



Cloud Music Inc.

(incorporated in the Cayman Islands with limited liability)

Stock code: 9899



2023 INTERIM
REPORT

CONTENTS

Corporate Information	2
Financial and Business Highlights	4
Management Discussion and Analysis	6
Other Information	15
Report on Review of Interim Financial Information	24
Definitions	55

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Yat Keung Li
Mr. Dewei Zheng
Mr. Feng Yu (*resigned on 15 June 2023*)
Mr. Ran Wang (*appointed on 15 June 2023*)

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

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

	Six months ended 30 June		Change (%)
	2023 (Unaudited)	2022 (Unaudited)	
	(RMB in thousands, except percentages)		
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)	331,893	(217,000)	N/A

IFRS NUMBERS:

- Our revenue decreased by 8.2% from RMB4.3 billion for the six months ended 30 June 2022 to RMB3.9 billion for the six months ended 30 June 2023.
- Our gross profit increased by 79.7% from RMB537.1 million for the six months ended 30 June 2022 to RMB965.1 million for the six months ended 30 June 2023.
- 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.

NON-IFRS NUMBERS:

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 (Unaudited)	2022 (Unaudited)
	(in RMB thousands)	
Profit/(loss) for the period attributable to the equity holders of the Company	293,750	(270,810)
Add:		
Equity-settled share-based payments ⁽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 plans 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.

Financial and Business Highlights

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.

Management Discussion and Analysis

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/Oaen (魚丁糸), 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.

Management Discussion and Analysis

- **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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

- **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 led to our turnaround from loss to profit. We recorded 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 (Unaudited)	2022 (Unaudited)
	(in RMB thousands)	
Profit/(loss) for the period attributable to the equity holders of the Company	293,750	(270,810)
Add:		
Equity-settled share-based payments ⁽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 plans 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.

Management Discussion and Analysis

Liquidity and Capital Resources

As at 30 June 2023, we funded our cash requirements principally from cash generated from operating activities. We had cash and cash equivalents of RMB2.6 billion as at 30 June 2023 (as at 31 December 2022: RMB2.9 billion).

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

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

	Six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
	(in RMB thousands)	
Net cash (used in)/generated from operating activities	(372,932)	782,551
Net cash generated from investing activities	232,614	164,586
Net cash used in financing activities	(167,225)	(6,453)
Net (decrease)/increase in cash and cash equivalents	(307,543)	940,684
Cash and cash equivalents at the beginning of the period	2,916,534	853,454
Exchange differences on cash and cash equivalents	4,320	64,578
Cash and cash equivalents at the end of the period	2,613,311	1,858,716

Contingent Liabilities

Save as disclosed in Note 21 to the interim financial information of the Group set out in this report, we had no other material contingent liabilities as at 30 June 2023.

Management Discussion and Analysis

ADDITIONAL INFORMATION

Employee and Remuneration Policy

As at 30 June 2022 and 2023, we had 1,526 and 1,435 employees, respectively. As at 30 June 2023, substantially all of our employees were based in China.

Additionally, our Company has two share incentive plans, the material terms of which are described in our Prospectus, announcement dated 18 August 2022 and circular dated 24 May 2023. The total remuneration cost incurred by us for the six months ended 30 June 2023 was RMB579.8 million (for the six months ended 30 June 2022: RMB573.7 million).

Save as disclosed above, there has been no material changes to our financial performance since what was disclosed in our Company's annual report for the financial year ended 31 December 2022 that would need to be disclosed under paragraphs 32 and 40(2) of Appendix 16 to the Listing Rules, a copy of which is available on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at <http://ir.music.163.com>.

Continuing Disclosure Obligations pursuant to the Listing Rules

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

Future Plans for Material Investments or Capital Assets

As of the end of the Reporting Period, our Company did not have future plans for material investments or capital assets.

Change in Information of Directors and Chief Executives

Our Company does not have any disclosure obligation under Rule 13.51B(1) of the Listing Rules.

Compliance with Rules 3.10 and 3.21 of the Listing Rules

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

Other Information

DISCLOSURE OF INTERESTS

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

As at 30 June 2023, 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 corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)), as recorded in the register required to be kept by our Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code were as follows:

Interest in our Company

Name of Director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of holding ⁽⁵⁾	Long position/ Short position
Mr. William Lei Ding	Other ⁽¹⁾	129,034,168	60.39%	Long position
Mr. Yong Li ⁽²⁾	Beneficial owner	300,000	0.14%	Long position
Mr. Yat Keung Li ⁽³⁾	Beneficial owner	4,000	0.00%	Long position
Ms. Yanfeng Wang ⁽⁴⁾	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 the 2016 Plan (defined below).
- (3) Mr. Yat Keung Li is entitled to receive up to 4,000 shares pursuant to the exercise of options granted under the 2016 Plan (defined below).
- (4) Ms. Yanfeng Wang is entitled to receive up to 3,000 shares pursuant to the exercise of options granted under the 2016 Plan (defined below).
- (5) The calculation is based on the total number of 213,667,126 shares in issue as at 30 June 2023.

Other Information

Interest in our associated corporation – NetEase

Name of Director	Capacity/Nature of interest	Number of ADSs ⁽³⁾/ ordinary shares	Interest in associated corporation ⁽¹⁾	Long position/ Short position
Mr. William Lei Ding	Other ⁽²⁾	1,450,300,000	45.0%	Long position
Mr. Yong Li ⁽³⁾	Beneficial owner	3,170 ADSs	0.00%	Long position
Mr. Yat Keung Li ⁽³⁾	Beneficial owner	6,493 ADSs	0.00%	Long position
Mr. Dewei Zheng ⁽³⁾	Beneficial owner	26,685 ADSs	0.00%	Long position
Ms. Yanfeng Wang ⁽³⁾	Beneficial owner	4,496 ADSs 100 shares	0.00%	Long position

Notes:

- (1) To the best knowledge of the Company, as at the Latest Practicable Date and based on publicly available information.
- (2) Shining Globe International Limited is the record holder of these 1,450,300,000 NetEase shares, which comprise 1,406,000,000 NetEase shares and 8,860,000 ADSs. As mentioned above, Shining Globe International Limited is wholly-owned by Shining Globe Holding Limited, which is in turn wholly-owned by a trust for which TMF (Cayman) Ltd. acts as the trustee and the beneficiaries of which include Mr. William Lei Ding and his family. Mr. William Lei Ding is also the settlor of the trust. This reflects the position as at 31 March 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 available for viewing on the Stock Exchange's website at www.hkexnews.hk.
- (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 30 June 2023, 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 our Company's associated corporations which would be required to be disclosed.

Other Information

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

As at 30 June 2023, so far as our Directors are aware, the following persons (other than our Directors or chief executives of our Company) had interests or short positions in our Shares or underlying Shares recorded in the register required to be kept by our Company pursuant to Section 336 of the Securities and Futures Ordinance:

Name of Shareholder	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of holding⁽⁴⁾	Long position/ Short position
NetEase ⁽¹⁾	Beneficial owner	129,034,168	60.39%	Long position
Shining Globe Holding Limited ⁽¹⁾	Beneficial owner	129,034,168	60.39%	Long position
TMF (Cayman) Ltd. ⁽¹⁾	Beneficial owner	129,034,168	60.39%	Long position
Alibaba Group Holding Limited ⁽²⁾	Interest in a controlled corporation	20,733,975	9.70%	Long position
Taobao Holding Limited ⁽²⁾	Interest in a controlled corporation	20,733,975	9.70%	Long position
Taobao China Holding Limited ⁽²⁾	Beneficial owner	20,733,975	9.70%	Long position
GIC Private Limited ⁽³⁾	Interest in a controlled corporation	13,923,356	6.52%	Long position
	Investment manager	225,000	0.11%	Long position
GIC (Ventures) Pte. Ltd. ⁽³⁾	Interest in a controlled corporation	13,923,356	6.52%	Long position
GIC Special Investments Private Limited ⁽³⁾	Investment manager	13,923,356	6.52%	Long position

Other Information

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 213,667,126 shares in issue as at 30 June 2023.

Save as disclosed above, as at 30 June 2023 and based on publicly available information, no other person (other than our Directors or chief executives of our Company) had an interest or short position in the Shares or underlying Shares which were required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or which were required to be entered in the register required to be kept under Section 336 of the Securities and Futures Ordinance.

Other Information

SHARE INCENTIVE PLANS

Our Company had two share incentive plans in effect during the Reporting Period: (a) the Pre-IPO Share Incentive Plan (the “**2016 Plan**”); and (b) the 2022 Restricted Share Unit Plan (the “**2022 Plan**”, and together with the 2016 Plan, the “**Plans**”). The 2016 Plan was adopted before our Listing and relies on the transitional arrangements in respect of the new Chapter 17 rules that took effect on 1 January 2023 and the 2022 Plan was adopted on 18 August 2022 and amended on 15 June 2023 to conform with the requirements of the new Chapter 17 rules that took effect on 1 January 2023.

Further details of the Plans

The following tables summarise the outstanding options and awards under the Plans during the Reporting Period. For further information about the 2016 Plan (including its material terms), please see pages IV-20 to IV-24 of Appendix IV to the Prospectus. For further information about the 2022 Plan (including its material terms), please see our Company’s announcement dated 18 August 2022 titled “Adoption of 2022 RSU Plan” and circular dated 24 May 2023. The aforementioned documents are accessible on the Stock Exchange’s website (www.hkexnews.hk) and our Company’s website (<http://ir.music.163.com>).

No new shares may be issued in respect of options and awards granted during the Reporting Period to eligible participants pursuant to all of our Company’s share schemes.

The 2016 Plan

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. As at 1 January 2023 and 30 June 2023, 506,143 and 316,632 shares were available for grant under the 2016 Plan, respectively.

Upon the approval of the 2022 Plan, the Company has ceased to make further grants of awards over new shares under the 2016 Plan and any further grants of awards over existing shares under the 2016 Plan will comply with the applicable requirements under the new Chapter 17 involving existing shares.

Other Information

As at 30 June 2023, our Company had share options outstanding under this plan to subscribe for an aggregate of 5,277,325 shares granted to 426 grantees (including Directors and senior management of our Company, employees of our Group and NetEase Group). The table below shows details of the outstanding options held under the 2016 Plan:

Name or category of grantee ⁽¹⁾	Position/Relationship	Date of grant	Vesting period (from date of grant)	Exercise Period	Exercise price per share	Outstanding as at beginning of Reporting Period	Granted during Reporting Period	Exercised during Reporting Period	Lapsed during Reporting Period ⁽²⁾	Cancelled during 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	Weighted average closing price of our shares immediately before the exercise date
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	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	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	Nil	4,000	N/A	N/A	N/A
376 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	5,223,140	Nil	786,640	122,175	Nil	4,314,325	N/A	N/A	HKD81.89
47 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	1,631,900	Nil	974,400	1,500	Nil	656,000	N/A	N/A	HKD73.10
Total						7,162,040	Nil	1,761,040	123,675	Nil	5,277,325			

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 exercise prices of the 122,175 options of employee participants and 1,500 options of related entity participants that lapsed during the Reporting Period were US\$8 or US\$11.

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 ⁽¹⁾	Position/ Relationship	Date of grant	Vesting period (from date of grant)	Outstanding as at beginning of Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Lapsed during the Reporting Period	Cancelled 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 ⁽²⁾	Weighted
												average closing price of our shares immediately before the vesting date
149 grantees	Employee participants	2 June 2022 to 14 June 2023	3 months to 3 years	1,086,400	361,499	131,198	171,988	Nil	1,144,713	HKD83.00 and HKD86.65	HKD85.50 and HKD85.80	HKD90.05
Total				1,086,400	361,499	131,198	171,988	Nil	1,144,713			

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 17 to the "Notes to the Interim Financial Information".

Other Information

The 2022 Plan

The maximum number of new shares that may be issued pursuant to all awards made under the 2022 Plan to eligible participants is 10,462,280 shares, representing approximately 4.90% of the issued shares of our Company, subject to an annual limit of 3% of the total number of shares in issue at the relevant time, and the maximum number of new shares that may be issued pursuant to all awards made under the 2022 Plan to service provider participants is 2,077,569 shares, representing 19.9% of the scheme mandate limit and approximately 0.97% of the issued shares of our Company, subject to an annual limit of 1% of the total number of shares in issue at the relevant time.

Since its adoption and up to the end of the Reporting Period, our Company had not granted any awards under the 2022 Plan. Accordingly, 10,462,280 shares (including 2,077,569 shares under the service provider sublimit) remained available for grant under the 2022 Plan as at January 1, 2023 and June 30, 2023, respectively.

BOARD AND CORPORATE GOVERNANCE

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

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.

Other Information

DEALINGS IN OUR COMPANY'S LISTED SECURITIES

Model Code for Securities Dealings by Directors

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

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

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

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

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

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

Purpose	% of use of proceeds	Net proceeds (HK\$ million)	Utilised during the Reporting Period (HK\$ million)	Unutilised amount as at 30 June 2023 (HK\$ million)
Continuingly cultivating our community	40%	1,264	–	1,264
Continuingly 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
Total	100%	3,160	–	3,160

There was no change in the intended use of net proceeds as disclosed in the Prospectus. Our Company will gradually apply the remaining net proceeds in the next 6 to 42 months in the manner set out in the Prospectus. See "Future Plans and Use of Proceeds" section of the Prospectus for further details.

EVENTS AFTER THE REPORTING PERIOD

As at the Latest Practicable Date, there were no significant events that might affect our Group since the end of the Reporting Period.

INTERIM DIVIDEND

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

Report on Review of Interim Financial Information

To the Board of Directors of Cloud Music Inc.

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 54, which comprises the interim condensed consolidated balance sheet of Cloud Music Inc. (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2023 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 24 August 2023

Condensed Consolidated Statement of Profit or Loss

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Note	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	5	3,908,380	4,258,716
Cost of revenue	6	(2,943,233)	(3,721,603)
Gross profit		965,147	537,113
Selling and marketing expenses	6	(369,826)	(325,800)
General and administrative expenses	6	(72,573)	(78,726)
Research and development expenses	6	(440,743)	(481,521)
Other income		22,813	41,558
Other (losses)/gains, net		(207)	6,361
Operating profit/(loss)		104,611	(301,015)
Share of results of investments accounted for using equity method		(1,290)	(2,521)
Finance income	8	208,820	36,929
Finance cost		(180)	(183)
Profit/(loss) before income tax		311,961	(266,790)
Income tax expense	9	(18,211)	(4,020)
Profit/(loss) for the period attributable to equity holders of the Company		293,750	(270,810)
Profit/(loss) per share attributable to equity holders of the Company (expressed in RMB per share)			
Basic earnings/(loss) per share	10	1.39	(1.30)
Diluted earnings/(loss) per share	10	1.38	(1.30)

Condensed Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Note	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (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		234,363	296,738
Total comprehensive income for the period attributable to equity holders of the Company		528,113	25,928

Condensed Consolidated Balance Sheet

AS AT 30 JUNE 2023

	Note	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	13	216,153	283,128
Prepayments and deposits		3,478	300
		344,530	416,120
Current assets			
Inventories		8,461	–
Accounts and bills receivable	12	679,928	558,141
Prepaid contents royalties	13	520,766	506,328
Prepayments, deposits and other receivables		296,752	155,918
Amounts due from group companies	20	84,036	138,504
Short-term bank deposits		6,257,543	6,191,529
Restricted cash	14	152,293	8,318
Cash and cash equivalents		2,613,311	2,916,534
		10,613,090	10,475,272
Total assets		10,957,620	10,891,392
Equity			
Equity attributable to equity holders of the Company			
Share capital	15	136	135
Other reserves	16	18,751,874	18,643,784
Accumulated losses		(10,530,795)	(10,823,860)
Total equity		8,221,215	7,820,059
Liabilities			
Non-current liabilities			
Contract liabilities		57,400	55,244
Lease liabilities		4,849	5,623
		62,249	60,867

Condensed Consolidated Balance Sheet

AS AT 30 JUNE 2023

	Note	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Current liabilities			
Accounts payable	18	43	211
Accruals and other payables	19	1,778,101	2,234,597
Contract liabilities		801,016	714,259
Amounts due to group companies	20	71,809	53,002
Income tax payable		19,991	5,621
Lease liabilities		3,196	2,776
		2,674,156	3,010,466
Total liabilities		2,736,405	3,071,333
Total equity and liabilities		10,957,620	10,891,392

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Note	Attributable to equity holders of the Company			Total RMB'000
		Share capital RMB'000	Other reserves RMB'000 (Note 16)	Accumulated losses RMB'000	
(Unaudited)					
Balance at 1 January 2023		135	18,643,784	(10,823,860)	7,820,059
Profit for the period		–	–	293,750	293,750
Other comprehensive income:					
Currency translation differences		–	234,363	–	234,363
Total comprehensive income for the period		–	234,363	293,750	528,113
Transactions with equity holders:					
Exercise of share options	16, 17	1	40,197	–	40,198
Equity-settled share-based payment under the share option scheme	16, 17(c)	–	22,459	(685)	21,774
Equity-settled share-based payment under the share award scheme	16, 17(c)	–	16,369	–	16,369
Repurchase of shares	17(a)	–	(205,298)	–	(205,298)
Total transactions with equity holders		1	(126,273)	(685)	(126,957)
Balance at 30 June 2023		136	18,751,874	(10,530,795)	8,221,215

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Note	Attributable to equity holders of the Company			Total RMB'000
		Share capital RMB'000	Other reserves RMB'000 (Note 16)	Accumulated losses RMB'000	
(Unaudited)					
Balance at 1 January 2022		132	17,981,771	(10,600,233)	7,381,670
Loss for the period		–	–	(270,810)	(270,810)
Other comprehensive income:					
Currency translation differences		–	296,738	–	296,738
Total comprehensive income for the period		–	296,738	(270,810)	25,928
Transactions with equity holders:					
Exercise of share options	16, 17	1	34,124	–	34,125
Equity-settled share-based payment under the share option scheme	16, 17(c)	–	48,663	(534)	48,129
Equity-settled share-based payment under the share award scheme	16, 17(c)	–	5,681	–	5,681
Total transactions with equity holders		1	88,468	(534)	87,935
Balance at 30 June 2022		133	18,366,977	(10,871,577)	7,495,533

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Note	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash (used in)/generated from operations		(368,968)	786,645
Income taxes paid		(3,964)	(4,094)
Net cash (used in)/generated from operating activities		(372,932)	782,551
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,930)	(14,751)
Proceeds from disposal of property, plant and equipment		901	1,083
Placement of short-term deposits		(1,388,296)	(7,725,329)
Proceeds from maturity of short-term deposits		1,544,842	7,612,639
Proceeds from disposal of financial assets at fair value through profit or loss		–	241,102
Refund of prepayment for an investment		–	4,906
Interest received		78,097	44,936
Net cash generated from investing activities		232,614	164,586
Cash flows from financing activities			
Exercise of share options		40,202	27,931
Repurchase of shares	17	(205,298)	–
Payment for listing expenses		–	(32,650)
Principal elements of lease payments		(1,959)	(1,734)
Interest elements of lease payments		(170)	–
Net cash used in financing activities		(167,225)	(6,453)
Net (decrease)/increase in cash and cash equivalents		(307,543)	940,684
Cash and cash equivalents at beginning of the period		2,916,534	853,454
Exchange differences on cash and cash equivalents		4,320	64,578
Cash and cash equivalents at end of the period		2,613,311	1,858,716

Notes to the Interim Financial Information

1 GENERAL INFORMATION AND BASIS OF PREPARATION

1.1 General information

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

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

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

The condensed consolidated interim financial information for the six months ended 30 June 2023 is unaudited and has been reviewed by the audit committee and external auditor of the Company. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 24 August 2023.

1.2 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.

Notes to the Interim Financial Information

2 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

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

Notes to the Interim Financial Information

2 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent with those applied to the annual consolidated financial statements for the year ended 31 December 2022.

Notes to the Interim Financial Information

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 Financial risk factors

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

This condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial information as set out in annual consolidated financial statements of the Group for the year ended 31 December 2022.

There have been no changes in the risk management policies since 31 December 2022.

4.2 Fair value estimation

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

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

As at 30 June 2023 and 31 December 2022, the Group had no financial assets or financial liabilities that are measured at fair value.

Financial instruments at amortised cost

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

Notes to the Interim Financial Information

5 REVENUE AND SEGMENT INFORMATION

(a) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(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
	3,908,380	4,258,716

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Timing of revenue recognition:		
Point in time	1,947,634	2,525,548
Over time	1,960,746	1,733,168
Total	3,908,380	4,258,716

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.

Notes to the Interim Financial Information

6 EXPENSES BY NATURE

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Content service costs (Note)	2,399,396	3,251,129
Technology costs	240,365	269,839
Employee benefit expenses (Note 7)	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
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.

7 EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Salaries and bonuses	450,958	436,397
Welfare and other employee benefits	90,738	83,484
Equity-settled share-based payments	38,143	53,810
	579,839	573,691

Notes to the Interim Financial Information

8 FINANCE INCOME

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest income from bank deposits	208,820	36,929

9 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	–	–
	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.

Notes to the Interim Financial Information

10 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)	293,750	(270,810)
Weighted average number of shares outstanding	211,204,866	207,995,401
Basic earnings/(loss) per share (in RMB)	1.39	(1.30)

(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)	293,750
Weighted average number of ordinary shares in issue	211,204,866
Adjustments for share options and share awards	1,574,259
Weighted average number of ordinary shares for the calculation of diluted EPS	212,779,125
Diluted earnings per share (in RMB)	1.38

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.

11 DIVIDENDS

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

Notes to the Interim Financial Information

12 ACCOUNTS AND BILLS RECEIVABLE

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (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
	679,928	558,141

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

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 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
At 1 January	3,321	3,228
Net reversal of impairment loss during the period	(3,293)	–
At 30 June	28	3,228

Notes to the Interim Financial Information

13 PREPAID CONTENTS ROYALTIES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Current	520,766	506,328
Non-current	216,153	283,128
	736,919	789,456

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

14 RESTRICTED CASH

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

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 21 for details. The rest of the restricted cash represent deposits restricted in relation to legal claims (31 December 2022: RMB8,318,000).

Notes to the Interim Financial Information

15 SHARE CAPITAL

Authorised:

	Total number of ordinary shares '000	Nominal value of ordinary shares US\$'000
(Unaudited) At 1 January 2023 and 30 June 2023	1,000,000	100

Issued and fully paid:

	Number of ordinary shares	Nominal value of share capital RMB'000
(Unaudited) As at 1 January 2023	211,906,086	135
Exercise of share options	1,761,040	1
As at 30 June 2023	213,667,126	136
(Unaudited) As at 1 January 2022	207,756,876	132
Exercise of share options	1,488,725	1
As at 30 June 2022	209,245,601	133

Notes to the Interim Financial Information

16 OTHER RESERVES

	Share premium	Shares held under share award scheme	Contributions from ultimate holding company	Share-based compensation reserve	PRC statutory reserve	Exchange reserve	Total
	RMB'000	RMB'000	RMB'000 (Note (a))	RMB'000	RMB'000 (Note (b))	RMB'000	RMB'000
(Unaudited)							
As at 1 January 2023	17,113,324	(30,388)	28,812	380,423	3,719	1,147,894	18,643,784
Exercise of share options	105,597	-	-	(65,400)	-	-	40,197
Vest of share awards	8,276	-*	-	(8,276)	-	-	-
Equity-settled share-based payment under the share option scheme	-	-	2,465	19,994	-	-	22,459
Equity-settled share-based payment under the share award scheme	-	-	-	16,369	-	-	16,369
Repurchase of shares	-	(205,298)	-	-	-	-	(205,298)
Currency translation differences	-	-	-	-	-	234,363	234,363
As at 30 June 2023	17,227,197	(235,686)	31,277	343,110	3,719	1,382,257	18,751,874

* the amount is less than RMB1,000

	Share premium	Contributions from ultimate holding company	Share-based compensation reserve	PRC statutory reserve	Exchange reserve	Total
	RMB'000	RMB'000 (Note (a))	RMB'000	RMB'000 (Note (b))	RMB'000	RMB'000
(Unaudited)						
As at 1 January 2022	16,899,507	23,564	427,402	2,869	628,429	17,981,771
Exercise of share options	84,970	-	(50,846)	-	-	34,124
Equity-settled share-based payment under the share option scheme	-	2,380	46,283	-	-	48,663
Equity-settled share-based payment under the share award scheme	-	-	5,681	-	-	5,681
Currency translation differences	-	-	-	-	296,738	296,738
As at 30 June 2022	16,984,477	25,944	428,520	2,869	925,167	18,366,977

Notes to the Interim Financial Information

16 OTHER RESERVES *(Continued)*

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

Notes to the Interim Financial Information

17 SHARE-BASED COMPENSATION

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

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

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

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

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

During the six months ended 30 June 2023 and 2022, the Group has a Pre-IPO Share Incentive Plan in place and was also a party to the Restricted Share Unit (“RSU”) plan of NetEase whereas restricted share units may be issued to eligible grantees of the Group.

Notes to the Interim Financial Information

17 SHARE-BASED COMPENSATION *(Continued)*

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

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

(i) Share options

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

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

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

	Number of share options	Weighted average exercise price per share option US\$
(Unaudited)		
Outstanding as at 1 January 2023	7,162,040	8.20
Exercised during the period	(1,761,040)	3.29
Forfeited during the period	(123,675)	10.89
Outstanding as at 30 June 2023	5,277,325	9.78
Vested and exercisable at 30 June 2023	4,070,225	9.41
(Unaudited)		
Outstanding as at 1 January 2022	11,654,900	6.49
Exercised during the period	(1,488,725)	3.46
Forfeited during the period	(347,675)	10.61
Outstanding as at 30 June 2022	9,818,500	6.80
Vested and exercisable at 30 June 2022	7,359,375	5.45

Notes to the Interim Financial Information

17 SHARE-BASED COMPENSATION (Continued)

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

(i) Share options (Continued)

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

Grant date	Expiry date	Exercise price	Vesting year*	Six months ended 30 June	
				2023 (Unaudited)	2022 (Unaudited)
25 May 2016	25 May 2023	US\$1	4 years from grant date	–	3,241,600
18 January 2017	18 January 2024	US\$8	4 years from grant date	138,900	419,000
10 July 2017	10 July 2024	US\$8	4 years from grant date	254,000	409,450
23 November 2017	23 November 2024	US\$8	4 years from grant date	251,000	267,000
12 February 2018	12 February 2025	US\$8	4 years from grant date	106,000	122,000
21 May 2018	21 May 2025	US\$8	4 years from grant date	971,000	1,132,000
17 August 2018	17 August 2025	US\$8	4 years from grant date	195,050	267,250
19 November 2018	19 November 2025	US\$8	4 years from grant date	53,400	80,000
2 March 2019	2 March 2026	US\$8	4 years from grant date	95,000	115,000
21 May 2019	21 May 2026	US\$8	4 years from grant date	86,500	131,500
25 September 2019	25 September 2026	US\$11	4 years from grant date	873,250	975,750
22 November 2019	22 November 2026	US\$11	4 years from grant date	216,250	265,000
1 March 2020	1 March 2027	US\$11	4 years from grant date	165,800	178,000
20 May 2020	20 May 2027	US\$11	4 years from grant date	66,400	70,900
30 September 2020	30 September 2027	US\$11	4 years from grant date	324,000	389,000
24 November 2020	24 November 2027	US\$11	4 years from grant date	184,000	187,500
19 February 2021	19 February 2028	US\$11	1 year from grant date	5,000	5,000
26 February 2021	26 February 2028	US\$11	4 years from grant date	104,000	134,650
27 May 2021	27 May 2028	US\$11	4 years from grant date	1,033,675	1,237,050
15 June 2021	15 June 2028	US\$11	1 year from grant date	3,000	–
15 June 2021	15 June 2028	US\$11	4 years from grant date	151,100	190,850
Total				5,277,325	9,818,500
Weighted average remaining contractual life of options outstanding at end of the period				2.19 years	4.02 years

Notes to the Interim Financial Information

17 SHARE-BASED COMPENSATION *(Continued)*

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

(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 period, the Company granted certain share awards to eligible grantees following the terms of the Pre-IPO Share Incentive Plan, subject to the satisfaction of certain performance objectives as set out in the award agreements. The share awards are granted without consideration, and the vesting period is 1 – 3 years in equal tranches.

The following table represents the movements for number of shares under the share award scheme for the six months ended 30 June 2023.

	Number of shares	RMB'000
(Unaudited)		
Outstanding as at 1 January 2023	627,193	30,388
Repurchase of shares from market	3,003,800	205,298
Share awards vested during the period	(131,198)	–*
Outstanding as at 30 June 2023	3,499,795	235,686

* the amount is less than RMB1,000

As at 30 June 2022, the Group had no share under the share award scheme.

Notes to the Interim Financial Information

17 SHARE-BASED COMPENSATION *(Continued)*

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

(ii) Share awards (Continued)

Movements in the number of share awards granted to eligible grantees of the Group for the six months ended 2022 and 2023 are as follows:

	Number of share awards	Weighted average grant date fair value HK\$
(Unaudited)		
Outstanding as at 1 January 2023	1,086,400	71.72
Granted during the period	361,499	85.70
Vested during the period	(131,198)	73.63
Forfeited during the period	(171,988)	74.11
Outstanding as at 30 June 2023	1,144,713	75.56
(Unaudited)		
Outstanding as at 1 January 2022	–	–
Granted during the period	1,082,851	73.95
Forfeited during the period	(57,584)	73.95
Outstanding as at 30 June 2022	1,025,267	73.95

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 Interim Financial Information

17 SHARE-BASED COMPENSATION *(Continued)*

(b) Restricted share units plan of NetEase Group

2019 Restricted Share Unit Plan of NetEase Group

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

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

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

Movement in the number of RSUs granted to eligible grantees of the Group for the six months ended 30 June 2022 and 2023 are as follows:

	Number of RSUs	Weighted average grant date fair value US\$
(Unaudited)		
Outstanding as at 1 January 2023	23,221	80.54
Granted during the period	3,325	82.14
Vested and transferred during the period	(10,524)	(63.64)
Forfeited during the period	(4,598)	(85.82)
Outstanding as at 30 June 2023	11,424	94.45
(Unaudited)		
Outstanding as at 1 January 2022	22,612	62.93
Granted during the period	5,325	96.72
Vested and transferred during the period	(5,922)	34.27
Forfeited during the period	(1,216)	61.46
Outstanding as at 30 June 2022	20,799	79.83

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

Notes to the Interim Financial Information

17 SHARE-BASED COMPENSATION *(Continued)*

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the six months ended 30 June 2023 and 2022 as part of employee benefit expenses were as follows:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Share options issued under the Pre-IPO Share Incentive Plan	19,309	45,749
Share awards granted under the Pre-IPO Share Incentive Plan to eligible grantees	16,369	5,681
RSUs granted under the NetEase Group Restricted Shares Units Plan to eligible grantees of the Group	2,465	2,380
	38,143	53,810

18 ACCOUNTS PAYABLE

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Accounts payable	43	211

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.

Notes to the Interim Financial Information

19 ACCRUALS AND OTHER PAYABLES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Current liabilities		
Accrued content service costs	1,258,187	1,679,545
Accrued expenses	211,524	167,318
Accrued salaries and staff benefits	171,587	273,855
Deposits from customers	58,867	42,025
Other taxes payable	39,988	32,097
Others	37,948	39,757
	1,778,101	2,234,597

20 RELATED PARTY TRANSACTIONS

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

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the six months ended 30 June 2023:

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

Notes to the Interim Financial Information

20 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Purchase of property, plant and equipment from NetEase Group	1,696	1,678
Purchase of goods from NetEase Group	2,981	3,229
Purchase of technology and other services from NetEase Group	201,166	233,894
Provision of advertising services to NetEase Group	99,478	198,809
Provision of other services to NetEase Group	11,789	11,505
Sales of property, plant and equipment to NetEase Group	423	738

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

(b) Balances with related parties

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
	Amounts due from NetEase Group	84,036
Amounts due to NetEase Group	71,809	53,002

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

Notes to the Interim Financial Information

20 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management personnel compensation

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Salaries and bonuses	2,775	5,227
Welfare and other employee benefits	198	260
Equity-settled share-based payments	2,686	818
	5,659	6,305

21 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.

Definitions

“Board”	the board of directors of our Company
“China” or the “PRC”	the People’s Republic of China, and for the purpose of this interim report only, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	Cloud Music Inc.
“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)”	director(s) of our Company
“Group”	our Company and its subsidiaries, including consolidated affiliated entities, the financial results of which are consolidated into our Company’s financial statements
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Latest Practicable Date”	12 September 2023, being the latest practicable date for ascertaining certain information in this interim report before its publication
“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

Definitions

“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
“NetEase”	NetEase, Inc., an exempted company incorporated in the Cayman Islands with limited liability on 6 July 1999 (Nasdaq: NTES; SEHK: 9999) and considered our controlling shareholder under the Listing Rules
“NetEase Group”	NetEase and its subsidiaries and consolidated affiliated entities, and unless the context otherwise requires, excluding our Group
“Prospectus”	our Company’s prospectus dated 23 November 2021, a copy of which is available on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at http://ir.music.163.com
“Reporting Period”	six months ended 30 June 2023
“Shares”	shares of our Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited