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CLOUD MUSIC INC.

雲音樂股份有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 9899)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

Our Board is pleased to announce the unaudited consolidated results of our Company and its subsidiaries (collectively referred to as the “**Group**”) for the Reporting Period, being the six months ended 30 June 2023. These interim results have been reviewed by our auditor, PricewaterhouseCoopers, in accordance with the International Standard on Review Engagement 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by our Board’s audit committee.

	Six months ended 30 June		Change (%)
	2023	2022	
	(Unaudited)	(Unaudited)	
	<i>(RMB in thousands, except percentages)</i>		
Revenue	3,908,380	4,258,716	-8.2%
Gross Profit	965,147	537,113	+79.7%
Profit/(loss) before income tax	311,961	(266,790)	N/A
Profit/(loss) for the period	293,750	(270,810)	N/A
Non-IFRS Measure:			
Adjusted net profit/(loss) ^{Note (1)}	331,893	(217,000)	N/A

Note:

- (1) Adjusted net profit/(loss) is defined as profit/(loss) for the period adjusted by adding back equity-settled share-based payments as appropriate. For details of the reconciliation of the profit/(loss) for the period to the adjusted net profit/(loss) of our Group, see “Financial Review” below.

Non-IFRS measure

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

General notes

In this announcement: (i) "we", "us", and "our" refer to our Company and where the context otherwise requires, our Group; (ii) numbers may be subject to rounding and approximations to one or two decimal places; and (iii) unless otherwise stated, the exchange rates used are RMB1 to HK\$1.0846 and US\$0.1384.

KEY OPERATING DATA

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

	Six months ended 30 June	
	2023	2022
MAUs of online music services (in millions)	206.7	181.9

Our revenues depend on our ability to monetise, to convert more users into paying users and to increase the spending of our paying users. The following table sets forth our monthly paying users and monthly ARPPU (average revenue per paying user) for the six months ended 30 June 2023 and 2022, respectively.

Six months ended 30 June
2023 **2022**

Monthly paying users (in thousands)		
Online music services	41,750.9	37,613.0
Social entertainment services	1,525.1	1,235.4
Monthly ARPPU (RMB)		
Online music services ⁽¹⁾	6.8	6.5
Social entertainment services ⁽²⁾	199.3	329.8

Notes:

- (1) The revenues used to calculate the monthly ARPPU of online music services include revenues from membership subscriptions only, which amounted to RMB1,464.5 million and RMB1,709.0 million for the six months ended 30 June 2022 and 2023, respectively.
- (2) The revenues used to calculate the monthly ARPPU of social entertainment services include revenues from social entertainment only, which amounted to RMB2,444.9 million and RMB1,823.6 million for the six months ended 30 June 2022 and 2023, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Starting in 2023, we enhanced our music-inspired offerings, driving our music-centric monetisation capabilities and meaningful margin expansion. We brought innovative features and expansive content to our users, grew our differentiated community, and elevated our content ecosystem. These helped us deliver notable growth of subscription-based memberships. Backed by our optimised operating efficiency and cost structure, we recorded positive performance across both operating profit and adjusted net profit for the first time during the first half of 2023.

Despite the industry-wide slowdown, our MAUs of online music services for the first half of 2023 steadily climbed to 206.7 million, up 13.7% year-over-year. The growth in our MAUs of online music services was supported by our continued effort to create a better user experience and broader music-listening scenarios, along with our active initiatives to bolster our branding outreach, which aided in better new user attraction. 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**. During the Reporting Period, we continually enhanced our user experience and community features through product innovation.

We also secured more high-quality content in the first half of 2023, with a focus on better cost efficiency. Paired with our stronghold in fostering a leading independent artist ecosystem and enhancements to our in-house music production, we have developed a **comprehensive and differentiated content ecosystem** that encourages user stickiness and users' willingness to subscribe to our premium offerings. We will further explore cooperations with record labels to round out our content offerings, focusing on our advantageous music genres; meanwhile, we are exploring potential copyright collaborations with diverse downstream channels for enlarging music content exposure and commercialisation potentials.

We have worked diligently to **strengthen our music-centric monetisation capabilities** throughout the first half of 2023. Our online music business has continued to show solid growth momentum on a year-over-year basis. Our subscription-based memberships revenue continued its solid upward trend and grew by 16.7% year-over-year, driven by subscriber scale-up and ARPPU improvement. Our ongoing content enhancements and innovative features, along with broadened membership privileges, supported the increase of our subscriber base, which was up 11.0% on a year-over-year basis. ARPPU also continued to improve, aided by our pricing optimisation initiatives.

For our social entertainment arm, revenue has declined 23.8% year-over-year, as **we are refining our operating strategy for social entertainment services**. We introduced multiple measures in the social entertainment services to enhance the listening experience of more dedicated music fans and improve profitability. These include reducing the in-app exposure of certain live streaming functions and lowering broadcasters' and agencies' revenue sharing ratio. Moreover, we are further reinforcing our internal controls mechanism, such as adopting stricter monitoring over irregular user activities, and recently taking additional measures to optimise live streaming functions.

We **improved our profitability considerably** in the first half of 2023, mainly attributable to our increased scale and cost optimisation. **Gross Margins** soared to 24.7% in the first half of 2023, compared with 12.6% in the same period of 2022, owing to our increased business scale, copyright cost structure optimisation, and an improved revenue sharing ratio. As a result, we recorded **Adjusted Net Profit** of RMB331.9 million in the first half of 2023, compared with Adjusted Net Loss of RMB217.0 million in the first half of 2022.

Going forward, we will 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:

- cultivate our users' willingness to pay for and subscribe to premium offerings by improving user experience, deepening user engagement, and broadening consumption scenarios;
- continue the initiatives to safeguard our social entertainment services with reinforced controls, ensuring and promoting our social entertainment services' sound and sustained development, pursuing better integration with our core online music ecosystem;
- foster our music-oriented community ecosystem and explore innovation in social networking via enhancements to our comprehensive product offerings, including embedding our products with more interactive features and broadening the 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 capabilities in independent artist incubation and in-house music production;
- improve profitability through continued content cost optimisation, enhanced operating efficiency and disciplined cost control; and
- look to IoT layouts and game-inspired initiatives to further expand music listening scenarios and explore commercialisation opportunities.

Comprehensive and differentiated content ecosystem

We continue to incorporate a wider variety of copyrighted content to our library, strengthen our leading original music ecosystem and develop unique in-house music content. These actions further amplify our comprehensive and differentiated content ecosystem to meet our young users' ever-changing needs. By the end of June 2023, we had amassed about 136 million music tracks. Benefiting from the industry-wide trend of optimised content costs, we are driving a meaningful improvement in our gross margin profile, further aided by our adept acquisition and management of copyrighted content.

Enhancing copyrighted content library

- ***Deepened partnerships with copyright holders, continued amplifying our music genres (including popular, rap, folk and K-POP) and increased our appeal to audiences.*** We have partnered with more top-tier C-pop labels and further extended collaboration with more renowned Korean record labels, expanding our content matrix with more popular music tracks from influential musicians, singers and groups, such as MAYDAY, Sodagreen/Oaeen (鱼丁糸), Jackson Wang, Shinhwa, as well as a library of OST from JTBC. Meanwhile, we continued promoting on our advantageous music genres and styles. Hit songs, including folk song “Wo Ji De (《我記得》)” by Lei Zhao (趙雷) and hip-hop song “Snow Distance (《雪 Distance》)” by Capper & Yan Luo, have seen a surge in popularity and user interaction on our platform, demonstrating the positive momentum and unique community engagement we have built across these genres.
- ***Recorded impressive album sales performances from top artists.*** During the Reporting Period, our platform saw impressive sales of several premium digital albums, including the latest mini-album from the South Korean girl group (G)I-DLE. Titled “I FEEL,” the mini-album quickly gained over RMB10 million in total sales after its release in May. Our first co-published physical album, C-Pop artist Chenyu Hua’s new album “希忘(Xiwang) Hope” recorded approximately RMB20 million in total gross sales.
- ***Expanded copyright partnership with downstream channels and music consumption scenarios and provided more value-added services along the music industry value chain.*** We upgraded our one-stop copyright service platform “Cloud Village Exchange” (雲村交易所) to better meet increasing demands in downstream commercial use of copyright music licensing. We also expanded partnerships with more downstream channels to facilitate orderly usage of copyright content, including the additions of Tmall Genie’s voice-based interactive system, Hangzhou International Digital Exchange Center and China’s largest bar chain network Helen’s (海倫司).

Strengthening our leading independent artists ecosystem

We continue to enhance our support system for independent artists, offering comprehensive assistance for their encounters in the limelight and backstage, from the creation process to financial support, and nurturing a new generation of pioneering original force for the Chinese music industry. As of the end of June 2023, our platform was home to more than 646,000 registered independent artists, who had collectively contributed about 2.8 million music tracks to our content library. Also, we are proud to have discovered and nurtured early-stage musicians, such as Runze Zheng (鄭潤澤), who is being more popular.

- ***Supporting music creation efficiency.*** We are dedicated to leveraging cutting-edge technologies, providing musicians with efficient tools covering the entire composition process to maximize their productivity. Among them, our music creation auxiliary tool, provides reliable assistance to musicians in their content creation endeavours; X Studio, our intelligent voice synthesis software in partnership with Xiaoice, provides 12 natural singing voices (covering styles such as pop and folk) for musicians to automatically select the appropriate voice; and BeatSoul, our one-stop Beat transaction platform also effectively makes music co-creation more accessible.
- ***Exploring and improving musician exposure.*** We continued to discover and nurture musical talent through a range of approaches, including special events, targeted operations and location-based initiatives. For instance, we launched multiple initiatives, such as the New Voice Power Project (新聲勢力計劃), “Take in and Rap out” (街頭招式) and the “City Tour Guide” (城市雲遊指南) special planning series, to provide comprehensive training and development opportunities both online and offline for emerging rappers and producers, as well as regionally representative talent from the industry. As the offline entertainment industry is gradually recovering, we are actively leveraging the momentum of the music community on our platform, as well as utilising our extensive promotion channels such as music festivals, offline tours and variety shows, to help emerging musicians (such as Runze Zheng 鄭潤澤) kickstart their music journey and gain widespread recognition.
- ***Helping musicians improve their commercial value.*** We upgraded our renowned musicians’ support project and launched “Project Cloud Ladder 2023” (雲梯計劃2023第一期). This update offers independent musicians better financial incentives that support independent musicians and high-quality original content. These efforts have in turn helped us promote original music ecosystem. In addition, the update also provides musicians with access to more services, such as worldwide distribution of their music and automated copyright protection.

Developing differentiated in-house music

We continue to invest in expanding our in-house music production teams and strengthening music creation capabilities. Our multiple in-house studios are continuing to focus on creating unique music content and are further driving commercial value through deeper collaboration with NetEase portfolio and external commercial brands.

- ***Crafting high-quality music content tailored to a variety of needs.*** Our in-house studios have successfully popularised multiple hit songs, including “Xiang Yun Duan” (《向雲端》) and “Jing Wei” (《精衛》). In particular, our co-produced song “Xiang Yun Duan” (《向雲端》) quickly demonstrated remarkable popularity across multiple platforms after its release in May.

In addition, our in-house music works have been featured on many prominent galas in China and have served large-scale sports events and influential public events. This has further demonstrated our capacity to create and customize top-notch music.

- ***Deepening collaboration with NetEase and commercial brands.*** By leveraging our in-house music capabilities, we have deepened our collaboration with NetEase’s portfolio such as rolling out customised songs for their blockbuster game IPs such as *Fantasy Westward Journey* (《夢幻西遊》), *Onmyoji* (《陰陽師》) and *Eggy Party* (《蛋仔派對》). We also collaborated with mainstream commercial brands, such as SAIC Volkswagen and Yili, which further enhances our value to the industry. In particular, one of the customised game promotion songs “Look, it’s Eggy” (《注意看，是蛋仔》) for *Eggy Party* (《蛋仔派對》) has been widely praised by game players.

Community ecosystem and product innovation

In the first half of 2023, we further promoted product innovation and the build-up of a music community that brings excitement to users. We actively incorporated new interactive features, enhanced user listening experiences and broadened music consumption and communication scenarios, to continually reinforce our differentiated community ecology and user stickiness.

- ***Adding interactive functions and cultivating community resonance.*** On top of our iconic comments section, we rolled out new scenario “**Comment Square**” (《樂評廣場》), allowing users, musicians and content creators to use music as a medium to express their emotions and interact with each other. Comment Square is a hub where users can browse and explore song comments, share their thoughts on music and respond to the sentiments of other users. We are confident that this will help sharpen their perception on comments and create a more robust community atmosphere.
- ***Expanding music consumption and communicative scenarios.*** We continue looking to IoT layouts and game-inspired initiatives to expand music consumption to more aspects of gaming and everyday living.

- Partnership with NetEase Games. We have created an immersive gaming experience by connecting users with various listening options, such as popular casual game *Eggy Party* (蛋仔派對) and *Sky* (光遇). In partnership with *Eggy Party* (蛋仔派對), we have embedded our player within the core gaming scenes, expanding the high-quality music consumption experience to more gaming scenarios. Recently, we launched a cooperative gift package, including customised in-game skins that integrate NetEase Cloud Music IP attributes, as well as a bundled vinyl VIP membership. This collaborative project has gained notable popularity among the gaming community, resulting in effective user reactivation and users’ increased willingness to pay. As part of the package, users are also entitled with an *Eggy Party*-themed player interface within our NetEase Cloud Music app, boosting user engagement and stickiness for enthusiasts of both game and music.
- IoT layouts. We expanded our coverage and content pool to the IoT market, encompassing smart devices that touch on various aspects of people’s lives. Recently, we expanded our coverage to more automakers and their in-car systems, including Geely, SAIC Audi.
- ***Optimising users’ listening experience.*** We are dedicated to providing users with the best listening experience possible and better fulfilling personalised user demands by continuously leveraging sound enhancement technology and optimising listening features.
 - Sound enhancement technology. We rolled out new premium offerings such as “ultra-clear master tape” (超清母帶) and “surround sound” (沉浸環繞聲). The former is designed to restore the original sound of the mastering and recording, while the latter creates an immersive listening experience.
 - Upgraded vinyl player interface. We have unveiled a major upgrade to our iconic vinyl player interface. Making breakthroughs in classic style, we are further upgrading the experience with and providing users with up to nine new player styles.

FINANCIAL REVIEW

Overview

Over the Reporting Period, we recorded a revenue of RMB3,908.4 million and a gross profit of RMB965.1 million. Our gross profit significantly increased by RMB428.0 million, primarily due to improved cost control, which also lead to our turnaround from loss to profit. We received net profit amounted to RMB293.8 million for the six months ended 30 June 2023, compared with net loss amounted to RMB270.8 million for the six months ended 30 June 2022.

Excluding the impact of equity-settled share-based payments, our adjusted net profit reached RMB331.9 million for the six months ended 30 June 2023, compared with adjusted net loss of RMB217.0 million for the six months ended 30 June 2022.

Revenue

Our revenue decreased by 8.2% from RMB4,258.7 million for the six months ended 30 June 2022 to RMB3,908.4 million for the six months ended 30 June 2023.

Revenue from our online music services increased by 13.3% from RMB1,783.7 million for the six months ended 30 June 2022 to RMB2,021.4 million for the six months ended 30 June 2023, primarily due to the significant growth in revenue from sales of membership subscriptions. Revenue from sales of membership subscriptions increased from RMB1,464.5 million to RMB1,709.0 million for the six months ended 30 June 2022 and 2023, respectively. In particular, monthly paying users of online music services expanded from 37.6 million for the six months ended 30 June 2022 to 41.8 million for the six months ended 30 June 2023. We have focused on providing more personalized and diversified music and music-inspired content, expanding consumption scenarios, and enhancing our users' experience, which has significantly contributed to our paying user growth. Our monthly ARPPU of online music services increased from RMB6.5 for the six months ended 30 June 2022 to RMB6.8 for the same period of 2023 as a result of optimized promotions.

Revenue from our social entertainment services and others decreased by 23.8% from RMB2,475.0 million for the six months ended 30 June 2022 to RMB1,887.0 million for the six months ended 30 June 2023. The decrease was mainly due to a more cautious operating strategy in response to the market changes. We have also further strengthened our internal control mechanism. The monthly ARPPU of social entertainment services decreased from RMB329.8 for the six months ended 30 June 2022 to RMB199.3 for the same period of 2023. However, our monthly paying users of social entertainment services expanded from 1.2 million for the six months ended 30 June 2022 to 1.5 million for the six months ended 30 June 2023.

Cost of Revenue

Our cost of revenue decreased by 20.9% from RMB3,721.6 million for the six months ended 30 June 2022 to RMB2,943.2 million for the six months ended 30 June 2023, attributable to a decrease in content service costs from RMB3,251.1 million for the six months ended 30 June 2022 to RMB2,399.4 million for the same period of 2023, as a result of a decrease in revenue sharing fees along with a decrease in revenue from social entertainment services with lower revenue sharing ratio. In addition, we also improved the control over content licensing fees.

Gross Profit and Gross Margin

As a result of the above, our gross profit increased from RMB537.1 million for the six months ended 30 June 2022 to RMB965.1 million for the six months ended 30 June 2023, representing an increase in gross profit margin from 12.6% for the six months ended 30 June 2022 to 24.7% for the six months ended 30 June 2023.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 13.5% from RMB325.8 million for the six months ended 30 June 2022 to RMB369.8 million for the same period of 2023, primarily due to an increase in promotion and advertising expenses to expand our brand influence and increase our user base.

General and Administrative Expenses

Our general and administrative expenses decreased by 7.8% from RMB78.7 million for the six months ended 30 June 2022 to RMB72.6 million for the same period of 2023, primarily due to a decrease in employee benefit expenses.

Research and Development Expenses

Our research and development expenses decreased by 8.5% from RMB481.5 million for the six months ended 30 June 2022 to RMB440.7 million for the same period of 2023, primarily due to the decrease in employee benefit expenses and improved cost control over technology development fees.

Other Income

Our other income decreased from RMB41.6 million for the six months ended 30 June 2022 to RMB22.8 million for the same period of 2023, primarily due to a decrease in government grants.

Other (Losses)/Gains, Net

We recorded other losses, net of RMB0.2 million for the six months ended 30 June 2023, compared with other gains, net of RMB6.4 million for the six months ended 30 June 2022, primarily due to a decrease of our net foreign exchange gains.

Finance Income, Net

Our finance income, net increased from RMB36.7 million for the six months ended 30 June 2022 to RMB208.6 million for the same period of 2023, primarily due to increased interest income from bank deposits with an increase of USD fixed deposit rate.

Taxation

We recorded income tax expenses of RMB4.0 million for the six months ended 30 June 2022 as compared to income tax expenses of RMB18.2 million for the same period of 2023, primarily due to an increase in withholding tax of finance income.

Profit/(Loss) for the Period

As a result of the above, we generated a net profit amounted to RMB293.8 million for the six months ended 30 June 2023, compared with a net loss amounted to RMB270.8 million for the six months ended 30 June 2022.

Adjusted Net Profit/(Loss)

Our adjusted net profit reached RMB331.9 million for the six months ended 30 June 2023, compared with adjusted net loss of RMB217.0 million for the six months ended 30 June 2022. Adjusted net profit/(loss) is a non-IFRS measure and is defined as profit/(loss) for the period adjusted by adding back equity-settled share-based payments as appropriate. The following table reconciles the profit/(loss) for the period to adjusted net profit/(loss) for both periods:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	<i>(in RMB thousands)</i>	
Profit/(loss) for the period attributable to the equity holders of the Company	293,750	(270,810)
Add:		
Equity-settled share-based payments ^{Note (1)}	38,143	53,810
Adjusted net profit/(loss)	331,893	(217,000)

Note:

- (1) 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.

Contingent Liabilities

Save as disclosed in Note 10 to the condensed consolidated interim financial information of the Group set out in this announcement, we had no other material contingent liabilities as at 30 June 2023.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
	<i>Note</i>	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Revenue	2	3,908,380	4,258,716
Cost of revenue	3	<u>(2,943,233)</u>	<u>(3,721,603)</u>
Gross profit		965,147	537,113
Selling and marketing expenses	3	(369,826)	(325,800)
General and administrative expenses	3	(72,573)	(78,726)
Research and development expenses	3	(440,743)	(481,521)
Other income		22,813	41,558
Other (losses)/gains, net		<u>(207)</u>	<u>6,361</u>
Operating profit/(loss)		104,611	(301,015)
Share of results of investments accounted for using equity method		(1,290)	(2,521)
Finance income		208,820	36,929
Finance cost		<u>(180)</u>	<u>(183)</u>
Profit/(loss) before income tax		311,961	(266,790)
Income tax expense	4	<u>(18,211)</u>	<u>(4,020)</u>
Profit/(loss) for the period attributable to equity holders of the Company		<u><u>293,750</u></u>	<u><u>(270,810)</u></u>
Profit/(loss) per share attributable to equity holders of the Company (expressed in RMB per share)			
Basic earnings/(loss) per share	5	1.39	(1.30)
Diluted earnings/(loss) per share	5	<u>1.38</u>	<u>(1.30)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit/(loss) for the period	293,750	(270,810)
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Currency translation differences	<u>234,363</u>	<u>296,738</u>
Total comprehensive income for the period attributable to equity holders of the Company	<u><u>528,113</u></u>	<u><u>25,928</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment		39,445	45,836
Right-of-use assets		7,712	7,824
Investments accounted for using equity method		77,742	79,032
Prepaid contents royalties		216,153	283,128
Prepayments and deposits		3,478	300
		<u>344,530</u>	<u>416,120</u>
Current assets			
Inventories		8,461	–
Accounts and bills receivable	7	679,928	558,141
Prepaid contents royalties		520,766	506,328
Prepayments, deposits and other receivables		296,752	155,918
Amounts due from group companies		84,036	138,504
Short-term bank deposits		6,257,543	6,191,529
Restricted cash	8	152,293	8,318
Cash and cash equivalents		2,613,311	2,916,534
		<u>10,613,090</u>	<u>10,475,272</u>
Total assets		<u>10,957,620</u>	<u>10,891,392</u>
Equity			
Equity attributable to equity holders of the Company			
Share capital		136	135
Other reserves		18,751,874	18,643,784
Accumulated losses		(10,530,795)	(10,823,860)
Total equity		<u>8,221,215</u>	<u>7,820,059</u>
Liabilities			
Non-current liabilities			
Contract liabilities		57,400	55,244
Lease liabilities		4,849	5,623
		<u>62,249</u>	<u>60,867</u>

	<i>Note</i>	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Current liabilities			
Accounts payable	9	43	211
Accruals and other payables		1,778,101	2,234,597
Contract liabilities		801,016	714,259
Amounts due to group companies		71,809	53,002
Income tax payable		19,991	5,621
Lease liabilities		3,196	2,776
		<u>2,674,156</u>	<u>3,010,466</u>
Total liabilities		<u>2,736,405</u>	<u>3,071,333</u>
Total equity and liabilities		<u>10,957,620</u>	<u>10,891,392</u>

NOTES

1 BASIS OF PREPARATION

This condensed consolidated interim financial information of the Group for the six months ended 30 June 2023 (the “Interim Financial Information”) has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board.

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. Accordingly, this Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2022, which have been prepared in accordance with International Financial Reporting Standards.

1.1 Change in accounting policy and disclosures

The accounting policies used in the preparation of this financial information are consistent with those as described in the annual consolidated financial statements of the Group for the year ended 31 December 2022, except as set out below.

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

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

Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies
Amendments to IAS 8	Definition of accounting estimates
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction
IFRS 17	Insurance contracts

The amended standards listed above did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future period except amendments to IAS 12.

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations, and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- i. right-of-use assets and lease liabilities, and
- ii. decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments as of 31 December 2022 was not material and hence no adjustment was made to the beginning retained earnings, or another component of equity.

(b) New standards and amendments to standards that have been issued but are not yet effective

Certain new and amended standards have been issued but are not yet effective for the year beginning on 1 January 2023 and have not been early adopted by the Group during the six months ended 30 June 2023.

		Effective for accounting periods beginning on or after
Amendments to IFRS 16	Lease liability in a sale and leaseback	1 January 2024
Amendments to IAS 1	Non-current liabilities with covenants	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 and amended standards, and has concluded on a preliminary basis that the adoption of these new and amended standards is not expected to have a significant impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(c) Inventories

Accounting policies not included in the Group's annual financial statements for the year ended 31 December 2022.

Inventories, mainly consisting of merchandise for sale, are primarily accounted for using the weighted average method and are stated at the lower of cost and net realisable value.

2 REVENUE AND SEGMENT INFORMATION

(a) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Type of goods or services:		
Online music services	2,021,417	1,783,674
Social entertainment services and others	1,886,963	2,475,042
	<u>3,908,380</u>	<u>4,258,716</u>
Timing of revenue recognition:		
Point in time	1,947,634	2,525,548
Over time	1,960,746	1,733,168
Total	<u>3,908,380</u>	<u>4,258,716</u>

There is no concentration risk as no revenue from a single customer was more than 10% of the Group's total revenue for the six months ended 30 June 2023 and 2022.

(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 six months ended 30 June 2023 and 2022.

Since the Group domiciles and operates in the PRC, substantially all revenue and non-current assets of the Group were generated and were located in the PRC during the six months ended 30 June 2023 and 2022.

3 EXPENSES BY NATURE

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Content service costs	2,399,396	3,251,129
Technology costs	240,365	269,839
Employee benefit expenses	579,839	573,691
Promotion and advertising expenses	336,475	293,425
Payment channel fees	194,772	146,211
(Reversal of impairment losses)/net impairment losses on financial assets	(1,655)	51
Depreciation of property, plant and equipment	8,597	9,223
Auditor's remuneration		
– Audit services related to the Group	3,000	3,715
– Other audit related services and non-audit services	693	693
Legal and professional fees	5,854	5,565
Others	59,039	54,108
	<hr/>	<hr/>
Total cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses	3,826,375	4,607,650

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

4 INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Current income tax		
– PRC corporate income tax	18,211	4,020
Deferred income tax	–	–
	<hr/>	<hr/>
	18,211	4,020

Hong Kong

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

PRC

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

Under the EIT Law, finance income from financial institutions located in mainland China earned by foreign investors is subject to withholding tax of 10%.

Cayman Islands

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

5 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share (“EPS”) is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of shares outstanding during the period.

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Profit/(loss) for the period attributable to equity holders of the Company (in RMB'000)	<u><u>293,750</u></u>	<u><u>(270,810)</u></u>
Weighted average number of shares outstanding	<u><u>211,204,866</u></u>	<u><u>207,995,401</u></u>
Basic earnings/(loss) per share (in RMB)	<u><u>1.39</u></u>	<u><u>(1.30)</u></u>

(b) Diluted earnings per share

The share options and awarded shares granted by the Company have potential dilutive effect on the EPS. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and shares awards granted by the Company (collectively forming the denominator for computing the diluted EPS).

	Six months ended 30 June 2023 (Unaudited)
Profit attributable to equity holders of the Company for the calculation of diluted EPS (in RMB'000)	<u>293,750</u>
Weighted average number of ordinary shares in issue	<u>211,204,866</u>
Adjustments for share options and share awards	<u>1,574,259</u>
Weighted average number of ordinary shares for the calculation of diluted EPS	<u>212,779,125</u>
Diluted earnings per share (in RMB)	<u><u>1.38</u></u>

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 for the six months ended 30 June 2022.

6 DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended 30 June 2023 and 2022.

7 ACCOUNTS AND BILLS RECEIVABLE

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Accounts receivable	678,766	559,462
Less: loss allowance	(28)	(3,321)
Accounts receivable, net	678,738	556,141
Bills receivable	1,190	2,000
	<u>679,928</u>	<u>558,141</u>

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

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Up to 3 months	658,969	536,744
3 to 6 months	519	327
Over 6 months	19,278	22,391
	<u>678,766</u>	<u>559,462</u>

The loss allowances for accounts and bills receivable as at 30 June 2023 and 2022 reconcile to the opening loss allowances is as follows:

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
At 1 January	3,321	3,228
Net reversal of impairment loss during the period	(3,293)	–
At 30 June	<u>28</u>	<u>3,228</u>

8 RESTRICTED CASH

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Restricted cash, denominated in RMB	<u>152,293</u>	<u>8,318</u>

Restricted cash of RMB122,975,000 (31 December 2022: Nil) were frozen by the local authority in reaction to an investigation on certain individuals' activities involving the use of online platform operated by the Group. Please refer to Note 10 for details. The rest of the restricted cash represent deposits restricted in relation to legal claims (31 December 2022: RMB8,318,000).

9 ACCOUNTS PAYABLE

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Accounts payable	<u>43</u>	<u>211</u>

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

As at 30 June 2023 and 31 December 2022, the aging of accounts payable are all between 0-90 days based on invoice date.

10 CONTINGENT LIABILITIES

In connection with an investigation initiated by local authority on certain individuals' activities through the use of online platform operated by the Group, certain of the Group's bank balances of RMB122,975,000 were restricted as at 30 June 2023.

Based on the legal opinion obtained from the Group's external legal counsel with respect to the PRC law and the management's assessment of the information available, the management is of the view that the Group's relevant business operations are in compliance in all material respects with the relevant applicable laws and regulations in the PRC. As the investigation is still ongoing, the management is of the view that it is not practicable to predict the outcome of this investigation or to assess or estimate the related possible financial effects, if any. Accordingly, the Group has not recorded any provision with respect to this matter as at 30 June 2023.

EVENTS AFTER THE REPORTING PERIOD

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

Compliance with the Code on Corporate Governance Practices

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

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

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.

Review of Interim Results

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

The interim results for the six months ended 30 June 2023 have not been audited but have been reviewed by PricewaterhouseCoopers, the auditor of the Company, in accordance with International Standard on Review Engagement 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board.

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

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

Use of Proceeds from the Global Offering

Our Company completed a global offering on 2 December 2021. The net proceeds from this global offering amounted to HK\$3,160 million (equivalent to approximately RMB2,584 million), which will be used in the manner set out in our Prospectus (available on the Stock Exchange’s website). As at 30 June 2023 we had not utilised any net proceeds, which are held as short-term bank deposits. Our Company expects to utilize the remaining net proceeds in the next 6 to 42 months.

INTERIM DIVIDEND

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

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

DEFINITIONS

“Board”	the board of directors of our Company
“China” 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
“Company”	Cloud Music Inc.
“Director(s)”	director(s) of our Company
“Group”	our Company and its subsidiaries, including consolidated affiliated entities, the financial results of which are consolidated into our Group’s financial statements
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MAUs of online music services”	the monthly average number of users in a given period that have accessed the NetEase Cloud Music application at least once in a given month through mobile devices or PC devices, as the case may be; duplicate access is eliminated from the calculation based on our estimates by user account
“Monthly ARPPU of online music services”	the monthly average of the revenues from membership subscriptions for that period divided by the number of monthly paying users of online music services for that period
“Monthly ARPPU of social entertainment services”	the monthly average of the revenues of the social entertainment services for that period divided by the number of monthly paying users of social entertainment services for that period
“Monthly paying users of online music services”	the average of the number of user whose membership subscription packages remain active as of the last day of each month in a given period. Monthly paying users of online music services for any given period excludes the number of users who only purchase digital music singles and albums during such period because these users’ purchasing patterns tend to reflect specific hit releases, which fluctuate from period to period

“Monthly paying users of social entertainment services”	the average of the number of users who contribute revenues to our social entertainment services for each month in a given period
“Prospectus”	our Company’s prospectus dated 23 November 2021, a copy of which is available on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at http://ir.music.163.com
“Reporting Period”	six months ended 30 June 2023
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

Hong Kong, 24 August 2023

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