either English or Chinese) or means of receipt of the Corporate Communication (in printed form or through electronic means).

### **(b) Announcements and Other Documents pursuant to the Listing Rules**

The Company shall publish announcements (on inside information, corporate actions and transactions etc.) and other documents (e.g. Memorandum and Articles of Association) on the Stock Exchange's website in a timely manner in accordance with the Listing Rules.

### **(c) Corporate Website**

Any information or documents of the Company posted on the Stock Exchange's website will also be published on the Company's website (<http://ir.music.163.com>). Other corporate information about the Company's business developments, goals and strategies and corporate governance will also be available on the Company's website.

# Corporate Governance Report

## **(d) Shareholders' Meetings**

The annual general meeting and other general meetings of the Company are primary forum for communication between the Company and its Shareholders. The Company shall provide Shareholders with relevant information on the resolutions(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable Shareholders to make an informed decision on the proposed resolution(s). Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. Where appropriate or required, the Chairman of the Board and other Board members, the chairmen of board committees or their delegates, and the external auditors should attend general meetings of the Company to answer Shareholders' questions (if any). The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent Shareholders' approval.

## **(e) Shareholders and Investors Enquiries**

The Company will not normally deal with verbal or anonymous enquiries. Shareholders and investors may send any enquiries to the Investor Relations by email: [music.ir@service.netease.com](mailto:music.ir@service.netease.com).

## **(f) Webcast**

Webcasts of the Company's interim and annual results briefings are available.

## **(g) Other Investor Relations Communication Platforms**

Investor/analysts briefings, roadshows (both domestic and international), media interviews, marketing activities for investors and specialist industry forums etc. will be launched on a required basis.

We annually review the implementation and effectiveness of the above shareholders' communication policy (with communication channels). Following our review during the Reporting Period, we have concluded that the above policy provides sufficient opportunity and avenues for ongoing communication between our company (including the Board and management) and our Shareholders.

## ***Changes in Constitutional Documents***

From the Listing Date to 31 December 2022, our company did not make any significant changes to its constitutional documents. Our company proposes to amend certain provisions of its memorandum of association and articles of association in its upcoming annual general meeting to comply with the core shareholders' protection requirements set out in Appendix 3 to the Listing Rules.

The latest version of our memorandum of association and articles of association are available on the websites of our company and the Stock Exchange.

# Environmental, Social and Governance Report

## ABOUT THIS REPORT

### *Introduction*

This report is the second Environmental, Social, and Governance (ESG) Report (“this report”) published by Cloud Music Inc. to share our efforts, initiatives and achievements in ESG activities with stakeholders.

### *Reporting Period*

This report covers the period from 1 January 2022, to 31 December 2022 (the “reporting period”), with some content retrospectively referencing prior years or extending into 2023.

### *Reporting Scope*

This report encompasses Cloud Music Inc. (the “Company”, “Cloud Music”, “we”, “us” or “our”) and its subsidiaries.

### *Reporting Guidelines*

This report was compiled in accordance with the *Appendix 27 Environmental, Social and Governance Reporting Guide* in the *Listing Rules and Guidance* issued by The Stock Exchange of Hong Kong Limited (“HKEX”).

This report was prepared following the procedures of the identification and prioritisation of stakeholders and material ESG-related issues, determining the scope of the ESG report, collecting relevant documents and data, compiling the report based on the information, and reviewing the contents of the report to ensure its completeness, substance, authenticity, and balance.

### *Sources and Credibility*

The information and data contained herein are from the Company’s statistical reports and official documents, and have been approved by corresponding departments. The Company undertakes that this report does not contain any false or misleading information, and is responsible for the authenticity, accuracy, and completeness of the content.

### *Languages and Formats*

This report is available in both Chinese and English and can be accessed in electronic form. For more information regarding the background, business development, and sustainability philosophy of NetEase Cloud Music, please visit our investor relations website (<http://ir.music.163.com/en/index.php>).

### *Compiling Process*

This report was compiled through the formation of a working group, information gathering, stakeholder interviews, determination of framework, report writing, and internal review.

### *Confirmation and Approval*

This report was confirmed by the management team and was approved by the Board of Directors.

### *Access and Feedback*

We attach great importance to the opinions of our stakeholders and welcome readers to contact us through the following Email address. Your opinions will help us improve this report as well as our ESG performance.

Email: [music.ir@service.netease.com](mailto:music.ir@service.netease.com).

# Environmental, Social and Governance Report

## 1. GOVERNANCE

### 1.1 *Compliance Governance and Risk Management*

The Company abides by applicable laws and regulations, including the *Company Law of the People's Republic of China*, the *Basic Standard for Enterprise Internal Control with Implementation Guidelines* and the *HKEX Listing Rules*, etc., and has formulated corporate governance policies and systems, strictly enforcing regulatory and compliance requirements. We continue to strengthen compliance construction, regularly follow the updates of laws and regulations, and through internal information dissemination channels, convey relevant regulatory dynamics, legal regulations, industry standards, etc. to the corresponding departments and remind them of the compliance requirements. During the reporting period, Cloud Music carried out compliance training sessions to enhance employee compliance awareness, and the trainings covered platform activity compliance, consumer rights and interests protection, product compliance, etc.

We attach importance to the construction of the system for internal control and risk management, continuously improving the efficiency of risk prevention and control mechanisms, and enhancing our risk management capabilities. During the reporting period, through conducting management interviews, filling out questionnaire surveys, etc., we identified risk areas, clarified risk factors, determined risk levels, developed risk response strategies, and prevented the occurrence of major risks in strategy, policy, customer insights, channels, product and service management, market branding, technology, supply chain, talent, etc.

### 1.2 *Business Ethics Management*

Cloud Music adheres to high standards of business ethics and conducts integrity and honesty management in strict accordance with relevant policies. We strictly comply with laws and regulations such as the *Anti-Money Laundering Law of the People's Republic of China*, and the *Interim Provisions on Prohibition of Commercial Bribery*. We also conduct a variety of integrity education activities to ensure that a unified professional ethics standard is upheld from top to bottom. We attach importance to the protection of whistleblowers and resolutely oppose all forms of retaliation against them, making every effort to protect their legitimate rights and interests.

# Environmental, Social and Governance Report

## 1.2.1 Anti-corruption

Cloud Music uses internal management systems such as the “NetEase Code of Integrity and Ethics”, the “NetEase Code of Professional Ethics”, and the “NetEase Whistleblowing System” as guidelines for maintaining integrity and honesty during operation, ensuring effective and efficient handling of corruption cases, protection of whistleblowers, and other related activities.

For corruption cases, Cloud Music investigates the cases received through the standardised handling process established by the NetEase Ethics Committee.



### Corruption Case Handling Process of the NetEase Ethics Committee

Every year, Cloud Music carries out numerous promotion activities related to integrity to continuously strengthen employees’ integrity awareness at work and constrain their own conduct. During the reporting period, the attendance of anti-corruption trainings reached over 3,400. We also conducted the annual Compliance and Professional Ethics Certification for all full-time employees, covering areas such as security, integrity, internal control, internal audit, investor relations, and public relations. 100% of the targeted group passed the certified process of the 2022 Compliance and Professional Ethics Certification within the certification period.

To ensure that employees establish a correct integrity awareness and effectively avoid potential risks of corruption and bribery, Cloud Music carried out special integrity training through the NetEase Ethics Committee, with training themes centred around information security and conflict of interest, to share relevant information with employees. In addition, Cloud Music also provided training and learning opportunities for the Board of Directors and management staff to ensure that they follow the same professional ethical standards from the top down. With regard to suppliers, Cloud Music held case review and reporting meetings on a regular basis to communicate the Company’s bottom line of integrity and requirements for daily business dealings, thereby improving the suppliers’ integrity awareness.

During the reporting period, the Company did not have any concluded corruption and bribery lawsuits.

# Environmental, Social and Governance Report

## Case: Raise Professional Ethics Awareness

During the reporting period, we launched an event to raise professional ethics awareness. The activities were diverse, including innovative activities such as “integrity café” and charitable auctions of presents, which conveyed the knowledge of integrity through new ways, promoting the Company’s integrity culture more clearly and efficiently.



### 1.2.2 Protection for Whistleblowers

Cloud Music strictly adheres to the whistleblower protection system established by NetEase Group and implements protective measures in accordance with applicable regulations. The Company firmly opposes any form of retaliation and has established a penalty system for retaliation. We have an anonymous reporting mechanism and keep the personal information of whistleblowers who report in real names strictly confidential. The staff handling these cases are required to sign a confidentiality agreement. In addition, Cloud Music keeps track of the movements of the whistleblowers to avoid any indirect exclusion or retaliation.



## Environmental, Social and Governance Report

### 1.3 Intellectual Property Protection

Cloud Music strictly adheres to relevant laws and regulations such as the *Copyright Law of the People's Republic of China* and the *Patent Law of the People's Republic of China*, as well as internal management policies such as the "NetEase Policies on Intellectual Property Protection", and we rigorously implement intellectual property protection work.



While effectively carrying out intellectual property protection work, Cloud Music also attaches importance to raising awareness of intellectual property among employees. During the reporting period, Cloud Music conducted a number of intellectual property training sessions to meet the training needs of different employees.

<b>Music Copyright, Marketing, Commercialisation Departments, etc.</b>	<b>Operations, Design Departments, etc.</b>	<b>Technology, Product, Data Intelligence Departments, etc.</b>
Conducted trainings cover the basics of the Copyright Law, the basics of the Contract Law, as well as legal knowledge related to the cooperation with artists, means of defending rights and as well as litigation cases	Conducted trademark protection-related trainings	Conducted patent application-related trainings

# Environmental, Social and Governance Report

## 1.4 ESG Governance

Cloud Music makes efforts to improve the sustainable development management system. We have set up an ESG governance structure to promote the ESG routine work and achieve the sustainability goals. In addition, we maintain effective two-way communication with stakeholders and engage with them to jointly create sustainability values and promote the sustainability of communities.

### 1.4.1 ESG Governance Structure

The ESG governance structure consists of the Board of Directors and the ESG coordination working group, both of which have clearly defined their respective responsibilities and functions to ensure that the Company’s ESG work is carried out in an orderly manner.



Cloud Music’s ESG Governance Structure

### 1.4.2 ESG Governance by the Board of Directors

The Board of Directors, as the decision maker of Cloud Music’s ESG work, is deeply aware of the responsibilities and functions it needs to perform, and through training and learning, continuously enhances the effectiveness of ESG governance and facilitates ESG work to be conducted more efficiently.

During the reporting period, the Board of Directors participated in special ESG training to learn the overview and evolution of ESG, the latest ESG focus, and the analysis of the current ESG situation of Cloud Music. The training also further clarified the Board’s ESG work content, helping the Board to have a more comprehensive and in-depth understanding of ESG issues.

# Environmental, Social and Governance Report

## Statement by the Board of Directors

The Board of Directors is ultimately responsible for the ESG management policy, strategy, setting and monitoring of related goals and ESG performance, assessing and defining the risks associated with sustainability, and ensuring that the Company has appropriate and effective sustainability management and internal control measures in place. The ESG working group is responsible for coordinating Cloud Music's ESG work, implementing related work in accordance with sustainable development strategies, goals, and management guidelines, and reporting regularly to the Board of Directors on the ESG work progress. Cloud Music maintains close communication with internal and external stakeholders to keep abreast of feedbacks on Cloud Music, incorporating the feedbacks to help identify ESG risks and opportunities for the Company. The Board of Directors has discussed and evaluated the priority of sustainability issues, and will develop sustainability strategies, goals, and management guidelines based on these issues and review the progress of these efforts on a regular basis.

### 1.4.3 Stakeholder Engagement

Cloud Music attaches great importance to the feedback and demands of stakeholders on the Company's sustainable development work. Therefore, we have established a regular and diversified communication mechanism to promptly and efficiently respond to stakeholders in order to help the Company smoothly advance its short-, medium – and long-term ESG work plans and achieve long-term sustainability.

Stakeholder	Expectations and Demands	Communication Channels
Users	Content Innovation Content Compliance Customer Service and Satisfaction Privacy and Data Security	The Company's Website Customer Satisfaction Surveys Customer Complaint Handling Official WeChat Account
Partners and Industry Associations	Experience Sharing Support for Industry Development	Strategic Cooperation Industry Exchanges
Employees	Compensation and Benefits Health and Safety Employee Communication Equal Promotion and Career Advancement Opportunities	Employee Satisfaction Surveys Forums Teambuilding and Other Activities
Shareholders and Investors	Corporate Governance Return on Investment (ROI) and Growth Risk Management Tackling Climate Change	Shareholder Meetings Information Disclosure via ESG and Annual Reporting Road Shows Investor Conference and Other Activities

## Environmental, Social and Governance Report

Stakeholder	Expectations and Demands	Communication Channels
Communities	Higher Employment Rate and Economic Growth Social Care and Volunteering Tackling Climate Change	Charity Work Community Building Visits
Government and Regulatory Authorities	Compliance with Law and Regulations Tax Payment According to Law Tackling Climate Change Support for Circular Economy Energy Conservation and Emission Reduction	Meetings Information Disclosures
Charities	Social Issues (i.e., Poverty Alleviation and Student Assistance) Care for Disadvantaged Groups	Charity Work Community Development Activities
Media	Support for Social Development Care for Vulnerable Groups	Press Conferences
Suppliers	Fair and Open Procurement Quality Assurance	Supplier Qualification Assessment Supplier Training

# Environmental, Social and Governance Report

## 1.4.4 Material ESG Issues

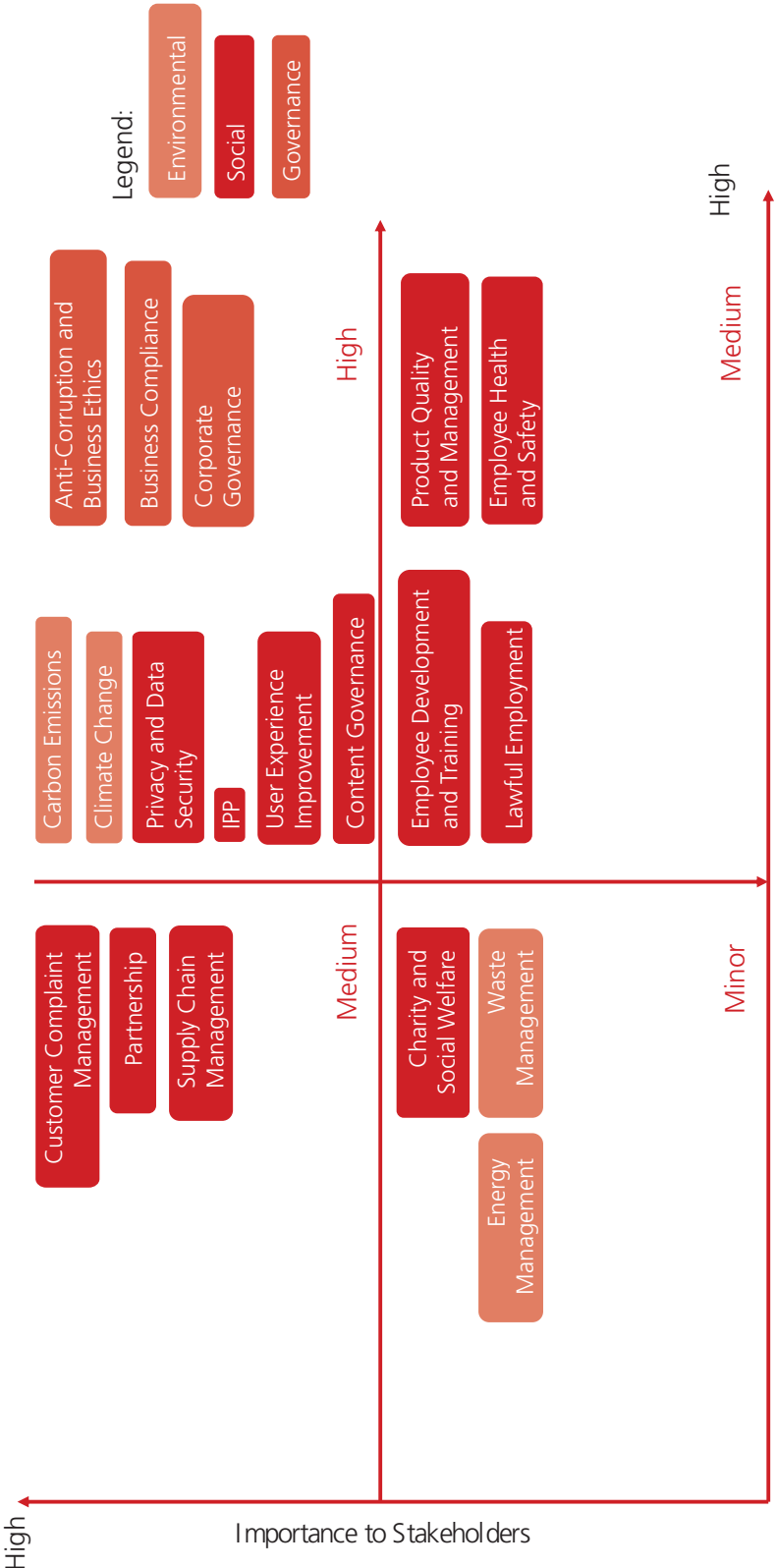
Cloud Music attaches great importance to stakeholders' feedbacks and suggestions on sustainability issues and has collated statistics of the ESG issues and segmentation indicators that HKEX and our industry peers are concerned about. During the reporting period, Cloud Music identified a total of 19 ESG issues related to the Company based on feedbacks from our management, communication results from stakeholders, and peer benchmarking results, of which 9 were highly important, 7 were medium important, and 3 were of ordinary importance.

Category	Issue No.	Issue Details
Environment	1	<b>Carbon Emissions</b>
	2	<b>Climate Change</b>
	3	Energy Management
	4	Waste Management
Society	5	<b>Privacy and Data Security</b>
	6	<b>User Experience Improvement</b>
	7	<b>Content Governance</b>
	8	<b>Intellectual Property Protection (IPP)</b>
	9	Lawful Employment
	10	Employee Development and Training
	11	Employee Health and Safety
	12	Product Quality and Management
	13	Supply Chain Management
	14	Partnership
	15	Customer Complaint Management
	16	Charity and Social Welfare
Governance	17	<b>Anti-corruption and Business Ethics</b>
	18	<b>Business Compliance</b>
	19	<b>Corporate Governance</b>

### List of Material Issues

Note: The bolded issues are critical issues during the reporting period

# Environmental, Social and Governance Report



Importance to Cloud Music's Sustainability

Matrix of Material ESG Issues

# Environmental, Social and Governance Report

## 2. SOCIAL

### 2.1 Our Team

Cloud Music upholds people-oriented philosophy and fully respects and protects the legitimate rights and interests of each employee, striving to create an equal, respectful, healthy, and safe work environment. In addition, we have established a comprehensive talent development system and a well-grounded compensation and benefits system, and carried out caring activities for employees to continuously promote their sense of achievement, happiness, and belonging.

#### 2.1.1 Protecting Employee Rights

Cloud Music strictly abides by national laws and regulations, comprehensively protects the legal rights and interests of employees, refines the system of protection with respect to employee rights and interests, conducts compliant employment activities, and creates a sound, healthy, equal, and respectful workplace environment.

##### Employment

We always believe that talents are the company's core competitiveness for development. We insist on the selection standard of both virtues and talents, implement legal and compliance requirements in the recruitment process, and recruit talents through multiple channels to build a dynamic team.

##### Legal and Compliant Recruitment

We are in strict accordance with the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China*, the *Social Insurance Law of the People's Republic of China*, the *Trade Union Law of the People's Republic of China*, the *Regulations on Collective Contracts of Zhejiang Province*, and other laws and regulations related to employment, and have formulated the "NetEase Recruitment System" and the "NetEase Employee Handbook" to regulate recruitment practices and clarify the working principles to be followed in the recruitment process.

##### Diversified Recruitment Channels

Cloud Music actively expands the talent pipeline through social recruiting, campus recruiting, school-enterprise joint training, etc. to enhance the efficiency of talent acquisition and create a diversified talent team.

- **Social Recruiting**

In 2022, we greatly expanded the diversity of social recruiting channels through internal referral activities, healthy cooperation with headhunters and RPO (recruitment process outsourcing) providers, and independent recruitment projects.



Cloud Music's Main Social Recruiting Channels

# Environmental, Social and Governance Report

## • Campus Recruiting and Campus-Enterprise Cooperation

Campus recruiting is an important channel to attract new talents for Cloud Music, and we have carried out campus recruiting activities in various forms, integrating Cloud Music's business features and hiring needs. In terms of campus-enterprise cooperation, we have projects like the "Music Gravity" doctoral programme and the music conservatoire programme.



Cloud Music's Campus Recruiting and School-Enterprise Cooperation

### Labour Rights

Cloud Music is committed to respecting and safeguarding labour rights and legitimate interests and eliminating any illegal employment, workplace discrimination, and other violations. We value a diverse composition of our employees. Diverse human resources comprise one of the key elements with which to maintain the company's competitive advantage and promote sustainable development.

### Prohibiting Illegal Employment

We eliminate any form of illegal employment, ensure that all aspects of the employment process are in accordance with the law, and require that no labour be forced to work by means of violence, threats, or illegal restrictions on personal safety.

We require applicants to provide identity documents during the recruitment process to ensure that they meet the minimum working age requirements set by law and resolutely prevent the employment of child labour.

### Against Discrimination and Harassment

We uphold the principle of fairness and impartiality, and firmly oppose any form of discrimination and unequal competition. We strictly prohibit the differential treatment of employees based on ethnicity, age, gender, race, nationality, marriage, health status, and religion. In addition, we strongly oppose any form of workplace harassment, including but not limited to offensive, abusive, gender or racial derogatory, and sexual harassment.

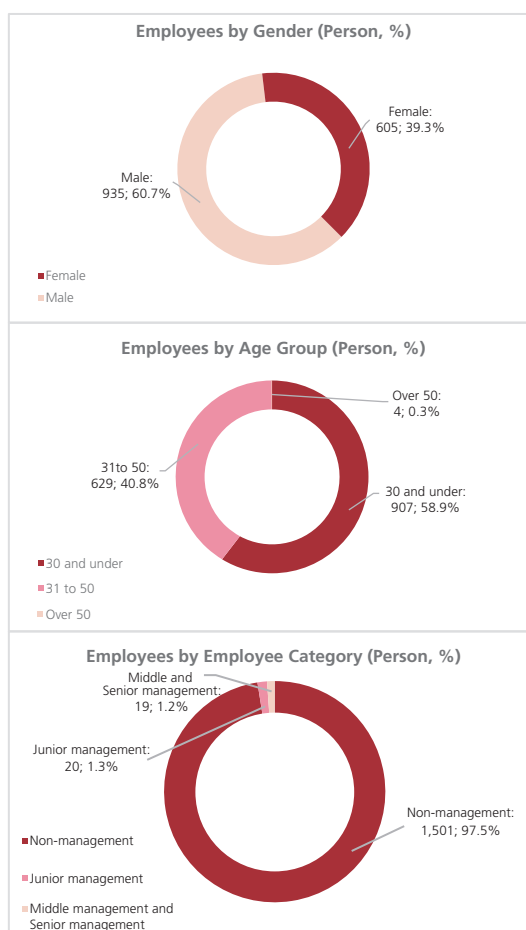


# Environmental, Social and Governance Report

## Diversity and Equity

We believe that an inclusive and diverse workplace enables us to attract more talents and promote the Company's continued growth. Cloud Music is committed to achieving a diverse composition of directors and employees. When nominating and appointing directors, we fully consider the composition of our Board of Directors in terms of educational background, professional experience, skills, knowledge, and other aspects to ensure that our Board members have diverse professional backgrounds and extensive industry experience. We respect the diversity and differences of our employees, and we continue to optimise our employee structure at the organisational level and ensure equal employment for women. We are committed to creating and maintaining an inclusive and equitable work environment and building a diversified workforce by implementing employment diversity guidelines in relation to employee background, age, and gender, among others.

As of the end of the reporting period, Cloud Music has 1,540 full-time employees. The numbers of employees by gender, age group, and employee category are depicted in the following charts.



Notes: During the reporting period, there was no full-time employee who opted not to disclose their gender and age information.

Our business primarily focus on mainland China, accordingly our employees are mainly based in mainland China, with a few in Hong Kong, Macau and outside of China (1,539 employees in mainland China, 1 employee in other region).

In addition to 1,540 full-time employees, we also have 248 interns at the end of reporting period.

# Environmental, Social and Governance Report

## 2.1.2 Support for Employee Development

Cloud Music believes that talent is an important driving force behind the Company's steady progress. We have established a comprehensive talent training system as well as a fair and transparent performance evaluation system to enable our employees to discover their potential and realise their self-worth. In addition, we respect the personalised development of our employees and encourage them to participate in external qualification and capability assessments and industry conferences, and provide them with relevant incentives and trainings.

### Employee Training

Cloud Music attaches importance to talent developing and offers a variety of training courses to meet the self-development needs of employees at different levels, improving their soft and hard skills, providing the Company with a reserve of talent power for sustainable development, and building a solid echelon of talents.

### Employee Training System

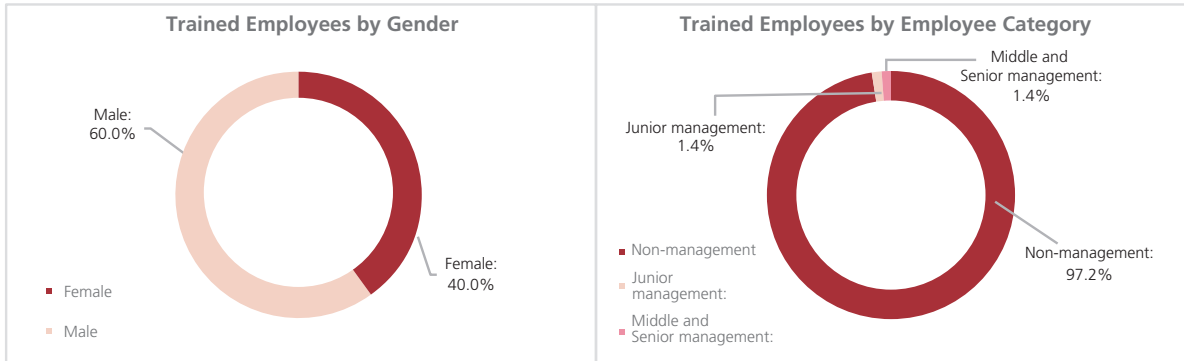
Cloud Village Academy is a unique training platform of Cloud Music, under which we have set up customised training courses for everyone from interns to managers. In the meantime, we have also established four major platforms – NetEase KM, Ease-Learning Go, Cloud Music WIKI, and Cloud Music Forum – that rely on platform-embedded training functions to help the training system operate more efficiently. Based on the training programs carried out by NetEase Group, Cloud Music has undertaken personalised training programs with Cloud Music's specialities.



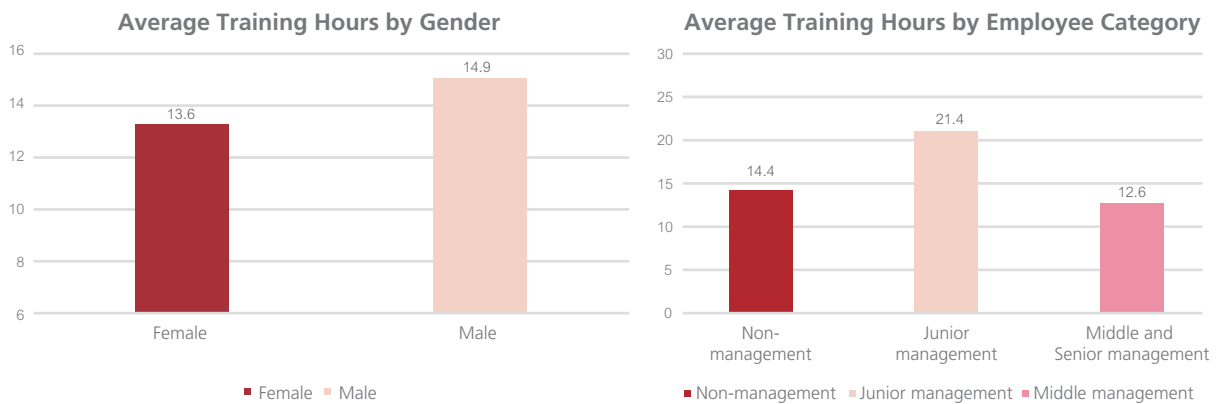
Cloud Music's Employee Training System

# Environmental, Social and Governance Report

During the reporting period, 100% of Cloud Music employees received training. The breakdown is as follows.



During the reporting period, the average training hours for Cloud Music employees was 14.4, and the average training hours for employees by gender and employee category are as follows.



Cloud Music integrated its business characteristics into the training system and carried out a series of special training programmes centred around music industry development and speciality music content. Cloud Music’s featured training programs are gradually becoming an important foundation for music culture penetration, industry insight communication, and the core staff training system of Cloud Music.

## Environmental, Social and Governance Report

### Case: Cloud Village Campus Recruits Camp

Cloud Music has set up a camp to help campus recruits to grow quickly. The camp has six modules, covering all aspects from employee onboarding to probationary period, and introduces four nurturing supports: mentor, supervisor, BP (business partner), and senior management. The camp manages campus recruits from inventory, appointment, motivation, retention, and other dimensions through six months of intensive learning and one to three years of follow-up observation.



### Case: Training for Social Recruits

Cloud Music provides special training for new social recruits. The training effectively bridges with the Group's social recruit training and sets up customised programmes according to Cloud Music's business requirements to encourage department heads to take up the responsibility in promoting employee training and development, thus accelerating the integration and growth of social recruit talents.

# Environmental, Social and Governance Report

## Case: Cloud Music's Special Training Programmes

"Business Insight Workshop" provides timely sharing of the current business strategy and dynamics of Cloud Music to expand the horizons and mindsets of all employees and thereby enhance their capabilities.

"Love to the End" turns the spotlight on the most relevant topics of the business and invites big shots in the music industry to share music and external music information with our employees, thereby strengthening their perceptions regarding music content.

"Cloud Village Seminar" targets the growth and empowerment of each professional line within Cloud Music and includes contents such as the interpretation of ability mapping of each level and professional sharing.

### Technology "Cloud Village Seminar"



### Product "Music PM"



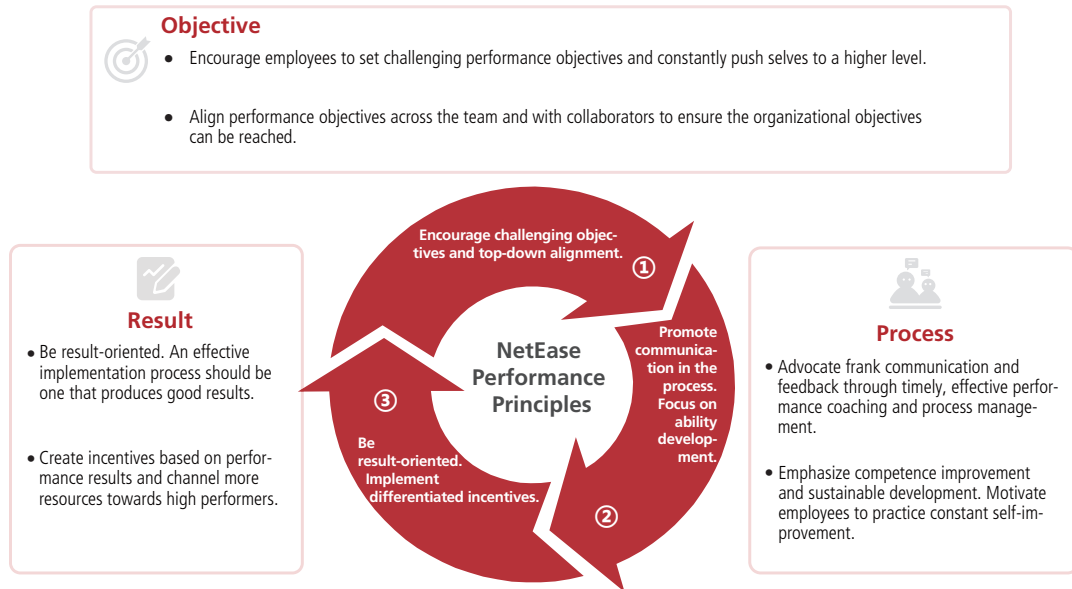
## Performance Management

We consistently apply the concept of result-oriented performance by conducting regular appraisals covering all employees in accordance with the relevant methods of performance management to evaluate employees' work in a timely manner. We conduct several performance empowerment projects to optimise the operation of the performance system by combining data insight and user feedback.

# Environmental, Social and Governance Report

## Performance Principles

In order to create a healthy, win-win incentive mechanism for employees and the company, we set challenging and consistent performance goals and insist on incentives that are result-oriented and differentiated. Resources are oriented toward high-performing individuals so as to inspire all employees to attain long-term improvement.



## Performance Management Measures

During the reporting period, we continued to update our performance management system. We wrote 9 guidelines and 13 detailed cases and conducted 6 performance empowerment projects. We have developed a standardised, clear, open, and transparent performance management process. With a set of guidelines in place, we are able to carry out the performance management in an orderly manner, ensuring the rigorousness and accuracy of performance evaluation results.



Cloud Music's Performance Management Process

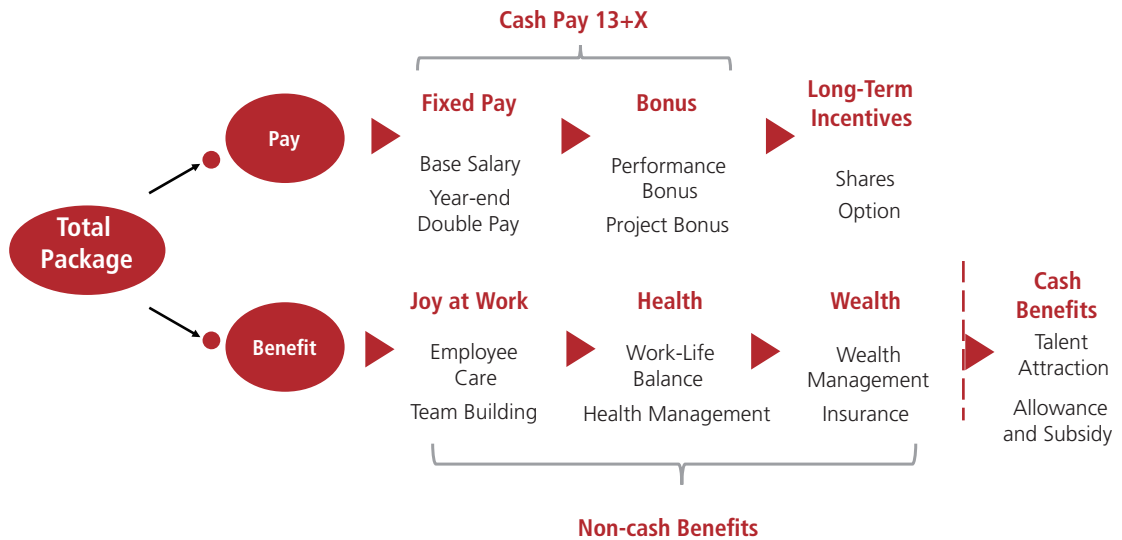
# Environmental, Social and Governance Report

## 2.1.3 Caring for Employees

Cloud Music insists on people-oriented governance. We care about personal well-being provide industry competitive salaries and comprehensive welfare protection, strive to create an inclusive, warm and safe working environment for employees, build multiple communication and feedback channels, and enhance the happiness and sense of belonging of employees.

### Compensation and Benefits

We are grateful for our employees' efforts and hard work, and promise that "the efforts of every employee should be cared". We have developed a comprehensive compensation and benefits system, covering all aspects of employees' work and life, in order to reward employees' efforts, support the long-term healthy development of the Company, and share the achievements of development with employees.



Cloud Music's Compensation and Benefits Composition

# Environmental, Social and Governance Report

## Health and Safety

Cloud Music cares for the health and safety of employees, advocates work-life balance, and strives to create a harmonious working atmosphere. We strictly abide by the *Fire Protection Law of the People's Republic of China* and other relevant laws and regulations to create a healthy and safe work environment. We care for the physical and mental health of every employee and promote a positive work atmosphere.

Our employees' health has always been a top priority for Cloud Music. We not only provide a variety of caring services to protect the physical health of our employees, but also pay attention to the mental well-being and development of each employee. We organise annual checkups for our employees and purchase medical insurance and commercial insurance for each of them. We give our employees various official holidays and welfare leaves, guaranteeing their right to take leave. In addition, we provide employees with mental care through our Employee Assistance Programme (EAP), which helps employees regulate their emotions and relieve stress. In 2022, based on the existing health benefits, we improved the health management system and strengthened the security, fire, and food safety management system to protect the physical and mental health of all employees in all aspects.

There were no fatalities caused by work-related injuries in the past three years (including the reporting period). During the reporting period, the number of working days lost due to work-related injuries was zero.



# Environmental, Social and Governance Report

## Employee Communication

Cloud Music has created a platform for employee communication and feedback. In 2022, NetEase's internal communication portal continued to play an essential role in creating a transparent atmosphere for communication and ensuring timely and accurate dissemination of information between the Company and employees. The suggestion channel in the internal portal acts as a booster for company improvement. Each suggestion receives follow-up from a dedicated person, and through employee suggestions many refinements in regard to the canteen, campus construction, office environment and information system are made.

Cloud Music energetically promotes communication among employees, enhances their sense of belonging, and reduces the turnover rate. We interview the departing employees, listen to their feedback and suggestions, analyse and summarise the reasons for their departure, and optimise the retention management from different human resource modules accordingly. During the reporting period, our employee turnover rate was 22%, and the breakdown of employee turnover by gender, age group, and geographical region is as follows.

Cloud Music's Employee Turnover Rate by Gender, Age Group, and Geographical Region in 2022

Item		Turnover rate
Turnover rate by gender	Male	19%
	Female	26%
Turnover rate by age group	30 years old and under	23%
	31 to 50 years old	20%
	Over 50 years old	0%
Turnover rate by geographical region	Mainland China, Hong Kong SAR, Macau SAR and Taiwan (China)	22%
	Overseas	0%

Note: Employee turnover rate = (Number of full-time employees who left Cloud Music during the reporting year/Average number of full-time employees at the beginning and end of the reporting period) × 100%. Employee turnover reflects the number of full-time employees who have left (due to voluntary resignations, dismissals, retirement).

# Environmental, Social and Governance Report

## Employee Care

Cloud Music appreciates the contribution of every employee. We have established a warm well-being system. We organised various care activities with Cloud Music's characteristics to increase employee communication and interaction. We also help employees to cultivate hobbies and expand their social circle after work to achieve work-life balance.

### Case: Cloud Music Organised the "I Want to Go Live" Live Music Activity for Employees

Cloud Music provides live music immersion experiences for all employees by organising live music events such as Cloud Village Camp Music Festival and Galaxy Album Music Camp, as well as external cooperation with live houses, music festivals, concerts, and musicals.

In 2022, we held 25 live music experience events, covering almost 200 employees. There were 8 live-house performances, 2 FEVER<sup>1</sup> parent-child experience sessions, 6 FEVER music production experience sessions, 3 external music festivals, 2 Cloud Village Camp Music Festivals, 2 concerts, a musical, and a Galaxy Album Music Camp. By attending the live music events, the employees could engage with users up close, more fully understand the related business, and enhance their musical expertise.



<sup>1</sup> NetEase FEVER is an integrated electronic music platform. It's main business segments include live events, music production/DJ training, artist representation, brand collaborations, derivatives development, game music, premium customised electronic music travel, etc.

## Environmental, Social and Governance Report

### Case: Cloud Music Started Cloud Village Guitar Club, Rap Army and DJ Club for Employees

In order to create a music-loving atmosphere, allow Cloud Music employees to learn musical instruments and music theory, and deeply understand the content of music, we set up the Cloud Village Guitar Club, with introductory and advanced guitar classes, and bass classes to learn guitar, bass and other instruments that are easy to create music.

In order to cater to young people who want to learn hip-hop and electronic music, we added a rap club and an electro DJ club in August 2022 to help interested employees learn to create rap songs and DJ playing. In 2022, we offered two guitar classes, a rap class, and a DJ class, with approximately 130 employees enrolled and attended.

In addition, we have formed two bands and actively participated in social welfare performances, including care activities for left-behind children and city band competitions, so as to spread the power of music.



# Environmental, Social and Governance Report

## 2.2 Our Products and Services

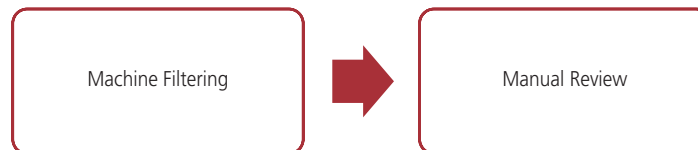
As the pioneer of online music entertainment services in China, Cloud Music is driven by user needs, ensuring content quality rigorously and implementing data security and customer privacy protection effectively. We continue to explore product innovation, dedicating to providing users with better quality and more interesting products and services to deliver the power of music to the public.

### 2.2.1 Content Governance

Cloud Music is committed to creating a media platform to spread positive energy within society. We will deliver positive and upward values to the public. Cloud Music strictly abides by the *Administrative Measures on Internet Information Services* and other relevant laws and regulations. We pay great attention to the quality of platform content by continuously improving the platform's content management capabilities, establishing a sound content protection mechanism, and guarding the healthy development of platform content.

#### Content Review Mechanism

Cloud Music has set up a comprehensive content review process to improve the accuracy and efficiency of content review across the board. We use advanced review technology to monitor multiple forms of data such as text, images, audio and video on the platform. For example, audio content needs to be tested with machine by various mechanisms such as voice recognition, voice keyword wake-up, language detection and translation, ASR wake-up and active audio recognition. After passing the machine filtering, the content will be further reviewed by humans.



In terms of review modes, we set up full review, random review, quality control, and front-end inspection, which are divided into five shifts every day to review real-time data 24 hours a day to rigorously safeguard the quality of platform content.

## Environmental, Social and Governance Report

### Full Review

- Based on the current business data module, all data are reviewed by machine, and then fully or randomly reviewed by humans according to the importance of the module and the data suspicion degree.

### Random Review

- All the reviewed data are sampled by the system as well as special quality inspectors for quality inspection. If there is urgent information that needs to be notified to the user immediately, the applicant can submit it directly to the head of the operation department for review.

### Inspection

- In each shift, some reviewers are responsible for front-end inspection, focusing on high-risk pages such as those with a high number of concurrent users, recommended content, and content with high popularity, to ensure that harmful information is intercepted in a timely manner. If the inspection finds content that has not been intercepted, the reviewers will go to the content review platform to deal with it immediately, and improve and update the machine detection rules.

### Quality Control

- The review centre has set up a special quality control department to conduct quality inspection on random samples of the reviewed data. The quality control results are included in the assessment of reviewers to encourage them to improve review quality.

# Environmental, Social and Governance Report

## Case: Reviewer Management

In order to accurately deploy appropriate reviewer resources, we adopt a three-tier management model in the human review process by dividing reviewers into community guards, reviewers, and operators to ensure rigorous control of content quality. In addition, Cloud Music's content security centre regularly organises content security training for all content security operators and related personnel to strengthen their security awareness and expertise.

### Community Guards

The guard management system is a community self-governance system piloted by Cloud Music, where community guards are recruited from users, and those who meet the requirements are given the privilege of being a guard. Guards monitor the platform all day to detect and deal with malicious behaviour, such as fabrications and attacks.

### Professional Reviewers

Reviewers monitor the platform content 24/7. We divide our professional reviewers into three levels: Text and picture information are ordinary information and are handled by Level 1 reviewers. Audio and video are critical information and are handled by Level 2 reviewers. The Level 3 reviewers are responsible for shift coordination, overall management, emergency response, and front-end inspection.

### Operation Staff

The front- and back-ends inspect jointly to provide appropriate guidance on the content orientation of Cloud Music, and to promptly take down harmful content when violations are found.

In addition, we've established a mechanism to synchronise harmful information and share public opinion with other products of NetEase Group, which effectively enables the platform to control the content and remove and intercept harmful information immediately. Cloud Music already has a complete blacklist mechanism, covering account blacklist, IP blacklist, and device blacklist, allowing us to block the release and dissemination of harmful content in a multidimensional manner. Currently, Cloud Music is accelerating the construction of a blacklist-sharing platform. Mobile phone numbers, ID numbers, IP addresses, and device IDs of users who commit serious violations on Cloud Music's platforms will be uploaded to the platform-wide blacklist, thereby strengthening the cooperative effort to block malicious users.

# Environmental, Social and Governance Report

## Prevent the Display of Inappropriate Content

In terms of inappropriate content, we've devised a closed-loop management model of prevention, detection, interception, and review to stabilize the quality of Cloud Music's content.



# Environmental, Social and Governance Report

## 2.2.2 Customer Service

Cloud Music has always been committed to providing customers with heart-touching services and continuously optimising user experience, forming a comprehensive closed loop from customer feedback insights to experience problem identification and optimisation.

### User Experience Optimisation

It is our unchanging goal to provide a high-quality user experience for Cloud Music's community users. In 2022, we optimised user experience in four dimensions, which were source, touchpoint, process, and people.

#### Conducting User Experience Projects (Source)

In 2022, we initiated the establishment of a user experience project team composed of customer service, technology, product and other business lines to collect and follow up on user feedbacks. By November 2022, we collected hundreds of questions from users, and based on their questions, we optimised the experiences in many scenarios, including playback, account, security, and events, to reduce the occurrence of problems from the source to safeguard user experiences.

#### Building Self-Service Resolution Capabilities (Touchpoint)

In 2022, we enabled 97% of Cloud Music users to solve problems through a more scientific and effective self-service approach. Basic user problems were responded to and solved more efficiently and quickly, so that more human services could be devoted to personalised services of user care to improved user satisfaction.

#### Continuous Optimising Solutions (Process)

In 2022, we continuously reviewed and summarised user dissatisfaction cases, and promoted a number of experience initiatives including experience compensation, process simplification, solution preposition, and activity assurance to fully ensure rapid response and resolution of user issues. In 2022, the negative feedback from users in all channels decreased by 40%.

#### Improving Service Capabilities (People)

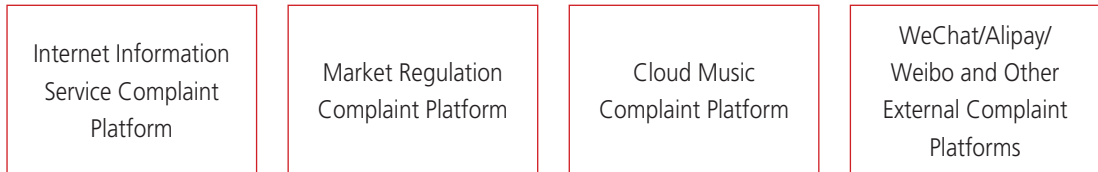
In 2022, to improve the professional capability of customer service personnel, Cloud Music conducted a total of 450 training sessions on service friendliness improvement. We received compliments from 438 users and 5 exclusive thank-you notes from users. In addition, we presented the stories between 11 users and Cloud Music in our official podcast "Customer Service Diary" in 2022, and interviewed and unearthed user stories through both online and offline approaches during the User Culture Festival, which won us the "Sunrise Award" and the "Hidden Merit Award" from NetEase Group.



# Environmental, Social and Governance Report

## Handling of Complaints from Users

Cloud Music values market feedback and consumers’ voices. Hence, we routinely collect user feedback and try to expand the channels to communicate with users. We have set up user help and complaint channels such as private messaging, SMS, telephone, and email in several prominent positions, and we provide both online chat and phone call service modes.



### Cloud Music’s Customer Complaint Channels

We have also created a sound mechanism for the handling of complaints and emergencies so as to ensure the closed-loop management of user complaints. We conduct quality control and review of complaint cases in order to continuously enhance customer service and product quality and provide users with an efficient, convenient and warm service experience. In 2022, we received a total of 358 user complaints, down 35.6% in comparison to 2021, with a 100% complaint resolution rate and 94.5% user satisfaction, up 1.5% in comparison to 2021.



Cloud Music’s Customer Complaint Handling Process

# Environmental, Social and Governance Report

## 2.2.3 Music Innovation

Cloud Music attaches great importance to the construction of an R&D management system and adopts a double-baseline management approach to ensure the R&D process and product quality. We are adapting to the changing market, continuing to develop features that are closer to consumers' needs, and building a dynamic music community. During the reporting period, we used our own technology to achieve many innovations in the basic functions of the platform, such as ecosystem construction for musicians and the development of the music library.

### Case: TV Atmosphere Space

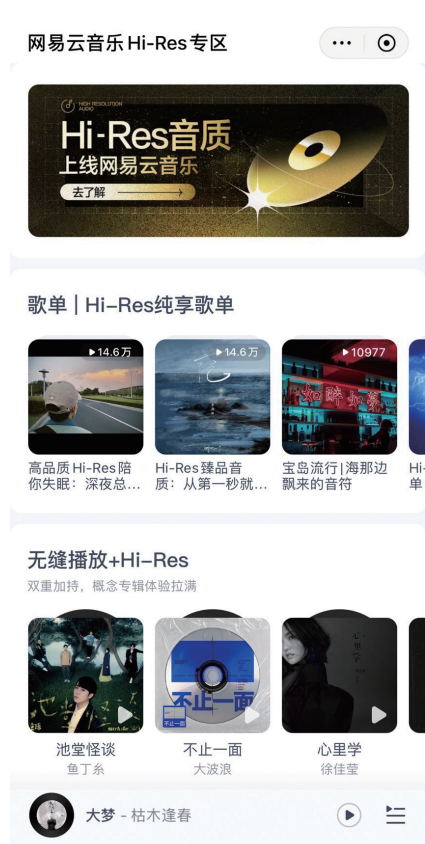
In 2022, Cloud Music for TV debuted the feature "Atmosphere Space", which combines quality videos and long-form podcast audios from the concepts of home living room, large-screen terminals, and companionship to create an immersive experience. There are seven content themes in the Ambiance Space, covering seasons, travel, meditation, healing, sleep aid, and more.



# Environmental, Social and Governance Report

## Case: Hi-Res Audio

In April 2022, Cloud Music launched the High-Resolution Audio (Hi-Res) feature. On the basis of lossless audio, Hi-Res songs feature higher resolution and higher bit depth, so they contain a richer amount of sound information that more fully reproduces the artist's thoughts at the time of recording, providing advanced users with fuller details and a more immersive audio experience.



## Environmental, Social and Governance Report

### Case: BeatSoul – The World’s First Streaming-Based Copyright Trading & Music Creation Empowerment Platform

In 2022, Cloud Music officially launched BeatSoul, a one-stop beat trading platform that integrates beat (accompaniment) uploading, display, purchase, and communication functions.

BeatSoul takes full advantage of streaming media and music community, breaking the long-existing separation and mistrust between supply and demand with regard to musical works. It covers the whole process from trading to distribution, which has earned full recognition from both sides of the transaction, establishing the platform’s position advantage in the upstream of music creation. We took beat as the entry point to test the streaming media-based copyright trading model and bravely covered the entire chain of content trading (such as lyric and song demos, split tracks, sound packs, finished songs, etc.). The product has been reported by many media and commented by Xinhua News Agency as “the spring of music producers”.



# Environmental, Social and Governance Report

## **2.3 Data Security and Privacy Protection**

Data security and privacy protection are one of Cloud Music's top priorities, and we integrate data security and compliance into our product development and operational services.

### **2.3.1 Cybersecurity**

Cybersecurity has always been an important priority in the management of Cloud Music. We have developed a comprehensive cybersecurity system and emergency handling mechanism. We conduct regular internal and external audits, enhance the technical capabilities of data security positions and strengthen the data security awareness of all staff through training to create a healthy, harmonious, and secure Internet environment.

#### **Construction of Cybersecurity System**

Cloud Music strictly abides by all data security-related laws and regulations in the operating location and has established a series of reasonable and effective data security policies to regulate data security management, such as the "NetEase Cloud Music General Rules of Data Security Management" according to business attributes and industry regulations. In addition, we pay close attention to changes in laws and regulations and update our data security and privacy management system and initiatives in a timely manner.

In terms of response to data security emergencies, Cloud Music has released the "Emergency Response Specification and Process", the "Data Security Incident Emergency Response Plan" and other policies to clarify the classification of data security incidents and the emergency response mechanism. In 2022, no data security incident happened at Cloud Music.

#### **Data Security Audit**

We monitor data security risks in a timely manner. We have regular and special mechanisms to audit data security and rectify risks and vulnerabilities in a timely manner to ensure the overall security of our data systems. During the reporting period, we conducted annual internal and external audits of data security, and we proactively followed regulators' requirements to conduct cybersecurity and data security activities to ensure the effectiveness of Cloud Music's data security measures.

# Environmental, Social and Governance Report

## Internal Audit

- Cloud Music data security risk assessment

## Special Activities

- Cybersecurity inspection
- Internet industry market order rectification
- Data security re-inspection

## External Audit

- We invite third-party organisations to conduct certification. This year, we have passed the Telecommunications Network Security Protection Management System (Level 3) certification of the Ministry of Industry and Information Technology and obtained filing certificate of Classified Protection of Information Security (Level 3) from the Ministry of Public Security.

## Data Security Training

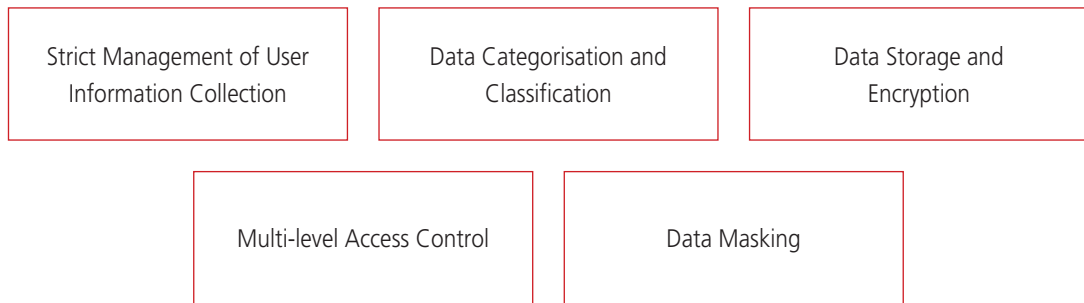
While implementing data security and privacy protection work, Cloud Music continues to enhance awareness of data security and privacy protection through campaigns and trainings. Besides participating in activities such as Data Security Month and Security Week conducted by NetEase Group, we also plan and conduct data security training on our own. In 2022, we conducted special sessions to provide guidance on data security regulation on the levels of business risk control and privacy compliance so as to ensure business security and compliance.

### 2.3.2 User Privacy Protection

We focus on consumer privacy protection and protect users' personal information through a double approach of both technology and management to effectively protect users' rights and interests. In 2022, Cloud Music added new policies and process standards for user privacy protection, such as the "NetEase Cloud Music Background System Security and Permission Management Standard" and the "NetEase Cloud Music Data Extraction and Sharing Process Standard", to further standardise personal information protection.

We have established a data security lifecycle management process. By developing various technical methods such as personal sensitive information scanning tools, incorporated with multidimensional user privacy management methods, we continuously avoid security risks. During the reporting period, Cloud Music did not have any cases of customer privacy leaks.

## Environmental, Social and Governance Report



### Cloud Music's Primary Management Measures on User Privacy Security

In the process of cooperation with third parties, we issue third-party security assessment questionnaires to assess our partners. In regard to new partners, renewal or signing of supplementary agreements, the cooperation will not start until the partners complete the security assessment questionnaire issued by our business departments. The scope and usage of user data will be clarified in the business agreement signed by both parties so as to uphold and protect user privacy and security.

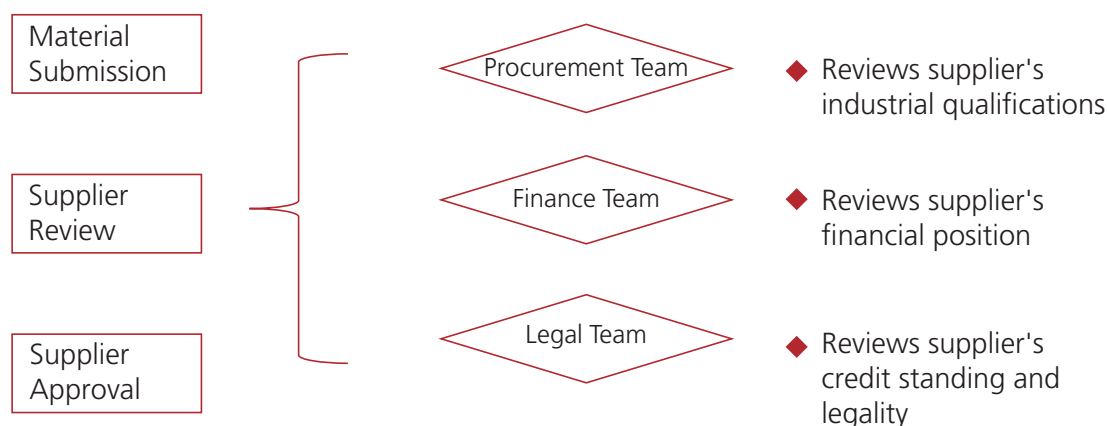
### 2.4 Co-prosperity with Suppliers

Cloud Music promotes the positive collaboration with suppliers and has established a supplier management system and review mechanism to standardise supplier management and enhance the quality and efficiency of the supply chain. We strictly abide by the *Bid Invitation and Bidding Law of the People's Republic of China* and other laws and regulations. We've established a clear and well-defined supplier approval process, selected suppliers rigorously, pooled external stakeholders in the business chain, and continuously enhanced supply chain management.

# Environmental, Social and Governance Report

## 2.4.1 Supplier Management

In terms of commercial procurement, Cloud Music has established policies such as the “Policy on Supplier Management of Commercial Procurement and Cooperation Department”. In addition, we have set up a clear supplier approval process to ensure the compliance of commercial procurement activities.



### Approval Process for Commercial Procurement Suppliers

Cloud Music leverages the advantage of centralized procurement through NetEase Group to conduct procurement. As of the end of the reporting period, 83 suppliers among the centralized procurement list of NetEase Group are serving Cloud Music, and almost all of them are located in mainland China (82 suppliers in mainland China, 1 supplier in other region). Each centralised procurement supplier is selected and cooperated with according to our criteria.

## 2.4.2 Supplier Communication

We actively promote supplier assistance programmes to maintain positive business relationships with our suppliers and achieve mutual benefits. Cloud Music is committed to optimising the procurement process and improving the procurement system. We regularly conduct supplier scoring, inviting suppliers to score our procurement process to identify and correct deficiencies in our own procurement management. In addition, we regularly conduct integrity training for our suppliers to strengthen the trust between us.

## 2.5 Cooperation and Sharing

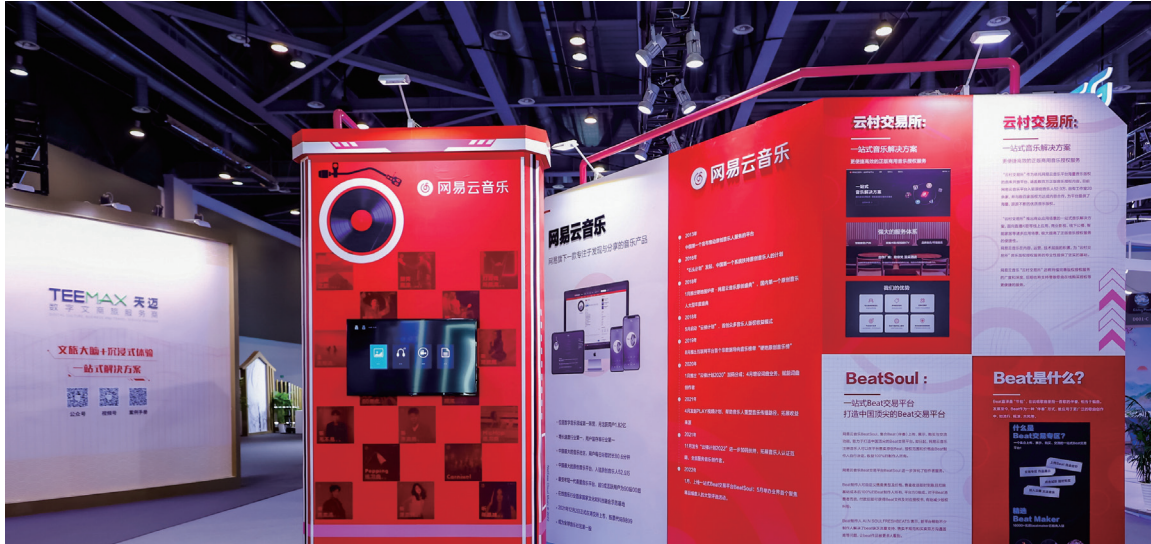
Cloud Music participates in industry exchange and sharing activities and has established friendly cooperation with enterprises to co-create long-term value together. In 2022, Cloud Music participated in the Global Digital Trade Expo, Chengdu Digital Copyright Expo, and 2022 China Nanjing Culture & Technology Integration Exhibition Achievement Fair, and we worked with industry partners in the areas of copyright cooperation, song promotion and musician cultivation to promote the healthy development of China’s music industry and the common progress of the industry and partners.



# Environmental, Social and Governance Report

## Case: Cloud Music Participated in the Global Digital Trade Expo

During the period of 11-14 December 2022, the first Global Digital Trade Expo was successfully held in Hangzhou. Our industry partners acknowledged Cloud Music's proactive efforts in this conference, highlighting our work in support of the original music industry and the open trading of copyrights.



## Case: Cloud Music and XPENG G9 Created a New Model of Global Cooperation in the In-car Entertainment Industry

In September 2022, as a partner of XPENG Motors in its music ecosystem, Cloud Music became the first music platform to launch Dolby Atmos in cars with this collaboration. Cloud Music has expanded the cooperation to the entire industry chain, including brand marketing and user operation, beyond simply providing "in-car content", enriching its role as a "service provider" of the industry.



# Environmental, Social and Governance Report

## Case: Cloud Music and Kuaishou Reached Copyright Cooperation

In December 2022, Cloud Music and Kuaishou announced a framework of cooperation, which will deeply collaborate in the fields of copyright cooperation, song promotion, and musician collaboration. Through this cooperation, Cloud Music and Kuaishou will leverage their respective advantages in online music and short video to help musicians and outstanding musical works to double their influence on both platforms. This will provide better music listening, creation and interaction experience for the majority of users with the new momentum of “music + short video” promotion. This will also provide a broader opportunity for the development for musicians, copyright holders, and others. In addition, Cloud Music will join Kuaishou’s “Music Company Promotion Backend” to achieve resource sharing and closer promotional cooperation, thereby encouraging China’s original music ecosystem.



## 2.6 Public Welfare

Cloud Music believes that music, as a medium with warmth, can convey love and energy and deliver great social value. When public welfare is coupled with music, they are interacted on each other. Music public welfare is not just a “one-time gift”, but a sustained effort to create greater value to give back to society through the power of music. Using music as the medium to touch hearts and inspire love is the mission that Cloud Music’s public welfare programme has always adhered to. In 2022, Cloud Music donated a total of RMB571,338 in social welfare. In addition to monetary contributions, Cloud Music also donated digital membership cards and organized various public welfare events to create social value.

### 2.6.1 Educational Welfare

Music conveys emotions and values through melodies and lyrics. Positive music can warm the heart and heal the soul. We use music to empower education, combining music and education for public welfare and bringing emotional and mental comfort to children.

## Environmental, Social and Governance Report

### Case: Release of “Young Voices Charity Programme”

On 7 November 2022, Cloud Music launched the Young Voices Charity Programme in collaboration with Bazaar Charity Fund, inviting famous musicians to produce three charitable singles with the children in Anren County, Hunan Province. These three songs are themed “Expectation”, “Flower”, and “Whisper”, expressing the children’s feelings as well as their expectations for the future. The songs are included in the charity album “If Companionship Is a Song” for online charity sale, and all proceeds from the sale will be used to support the children’s choral music education.



### Case: Launched the “Rap Dream Maker” Public Welfare Campaign

On 27 December 2022, Cloud Music Beat Zone, together with NetEase Public Welfare The Little Snail Library, launched the “Rap Dream Maker” public welfare campaign. The campaign aims to bring rap music to children in rural areas through original music classes and meet their curiosity and dream about rap music. The event invited previous winners of the Beatmaking Battle to serve as mentors for the music creation classes, and recorded lectures on making rap music for the children. These lessons have now been delivered to a total of 66 rural schools in Zhejiang, Sichuan, and Inner Mongolia, watched by more than 20,000 students. In addition, the campaign launched a call for submissions to collect lyrics of nursery rhymes with the theme of the four seasons from the 66 rural schools where the Little Snail Library resides to encourage children to create their own works in the forms of essays, poetry, and lyrics.



# Environmental, Social and Governance Report

## 2.6.2 Delivering Music Power

We believe that music can light up everyone's life, allowing every user in Cloud Village to feel the warmth and the power of healing. As a music platform, we are committed to more warm and positive high-quality songs to embrace the disadvantaged and deliver music power and love.

### Case: Launched the "Alzheimer" Single on Alzheimer's Day

On International Alzheimer's Day, in order to help the public to understand Alzheimer's disease, Cloud Music's Cloud Studio launched a self-produced single called "Alzheimer" as a way to use the power of music to show our care for those affected by the disease. In the comment section, many Cloud Villagers left their stories about their experiences with Alzheimer's disease, and the song has racked up more than 12 million streams.



# Environmental, Social and Governance Report

## 3 ENVIRONMENT

### 3.1 Green Operations

Cloud Music is committed to reducing the impact of its operations on the environment, strictly complying with the *Environmental Protection Law of the People's Republic of China*, the *Water Law of the People's Republic of China*, the *Energy Conservation Law of the People's Republic of China*, and other laws and regulations to improve the efficiency of energy use, reduce waste and emissions, and build up employees' awareness of environmental protection from the aspects of policy formulation, technological transformation, and awareness promotion.

#### 3.1.1 Resource Usage Management

##### Energy Saving and Consumption Reduction

Cloud Music values the efficient use of energy, and strictly implements energy management initiatives in the daily office and operation processes, starting from technical transformation for improving energy use efficiency and reducing energy waste.

Through the "SpaceEase" panoramic digital system — the "brain" or the decision-making system of our office campuses — we collect real-time data on temperature, humidity, and carbon dioxide concentrations in public areas, IT rooms, power distribution rooms, chiller rooms, boiler rooms, and other functional areas. Through the integrated control of the smart illuminating system, the fresh air and exhaust system, and the air conditioning system, we can improve energy efficiency and reduce energy consumption by digital methods. In addition, we provide a basis for systematic energy consumption management and decision optimisation through the collection and analysis of energy consumption data.

# Environmental, Social and Governance Report

## Smart Illuminating System

- We have installed infrared sensors across office areas, conference rooms, garages, and sports halls for precise control of electricity usage. Lights can be turned on by the active presence of a human body within the detection range, and shut off when there is no one present.
- The lighting time of NetEase's outdoor signs changes with the times of sunrise and sunset, and the illuminance of public lighting on the campuses is dynamically adjusted according to the ambient brightness.
- With each lamp connected to IoT, it can not only effectively control lighting energy consumption, but also intelligently link high energy consumption equipment such as air conditioners, exhausts, and fresh air systems to facilitate systematic energy management

## Smart Fresh Air, Ventilation, and Air Conditioning System

- The infrared sensors in our fresh air, ventilation, and air-conditioning systems can detect occupancy and thereby facilitate automatic control and reduce electricity use.
- In winter, we use air cooling machines to bring in the outdoors cold air inside to cool down our servers in northern China and thereby reduce electricity consumption.
- We collect the energy consumption data of server cabinets and the operating environment data of each row of cabinets in the server room in real time, and accurately monitor the operation status of air conditioners as the means to reduce energy consumption in the server room.

## Energy Consumption Management System

- Our campuses are equipped with smart, IoT-empowered electricity distribution systems, water meters, and gas meters. They allow us to easily identify water and gas leaks, and they help us to manage and control energy usage at each site.

## Green Management of Data Centres

Cloud Music attaches importance to energy conservation and carbon reduction across operations. In terms of energy conservation and carbon reduction management of data centres, we've established a fee-sharing system for data centre hosting. The cost is shared by each business each month in proportion to the number of servers they use, motivating them to improve server utilisation and reduce energy consumption. At the same time, we improved the server and accessory procurement process by introducing an evaluation section for the recycling and reuse of hardware.

## Environmental, Social and Governance Report

As of the end of the reporting period, our energy consumption data are shown below.

Item		Unit	Data in 2022
Direct energy Consumption <sup>1</sup>	Gasoline	Tonne	2.9
	Natural Gas	m <sup>3</sup>	143,172.7
	Electricity from Renewables	MWh	81.0
Indirect Energy Consumption <sup>2</sup>	Electricity Purchased for Offices	MWh	3,029.2
Total Direct Energy Consumption		GWh	1.7
Total Indirect Energy Consumption		GWh	3.0
Total Comprehensive Energy Consumption <sup>3</sup>		GWh	4.7
Comprehensive Energy Consumption Intensity		GWh/Person	0.003

During the reporting period, Cloud Music's carbon emissions were as follows:

Scope	Unit	Data in 2022
Scope 1 <sup>4</sup> Emissions	Tonne of CO <sub>2</sub> e	674.9
Scope 2 <sup>5</sup> Emissions	Tonne of CO <sub>2</sub> e	2,177.2
Scopes 1 + 2	Tonne of CO <sub>2</sub> e	2,852.1
Scope 3	Tonne of CO <sub>2</sub> e	7,724.9
Per Capita Emissions from Operations (scopes 1 + 2)	Tonne of CO <sub>2</sub> /Person	1.9
Total per Capita Emissions (Scopes 1 + 2 + 3)	Tonne of CO <sub>2</sub> /Person	6.9

<sup>1</sup> Direct energy consumption, including gasoline consumption, electricity from renewable energy and natural gas consumption of self-owned properties.

<sup>2</sup> Indirect energy consumption, including the consumption of purchased electricity in self-owned properties

<sup>3</sup> The total comprehensive energy consumption is calculated based on the *General Rules for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2020)*.

<sup>4</sup> Direct (Scope 1) greenhouse gas emissions are calculated based on the 2019 Refinement to the *2006 IPCC Guidelines for National Greenhouse Gas Inventories* published by the Intergovernmental Panel on Climate Change (IPCC).

<sup>5</sup> Indirect (Scope 2) GHG emissions are calculated based on the latest emission factor for regional power grids (as of April 2022) in accordance with the *2011 and 2012 Average CO<sub>2</sub> Emission Factors for Regional Power Grids in China* published by the China National Development and Reform Commission.

# Environmental, Social and Governance Report

## Water Conservation

We manage water usage through rainwater collection systems, drip irrigation technology, water conservation campaigns, and strict control of third-party water use. We regularly inspect the campus pipelines to prevent runoff and dripping. We designed rainwater recycling systems in Shanghai campus under construction which collect and store rainwater for domestic use and campus greening and irrigation. This reduces municipal water usage and improves the efficiency of greening water consumption on the campus. In office buildings, we've upgraded the public facilities in order to reduce excessive water usage. During the reporting period, the NetEase Beijing campus was honoured as an "Exemplary Water-saving Enterprise" by the Beijing Municipal Water Bureau.

### Water-Saving Design for the Shanghai Campus

We have taken water conservation into consideration at the beginning of the construction of the new campus in Shanghai. The new campus is designed in accordance with the requirements of a sponge city, controlling rainwater runoff through sunken green spaces, rainwater storage pools, etc. The rainwater is used for green space watering, road and garage washing, and other purposes, thereby ensuring water conservation.

The following table details our water consumption during the reporting period.

Item	Unit	Data in 2022
Total Water Consumption	Tonne	46,848.5
Surface Water	Tonne	61.1
Municipal Water Usage	Tonne	46,787.4
Per Capita Consumption	Tonne/Person	30.4

## Responsible Use of Materials

In the construction of the new campus, we require that the weight of recycled materials used in the construction process account for more than 10% of the total weight of construction materials used. At the same time, on the premise of guaranteed performance, we use building materials produced from wastes; and in some building materials, wastes account for no less than 30% of the total raw materials. In addition, we have set a goal for the use rate of reusable building materials to be greater than 5%.

### 3.1.2 Waste Management

Cloud Music strictly implements the requirements specified in all relevant regulations, such as the *Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste* in daily operations, thereby ensuring all types of waste are disposed of in compliance. And we follow the three 3R's principle to achieve efficient waste management through recycling, reduction, and reuse.



# Environmental, Social and Governance Report



## Retired Electronics

- We resell retired laptops and displays to employees at discounted prices as an alternative to sending them elsewhere so as to extract the maximum value of electronic devices.



## End-of-Life Hardware

- For hardware that has reached the end of their lifespan, we entrust suppliers with resource recovery qualifications to recycle and dispose of them. At the same time, we improve the server and accessory procurement process by introducing an evaluation section for recycling and reuse of hardware



## Common Domestic Waste

- For general domestic waste, after sorting, the waste that is usable is recycled, and the rest is handed over to the municipal government for centralised removal.



## Hazardous Waste

- We use refillable toner cartridges and ink cartridges, which are recycled by the supplier and disposed of in compliance with regulations after reaching the end of their service life.



## Kitchen Garbage

- The dishes are processed in batches to avoid food waste due to excessive production at one time
- We designate a qualified third-party vendor to clean and deliver the waste to the government's disposal station

## Environmental, Social and Governance Report

Item		Unit	Data in 2022
Nonhazardous Waste	Common Domestic Waste	Tonne	1,767.8
	Kitchen Garbage	Tonne	265.3
	Others	Tonne	13.2
Hazardous Waste	Used Lamps	Tonne	0.02
	Electronic Waste	Tonne	1.9
Hazardous Waste Discharge Density		Tonne/Person	0.001
Nonhazardous Waste Density		Tonne/Person	1.3

### 3.1.3 Green Concept and Green Office

During the reporting period, Cloud Music always adheres to the principle of green development and adopts diverse measures to spread and practice green concepts, promote employee awareness, and establish a new trend of green office and low-carbon lifestyle.

#### Green Office

We work from the aspects of infrastructure, digital transformation, and awareness promotion to achieve green office practices.

#### Cloud Music's Green Office Measures

- Converted the company's commuter buses from oil to electricity and expanded the number of electric car charging stations on the office campuses, encouraging employees to use electric vehicles.
- Implement a paperless office and online approval process through our in-house "Yinqing" system, controlling the number of printed documents and promoting double-sided, black-and-white printing.
- Adopt renewable paper for printing business cards.
- Provide shared office supplies in the office for employees to use as needed.
- Established a flea market to encourage employees to exchange unused items and promote the concepts of saving, reusing, and sharing, maximising resource value.
- Produced short videos to promote green office and raise employees' awareness of green office practices.

## Environmental, Social and Governance Report

### Case: "Every Little Bit Counts" Green Office Video

In order to advocate good behaviour, NetEase Admin launched a series of situational short films. All Admin staff and some colleagues on the campus cooperated in selecting the content and performing in the film. The culture team of Admin was responsible for filming, editing and uploading. The project covers all-round and multi-angle green office practices and exemplary behaviour, such as water and electricity conservation, food saving, prohibition of indoor smoking, and turning off lights after work.



### Clean Your Plate Campaign

We encourage our employees to save food by changing the meal supply model, promoting the "Clean Your Plate" initiative, random on-site supervision and guidance, posting promotional slogans and reminders, and other means.

### Cloud Music's "Clean Your Plate" Initiative

- Some meals are available in different portion sizes so that employees can personalise their choices according to the quantity of food they eat;
- Added self-selected meal lines to meet the employees' dietary preferences and avoid the food waste caused by set meals;
- Observe employees' meal preferences and change the menu items when appropriate as a means to reduce food waste;
- Introduced a daily food waste bulletin board to encourage employees to cultivate the habit of saving food;
- The dishes are processed in batches to avoid food waste due to excessive production at one time
- Published articles on POPO service account to reinforce the anti-waste message. Placed "clean your plate" signs at pick-up locations in the canteen
- Organised the "clean your plate" event and invited employees to check in with their empty plates on the intranet portal and the service account.
- "Fuli" (the mascot of the Admin Department) made a tour at the canteen and guided employees to clean their plates
- Carried out various interesting activities to promote employees' awareness of food saving

## Environmental, Social and Governance Report



### Green Initiatives

Cloud Music carries out various green initiatives to raise employees' green awareness and embrace the new trend to lead a low-carbon lifestyle. During the reporting period, we carried out several projects in both business and daily activities, which achieved a good demonstration effect.

#### Case: Spring Sowing Campaign

To promote the green and environmental protection concept, we launch the "Spring Sowing Campaign" in March and July every year. We have created the "NetEase Farm", a brand to spread green and environmental protection concepts, to encourage employees to farm and engage in parent-child interaction, thus promoting the knowledge of sustainable agriculture and feeling the fun of farming.



At the product level, Cloud Music has leveraged its unique advantage in the music industry to promote the concept of green and environmental protection to the public by launching a number of environmental-themed music tracks.

#### Case: Cloud Music Launched Songs with Environmental Themes

In the year 2022, Cloud Music launched a series of original environment-themed musical works. On 23 August, the compilation album "Undefined Boundaries" of "Project Cornerstone Season 4" was released, which included the environmental protection-themed song "Walking in the Sky". The song advocates embracing the wonderful natural environment and preserving a clear and beautiful sky. After its launch, the project received numerous positive reviews from users.

# Environmental, Social and Governance Report

In order to give employees a better understanding of the state’s carbon dioxide peaking and carbon neutrality strategy, we’ve organised and participated in external forums and activities designed to enhance our employees’ professional skills and help the company to achieve the goal of carbon neutrality.

**Case: Participated in the Event to Empower Technology Companies with Zero Carbon Strategy**

In October 2022, NetEase Beijing Admin participated in the “Zero Carbon Empowerment for Technology Enterprises” campaign and training activities, which were designed to help employees understand the basic concept of carbon emissions, the impact of carbon emissions on administrative development, zero-carbon practices in multiple dimensions, complete process control and the core of advanced technology. We implement the concept of people-oriented sustainable development. We vigorously promote green lifestyles, take energy saving and renewable energy as the primary direction of development, and conduct innovative and multidimensional zero-carbon practices.

## 3.2 Responding to Climate Change

### 3.2.1 Environmental Goal

To address climate change, Cloud Music set four environmental goals for carbon emissions, energy use, waste reduction, and water use in 2021. In 2022, we continued to work towards these goals and promoted the implementation of corresponding initiatives.

Carbon Emissions	Energy Use	Waste Reduction Efficiency	Water Use Efficiency
<ul style="list-style-type: none"> <li>Build up our capability to manage carbon emissions data and take various measures to reduce carbon emissions year by year</li> </ul>	<ul style="list-style-type: none"> <li>Build a sound energy use system and improve energy efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Take effective measures to reduce wastes use</li> </ul>	<ul style="list-style-type: none"> <li>Take effective measures to improve water use efficiency</li> </ul>

## Environmental, Social and Governance Report

### 3.2.2 Climate Risk Identification and Responses under the TCFD Framework

In 2022, Cloud Music identified and analysed the physical and transition risks associated with climate change based on the framework and recommendations of the Task Force on Climate – Related Financial Disclosures (TCFD), and developed corresponding responses.

Risk Type	Description	Measure	
Transition	Policy and legal	Enhanced emissions reporting obligations	Implement more refined energy management and calculation and take carbon inventories within the enterprise.
		Legal and regulatory requirements and supervision	Comply with laws and regulations and perform contracts on time to avoid penalties and other business losses.
	Reputation	Changing consumer preferences	Create works that call for environmental protection and sustainability through Cloud Music's products.
		Growing concern from stakeholders about the negative feedback	Establish a regular and multifaceted two-way communication mechanism with stakeholders.

Risk Type	Description	Impact	
Physical	Acute	Typhoon	Typhoons could destroy the Internet infrastructure, disrupt our services, and increase repair and purchasing costs.
		Extreme weather, such as rainstorms	The occurrence of extreme weather may bring secondary disasters such as floods and mudslides, causing damage to Internet infrastructure and thus increasing operating costs.
	Chronic	Increase in average temperature	A warming climate could increase thermal stress for our campuses and data centres, resulting in higher repair and energy costs due to damage to facilities.
		Sea level rise	Rising sea level could cause floods and even submersion of some of our properties, damaging our facilities and internet infrastructure, which could increase operating costs.

# Environmental, Social and Governance Report

## APPENDIX: HKEX ESG REPORTING GUIDE

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
<b>Environmental</b>			
Aspect A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	3.1 Green Operations – Waste Management 3.1 Green Operations – Resource Usage Management
	A1.1	The types of emissions and respective emissions data.	3.1 Green Operations – Waste Management
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1 Green Operations – Resource Usage Management
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	3.1 Green Operations – Waste Management
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1 Green Operations – Waste Management
	A1.5	Description of emission target(s) set and steps taken to achieve them.	3.1 Green Operations – Resource Usage Management 3.2 Responding to Climate Change – Environmental Goal
	A1.6	Description of how hazardous and non-hazardous waste is handled, and a description of reduction target(s) set and steps taken to achieve them.	3.1 Green Operations – Waste Management 3.2 Responding to Climate Change – Environmental Goal

## Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
<b>Environmental</b>			
Aspect A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	3.1 Green Operations – Resource Usage Management
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	3.1 Green Operations – Resource Usage Management
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	3.1 Green Operations – Resource Usage Management
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	3.1 Green Operations – Resource Usage Management 3.2 Responding to Climate Change – Environmental Goal
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	3.1 Green Operations – Resource Usage Management 3.2 Responding to Climate Change – Environmental Goal
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	No packaging material is used in our business.
Aspect A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	3.1 Green Operations
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	3.1 Green Operations



# Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
<b>Environmental</b>			
Aspect A4: Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	3.2 Responding to Climate Change
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	3.2 Responding to Climate Change
<b>Social</b>			
Aspect B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	2.1 Our Team – Protecting Employee Rights
	B1.1	Total workforce by gender, employment type (for example, full – or part-time), age group and geographical region.	2.1 Our Team – Protecting Employee Rights
	B1.2	Employee turnover rate by gender, age group and geographical region.	2.1 Our Team – Caring for Employees

## Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
<b>Social</b>			
Aspect B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	2.1 Our Team – Caring for Employees
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	2.1 Our Team – Caring for Employees
	B2.2	Lost days due to work injury.	2.1 Our Team – Caring for Employees
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	2.1 Our Team – Caring for Employees
Aspect B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	2.1 Our Team – Support for Employee Development
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	2.1 Our Team – Support for Employee Development
	B3.2	The average training hours completed per employee by gender and employee category.	2.1 Our Team – Support for Employee Development

# Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
<b>Social</b>			
Aspect B4: Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	2.1 Our Team – Protecting Employee Rights
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	2.1 Our Team – Protecting Employee Rights
	B4.2	Description of steps taken to eliminate such practices when discovered.	2.1 Our Team – Protecting Employee Rights
Aspect B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	2.4 Co-prosperity with Suppliers
	B5.1	Number of suppliers by geographical region.	2.4 Co-prosperity with Suppliers
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	2.4 Co-prosperity with Suppliers
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	2.4 Co-prosperity with Suppliers
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	2.4 Co-prosperity with Suppliers

# Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
<b>Social</b>			
Aspect B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	2.2 Our Products and Services
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product recalls are irrelevant to our business.
	B6.2	Number of products and service related complaints received and how they are dealt with.	2.2 Our Products and Services
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	1.3 Intellectual Property Protection
	B6.4	Description of quality assurance process and recall procedures.	Product recalls are irrelevant to our business.
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	2.3 Data Security and Privacy Protection

## Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
<b>Social</b>			
Aspect B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	1.2 Business Ethics Management
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	1.2 Business Ethics Management
	B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	1.2 Business Ethics Management – Protection for Whistleblowers
	B7.3	Description of anti-corruption training provided to directors and staff.	1.2 Business Ethics Management – Anti-corruption
Aspect B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	2.6 Public Welfare
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	2.6 Public Welfare
	B8.2	Resources contributed (e.g. money or time) to the focus area.	2.6 Public Welfare

# Independent Auditor's Report

To the Shareholders of Cloud Music Inc. (formerly known as Cloud Village Inc.)

(incorporated in the Cayman Islands with limited liability)

## OPINION

### *What we have audited*

The consolidated financial statements of Cloud Music Inc. (formerly known as Cloud Village Inc.) (the "Company") and its subsidiaries (the "Group"), which are set out on pages 122 to 196, comprise:

- the consolidated balance sheet as at 31 December 2022;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Independent Auditor's Report

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to revenue recognition.

#### Key Audit Matter

##### Revenue recognition

Refer to notes 2.20 and 5 to the consolidated financial statements.

The Group's revenue is primarily from the provision of online music services and social entertainment services and others.

Online music services mainly include revenue from membership subscriptions, contents sublicensing, sales of digital music album and songs, and online advertising on the Group's online platforms. Social entertainment services and others mainly include revenue from sales of virtual items in live streaming platforms operating by the Group.

During the year ended 31 December 2022, revenue of the Group amounting to approximately RMB8.99 billion which is recognised when or as the control of the services or goods is transferred to the customers.

#### How our audit addressed the Key Audit Matter

Our procedures in relation to revenue recognition included:

- Evaluated the appropriateness of the revenue recognition policies as adopted by management;
- Understood, evaluated and tested, on a sample basis, the key internal controls in relation to recognition of revenue from online music services and social entertainment services;
- Understood, evaluated and tested, on a sample basis, the key controls in relation to the general control environment of the IT Systems and the underlying automated controls relevant to capturing, processing and recording of data and transactions supporting the corresponding revenue of the Group;

## Independent Auditor's Report

### Key Audit Matter

We focused on this area as significant efforts were spent on auditing the revenue recognised by the Group due to the variety of services offered by the Group, magnitude of the revenue amount and most of the revenue recorded are dependent on information generated from the relevant information technology systems ("IT Systems") where significant volume of data are captured and processed.

### How our audit addressed the Key Audit Matter

- By using computer-assisted audit techniques, tested the mathematical accuracy and the completeness of the system generated reports that summarised the key inputs for the calculation of revenue; and tested, on a sample basis, reconciliation of data from these reports to the relevant revenue amount recognised; and
- Tested revenue transactions, on a sample basis, by comparing the underlying contracts, the key terms and attributes of the contracts, the services consumed and cash receipts, where relevant, against the underlying data recorded in the relevant IT Systems used in transaction processing and recalculated the revenue amount recognised.

Based on the procedures performed, we found revenue recognition of the Group to be supportable by available evidence.

### OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the Cloud Music Inc. Annual Report 2022 (the "annual Report") other than the consolidated financial statements and our auditor's report thereon. We have obtained some of the other information including Corporate Information, Financial and Business Highlights, Management Discussion and Analysis, Report of Directors, Other Information, Corporate Governance Report, Environmental, Social and Governance Report and Five Year Financial Summary prior to the date of this auditor's report. The remaining other information, including Directors and Senior Management, and the other sections to be included in the annual report, is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining other information to be included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to audit committee and take appropriate action considering our legal rights and obligations.



## Independent Auditor's Report

### RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## Independent Auditor's Report

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Xu Yi Jing, Vivian.

#### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 13 March 2023

## Consolidated Statement of Profit or Loss

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Revenue	5	8,992,221	6,997,622
Cost of revenue	8	(7,699,103)	(6,854,948)
Gross profit		1,293,118	142,674
Selling and marketing expenses	8	(634,677)	(431,312)
General and administrative expenses	8	(171,598)	(264,216)
Research and development expenses	8	(1,011,057)	(869,146)
Other income	6	142,315	72,067
Other (losses)/gains, net	7	(2,614)	2,998
Operating loss		(384,513)	(1,346,935)
Share of results of investments accounted for using equity method	18	(2,722)	2,334
Finance income	11	183,105	48,416
Finance cost		(349)	–
Changes in fair value of convertible redeemable preferred shares	31	–	(755,238)
Loss before income tax		(204,479)	(2,051,423)
Income tax expense	12	(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	13	1.06	15.92
Diluted loss per share	13	1.06	15.92

## Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2022

	Year ended 31 December	
	2022 RMB'000	2021 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)

# Consolidated Balance Sheet

AS AT 31 DECEMBER 2022

	Notes	As at 31 December	
		2022 RMB'000	2021 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	45,836	44,043
Right-of-use assets	16	7,824	10,505
Investments accounted for using equity method	18	79,032	92,914
Prepaid contents royalties	21	283,128	471,125
Prepayments and deposits	22	300	332
		<b>416,120</b>	618,919
<b>Current assets</b>			
Accounts and bills receivable	20	558,141	673,650
Prepaid contents royalties	21	506,328	1,109,834
Prepayments, deposits and other receivables	22	155,918	234,909
Amounts due from group companies	34	138,504	128,368
Financial assets at fair value through profit or loss	19	–	240,772
Short-term bank deposits	23	6,191,529	5,527,732
Restricted cash	24	8,318	–
Cash and cash equivalents	24	2,916,534	853,454
		<b>10,475,272</b>	8,768,719
<b>Total assets</b>		<b>10,891,392</b>	9,387,638
<b>Equity</b>			
Equity attributable to equity holders of the Company			
Share capital	25	135	132
Other reserves	26	18,643,784	17,981,771
Accumulated losses		(10,823,860)	(10,600,233)
<b>Total equity</b>		<b>7,820,059</b>	7,381,670
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Contract liabilities	30	55,244	50,555
Lease liabilities	16	5,623	7,893
		<b>60,867</b>	58,448

## Consolidated Balance Sheet

AS AT 31 DECEMBER 2022

	Notes	As at 31 December	
		2022 RMB'000	2021 RMB'000
<b>Current liabilities</b>			
Accounts payable	28	211	134
Accruals and other payables	29	2,234,597	1,283,771
Contract liabilities	30	714,259	604,614
Amounts due to group companies	34	53,002	56,389
Income tax payable		5,621	–
Lease liabilities	16	2,776	2,612
		<b>3,010,466</b>	1,947,520
<b>Total liabilities</b>		<b>3,071,333</b>	2,005,968
<b>Total equity and liabilities</b>		<b>10,891,392</b>	9,387,638

The consolidated financial statements on pages 122 to 196 were approved by the Board of Directors on 13 March 2023 and were signed on its behalf:

**William Lei Ding**  
Director

**Yong Li**  
Director

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Attributable to equity holders of the Company			Total RMB'000
		Share capital RMB'000	Other reserves RMB'000 (Note 26)	Accumulated losses RMB'000	
Balance at 1 January 2022		132	17,981,771	(10,600,233)	7,381,670
Loss for the year		–	–	(221,494)	(221,494)
Other comprehensive income:					
Currency translation differences		–	519,465	–	519,465
Total comprehensive income for the year		–	519,465	(221,494)	297,971
Transactions with equity holders:					
Issuance of new shares	25	–*	–*	–	–*
Exercise of options	26	3	64,526	–	64,529
Equity-settled share-based payment under the share option scheme	26	–	76,442	(1,283)	75,159
Equity-settled share-based payment under the share award scheme	26	–	31,762	–	31,762
Appropriations to statutory reserves	26	–	850	(850)	–
Repurchase of shares	26	–	(31,032)	–	(31,032)
Total transactions with equity holders		3	142,548	(2,133)	140,418
Balance at 31 December 2022		135	18,643,784	(10,823,860)	7,820,059

\* the amount is less than RMB1,000

## Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Attributable to equity holders of the Company			Total RMB'000
		Share capital RMB'000	Other reserves RMB'000 (Note 26)	Accumulated losses RMB'000	
Balance at 1 January 2021		78	3,065,596	(8,372,440)	(5,306,766)
Loss for the year		–	–	(2,056,092)	(2,056,092)
Other comprehensive income/(loss):					
Fair value change on convertible redeemable preferred shares due to own credit risk		–	(25,975)	–	(25,975)
Currency translation differences		–	195,775	–	195,775
Total comprehensive income/(loss) for the year		–	169,800	(2,056,092)	(1,886,292)
Transactions with equity holders:					
Conversion of convertible redeemable preferred shares to ordinary shares	25, 26	44	11,671,902	–	11,671,946
Issuance of ordinary shares relating to initial public offering, netting of underwriting commissions and other issuance costs	25, 26	10	2,645,630	–	2,645,640
Transfer of accumulated changes in fair value due to own credit risk upon derecognition of convertible redeemable preferred shares	26	–	92,527	(92,527)	–
Equity-settled share-based payments	26	–	335,268	(78,126)	257,142
Appropriations to statutory reserves	26	–	1,048	(1,048)	–
Total transactions with equity holders		54	14,746,375	(171,701)	14,574,728
Balance at 31 December 2021		132	17,981,771	(10,600,233)	7,381,670



# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	For the year ended	
		2022 RMB'000	2021 RMB'000
<hr/>			
Cash flows from operating activities			
Cash generated from/(used in) operations	32(a)	1,854,272	(902,668)
Income taxes paid		(11,364)	(5,744)
Net cash generated from/(used in) operating activities		1,842,908	(908,412)
<hr/>			
Cash flows from investing activities			
Additions of investments accounted for using equity method		–	(2,000)
Purchase of property, plant and equipment	15	(26,092)	(39,502)
Proceeds from disposal of property, plant and equipment		1,996	1,299
Placement of short-term deposits		(13,618,808)	(9,399,114)
Proceeds from maturity of short-term deposits		13,409,106	4,798,513
Payments for investments in financial assets at fair value through profit or loss		–	(2,145,000)
Proceeds from disposal of financial assets at fair value through profit or loss		241,102	2,882,981
Refund of prepayment for an investment		6,406	6,500
Interest received		144,879	33,918
Net cash generated from/(used in) investing activities		158,589	(3,862,405)
<hr/>			
Cash flows from financing activities			
Interest paid		–	(64,499)
Exercise of options		63,550	–
Proceeds from issuance of ordinary shares	25	–	2,682,056
Repurchase of shares		(31,032)	–
Payment of listing expenses		(32,974)	(2,967)
Principal elements of lease payments	32(b)	(2,106)	(416)
Interest elements of lease payments	32(b)	(349)	–
Net cash (used in)/generated from financing activities		(2,911)	2,614,174
<hr/>			
Net increase/(decrease) in cash and cash equivalents		1,998,586	(2,156,643)
Cash and cash equivalents at beginning of the year		853,454	3,006,206
Exchange differences on cash and cash equivalents		64,494	3,891
Cash and cash equivalents at end of the year	24	2,916,534	853,454

# Notes to the Consolidated Financial Statements

## 1 GENERAL INFORMATION AND HISTORY OF THE GROUP

### 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”.

These consolidated financial statements are presented in thousands of unit of Renminbi (RMB’000), unless otherwise stated.

The Group operates its business primarily through contractual arrangements (the “Contractual Arrangements”) with Hangzhou Yuedu Technology Co., Ltd (“Hangzhou Yuedu”), which enable to the Group to exercise power over Hangzhou Yuedu, receive variable returns from its involvement in Hangzhou Yuedu and have the ability to affect those returns through its power over Hangzhou Yuedu. Therefore, the Group controls Hangzhou Yuedu and regards Hangzhou Yuedu as a controlled structured entity.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the structured entity. Uncertainties presented by the PRC legal system could impede the Group’s beneficiary rights of the results, assets and liabilities of the structured entity. The directors of the Company, based on the advice from its legal counsel, consider that the Contractual Arrangements among the Group, Hangzhou Yuedu and its equity holders are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable. Other contractual arrangements were also executed for another entity which is insignificant to the Group. All these operating companies are treated as controlled Structured Entities of the Group and their financial statements have also been consolidated by the Group. See details in Note 17.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied throughout the year ended 31 December 2022, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements 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 consolidated financial statements 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

#### 2.1.1 Change in accounting policy and disclosures

##### (a) New standards and amendments 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 periods and are not expected to significantly affect the current or future periods.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 *Basis of preparation (Continued)*

##### 2.1.1 *Change in accounting policy and disclosures (Continued)*

#### (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.

		<b>Effective for accounting periods beginning on or after</b>
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.

#### 2.2 *Principles of consolidation and equity accounting*

##### (a) *Subsidiaries*

Subsidiaries are all entities (including Structured Entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Principles of consolidation and equity accounting *(Continued)*

#### *(b) Subsidiaries controlled through Contractual Arrangements*

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet content and other restricted businesses, the Group operates its business operations within these areas in the PRC through a series of contractual arrangements entered into among the Company, its wholly-owned subsidiaries, and certain domestic entities ("Structured Entities") that legally owned by certain management members of the Group ("Registered Shareholders") authorised by the Group.

The Contractual Arrangements include cooperation agreements and operation agreements, exclusive purchases option agreement, equity pledge agreements, shareholders' voting rights trust agreements and powers of attorney, which enable the Group to:

- govern the financial and operating policies of the Structured Entities;
- receive substantially all of the economic interest returns generated by the Structured Entities in consideration for the technical support, consulting and other services provided exclusively by the Wholly Foreign Owned Enterprise ("WFOE"), at the WFOE's discretion;
- obtain an irrevocable and exclusive right to purchase part or all of the equity interests in the Structured Entities at any time and from time to time, at the minimum consideration permitted by the relevant law in China at the time of transfer;
- obtain a pledge over all of its equity interests from its respective Registered Shareholders as collateral for all of the PRC entities' payments due to the Group to secure performance of entities' obligation under the Contractual Arrangements; and
- exercise equity holder voting rights of the Structured Entities.

Accordingly, the Group has rights to control these entities and they are accounted for as entities controlled by the Group.

#### *(c) Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (e) below), after initially being recognised at cost in the consolidated balance sheets.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.2 Principles of consolidation and equity accounting *(Continued)*

(d) *Joint ventures*

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be a joint venture.

Interests in a joint venture are accounted for using the equity method (see (e) below), after initially being recognised at cost in the consolidated balance sheets.

(e) *Equity accounting*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivables from associates and joint venture are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.8.

(f) *Changes in ownership interests*

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 *Separate financial statements*

Investments in subsidiaries, associate and joint venture are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries, associate and joint venture is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary, associate or joint venture in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.4 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (the "CODM"), who is responsible for allocating resources and assessing performance of the operating segments and making strategic decisions.

### 2.5 *Foreign currency translation*

#### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States Dollars ("US\$"). The Company's primary subsidiaries and Structured Entities are incorporated in the PRC and the functional currency of these entities is Renminbi ("RMB"). The Group determined to present its consolidated financial statements in RMB.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.5 Foreign currency translation *(Continued)*

##### *(c) Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income.

#### 2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Server and network equipment	3 years
Office furniture, equipment and others	3 – 5 years
Leasehold improvements	Shorter of expected lives of leasehold improvements and lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each financial period.



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 *Property, plant and equipment (Continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Construction in progress ("CIP") represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises all direct costs of construction. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use.

### 2.7 *Prepaid contents royalties*

Prepaid contents royalties represent the prepaid licence fee related to the music contents licensed from third parties. Prepaid contents royalties are carried at cost less impairment loss and are expensed to the consolidated statement of profit or loss within cost of revenue according to the pattern that the Group derives the benefit from the prepaid contents royalties, which is straight line over the relevant licence period as the benefits of its own use or revenue from sublicensing are both derived evenly throughout the period. Prepaid contents royalties are presented on the balance sheets as current and non-current based on estimated time of usage.

### 2.8 *Impairment of non-financial assets*

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.9 Investments and other financial assets

(a) *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments only when its business model for managing those assets changes.

(b) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss ("FVPL") are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Investments and other financial assets *(Continued)*

#### *(c) Measurement (Continued)*

##### **Debt instruments**

Subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. There are three categories into which the Group classifies its debt instruments:

- **Amortised cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other (losses)/gains, net" together with foreign exchange gains and losses. Impairment losses are charged to profit or loss.
- **FVOCI:** Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "other gains/(losses), net" in the consolidated statements of profit or loss. Interest income from these financial assets is recognised using the effective interest rate method. Foreign exchange gains and losses are presented in "other gains/(losses), net" and impairment loss are charged to profit or loss.
- **FVPL:** Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at FVPL. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in "other gains/(losses), net" for the period in which it arises.

##### **Equity instruments**

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other (losses)/gains, net" in the consolidated statements of profit or loss as applicable. Impairment losses/(reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 *Investments and other financial assets (Continued)*

#### *(d) Impairment*

The Group assesses on a forward – looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts and bills receivable, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised since initial recognition. For other financial assets, the Group applies the general approach permitted by IFRS 9, which requires the 12-months losses when there is no significant increase in credit risk since origination.

### 2.10 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### 2.11 *Accounts and bills receivable*

Accounts and bills receivable are amounts due from customers for goods sold or services performed in the ordinary course of business. Accounts receivable are generally due for settlement within one year and therefore are all classified as current.

Accounts and bills receivable are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the accounts receivable with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 20 for further information about the Group's accounting for accounts and bills receivable and Note 3.1 (b) for a description of the Group's impairment policies.

### 2.12 *Cash and cash equivalents*

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **2.13 Share capital and shares held under share award scheme**

Ordinary shares and non-redeemable participating preference shares are classified as equity (Note 25).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Convertible redeemable preferred shares are classified as financial liabilities, see Note 2.15.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity holders of the Company as treasury shares until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to equity holders of the Company.

Consideration paid for shares held under share award scheme is deducted from equity attributable to the equity holders of the Company and disclosed as "shares held under share award scheme".

### **2.14 Accounts and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Accounts and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### **2.15 Convertible redeemable preferred shares**

Convertible redeemable preferred shares issued by the Company are redeemable at the option of the holder upon occurrence of certain events. These instruments can also be converted into ordinary shares of the Company at any time at the option of the holders, or automatically upon occurrence of an initial public offering (the "IPO") of the Company, see Note 31 for details.

The Group designated the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised in profit or loss. Fair value changes relating to market risk are recognised in profit or loss, the component of fair value changes relating to the Company's own credit risk is recognised in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to accumulated losses when realised.

The convertible redeemable preferred shares were classified as non-current liabilities unless the holders of the relevant preferred shares can demand the Company to redeem the preferred shares in cash within 12 months after the end of the reporting period.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.16 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries, associates and joint venture operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.17 Employee benefits

#### (a) Short-term obligation

Liabilities for wages and salaries, including non-monetary benefits and annual leaves that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheets.

#### (b) Post-employment obligations

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by government authorities. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions.

### 2.18 Share-based payments

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 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 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.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.18 *Share-based payments (Continued)*

The total amount to be expensed is determined by reference to the fair value of the options 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 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 that will vest. The Group recognises compensation expenses for share options 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 with performance conditions and adjusts compensation expenses based on its probability assessment.

#### 2.19 *Provisions*

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

#### 2.20 *Revenue recognition*

The Group generates revenue primarily from provision of online music services and social entertainment services, such as music membership subscriptions, sublicensing of contents royalties, online advertising and sales of virtual items. Revenue is recognised when or as the control of the services or goods is transferred to the customer. Depending on the terms of the contract and the laws that are applied to the contract, control of the services and goods may be transferred over time or at a point in time.



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.20 Revenue recognition *(Continued)*

#### (a) Revenue from online music services

Online music services mainly include revenue from membership subscriptions, sales of digital music album and songs, contents sublicensing and online advertising on the Group's online platforms.

The Group offers users subscription packages which entitled paying subscribers access to the Group's relevant music contents and other privileged features on its platforms. The subscription fees for these packages are primarily time-based mainly from weekly to yearly and is collected upfront. The receipt of subscription fees is initially recognised as contract liabilities. The Group satisfies its performance obligations throughout the subscription period and revenue from the membership subscriptions is recognised over time.

The Group also offers users to purchase exclusive digital music albums and songs which can listen both online and offline. The Group considers that the control has been transferred to customer at time of purchase. As a result, the performance obligation is satisfied and revenue is recognised at a point in time.

The Group sublicenses certain of its music contents to other music platforms for a fixed period of one to three years, which generally falls within the original licence period. The Group determines sublicense of contents as a single performance obligation, and the revenue from sublicensing of contents is recognised over time throughout the sublicense period.

Revenue from online advertising is primarily generated through display of advertisements on the Group's online platforms.

The Group entered into contracts with third party advertising agencies and entities controlled by NetEase. Revenue is recognised rateably over the period that the advertising is displayed as the performance obligation is expended evenly over the period. Display-based advertisements are generally with short term. The Group will share a portion of the revenue with the advertising agencies and revenue is recognised on a gross or net basis in accordance with the principal versus agent consideration in note (c) below. If revenue for online advertising is recorded on a gross basis, the shared revenue portion is recognised as "cost of revenue" in profit or loss. If revenue is recorded on a net basis, the costs are accounted for as a reduction of revenue.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.20 Revenue recognition *(Continued)*

*(b) Revenue from social entertainment services and others*

The Group operates live streaming platforms whereby users can view live stream performance provided by live streaming performers and interact with them on a real time basis free of charge. The Group sells virtual items to users at pre-determined price, which users can gift the virtual items to live streaming performers to show their support and appreciation.

The Group also operates social networking platforms whereby users can access to basic functionalities on the platforms, such as view other users' sharing and private messaging, free of charge. The Group sells virtual items to users at pre-determined price, which users can purchase virtual items and send them to other users for better interaction and social networking experience.

The Group generates revenue from the sale of virtual items, which are produced and delivered by the Group in these platforms. Majority of revenue from sales of virtual items are recognised when the virtual items are gifted by users to live streaming performers in the live streaming platforms or other users in the social networking platforms, which is considered as the point when the Group's performance obligation is satisfied and the Group has no further obligations related to the virtual items after they are consumed by the users. The Group allocates revenue to each performance obligation on a relative stand-alone selling price basis, which are determined based on the prices charged to customers. Proceeds received from the sales of virtual items before they are being gifted in the live streaming platforms or social networking platforms are recorded as contract liabilities.

The Group shares with the gift recipients a portion of the revenue from sale of virtual items. Revenue from sale of virtual items are generally recorded at the gross amount with the portion remitted to gift recipients as cost of revenue as the Group considers itself as the principal for the sale of virtual items as the Group controls the production and price setting of the virtual items before they are transferred to the customers.

Further consideration about principal versus agent consideration in relation to recognising revenue on a gross or net basis is disclosed in note (c) below.

*(c) Principal agent consideration*

The Group reports revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The determination of whether to report the revenue on a gross or net basis is based on an evaluation of various factors, including but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) changes the product or performs part of the service; and (iv) has involvement in the determination of product and service specifications.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.20 Revenue recognition *(Continued)*

#### (d) Contract liabilities

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

### 2.21 Interest income

Interest income is presented within "finance income" when it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit – impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### 2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

### 2.23 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. For leases of rentals of offices for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.23 Leases *(Continued)*

The lease payments are discounted using the interest rate implicit in the lease. The Group uses the incremental borrowing rate, for the implicit rate cannot be readily determined, which is the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of office buildings and servers are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

#### 2.24 Dividends distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

Distribution of non-cash assets to the Company's shareholders is recognised and measured at the fair value of the non-cash assets to be distributed. Any difference between the fair value and the carrying amount of the non-cash assets to be distributed is recognised in the consolidated statements of profit or loss.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.25 Research and development expenses

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are capitalised as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the intangible asset so that it will be available for use or sales; (b) management intends to complete the intangible asset and use or sell it; (c) there is an ability to use or sell the intangible asset; (d) it can be demonstrated how the intangible asset will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and (f) the expenditure attributable to the intangible asset during its development can be reliably measured. Other development costs that do not meet these criteria are expensed as incurred. There were no development costs meeting these criteria and capitalised as intangible assets as at 31 December 2022 and 2021.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group.

(a) *Market risk*

**(i) Foreign exchange risk**

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US\$. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the functional currency of the respective entity of the Group. The functional currency of the Company is US\$ whereas the functional currency of the subsidiaries which operate in the PRC is RMB. The Group currently does not hedge transactions undertaken in foreign currencies but manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

As at 31 December 2022 and 2021, the impact of foreign exchange fluctuations is not material as the Group's entities had no material financial assets or financial liabilities denominated in a currency that different from its functional currency and therefore no sensitivity analysis is presented for foreign exchange risk.

**(ii) Price risk**

The Group is exposed to price risk mainly relating to certain investments held by the Group, which were classified as financial assets at fair value through profit or loss, including investments in wealth management products. As at 31 December 2022, the Group did not have any financial assets at fair value through profit or loss and the Group is not exposed to commodity price risk. See Note 3.3 for details.

## Notes to the Consolidated Financial Statements

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### (a) Market risk *(Continued)*

##### (iii) Interest rate risk

The Group's interest rate risk primarily arises from short-term bank deposits and certain cash at bank. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2022 and 2021, management considered that as any reasonable changes in interest rate would not result in a significant impact on the Group's results and financial position, no sensitivity analysis is presented for interest rate risk.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

##### (b) Credit risk

##### (i) Risk management

Credit risk arises from financial assets at fair value through profit or loss, short-term bank deposits and cash and cash equivalents as well as credit exposures on amounts due from group companies, accounts and bills receivable, other receivables and deposits. The carrying amount of each class of these financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

Credit risk is managed on a group basis. Bank deposits and cash and cash equivalents are mainly placed with reputable financial institutions in the PRC and reputable international financial institutions in Hong Kong, which management considers being of high credit quality. For accounts and bills receivable, the Group assesses the credit quality of the receivables by taking account of various factors, including past operational and financial performance and other factors.

##### (ii) Impairment of financial assets

The Group has following types of financial assets that are subject to the expected credit loss model:

- Accounts and bills receivable
- Short-term bank deposits
- Cash and cash equivalents
- Restricted cash
- Amounts due from group companies
- Other receivables and deposits

## Notes to the Consolidated Financial Statements

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### (b) Credit risk *(Continued)*

##### (ii) Impairment of financial assets *(Continued)*

###### Accounts and bills receivable

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all accounts and bills receivable. To measure the expected credit losses, accounts and bills receivable have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the historical payment profiles and historical loss rates, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables. The Group has identified the Producer Price Index ("PPI") and Purchasing Managers' Index ("PMI") of the PRC to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2022 and 2021 was determined as follows for accounts and bills receivable:

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Gross carrying amount	<b>561,462</b>	676,878
Loss allowance provision	<b>(3,321)</b>	(3,228)
Expected loss rate	<b>0.59%</b>	0.48%

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

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

Accounts and bills receivable are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery, include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and indicators of financial difficulties. Impairment losses on accounts and bills receivable are charged to profit or loss, and subsequent recoveries of amounts previously written off are credited against the same line item.

## Notes to the Consolidated Financial Statements

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### *(b) Credit risk (Continued)*

##### **(ii) Impairment of financial assets *(Continued)***

##### Other financial assets at amortised cost

To manage credit risk, bank deposits and cash and cash equivalents are mainly placed with reputable financial institutions in PRC and reputable international financial institutions in Hong Kong. There has been no recent history of default in relation to these financial institutions.

For impairment on amounts due from group companies, other receivables and deposits, it is measured as either 12-months expected credit losses or lifetime expected credit loss, depending on whether there has been significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivables has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. Management makes periodic collective assessments as well as individual assessment on these financial assets based on historical settlement records and past experience.

The expected credit loss on other financial assets at amortised cost is insignificant to the Group.

##### *(c) Liquidity risk*

The Group intends to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate liquid assets such as cash and cash equivalents, short-term time deposits and investments in wealth management products or to retain adequate financing arrangements to meet the Group's liquidity requirements.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.



## Notes to the Consolidated Financial Statements

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### (c) Liquidity risk *(Continued)*

	On demand RMB'000	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
At 31 December 2022					
Accounts payable	-	211	-	-	211
Accruals and other payable (excluding non-financial liabilities)	-	1,928,645	-	-	1,928,645
Amounts due to group companies	53,002	-	-	-	53,002
Lease liabilities	-	3,041	1,897	4,001	8,939
At 31 December 2021					
Accounts payable	-	134	-	-	134
Accruals and other payable (excluding non-financial liabilities)	-	1,089,760	-	-	1,089,760
Amounts due to group companies	56,389	-	-	-	56,389
Lease liabilities	-	2,959	2,355	6,079	11,393

#### 3.2 Capital risk management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital (including share capital and share premium) by regularly reviewing the capital structure. As part of this review, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. As at 31 December 2022 and 2021, the directors of the Company consider that the capital risk of the Group is minimal as the Group's capital structure is mainly financed by ordinary and preferred shares with net cash and there is no material external interest-bearing debts during the years ended 31 December 2022 and 2021.

## Notes to the Consolidated Financial Statements

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.3 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 31 December 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 and financial liabilities that are measured at fair value at 31 December 2021:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
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 year ended 31 December 2022 and 2021.

## Notes to the Consolidated Financial Statements

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.3 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 year ended 31 December 2022 and 2021:

	RMB'000
At 1 January 2022	240,772
Disposals	(241,102)
Change in fair value through profit or loss	330
At 31 December 2022	-
At 1 January 2021	971,315
Additions	2,145,000
Disposals	(2,882,981)
Change in fair value through profit or loss	7,438
At 31 December 2021	240,772

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. None of these investments are past due.

##### (b) Financial instruments at amortised cost

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

## Notes to the Consolidated Financial Statements

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

#### **(a) Impairment assessment of non-financial assets**

Non-financial assets, mainly including prepaid contents royalties, property, plant and equipment, investments accounted for using equity method, right-of-use assets and other prepayments, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to disposal. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; (iii) the selection of the most appropriate valuation technique, e.g. the market approach, the income approach, as well as a combination of approaches, including the adjusted net asset method; and (iv) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of profit or loss.

#### **(b) Contractual arrangements**

As disclosed in Note 2.2 (b), the Group exercises control over certain Structured Entities and has the right to recognise and receive substantially all the economic benefits from them through the Contractual Arrangements. The Directors consider that the Group controls these Structured Entities notwithstanding that it does not have direct or indirect legal ownership in equity of these entities as the Group has power over the financial and operating policies of these entities and receives substantially all the economic interest returns generated from the business activities of these entities through these Contractual Arrangements. Accordingly, all these Structured Entities are accounted for as controlled Structured Entities and their financial statements have also been consolidated by the Company throughout the years ended 31 December 2022 and 2021.

## Notes to the Consolidated Financial Statements

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

#### ***(b) Contractual arrangements*** *(Continued)*

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Structured Entities. Uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Structured Entities. Significant judgement is involved in determining whether the Group is able to control these entities through these Contractual Arrangements. The Directors of the Company, after taking into account of the advice from its external legal advisors, consider that the Contractual Arrangements entered into by the Group are in compliance with the relevant PRC laws and regulations and are therefore legally binding and enforceable.

#### ***(c) Share-based payments***

The Group measures the cost of equity-settled transactions with employees and others who provide similar services as employees with reference to the fair value of the equity instruments at the date at which they are granted. Significant estimates and assumptions are involved in the determination of the fair value of equity instruments, which include the use of the most appropriate valuation model and inputs based on the terms and conditions of the grant. The assumptions and models used for the share-based payments are disclosed in Note 27.

#### ***(d) Income taxes***

The Group is subject to income taxes in the PRC and other jurisdictions. Significant judgement is required in determining the provision for income taxes in each of these jurisdictions. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provision in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

## Notes to the Consolidated Financial Statements

### 5 REVENUE AND SEGMENT INFORMATION

#### (a) Disaggregation of revenue from contracts with customers

	Year ended 31 December	
	2022 RMB'000	2021 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
	<b>8,992,221</b>	6,997,622
Timing of revenue recognition:		
A point in time	5,421,795	3,893,522
Over time	3,570,426	3,104,100
<b>Total</b>	<b>8,992,221</b>	6,997,622

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.

## Notes to the Consolidated Financial Statements

### 6 OTHER INCOME

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Government grants and value-added tax subsidies	142,315	72,067

### 7 OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Net foreign exchange gains/(losses)	5,003	(3,861)
Gain on fair value changes of financial assets at fair value through profit or loss	330	7,438
Impairment loss for investments in associates (Note 18)	(11,160)	–
Others	3,213	(579)
	(2,614)	2,998

## Notes to the Consolidated Financial Statements

### 8 EXPENSES BY NATURE

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Content service costs (Note)	6,711,646	5,960,862
Technology costs	547,257	486,806
Employee benefit expenses (Note 9)	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
Total cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses	9,516,435	8,419,622

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

### 9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Salaries and bonuses	907,972	715,413
Welfare and other employee benefits	188,327	148,099
Equity-settled share-based payments (Note 27(c))	106,921	257,142
	1,203,220	1,120,654

Note: The employee benefit expenses included labour outsourcing services from NetEase Group during the years ended 31 December 2022 and 2021 of RMB22,793,000 and RMB50,179,000, respectively.



## Notes to the Consolidated Financial Statements

### 9 EMPLOYEE BENEFIT EXPENSES (Continued)

During the years ended 31 December 2022 and 2021, employee benefit expenses were charged to the consolidated profit or loss as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Cost of revenue	360,772	360,793
Selling and marketing expenses	67,327	55,215
General and administrative expenses	124,841	156,876
Research and development expenses	650,280	547,770
	<b>1,203,220</b>	1,120,654

#### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the years ended 31 December 2022 and 2021 include one director in 2022 and 2021, whose emoluments were reflected in the analysis presented in Note 10. The emoluments paid and payable to the five individuals during the years ended 31 December 2022 and 2021 are as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Salaries and bonus	12,521	13,001
Welfare and other employee benefits	661	567
Equity-settled share-based payments	8,815	53,134
	<b>21,997</b>	66,702

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December	
	2022	2021
Emolument bands (in HK\$)		
HK\$3,500,001 to HK\$4,000,000	3	–
HK\$6,500,001 to HK\$7,000,000	1	–
HK\$7,000,001 to HK\$7,500,000	1	–
HK\$9,000,001 to HK\$9,500,000	–	1
HK\$14,000,001 to HK\$14,500,000	–	1
HK\$14,500,001 to HK\$15,000,000	–	1
HK\$21,500,001 to HK\$22,000,000	–	2
	<b>5</b>	5

## Notes to the Consolidated Financial Statements

### 10 BENEFITS AND INTERESTS OF DIRECTORS

The remuneration of every director and chief executive during the years ended 31 December 2022 and 2021 is set out below:

For the year ended 31 December 2022:

Name	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
	Fees RMB'000	Salary RMB'000	Estimated money value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
William Lei Ding	-	-	-	-	-
Yat Keung Li	-	-	-	-	-
Yong Li	-	3,409	2,088	163	5,660
Yanfeng Wang	-	1,371	667	125	2,163
Feng Yu	-	-	-	-	-
Dewei Zheng	-	-	-	-	-
Xianfeng Gu	-	500	-	-	500
Ying Kit Caleb Lo	-	500	-	-	500
Zhong Xu	-	500	-	-	500

## Notes to the Consolidated Financial Statements

### 10 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

For the year ended 31 December 2021:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking

Name	Fees RMB'000	Salary RMB'000	Estimated money value of other benefits RMB'000	Employer's	Total RMB'000
				contribution to a retirement benefit scheme RMB'000	
William Lei Ding	–	–	–	–	–
Zhipeng Hu (Note (i))	–	–	–	–	–
Yat Keung Li	–	–	83	–	83
Jianqin Tao (Note (i))	–	–	2,273	–	2,273
Zhaoxuan Yang (Note (ii))	–	–	1,975	–	1,975
Yiwen Zhu (Note (ii))	–	1,295	4,053	40	5,388
Chi Zhang (Note (i))	–	–	–	–	–
Zhiyi Chen (Note (i))	–	–	–	–	–
Huan Zhou (Note (i))	–	–	–	–	–
Fan Jiang (Note (i))	–	–	–	–	–
Xiaoyan Xia (Note (i))	–	–	–	–	–
Yong Li (Note (ii))	–	2,070	6,026	69	8,165
Yanfeng Wang (Note (ii))	–	491	360	45	896
Feng Yu (Note (ii))	–	–	–	–	–
Dewei Zheng (Note (ii))	–	–	–	–	–
Xianfeng Gu (Note (iii))	–	42	–	–	42
Ying Kit Caleb Lo (Note (iii))	–	42	–	–	42
Zhong Xu (Note (iii))	–	42	–	–	42

Notes:

- (i) Resigned as director since May 2021.
- (ii) Appointed as director since May 2021.
- (iii) Appointed as director since December 2021.

#### **(a) Directors' retirement or termination benefits**

None of the directors received or will receive any retirement or termination benefits during the years ended 31 December 2022 and 2021.

## Notes to the Consolidated Financial Statements

### 10 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

#### *(b) Consideration provided to third parties for making available directors' services*

During the years ended 31 December 2022 and 2021, the Company did not pay consideration to any third parties for making available directors' services.

#### *(c) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors*

During the years ended 31 December 2022 and 2021, there is no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled body corporates and connected entities of such directors.

#### *(d) Directors' material interests in transactions, arrangements or contracts*

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted at 31 December 2022 or at any time during the years ended 31 December 2022 and 2021.

### 11 FINANCE INCOME

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Interest income from bank deposits	183,105	48,416

### 12 INCOME TAX EXPENSE

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

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

#### *(a) 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 Consolidated Financial Statements

### 12 INCOME TAX EXPENSE (Continued)

#### (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.

Under the Enterprise Income Tax ("EIT") Law, finance income from financial institutions located in mainland China earned by foreign investors is subject to withholding tax of 10%.

The taxation on the Group's loss before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended 31 December 2022 and 2021, being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Loss before income tax	(204,479)	(2,051,423)
Tax calculated at a tax rate of 25%	(51,120)	(512,856)
Effect of different tax rates applicable to different companies within the Group	(6,391)	259,183
Effect of preferential income tax rate of a subsidiary	13,341	90,149
Expenses not deductible for tax purposes	4,927	117,098
Income not subject to tax	(8)	(928)
Super deduction for research and development expenses	(45,582)	(27,605)
Withholding tax on finance income	14,951	1,925
Tax losses and other temporary differences not recognised	86,420	78,769
Others	477	(1,066)
	<b>17,015</b>	<b>4,669</b>

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods.

## Notes to the Consolidated Financial Statements

### 12 INCOME TAX EXPENSE *(Continued)*

#### *(c) PRC (Continued)*

As at 31 December 2022 and 2021, the Group had unrecognised tax losses to be carried forward against future taxable income amounted to RMB6,976 million and RMB6,449 million respectively. These unrecognised tax losses will mainly expire within 5 to 10 years. As at 31 December 2022 and 2021, the potential deferred income tax assets in respect of the above unrecognised tax losses amounted to RMB1,060 million and RMB980 million, respectively. Unrecognised tax assets in respect of other deductible temporary differences are relatively insignificant.

### 13 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)	<b>(221,494)</b>	(2,056,092)
Weighted average number of shares outstanding	<b>208,985,465</b>	129,164,825
Basic loss per share (in RMB)	<b>1.06</b>	15.92

#### *(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.

### 14 DIVIDENDS

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

## Notes to the Consolidated Financial Statements

### 15 PROPERTY, PLANT AND EQUIPMENT

	Servers and network equipment RMB'000	Leasehold improvements RMB'000	Office furniture, equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2021					
Cost	65,640	1,201	11,055	–	77,896
Accumulated depreciation	(53,451)	(735)	(2,908)	–	(57,094)
Net book amount	12,189	466	8,147	–	20,802
Year ended 31 December 2021					
Opening net book amount	12,189	466	8,147	–	20,802
Additions	29,897	54	6,723	2,828	39,502
Disposals	(470)	–	(748)	–	(1,218)
Depreciation charge	(11,212)	(136)	(3,695)	–	(15,043)
Closing net book amount	30,404	384	10,427	2,828	44,043
As at 31 December 2021					
Cost	93,854	1,255	16,562	2,828	114,499
Accumulated depreciation	(63,450)	(871)	(6,135)	–	(70,456)
Net book amount	30,404	384	10,427	2,828	44,043
Year ended 31 December 2022					
Opening net book amount	<b>30,404</b>	<b>384</b>	<b>10,427</b>	<b>2,828</b>	<b>44,043</b>
Additions	<b>17,881</b>	<b>32</b>	<b>6,773</b>	<b>1,406</b>	<b>26,092</b>
Transfer	–	<b>4,234</b>	–	<b>(4,234)</b>	–
Disposals	<b>(1)</b>	–	<b>(1,741)</b>	–	<b>(1,742)</b>
Depreciation charge	<b>(15,863)</b>	<b>(928)</b>	<b>(5,766)</b>	–	<b>(22,557)</b>
Closing net book amount	<b>32,421</b>	<b>3,722</b>	<b>9,693</b>	–	<b>45,836</b>
As at 31 December 2022					
Cost	<b>111,732</b>	<b>5,522</b>	<b>19,724</b>	–	<b>136,978</b>
Accumulated depreciation	<b>(79,311)</b>	<b>(1,800)</b>	<b>(10,031)</b>	–	<b>(91,142)</b>
Net book amount	<b>32,421</b>	<b>3,722</b>	<b>9,693</b>	–	<b>45,836</b>

## Notes to the Consolidated Financial Statements

### 15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

During the years ended 31 December 2022 and 2021, depreciation was charged to the consolidated statements of profit or loss as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Cost of revenue	6,044	3,828
Selling and marketing expenses	113	59
General and administrative expenses	573	367
Research and development expenses	15,827	10,789
	22,557	15,043

### 16 RIGHT-OF-USE ASSETS/LEASE LIABILITIES

#### *Items recognised in the consolidated balance sheet*

	As at 31 December	
	2022 RMB'000	2021 RMB'000
<b>Right-of-use assets</b>		
Office buildings	7,824	10,505

	As at 31 December	
	2022 RMB'000	2021 RMB'000
<b>Lease liabilities</b>		
Current	2,776	2,612
Non-current	5,623	7,893
	8,399	10,505

No addition to the right-of-use assets for the year ended 31 December 2022 (2021: RMB11.0 million).

Depreciation of approximately RMB2.7 million (2021: RMB0.8 million) was included in cost of revenue. The total cash outflow for leases in 2022 was RMB2.5 million (2021: RMB0.4 million).



## Notes to the Consolidated Financial Statements

### 17 SUBSIDIARIES

The Group's subsidiaries (including Structured Entities) during the years ended 31 December 2022 and 2021 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interest held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of incorporation and kind of legal entity	Principal activities	Particulars of issued/Registered/paid-in capital	Effective interest held	
				2022	2021
<b>Subsidiaries directly held:</b>					
Cloud Village Limited	Hong Kong, limited liability company	Investment holdings	HKD1	100%	100%
Dream Studio, Inc.	Cayman Islands, limited liability company	Investment holdings	US\$1	100%	100%
Indirectly held:					
Dream Studio (Hong Kong) Limited	Hong Kong, limited liability company	Investment holdings	HKD1	100%	100%
Hangzhou NetEase Cloud Music Technology Co., Ltd.	PRC, limited liability company	Provision of online music streaming services in the PRC	US\$1,349,000,000/ US\$1,309,000,000	100%	100%
Dream Studio Music Production US, Inc.	USA, limited liability company	Provision of music production services	US\$1	100%	100%
Beijing Creativity and Dream Music Culture Media Co., Ltd.	PRC, limited liability company	Provision of music production services	US\$200,000/-	100%	100%
Hangzhou Yuyinniaoniao Culture Media Co., Ltd.*	PRC, limited liability company	Provision of music production services	US\$200,000/-	100%	100%
Beijing Chuyin Culture Co., Ltd.*	PRC, limited liability company	Provision of artist management services	RMB1,000,000/ RMB1,000,000	100%	100%
Guangzhou NetEase Cloud Music Technology Co., Ltd.	PRC, limited liability company	Provision of online music streaming services in the PRC	US\$100,000/-	100%	100%
<b>Structured Entities (Note (i))</b>					
Hangzhou Yuedu Technology Co., Ltd.	PRC, limited liability company	Provision of online music streaming services and social entertainment services in the PRC	RMB10,000,000/ RMB10,000,000	100%	100%
Hangzhou Rege Culture Creativity Co., Ltd.*	PRC, limited liability company	Dormant	RMB100,000/-	100%	100%
Guangzhou Yuedu Technology Co., Ltd.	PRC, limited liability company	Provision of online music streaming services and social entertainment services in the PRC	RMB1,000,000/-	100%	N/A

## Notes to the Consolidated Financial Statements

### 17 SUBSIDIARIES (Continued)

\* English names are translated for identification purpose only.

Note (i): The Company does not have direct or indirect legal ownership in equity of the Structured Entities. Nevertheless, under certain Contractual Arrangements entered into with the Structured Entities and their registered owners, the Company and its other legally owned subsidiaries have rights to exercise power over the Structured Entities, receive variable returns from its involvement in the Structured Entities, and have the ability to affect those returns through its power over these Structured Entities. As a result, they are presented as Structured Entities of the Group.

### 18 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Associates	79,032	92,914
Joint venture	–	–
	<b>79,032</b>	92,914

Movement of investments in associates is analysed as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
At 1 January	92,914	84,647
Additions	–	2,000
Share of results	(2,722)	6,267
Impairment loss (Note)	(11,160)	–
At 31 December	<b>79,032</b>	92,914

Note:

Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investments may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indicators, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less cost of disposal and value in use.

The Group made an aggregate impairment provision of approximately RMB11,160,000 and nil against the carrying amounts of certain investments in associates during the years ended 31 December 2022 and 2021, respectively. The impairment losses mainly were resulted from revisions of financial and business outlook of certain associates and changes in the market environment of the associates' underlying businesses.

## Notes to the Consolidated Financial Statements

### 18 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD *(Continued)*

Movement of investment in a joint venture is analysed as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
At 1 January	–	3,933
Share of results	–	(3,933)
At 31 December	–	–

Details of principal associate are as follows:

Name of entity	Date of incorporation	Place of business/ country of incorporation	Percentage of ownership attributable to the Group		Principal activities
			2022	2021	
Indirectly held: AIVA Technologies S.A.R.L	23 September 2016	Luxembourg	20%	20%	Provision of online AI soundtrack creating services

### 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Wealth management products	–	240,772

For the fair value measurement of financial assets at fair value, please refer to Note 3.3.

## Notes to the Consolidated Financial Statements

### 20 ACCOUNTS AND BILLS RECEIVABLE

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Accounts receivable	559,462	676,878
Less: loss allowance	(3,321)	(3,228)
Accounts receivable, net	556,141	673,650
Bills receivable	2,000	–
	<b>558,141</b>	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 receivable based on invoice date is as follows:

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

The carrying amount of accounts and bills receivable approximated their fair values and were denominated in RMB. Information about the impairment of accounts and bills receivable and the Group's exposure to credit risk can be found in Note 3.1.

### 21 PREPAID CONTENTS ROYALTIES

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Current	506,328	1,109,834
Non-current	283,128	471,125
	<b>789,456</b>	1,580,959

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

## Notes to the Consolidated Financial Statements

### 22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Non-current assets		
Deposits	300	300
Prepayments	–	32
	<b>300</b>	332
Current assets		
Interest receivable	58,771	19,669
Prepaid payment channel fees	52,350	64,446
Prepaid promotion, advertising and other expenses	20,315	33,604
Value-added tax recoverables	21,954	107,475
Rental and other deposits	784	750
Others	5,972	10,965
	<b>160,146</b>	236,909
Less: loss allowance	(4,228)	(2,000)
	<b>155,918</b>	234,909

### 23 SHORT-TERM BANK DEPOSITS

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Short-term bank deposits	6,191,529	5,527,732

The weighted average effective interest rate on bank deposits of the Group with initial terms of over three months as at 31 December 2022 and 2021 was 2.20% and 1.14% per annum, respectively.

The carrying amounts of bank deposits with initial terms of over three months approximated their fair values and were all denominated in US\$.

## Notes to the Consolidated Financial Statements

### 24 CASH AND BANK BALANCES

#### (a) Cash and cash equivalents

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Cash at bank	2,916,534	853,454

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
US\$	25,095	405,089
RMB	2,882,268	392,450
HK\$	9,171	55,915
	2,916,534	853,454

The conversion of the RMB denominated balances maintained in the PRC into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

#### (b) Restricted cash

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Restricted cash, denominated in RMB	8,318	–

Restricted cash of RMB8,318,000 (2021: Nil) represents a deposit restricted in relation to a legal claim.

## Notes to the Consolidated Financial Statements

### 25 SHARE CAPITAL

#### *Authorised:*

	Number of Class A ordinary shares '000	Number of Class B ordinary shares '000	Number of other ordinary shares '000	Number of ordinary shares '000	Total number of ordinary shares '000	Nominal value of ordinary shares US\$'000	Number of preferred shares '000	Nominal value of preferred shares US\$'000	Total number of shares '000	Total nominal value of shares US\$'000
At 1 January 2021	703,875	119,770	100,000	-	923,645	93	76,355	7	1,000,000	100
Conversion of Class B ordinary shares into Class A ordinary shares	119,770	(119,770)	-	-	-	-	-	-	-	-
Conversion of preferred shares into Class A ordinary shares	76,355	-	-	-	76,355	7	(76,355)	(7)	-	-
Conversion of other ordinary shares into Class A ordinary shares	100,000	-	(100,000)	-	-	-	-	-	-	-
Re-designation of Class A ordinary shares to ordinary shares	(1,000,000)	-	-	1,000,000	-	-	-	-	-	-
At 31 December 2021	-	-	-	1,000,000	1,000,000	100	-	-	1,000,000	100

## Notes to the Consolidated Financial Statements

### 25 SHARE CAPITAL (Continued)

#### Authorised: (Continued)

	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
At 1 January 2022 and 31 December 2022	1,000,000	100	1,000,000	100

The share capital of the Company comprises Class A ordinary shares, Class B ordinary shares, Other ordinary shares, Series A preferred shares, Series B preferred shares, Series B1 preferred shares and Series B2 preferred shares. Each Class A ordinary share, Series B preferred share, Series B1 Preference share and Series B2 preferred share entitles the holder to exercise one vote on all matters subject to the vote at general meetings of the Company. Each Class B ordinary share and Series A preferred share entitles the holder to exercise 10 votes, on all matters subject to the vote at general meetings of our Company. Other ordinary shares may be determined by the board of directors of the Company as to such class or classes however designated.

Pursuant to the Articles and the Pre-IPO Shareholders' Agreement, the Class B ordinary shares and all the preferred shares shall be automatically and immediately converted into Class A ordinary shares upon completion of an initial public offering of the Company. Class B ordinary shares will be converted into Class A ordinary shares on a one-to-one ratio. The preferred shares will be converted into Class A ordinary shares on a one-to-one ratio and subject to customary adjustments.

Upon the completion of the Global Offering by the Company on 2 December 2021, all the Class B ordinary shares, preferred shares and other ordinary shares were automatically converted into Class A ordinary shares. Upon the conversion of all the issued and outstanding Class B ordinary shares and preferred shares into Class A ordinary shares, the weighted voting rights structure also ceased as all Class A ordinary shares entitle the holder to exercise one vote on all matters subject to the vote general meetings of the Company. Immediate following the above conversion all Class A ordinary shares are re-designated and reclassified as ordinary shares with par value of US\$0.0001 each.



## Notes to the Consolidated Financial Statements

### 25 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
At 1 January 2021	1,470,100	119,770,118	886,513	–	122,126,731	78
Conversion of Class B ordinary shares into Class A ordinary shares	119,770,118	(119,770,118)	–	–	–	–
Conversion of convertible redeemable preferred shares into Class A ordinary shares	69,630,145	–	–	–	69,630,145	44
Conversion of preferred shares into Class A ordinary shares	886,513	–	(886,513)	–	–	–
Re-designation of Class A ordinary shares to ordinary shares	(191,756,876)	–	–	191,756,876	–	–
Issuance of ordinary shares (Note (a))	–	–	–	16,000,000	16,000,000	10
At 31 December 2021 and 1 January 2022	–	–	–	<b>207,756,876</b>	<b>207,756,876</b>	<b>132</b>
Issuance of new shares (Note (b))	–	–	–	<b>355,000</b>	<b>355,000</b>	<b>- *</b>
Exercise of share options	–	–	–	<b>3,794,210</b>	<b>3,794,210</b>	<b>3</b>
At 31 December 2022	–	–	–	<b>211,906,086</b>	<b>211,906,086</b>	<b>135</b>

\* the amount is less than RMB1,000

## Notes to the Consolidated Financial Statements

### 25 SHARE CAPITAL *(Continued)*

#### ***Issued and fully paid:*** *(Continued)*

Note:

- (a) On 2 December 2021, upon the Listing on the Main Board of the Stock Exchange, the Company issued 16,000,000 new ordinary shares at par value of US\$0.0001 per share for cash consideration of HK\$205 each, and raised gross proceeds of approximately HK\$3,280 million (equivalent to approximately RMB2,682 million).
- (b) On 18 August 2022, the Company issued 355,000 new shares at US\$0.0001 for each share to the Trustee (refer to Note 27(a)), pursuant to the share award plan under the Pre-IPO Share Incentive Plan adopted in 2016 and 2022 restricted share unit plan (the "RSU Plan") adopted on 18 August 2022, to recognise and reward the contribution of employees and others who provide similar services as employees ("Service Recipients") to the Group.

## Notes to the Consolidated Financial Statements

### 26 OTHER RESERVES

	Share premium RMB'000	Shares held under share award scheme 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	Total RMB'000
As at 1 January 2022	16,899,507	-	23,564	427,402	2,869	628,429	17,981,771
Issuance of new shares (Note 25(b))	-	-*	-	-	-	-	-*
Exercise of share options	202,542	-	-	(138,016)	-	-	64,526
Vest of share awards	11,275	644	-	(11,919)	-	-	-
Equity-settled share-based payment under the share option scheme	-	-	5,248	71,194	-	-	76,442
Equity-settled share-based payment under the share award scheme	-	-	-	31,762	-	-	31,762
Repurchase of shares	-	(31,032)	-	-	-	-	(31,032)
Appropriations to statutory reserves	-	-	-	-	850	-	850
Currency translation differences	-	-	-	-	-	519,465	519,465
As at 31 December 2022	17,113,324	(30,388)	28,812	380,423	3,719	1,147,894	18,643,784

\* the amount is less than RMB1,000

## Notes to the Consolidated Financial Statements

### 26 OTHER RESERVES (Continued)

	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
As at 1 January 2021	2,581,975	18,439	97,259	1,821	432,654	(66,552)	3,065,596
Conversion of convertible redeemable preferred shares into ordinary shares	11,671,902	-	-	-	-	-	11,671,902
Fair value change on convertible redeemable preferred shares due to own credit risk	-	-	-	-	-	(25,975)	(25,975)
Issuance of ordinary shares relating to initial public offering, netting of underwriting commissions and other issuance costs	2,645,630	-	-	-	-	-	2,645,630
Transfer of accumulated changes in fair value due to own credit risk upon derecognition of convertible redeemable preferred shares	-	-	-	-	-	92,527	92,527
Equity-settled share-based payments	-	5,125	330,143	-	-	-	335,268
Appropriations to statutory reserves	-	-	-	1,048	-	-	1,048
Currency translation differences	-	-	-	-	195,775	-	195,775
As at 31 December 2021	16,899,507	23,564	427,402	2,869	628,429	-	17,981,771

Notes:

**(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 reserves 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' shareholders 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 Consolidated Financial Statements

### 27 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 years ended 31 December 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.

#### **(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.

## Notes to the Consolidated Financial Statements

### 27 SHARE-BASED COMPENSATION *(Continued)*

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

##### *(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\$
Outstanding as of 1 January 2022	11,654,900	6.49
Exercised during the year	(3,794,210)	2.50
Cancelled during the year	(27,450)	10.73
Forfeited during the year	(671,200)	10.57
Outstanding as of 31 December 2022	7,162,040	8.20
Vested and exercisable at 31 December 2022	5,432,665	7.33
Outstanding as of 1 January 2021	11,332,600	5.87
Granted during the year	1,907,850	11.00
Forfeited during the year	(1,585,550)	7.53
Outstanding as of 31 December 2021	11,654,900	6.49
Vested and exercisable at 31 December 2021	7,996,575	4.65

## Notes to the Consolidated Financial Statements

### 27 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 year have the following expiry date and exercise price.

Grant date	Expiry date	Exercise price	Vesting year*	Year ended 31 December	
				2022	2021
25 May 2016	25 May 2023	US\$1	4 years from grant date	1,222,600	4,183,500
29 August 2016	29 August 2023	US\$1	4 years from grant date	–	27,500
18 January 2017	18 January 2024	US\$8	4 years from grant date	273,965	548,000
10 July 2017	10 July 2024	US\$8	4 years from grant date	307,000	536,000
23 November 2017	23 November 2024	US\$8	4 years from grant date	265,000	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	1,091,000	1,225,000
17 August 2018	17 August 2025	US\$8	4 years from grant date	256,000	295,000
19 November 2018	19 November 2025	US\$8	4 years from grant date	75,000	120,000
2 March 2019	2 March 2026	US\$8	4 years from grant date	103,900	146,250
21 May 2019	21 May 2026	US\$8	4 years from grant date	109,750	189,000
25 September 2019	25 September 2026	US\$11	4 years from grant date	933,750	988,250
22 November 2019	22 November 2026	US\$11	4 years from grant date	225,000	337,000
1 March 2020	1 March 2027	US\$11	4 years from grant date	177,000	178,000
20 May 2020	20 May 2027	US\$11	4 years from grant date	68,650	78,300
30 September 2020	30 September 2027	US\$11	4 years from grant date	329,000	459,000
24 November 2020	24 November 2027	US\$11	4 years from grant date	185,000	197,000
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	118,000	191,150
27 May 2021	27 May 2028	US\$11	4 years from grant date	1,130,925	1,310,100
15 June 2021	15 June 2028	US\$11	1 year from grant date	3,000	3,000
15 June 2021	15 June 2028	US\$11	4 years from grant date	160,500	197,850
Total				7,162,040	11,654,900
Weighted average remaining contractual life of options outstanding at end of the year				3.52 years	4.39 years

## Notes to the Consolidated Financial Statements

### 27 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 year ended 31 December 2021 were set as below:

	2021
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

Computershare Hong Kong Trustees Limited ("CPM Trustees"), a company incorporated in Hong Kong and authorised to undertake trust business in accordance with the laws of Hong Kong, was appointed as the trustee (the "Trustee") for the administration of the share award scheme. The Trustee will hold the shares on trust for the eligible grantees. The Trustee and its ultimate beneficial owners are third parties independent of, and not connected with, the Group or its connected persons.

The aggregate number of awarded shares currently permitted to be awarded under the share award scheme is limited to 1,781,250 new shares under the Pre-IPO Share Incentive Plan (adopted in 2016 and amended from time to time) in the form of awards (other than options).

The Trustee shall not exercise the voting rights in respect of any shares of the Company held under the Trust, including, inter alia, the awarded shares and further shares of the Company acquired out of the income derived therefrom.

During the year ended 31 December 2022, 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 1 – 3 years in equal tranches.



## Notes to the Consolidated Financial Statements

### 27 SHARE-BASED COMPENSATION (Continued)

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

##### (ii) Share awards (Continued)

The following table represents the movements for number of shares under the Share Award Scheme for the year ended 31 December 2022.

	Number of shares	RMB'000
As at 1 January 2022	–	–
Issuance of new shares	355,000	–
Repurchase of shares from market	460,900	31,032
Share awards vested during the year	(188,707)	(644)
As at 31 December 2022	627,193	30,388

Movements in the number of share awards granted to Eligible Grantees of the Group for the year ended 31 December 2022 are as follows:

	Number of share awards	Weighted average grant date fair value HK\$
Outstanding as of 1 January 2022	–	–
Granted during the year	1,498,130	72.24
Vested during the year	(188,707)	73.79
Forfeited during the year	(223,023)	73.42
Outstanding as of 31 December 2022	1,086,400	71.72

The fair value of the share awards was calculated based on the market price of the Company's shares at the respective grant date.

## Notes to the Consolidated Financial Statements

### 27 SHARE-BASED COMPENSATION *(Continued)*

#### **(b) Restricted share units plan**

##### *2009 Restricted Share Unit Plan*

In November 2009, NetEase adopted a restricted share unit plan for the employees, directors and consultants of NetEase and its subsidiaries (the "2009 Plan"). NetEase has reserved 323,694,050 ordinary shares for issuance under the plan. The 2009 Plan was adopted by a resolution of the board of directors of NetEase on 17 November 2009 and became effective for a term of ten years unless sooner terminated. The 2009 Plan was expired on 16 November 2019.

##### *2019 Restricted Share Unit Plan*

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 "NetEase 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.

## Notes to the Consolidated Financial Statements

### 27 SHARE-BASED COMPENSATION (Continued)

#### (b) Restricted share units plan (Continued)

##### 2019 Restricted Share Unit Plan (Continued)

Movement in the number of RSUs granted to Eligible Grantees of the Group for the years ended 31 December 2022 and 2021 are as follows:

	Number of RSUs	Weighted average grant date fair value US\$
Outstanding as at 1 January 2022	22,612	62.93
Granted during the year	6,868	94.07
Vested and transferred during the year	(4,944)	(23.22)
Forfeited during the year	(1,315)	(63.88)
Outstanding as at 31 December 2022	23,221	80.54
Outstanding as at 1 January 2021	42,161	57.29
Granted during the year	1,753	109.03
Vested and transferred during the year	(17,575)	(52.80)
Forfeited during the year	(3,727)	(68.59)
Outstanding as at 31 December 2021	22,612	62.93

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.

#### (c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expenses were as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Share options issued under the Pre-IPO Share Incentive Plan	69,911	252,017
Share awards granted under the Pre-IPO Share Incentive Plan to Eligible Grantees	31,762	–
RSUs granted under the NetEase Group Restricted Shares Units Plan to Eligible Grantees of the Group	5,248	5,125
	106,921	257,142

## Notes to the Consolidated Financial Statements

### 28 ACCOUNTS PAYABLE

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Accounts payable	211	134

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.

### 29 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Current liabilities		
Accrued content service costs	1,679,545	765,014
Accrued expenses	167,318	153,188
Accrued listing expenses	–	92,737
Accrued salaries and staff benefits	273,855	179,003
Deposits from customers	42,025	47,822
Other taxes payable	32,097	15,008
Others	39,757	30,999
	2,234,597	1,283,771

## Notes to the Consolidated Financial Statements

### 30 CONTRACT LIABILITIES

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Contract liabilities related to online music services	721,219	626,338
Contract liabilities related to social entertainment services and others	48,284	28,831
Contract liabilities	769,503	655,169
Less: Non-current portion	(55,244)	(50,555)
Current portion	714,259	604,614

#### (i) Significant changes in contract liabilities

Contract liabilities mainly represent advance payments received from customers related to music membership subscription, sublicensing of contents royalties and sales of virtual items. Contract liabilities increased by RMB114,334,000 and RMB241,086,000 during the years ended 31 December 2022 and 2021, respectively, mainly due to the increase of music membership subscription.

#### (ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the year related to carried forward contract liabilities.

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	604,614	384,978

## Notes to the Consolidated Financial Statements

### 30 CONTRACT LIABILITIES (Continued)

#### (iii) Unsatisfied performance obligations

The following table shows unsatisfied performance obligations mainly resulting from fixed-price contracts:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Within one year	714,259	604,614
Over one year	55,244	50,555
	<b>769,503</b>	655,169

As at 31 December 2022 and 2021, the Group expects that the unsatisfied performance obligations resulting from the above contracts that will be recognised as revenue within one year amounting to RMB714,259,000 and RMB604,614,000 respectively. The remaining unsatisfied performance obligations are primarily expected to be recognised as revenue within the second year after the respective balance sheet dates.

### 31 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 year ended 31 December 2021 are set out as below:

	RMB'000
At 1 January 2021	11,162,403
Change in fair value through profit or loss	755,238
Change in fair value through other comprehensive income	25,975
Currency translation differences	(271,670)
Conversion of convertible redeemable preferred shares to ordinary shares	(11,671,946)
At 31 December 2021	–

## Notes to the Consolidated Financial Statements

### 32 CASH FLOW INFORMATION

#### (a) Cash generated from/(used in) operations

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Loss before income tax	(204,479)	(2,051,423)
Adjustments for:		
Depreciation of property, plant and equipment (Note 15)	22,557	15,043
Depreciation of right-of-use assets (Note 16)	2,681	774
Impairment loss for investments in associates (Note 7)	11,160	–
Net impairment loss on financial assets	2,321	1,931
Equity-settled share-based payments (Note 9)	106,921	257,142
Changes in fair value of convertible redeemable preferred shares	–	755,238
Gain on disposal of property, plant and equipment	(254)	(81)
Gain on fair value changes of financial assets at fair value through profit or loss	(330)	(7,438)
Share of results of investments accounted for using equity method	2,722	(2,334)
Finance income	(183,105)	(48,416)
Finance cost	349	–
	(239,457)	(1,079,564)
Changes in working capital:		
Changes in accounts receivable	115,416	(419,206)
Changes in other operating assets	891,807	771,070
Changes in accounts payable	77	(1,266)
Changes in other operating liabilities	1,094,747	(173,702)
Changes in restricted cash	(8,318)	–
Cash generated from/(used in) operations	1,854,272	(902,668)

## Notes to the Consolidated Financial Statements

### 32 CASH FLOW INFORMATION *(Continued)*

#### *(b) Reconciliation of liabilities arising from financing activities*

	<b>Lease liabilities</b> RMB'000
Balance at 1 January 2021	–
Principal elements of lease payments	(416)
Non-cash movements	10,921
Balance at 31 December 2021	10,505
Balance at 1 January 2022	<b>10,505</b>
Principal elements of lease payments	<b>(2,106)</b>
Interest elements of lease payments	<b>(349)</b>
Non-cash movements	<b>349</b>
Balance at 31 December 2022	<b>8,399</b>



## Notes to the Consolidated Financial Statements

### 33 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

Financial assets	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
As at 31 December 2022			
Accounts and bills receivable (Note 20)	558,141	–	558,141
Deposits and other receivables	61,195	–	61,195
Amounts due from group companies (Note 34)	138,504	–	138,504
Short-term bank deposits (Note 23)	6,191,529	–	6,191,529
Cash and cash equivalents (Note 24)	2,916,534	–	2,916,534
Restricted cash (Note 24)	8,318	–	8,318
	<b>9,874,221</b>	<b>–</b>	<b>9,874,221</b>
As at 31 December 2021			
Accounts and bills receivable (Note 20)	673,650	–	673,650
Deposits and other receivables	29,251	–	29,251
Amounts due from group companies (Note 34)	128,368	–	128,368
Short-term bank deposits (Note 23)	5,527,732	–	5,527,732
Cash and cash equivalents (Note 24)	853,454	–	853,454
Financial assets at fair value through profit or loss (Note 19)	–	240,772	240,772
	7,212,455	240,772	7,453,227

## Notes to the Consolidated Financial Statements

### 33 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

<b>Financial liabilities</b>	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
	RMB'000	RMB'000
As at 31 December 2022		
Accounts payable (Note 28)	211	211
Accruals and other payables (excluding non-financial liabilities)	1,928,645	1,928,645
Amounts due to group companies (Note 34)	53,002	53,002
Lease liabilities (Note 16)	8,399	8,399
	<b>1,990,257</b>	<b>1,990,257</b>
As at 31 December 2021		
Accounts payable (Note 28)	134	134
Accruals and other payables (excluding non-financial liabilities)	1,089,760	1,089,760
Amounts due to group companies (Note 34)	56,389	56,389
Lease liabilities (Note 16)	10,505	10,505
	<b>1,156,788</b>	<b>1,156,788</b>

### 34 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 the consolidated financial statements:

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the years ended 31 December 2022 and 2021:

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

## Notes to the Consolidated Financial Statements

### 34 RELATED PARTY TRANSACTIONS (Continued)

#### (a) Transactions

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Purchase of property, plant and equipment from NetEase Group	4,391	5,250
Purchase of goods from NetEase Group	6,036	6,467
Purchase of technology and other services from NetEase Group	481,383	463,008
Provide advertising services to NetEase Group	411,644	473,229
Provide other services to NetEase Group	18,675	17,124
Sales of property, plant and equipment to NetEase Group	1,055	863

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 31 December	
	2022 RMB'000	2021 RMB'000
Amounts due from NetEase Group	138,504	128,368
Amounts due to NetEase Group	53,002	56,389

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

#### (c) Key management personnel compensation

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Salaries and bonus	10,390	9,808
Welfare and other employee benefits	511	438
Equity-settled share-based payments	1,373	40,954
	12,274	51,200

## Notes to the Consolidated Financial Statements

### 35 CONTINGENT LIABILITIES

As at 31 December 2022 and 2021, there were no material contingent liabilities to the Group.

### 36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

#### (a) Balance sheet of the Company

	As at 31 December	
	2022 RMB'000	2021 RMB'000
<b>Assets</b>		
<b>Non-current assets</b>		
Investment in an associate	17,575	17,575
Investments in subsidiaries	9,412,591	8,662,474
	<b>9,430,166</b>	8,680,049
<b>Current assets</b>		
Prepayments, deposits and other receivables	90,621	19,891
Short-term bank deposits	6,191,529	5,527,732
Cash and cash equivalents	16,709	164,150
	<b>6,298,859</b>	5,711,773
<b>Total assets</b>	<b>15,729,025</b>	14,391,822
<b>Equity</b>		
Equity attributable to equity holders of the Company		
Share capital	135	132
Reserves (36(b))	15,716,442	14,294,040
<b>Total equity</b>	<b>15,716,577</b>	14,294,172
<b>Liability</b>		
<b>Current liability</b>		
Accruals and other payables	6,827	97,650
Income tax payable	5,621	–
	<b>12,448</b>	97,650
<b>Total liabilities</b>	<b>12,448</b>	97,650
<b>Total equity and liabilities</b>	<b>15,729,025</b>	14,391,822

## Notes to the Consolidated Financial Statements

### 36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

#### (b) Reserve movement of the Company

	Share premium RMB'000	Share-based compensation reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2022	16,899,507	427,402	(354)	(3,038,029)	5,514	14,294,040
Profit for the year	-	-	-	118,355	-	118,355
Exercise of share options	202,542	(138,016)	-	-	-	64,526
Vest of share awards	11,275	(11,919)	-	-	-	(644)
Equity-settled share-based payment under the share option scheme	-	71,194	-	(1,283)	-	69,911
Equity-settled share-based payment under the share award scheme	-	31,762	-	-	-	31,762
Currency translation differences	-	-	1,138,492	-	-	1,138,492
As at 31 December 2022	17,113,324	380,423	1,138,138	(2,920,957)	5,514	15,716,442
As at 1 January 2021	2,581,975	97,259	99,854	(2,073,049)	(61,038)	645,001
Loss for the year	-	-	-	(794,327)	-	(794,327)
Fair value change on convertible redeemable preferred shares due to own credit risk	-	-	-	-	(25,975)	(25,975)
Conversion of convertible redeemable preferred shares into ordinary shares	11,671,902	-	-	-	-	11,671,902
Issuance of ordinary shares relating to initial public offering, netting of underwriting commissions and other issuance costs	2,645,630	-	-	-	-	2,645,630
Transfer of accumulated changes in fair value due to own credit risk upon derecognition of convertible redeemable preferred shares	-	-	-	(92,527)	92,527	-
Equity-settled share-based payments	-	330,143	-	(78,126)	-	252,017
Currency translation differences	-	-	(100,208)	-	-	(100,208)
As at 31 December 2021	16,899,507	427,402	(354)	(3,038,029)	5,514	14,294,040

## Five Year Financial Summary

### CONDENSED CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				2022 RMB'000
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	
Revenue	1,148,037	2,318,390	4,895,731	6,997,622	8,992,221
Gross (loss)/profit	(1,317,218)	(1,056,714)	(595,335)	142,674	1,293,118
Loss before income tax	(2,004,212)	(2,013,622)	(2,949,887)	(2,051,423)	(204,479)
Loss for the year attributable to equity holders of the Company	(2,006,249)	(2,015,759)	(2,951,463)	(2,056,092)	(221,494)
Other comprehensive income/(loss) for the year, net of taxes	9,119	(69,632)	426,610	169,800	519,465
Total comprehensive (loss)/income for the year attributable to equity holders of the Company	(1,997,130)	(2,085,391)	(2,524,853)	(1,886,292)	297,971

### CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 31 December				2022 RMB'000
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	
<b>ASSETS</b>					
Non-current assets	633,136	780,734	1,194,773	618,919	416,120
Current assets	7,331,619	8,256,428	6,862,629	8,768,719	10,475,272
<b>Total assets</b>	7,964,755	9,037,162	8,057,402	9,387,638	10,891,392
<b>EQUITY</b>					
Total equity holders' (deficits)/equity	(899,621)	(2,945,509)	(5,306,766)	7,381,670	7,820,059
<b>LIABILITIES</b>					
Non-current liabilities	5,095,906	10,771,952	11,191,508	58,448	60,867
Current liabilities	3,768,470	1,210,719	2,172,660	1,947,520	3,010,466
<b>Total liabilities</b>	8,864,376	11,982,671	13,364,168	2,005,968	3,071,333
<b>Total equity and liabilities</b>	7,964,755	9,037,162	8,057,402	9,387,638	10,891,392

## Definitions

“China” or the “PRC”	the People’s Republic of China, and for the purpose of this annual report only, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“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
“Director(s)”	the director(s) of our company
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Latest Practicable Date”	18 April 2023, being the latest practicable date for ascertaining certain information in this annual report before its publication
“Listing”	the listing of our shares on the Main Board of the Stock Exchange
“Listing Date”	2 December 2021, the date on which our shares were listed and on which dealings in our shares were first permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“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

## Definitions

“MAUs of social entertainment services”	the monthly average number of users in a given period that have accessed the social entertainment services offered by (i) NetEase Cloud Music application; (ii) LOOK Live Streaming; (iii) Sheng Bo application; and (iv) Xin Yu application at least once in a given month through mobile devices or PC devices, as the case may be; duplicate access of (i) and (ii) services is eliminated from the calculation based on our estimates by user account
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“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
“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



## Definitions

“Prospectus”	our company’s prospectus dated 23 November 2021, a copy of which is available on the Stock Exchange’s website at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a>
“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”	the financial year ended 31 December 2022
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), and includes our consolidated affiliated entities and any other entity the financials of which are consolidated into the accounts of our company



(incorporated in the Cayman Islands with limited liability)

Stock code: 9899