网易云音乐

Cloud Music Inc.

(incorporated in the Cayman Islands with limited liability)

Stock code: 9899

2023 ANNUAL REPORT

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Yat Keung Li
Mr. Dewei Zheng *(resigned as a non-executive Director with effect from 15 February 2024)*
Mr. Feng Yu *(resigned as a non-executive Director with effect from 15 June 2023)*
Mr. Ran Wang *(appointed as a non-executive Director 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, Ugland House
Grand Cayman KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEADQUARTERS

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

Corporate Information

LEGAL ADVISORS

As to Hong Kong law and United States law

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

As to PRC law

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

As to Cayman Islands law

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANK

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

STOCK CODE

9899

COMPANY WEBSITE

http://ir.music.163.com

Financial and Business Highlights

	Year ended 31 December		
	2023	2022	Change (%)
	(RMB in thousands, except percentages)		
Revenue	**7,866,992**	8,992,221	-12.5%
Gross profit	**2,102,670**	1,293,118	+62.6%
Profit/(Loss) before income tax	**767,679**	(204,479)	N/A
Profit/(Loss) for the year	**734,182**	(221,494)	N/A
Non-IFRS measure:			
Adjusted net profit/(loss)	**818,500**	(114,573)	N/A

IFRS NUMBERS:

- Our revenue decreased by 12.5% from RMB9.0 billion in 2022 to RMB7.9 billion in 2023.
- Our gross profit increased by 62.6% from RMB1.3 billion in 2022 to RMB2.1 billion in 2023.
- We recorded a net profit of RMB0.7 billion in 2023, compared with a net loss of RMB0.2 billion in 2022.

NON-IFRS NUMBERS:

- Our adjusted net profit reached RMB818.5 million in 2023, compared with an adjusted net loss of RMB114.6 million in 2022. Adjusted net profit/(loss) is a non-IFRS measure and is defined as profit/(loss) for the year adjusted by adding back equity-settled share-based payments as appropriate. The following table reconciles profit/(loss) for the year to adjusted net profit/(loss) for both years:

	For the year ended 31 December	
	2023	2022
	(in RMB thousands)	
Profit/(loss) for the year attributable to the equity holders of the Company	**734,182**	(221,494)
Add:		
Equity-settled share-based payments [1]	**84,318**	106,921
Adjusted net profit/(loss)	**818,500**	(114,573)

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 of online music services for the years indicated.

	Year ended 31 December	
	2023	2022
MAUs of online music services (in millions)	**205.9**	189.4

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) in 2022 and 2023.

	Year ended 31 December	
	2023	2022
Monthly paying users (in thousands)		
Online music services	**44,120.0**	38,267.1
Social entertainment services	**1,602.9**	1,332.3
Monthly ARPPU (RMB)		
Online music services(1)	**6.9**	6.6
Social entertainment services(2)	**178.6**	326.0

Notes:

(1) The revenues used to calculate the monthly ARPPU of online music services include revenues from membership subscriptions only, which amounted to RMB3,037.1 million and RMB3,649.2 million in 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 RMB5,212.1 million and RMB3,434.7 million in 2022 and 2023, respectively.

Management Discussion and Analysis

BUSINESS OVERVIEW

Throughout 2023, we had continued with our quality development across our core music-centric ecosystem, considerably strengthening our music-centric monetisation capabilities and further improving our profitability. Our appeal to users has been enhanced as we bolstered our content ecosystem and broadened our differentiated offerings, including adding new innovative features and strengthening our community attributes. These successful efforts, combined with advanced membership privileges offered, drove notable growth in our subscription-based memberships. Having been backed by the solid monetisation momentum from our core online music business and our optimised operating efficiency and cost structure, we reached a record high on profitability for the full year of 2023 and achieved a profit making position for a financial year for the first time in our history.

We worked diligently to strengthen our music-centric monetisation capabilities throughout 2023. Our online music business has continued to show solid growth momentum on a year-over-year basis. Our revenue from subscription-based memberships grew by 20.2% year over year, mainly driven by a scale-up in the number of subscribers, along with moderate ARPPU improvement. We have enhanced our premium offerings, including expansive content and innovative features, along with broadened membership privileges and joint programmes with external partners, delivering a notable 15.3% year-over-year increase in our subscriber base. Moreover, membership retention rates improved among our rapidly expanding, high-quality subscriber base. On top of subscriptions, we also strengthened our advertising commercialisation capabilities in 2023, backed by our brand's increasing influence and more diversified advertisement formats. In particular, our ad-supported mode began contributing to our incremental advertising revenue stream in the second half of 2023.

We improved our profitability considerably for the full year of 2023. This was primarily due to the benefits of economies of scale and ongoing cost optimisation. Gross margins soared to 26.7% for 2023, compared with 14.4% in 2022, owing to the strong monetisation in our core online music business, and improved copyright cost structure and revenue sharing ratio. Consequently, we achieved an adjusted net profit of RMB818.5 million in 2023, marking our first positive full-year bottom-line performance, compared to an adjusted net loss of RMB114.6 million in 2022.

Despite an industry-wide slowdown, our MAUs of online music services for 2023 steadily increased to 205.9 million, representing a growth of 8.7% year-over-year. Our MAU growth was attributable to the ongoing broadening of our differentiated premium offerings and enhancing user experience across various music-listening scenarios, improved brand awareness, and our stronger platform operating capabilities. In addition, we implemented measures to make the premium privileges of our online music membership more accessible, which also helped us attract both high-quality active users and paying users.

Management Discussion and Analysis

We continued to engage users across our leading music-inspired community during 2023, and our DAU/MAU ratio (daily active user/monthly active user ratio) consistently remained above 30%. Moreover, our fast-growing online music subscriber group is more engaging on our platform, with more time spent and a higher activity ratio, as compared to non-paying users. Throughout the year, we focused on improving users' music discovery and consumption experience, as well as fostering our music-centric community, through product innovation, particularly by integrating AI technology. As we continuously deepened our understanding of users' music preferences and enhanced our AI-powered recommendation algorithms, the percentage of music streams stemming from platform-recommendations continued to increase in 2023.

In 2023, we continually broadened our content offerings and expanded our catalogue of music labels, with a focus on improving cost efficiency. Paired with our strong support for independent artists and enhancements to our in-house music production, we have developed a comprehensive and differentiated content ecosystem that encourages user stickiness and their willingness to subscribe to our premium offerings. Apart from top-tier music content, we focused on our most advantageous music genres, such as hip-hop, fuelled by our initiatives in both copyrighted content and original music.

For our social entertainment arm, revenue has declined 33.6% year-over-year, as we refined our operating strategies in 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. We also further reinforced our internal controls mechanism for social entertainment services.

Going forward, we will remain committed to bringing more high-quality music to our users, cultivating our community and enhancing user experience, further strengthening our operating and commercialisation capabilities, and improving profitability. Our plans call to:

- further diversify and enhance our differentiated content offerings with better efficiency. We plan to deepen our collaboration with copyright holders, as well as to strengthen our capabilities in independent artist incubation and in-house music production, focusing on our advantageous music genres;
- foster our music-oriented community ecosystem and explore innovative interpersonal interaction via comprehensive enhancements to our product offerings, including embedding our products with more interactive features and broadening communicative scenarios and ecology;
- cultivate our users' willingness to pay and subscribe to premium offerings by improving user experience, deepening user engagement, enhancing membership privileges and broadening consumption scenarios; and
- improve profitability through continuous cost optimisation, enhanced operating efficiency and disciplined cost control.

Management Discussion and Analysis

Comprehensive and differentiated content ecosystem

We further expanded our content library to include a wider variety of music, including tracks from established labels, independent artists and our in-house studios. As of the end of 2023, we have accumulated approximately 149 million music tracks. Our diverse selection of music is continually updated to meet the evolving needs of our users, particularly younger users who have varied preferences and a desire to discover new music. In addition to top-tier renowned music works, we especially focused on promoting our advantageous music genres, such as hip-hop, Chinese folk and rock.

Enhancing partnerships with copyright holders

Throughout the year, we consistently demonstrated our commitment to fostering strong partnerships with music copyright holders and actively worked towards deepening these collaborations, ultimately benefiting both copyright holders and music enthusiasts.

- ***Expansive catalogue of music labels.*** We expanded our catalogue of music labels throughout 2023, including new partnerships with renowned labels such as B'in Music, CoMix Wave Films (新海誠), Sodagreen/Oaeen (魚丁糸), RYCE Entertainment (represented by Jackson Wang), etc. We successfully broadened our extensive music collection by adding songs from influential musicians, singers, and groups, including Mayday, Sodagreen, Jackson Wang, Karen Mok (莫文蔚), Li Yuchun (李宇春), Phoenix Legend (鳳凰傳奇), Cheer Chen (陳綺貞), Crowd Lu (盧廣仲), Cui Jian (崔健), and Zheng Jun (鄭鈞). We were also pleased to renew our copyright partnership agreement with EE-Media, which deepens our two-way collaboration to promote popular Chinese music content. Additionally, we extended our reach to overseas record labels such as DREAMUS (represented by popular artists including Shinhwa), JTBC (which is renowned for its vast library of original soundtracks), Lantis and Space Shower, etc.

- ***Recorded impressive album sales performances from top artists.*** We successfully collaborated with several copyright holders and top artists, resulting in impressive sales of premium albums on our platform. For example, the latest digital album from Eason Chan, titled《CHIN UP! 》, recorded the highest sales volume on our platform, among all online music streaming platforms in China. We also made a notable debut in the physical album market, recording more than RMB20 million in total gross sales for our first co-published physical album, Chenyu Hua's new album "希忘 (Xiwang) Hope" which launched in May 2023. We subsequently successfully promoted the sales of Zhang Jie's physical album, "Wainanjie 1982".

- ***Promoting advantageous music genres.*** Music genres such as hip-hop and Chinese folk have seen a surge in popularity on our platform. Hit songs, including "Wo Ji De《我記得》" by Chinese folk musician Lei Zhao, "Snow Distance《雪 Distance》" by Capper & Yan Luo, and "Leng Zhan《冷戰》" by TizzyT and Vinida, showcased the positive momentum we have built across these genres. We also successfully promoted the digital album sales in our advantageous music genres, including albums from MC HotDog (熱狗), KeyNG (楊和蘇), Eason Shen (沈以誠), and MaSiWei (馬思唯).

Management Discussion and Analysis

Strengthening our leading independent artists ecosystem

We continue to enhance our support system for independent artists, offering comprehensive assistance throughout their music industry journey. This includes support from creation to promotion and financial aid. As of 31 December 2023, our platform had nearly 684,000 registered independent artists who contributed around 3.1 million music tracks in total to our library. We remain committed to investing in initiatives that bolster musicians, improve music creation tools, and expand online and offline music exposure. These initiatives aim to help independent artists increase their influence and commercial income, ultimately strengthening the original music ecosystem on our platform.

- ***Exploring and improving the exposure of musicians and their work.*** We leverage our internal and external resources to boost the level of visibility of musicians and their quality work, particularly in our advantageous genres. Our musician discovery programmes aim to identify and nurture talented individuals, such as the ongoing Project Cornerstone (石頭計劃) up to its fifth season for discovering fresh musicians, and particularly focusing on hip-hop and other advantageous music genres, including Take in and Rap Out (街頭招式計劃) and the New Voice Power Project (新聲勢力計劃), etc. Our region-oriented music promotions include "City Tour Guide" (城市雲遊指南) special planning series, an online exposure opportunity for regionally representative talents and "Localised Sound (近地之聲)", a new program which offers comprehensive support to local musicians via online features and activities. To expand the outreach of musicians and premium content, we utilised our internal and external resources to promote expansive music content, and our extensive promotion channels included music festivals and variety shows. We also collaborated with our partners like Pepsi to launch annual music festivals and resumed campus tour music festivals, nurturing NetEase Cloud Music musicians.

- ***Helping musicians improve their commercial value.*** Our supportive initiatives are designed to help musicians maximise their financial returns, which in turn help us promote original music ecosystem. In early 2023, we upgraded our renowned musicians' support project, and rolled out "Project Cloud Ladder 2023 – Phase 1" (雲梯計劃2023第一期), which bolsters the financial aid to musicians by offering a more attractive financial settlement mechanism. In September 2023, we launched "Project Cloud Ladder 2023 – Phase 2"(雲梯計劃2023第二期) and introduced the new "Appreciation (讚賞)" feature for tipping. This feature facilitates innovative interaction between musicians and fans and also provide independent musicians with a new avenue to monetise their talent.

- ***Supporting musicians in content creation.*** We have launched a suite of AI-enabled tools to make music creation more accessible and efficient. The NetEase Tianyin platform is an all-in-one AI music creation tool that assists musicians with songwriting and music arrangements. We made NetEase Tianyin accessible to all musicians beginning in August 2023, and continually streamline the process of creating and releasing music. X Studio, an AI-based voice synthesis software developed in partnership with Xiaoice, offers a wide range of natural singing voices, covering styles like pop and folk, that musicians can conveniently select from. We held AI songwriting competitions and introduced the "AI Rap Song Contest", to inspire musicians to leverage AI-enabled tools to produce more high-quality songs, especially the hip-hop genre.

Management Discussion and Analysis

Developing differentiated in-house music

Building on our expertise in music, a wide and varied user base, and in-depth user insights, our multiple in-house studios continued to focus on creating unique music content to further enrich our content matrix.

- ***Crafting high-quality music content tailored to a variety of needs.*** Since the beginning of 2023, our in-house studios have successfully popularised multiple hit songs, including "Xiang Yun Duan" 《向雲端》, "Jing Wei" 《精衛》 and "To You" 《予你》. In particular, our co-produced song "Xiang Yun Duan" 《向雲端》 has demonstrated remarkable popularity. Additionally, we focused on our advantageous music genres, and have produced a number of popular hip-hop song tracks, including "Sunshine Boys and Sunshine Girls 2023" 《陽光男孩陽光女孩 2023》, and "Shen Shan" 《聖山》. Our in-house studios have recently launched several special music projects, aiming at producing and promoting in-house music, covering band music, hip-hop, R&B, pure music, as well as film music.

- ***Deepening collaboration with NetEase and commercial brands.*** Our in-house music works have been featured in many prominent galas and have served large-scale sports events and influential public events. We also further created value through deeper collaboration with NetEase's portfolio like *Eggy Party (蛋仔派對), Fantasy Westward Journey (夢幻西游)*, and *Onmyoji (陰陽師)*, and external commercial brands, such as SAIC Volkswagen, and Yili.

Diversified audio-based content offerings

In addition to music tracks, we have been actively expanding the long-form audio offerings on our platform. This includes user-generated podcasts (including PUGC/UGC) and professionally generated content (PGC) such as audio books and radio dramas. Our aim is to create a comprehensive listening experience for our users, catering to their diverse interests and preferences, and ultimately increasing user engagement and exploring potential commercial opportunities. In 2023, we saw a significant increase in the consumption of our long-form audio content, with the total listening time growing by 70.9% compared to the previous year.

- ***PUGC/UGC – podcast.*** The podcast is an essential part of our content ecosystem, with a focus on music-inspired content and real-life stories. We have enhanced our Music-Podcast feature, which combines podcasting and music discovery in a unique format on our platform. This new format offers an enjoyable way for music fans to discover quality and lesser-known songs while listening to podcasts, thereby increasing user engagement and music consumption.

- ***PGC – audio books & radio dramas.*** We have been expanding our PGC long-form audio content library in a cost-efficient manner, particularly by increasing our pool of self-produced content. A notable success is the radio drama "The Young Master and I (少爺和我)", which is adapted from popular comedy. This new approach did not only help broaden our audio content library but also improved content creation efficiency.

Management Discussion and Analysis

Community ecosystem and product innovation

During 2023, we further promoted our initiatives in product innovation, especially through advancements in AI technology. We innovated the music discovery and consumption experience, added features empowering strong music-inspired connections, and broadened communication scenarios. Our efforts have helped to elevate user experience, inspiring music-resonance and increasing user stickiness, resulting in the growth of our multi-layered community ecology.

Optimising users' music discovery and listening experience

- ***AI-enabled functions.*** We officially launched the "Private DJ" (私人 DJ) feature on our platform, incorporating music recommendations with an intelligent and personalised music introduction and explanatory experience including song recommendations, background stories of songs and encyclopaedia. This feature allows users to enjoy a more personalised music accompaniment.

- ***Music content discovery and distribution.*** We continuously improved our understanding of users' music preferences in various scenarios and enhanced our algorithms using advanced models, such as Large Multimodal Model (LMM) and multi-scene recommendation sorting model (多場景推薦排序模型). The latter consolidated user preference behaviours across different sections of the entire platform to provide song recommendations.

Fostering music-inspired community resonance and connections

- ***Community resonance inspired by music content.*** Our music community is centred around the iconic Comments section on our platform. Through optimisations in product, operation, and algorithm, we consistently amplify the value of comments across our platform, including the playback page, search function, and landing page layout. Our new feature, "Moments Square (動態廣場)," is a vibrant hub where users can interact with comments, forming a community where they can share and connect with each other's feelings.

- ***Music-centric connections.*** We continually engage our community to have more music-inspired connections and strengthen the bonds within our community. We have made ongoing improvements to our Fans Space (樂迷團) function, an interactive platform for artists and their fans to connect and encourage interaction among users with similar music tastes.

Expanding music consumption and communicative scenarios

- ***Expanding collaboration with NetEase Games.*** This allows users to choose from different listening options while playing popular games. We have partnered with *Eggy Party (蛋仔派對)*, integrating our music player into its core gaming scenes. We have also launched a cooperative gift package that includes custom in-game skins and actions featuring Cloud Music IP attributes. Additionally, users can access an Eggy Party-themed player interface within the NetEase Cloud Music app. In our collaboration with *Sky (光遇)*, we launched several joint programs, such as embedding a music player within gaming scenes, creating game-themed music-player skins, and introducing the "Multi-person Listen Together (多人一起聽)" feature within the game.

- ***IoT layouts.*** We recently added a new feature that allows users to easily switch between different devices like mobile phone, PC, TV, and in-car scenarios, effectively addressing diverse needs of our users.

Management Discussion and Analysis

FINANCIAL REVIEW

The following table sets forth our consolidated statements of profit or loss, both in absolute amounts and as percentages of our total revenues, for the years ended 31 December 2023 and 2022, respectively:

	Year ended 31 December			
	2023		2022	
	RMB	%	RMB	%
	(RMB in thousands, except percentages)			
Revenue	7,866,992	100.0	8,992,221	100.0
Cost of revenue	(5,764,322)	(73.3)	(7,699,103)	(85.6)
Gross profit	2,102,670	26.7	1,293,118	14.4
Selling and marketing expenses	(758,235)	(9.6)	(634,677)	(7.1)
General and administrative expenses	(165,102)	(2.1)	(171,598)	(1.9)
Research and development expenses	(868,699)	(11.0)	(1,011,057)	(11.3)
Other income	71,799	0.9	142,315	1.6
Other losses, net	(52,253)	(0.7)	(2,614)	(0.0)
Operating profit/(loss)	330,180	4.2	(384,513)	(4.3)
Share of results of investments accounted for using equity method	(63)	(0.0)	(2,722)	(0.0)
Finance income	437,879	5.6	183,105	2.0
Finance cost	(317)	(0.0)	(349)	(0.0)
Profit/(loss) before income tax	767,679	9.8	(204,479)	(2.3)
Income tax expense	(33,497)	(0.4)	(17,015)	(0.2)
Profit/(loss) for the year attributable to equity holders of the Company	734,182	9.4	(221,494)	(2.5)
Non-IFRS measure:				
Adjusted net profit/(loss)(1)	818,500	10.4	(114,573)	(1.3)

Notes:

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

Management Discussion and Analysis

Overview

Over the Reporting Period, we recorded a revenue of RMB7,867.0 million and a gross profit of RMB2,102.7 million. Our gross profit significantly increased by RMB809.6 million, primarily due to improved cost control, which also lead to our turnaround from loss to profit. We recorded a net profit of RMB734.2 million in 2023, compared with a net loss of RMB221.5 million in 2022.

Revenue

Our revenue decreased by 12.5% from RMB8,992.2 million in 2022 to RMB7,867.0 million in 2023.

Revenue from online music services increased by 17.6% from RMB3,698.8 million in 2022 to RMB4,350.9 million in 2023. In particular, revenue from sales of membership subscriptions increased from RMB3,037.1 million in 2022 to RMB3,649.2 million in 2023. Due to our continued efforts in improving user experience, innovating interactive features and enriching our content offerings, MAUs of online music services grew from 189.4 million in 2022 to 205.9 million in 2023. Monthly paying users of online music services has experienced significant growth from 38.3 million in 2022 to 44.1 million in 2023 as well as our monthly ARPPU of online music services increased from RMB6.6 in 2022 to RMB6.9 in 2023 as a result of optimised promotions.

Revenue from social entertainment services and others decreased by 33.6% from RMB5,293.4 million in 2022 to RMB3,516.1 million in 2023. The decrease was mainly due to a more cautious operating strategy we adopted such as reducing the in-app exposure of certain functions and lowering revenue sharing ratio. We have also further strengthened our internal control mechanism. In particular, our monthly paying users of social entertainment services expanded from 1,332.3 thousand in 2022 to 1,602.9 thousand in 2023, and monthly ARPPU of social entertainment services was RMB326.0 in 2022 and RMB178.6 in 2023, respectively.

Cost of Revenue

Our cost of revenue decreased by 25.1% from RMB7,699.1 million in 2022 to RMB5,764.3 million in 2023, attributable to a decrease in content service costs from RMB6,711.6 million in 2022 to RMB4,598.7 million in 2023. The decrease in content service costs was primarily due to a decrease in revenue sharing fees along with a decrease in revenue from social entertainment services with lower revenue sharing ratio. Furthermore, we implemented measures to improve management and control over content licensing fees.

Gross Profit and Gross Margin

As a result of the above, our gross profit increased by 62.6% from RMB1,293.1 million in 2022 to RMB2,102.7 million in 2023, as a result of increased revenues from sales of membership subscriptions and continued improvement in cost control measures. Our gross margin increased from 14.4% in 2022 to 26.7% in 2023.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 19.5% from RMB634.7 million in 2022 to RMB758.2 million in 2023, primarily due to an increase in promotion and advertising expenses to expand our brand influence and increase our user base.

Management Discussion and Analysis

General and Administrative Expenses

Our general and administrative expenses decreased by 3.8% from RMB171.6 million in 2022 to RMB165.1 million in 2023, primarily due to a decrease in employee benefit expenses.

Research and Development Expenses

Our research and development expenses decreased by 14.1% from RMB1,011.1 million in 2022 to RMB868.7 million in 2023, primarily due to the decrease in employee benefit expenses and improved cost control over technology development fees.

Other Income

Our other income decreased by 49.5% from RMB142.3 million in 2022 to RMB71.8 million in 2023, primarily due to a decrease in value-added tax subsidies.

Other Losses, Net

We recorded other losses of RMB52.3 million in 2023 (in 2022: RMB2.6 million). The other losses were primarily attributable to a loss recognised in relating to an other receivable. For details, please refer to Note 7 to the consolidated financial statements of our Group set out in this annual report.

Finance Income, Net

Our finance income increased from RMB183.1 million in 2022 to RMB437.9 million in 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 RMB33.5 million in 2023 as compared to income tax expenses of RMB17.0 million in 2022, primarily due to an increase in withholding tax of interest income.

Profit/(Loss) for the Year

As a result of the above, we generated a profit of RMB734.2 million in 2023, compared with a loss of RMB221.5 million in 2022.

Management Discussion and Analysis

Non-IFRS measure

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

Our adjusted net profit reached RMB818.5 million in 2023, compared with adjusted net loss of RMB114.6 million in 2022. Adjusted net profit/(loss) is a non-IFRS measure and is defined as profit/(loss) for the year adjusted by adding back equity-settled share-based payments as appropriate. The following table reconciles the profit/(loss) for the year to adjusted net profit/(loss) for both years:

	For the year ended 31 December	
	2023	2022
	(in RMB thousands)	
Profit/(loss) for the year attributable to the equity holders of the Company	**734,182**	(221,494)
Add:		
Equity-settled share-based payments Note (1)	**84,318**	106,921
Adjusted net profit/(loss)	**818,500**	(114,573)

Note:

(1) Equity-settled share-based payments mainly represent share-based compensation expenses incurred in connection with our share incentive plan adopted by the Company. Share-based compensation expenses are not expected to result in future cash payments and are not indicative of our core operating results. The reconciling item is non-cash and does not result in cash outflow.

Management Discussion and Analysis

Liquidity and Capital Resources

As at 31 December 2023, we funded our cash requirements principally from cash generated from operating activities. We had cash and cash equivalents of RMB2.9 billion and RMB4.0 billion as at 31 December 2022 and 2023, respectively.

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

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

	Year ended 31 December	
	2023	2022
	(in RMB thousands)	
Operating cash inflows/(outflows) before movement in working capital	**487,417**	(239,457)
Changes in working capital	**(263,576)**	2,093,729
Income taxes paid	**(34,788)**	(11,364)
Net cash generated from operating activities	**189,053**	1,842,908
Net cash generated from investing activities	**1,227,066**	158,589
Net cash used in financing activities	**(307,676)**	(2,911)
Net increase in cash and cash equivalents	**1,108,443**	1,998,586
Cash and cash equivalents at the beginning of the year	**2,916,534**	853,454
Exchange differences on cash and cash equivalents	**(4,577)**	64,494
Cash and cash equivalents at the end of the year	**4,020,400**	2,916,534

Report of Directors

Our board is pleased to present this report of Directors together with the consolidated financial statements of the Group for the 2023 financial year.

OVERVIEW OF OUR BOARD

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

Executive Directors:

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

Non-Executive Directors:

Mr. Yat Keung Li
Mr. Dewei Zheng *(resigned as a non-executive Director with effect from 15 February 2024)*
Mr. Feng Yu *(resigned as a non-executive Director with effect from 15 June 2023)*
Mr. Ran Wang (*appointed as a non-executive Director on 15 June 2023)*

Independent Non-Executive Directors:

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

Biographical details of our Directors are set out in "Directors and Senior Management" at pages 41 to 44 of this annual report.

In accordance with article 16.20 of our articles of association, Mr. William Lei Ding, Mr. Yong Li and Mr. Ying Kit Caleb Lo shall retire at our upcoming annual general meeting. Each of these Directors, being eligible, will offer themselves for re-election at our upcoming annual general meeting.

Report of Directors

OVERVIEW OF OUR COMPANY

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

Our Business

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

Subsidiaries

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

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

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

Public Float

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

OVERVIEW OF OUR PERFORMANCE OVER THE REPORTING PERIOD

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance and an indication of likely future developments in the Group's business is set out in "Management Discussion and Analysis" of this annual report. Those discussions form part of this report. Events affecting the Company that have occurred since the end of the 2023 financial year are set out in "Important Events After the Reporting Period" in this annual report. An account of the Company's key relationships with our employees, customers and suppliers and others that have a significant impact on the Company is set out in our "Environmental, Social and Governance Report" at pages 70 to 105 of this annual report.

Results of our Group

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss at page 111 of this annual report.

Financial Summary

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years, as extracted from the consolidated financial statements, is set out at page 181 of this annual report. This summary does not form part of the consolidated financial statements.

Report of Directors

Pre-emptive Rights

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

Tax Relief and Exemption

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

Property, Plant and Equipment

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

Share Capital and Shares Issued

The Company has one class of shares with a nominal or par value of US$0.0001 each. Details of movements in the share capital of the Company, and details of our shares issued, during the Reporting Period are set out in Note 24 to the consolidated financial statements.

Donations

During the Reporting Period, the Group made charitable donations of RMB90,000.00 (2022: RMB571,338.00).

Debenture Issued

The Group did not issue any debenture during the Reporting Period.

Equity-linked Agreements

Save as disclosed in "Share Incentive Plans" at pages 48 to 53 of this annual report, no equity-linked agreements were entered into by the Group, or existed during the Reporting Period.

Dividends

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

No Shareholder has waived or agreed to waive any dividends for the 2023 financial year.

Permitted Indemnity

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

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

Report of Directors

Distributable Reserves

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

As at 31 December 2023, the Company had distributable reserves of RMB14,632.9 million (2022: RMB14,192.4 million).

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity at page 115 and in Note 34(b) to the consolidated financial statements, respectively.

Bank Loans and Other Borrowings

As at 31 December 2023, the Group did not have any bank loans or other borrowings.

Pledge of Assets

As at 31 December 2023, none of our assets were pledged to secure our loans and banking facilities.

Gearing Ratio

As at 31 December 2023, our gearing ratio was 27.3% (31 December 2022: 28.2%). Gearing ratio is calculated as our total liabilities divided by our total assets as at a particular date.

Foreign Exchange Exposure

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

Significant Investments

We did not make or hold any significant investments during 2023.

Report of Directors

Material Acquisitions and Disposals

We did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities, associated companies or joint ventures during 2023.

Contingent Liabilities

Saved as disclosed in Note 33 to the consolidated financial information of the Group set out in this annual report, we had no contingent liabilities as at 31 December 2023 (31 December 2022: Nil).

Future Plans for Material Investments

We had no other plans for material investments or capital assets as at 31 December 2023, except the intended use of proceeds as disclosed in the Prospectus.

Major Customers and Suppliers

During the Reporting Period, revenue from the Group's top five customers, which are primarily media and internet companies, accounted for 10.9% (2022: 10.3%) of the Group's revenue in the same year.

During the Reporting Period, cost of revenue from the Group's five largest suppliers accounted for 20.6% (2022: 14.9%) of the Group's total cost of revenue amount in the same year. The Group's largest supplier for the 2023 financial year accounted for approximately 6.4% (2022: 3.9%) of the Group's total cost of revenue amount for the same year.

Report of Directors

Employee and Remuneration Policy

As at 31 December 2022 and 2023, we had 1,540 and 1,359 employees, respectively. As at 31 December 2023, substantially all of our employees were based in China.

The number of employees employed by the Group varies from time to time depending on business need. Employees' remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. The Group's compensation system is well-structured and consists of a basic salary, a performance-based bonus and long-term incentives, which is reviewed periodically. The Group also provides training sessions to its employees, which mainly focus on campus recruiting personnel, management personnel and professional technology personnel.

As required by regulations in China, we participate in various employee social security plans that are organised by municipal and provincial governments for our PRC-based full-time employees, including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing funds. These plans are defined contribution plans, under which, we and our PRC-based employees who are participants are required to make monthly contributions in the amount specified under PRC laws and regulations, which are calculated based on the employee's actual salary level in the previous year, subject to certain ceilings imposed. There are no forfeited contributions for these defined contribution plans as the contributions are fully vested to the employees upon payment to the scheme. The prescribed percentages are determined by the PRC government and differ across municipalities and provinces in Mainland China. See Note 2.2.9 to the consolidated financial statements for more information on defined contribution plans.

The range of applicable percentages for these state-managed contribution plans for the 2023 financial year as applicable to the Group are listed below:

	Percentages
Pension insurance	14.0% to 16.0%
Medical insurance	6.2% to 10.0%
Unemployment insurance	0.5% to 0.8%
Work-related injury insurance	0.16% to 0.4%
Housing provident fund	7.0% to 12.0%

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

Additionally, the Company has two share incentive plans, the principal terms of which are disclosed in Appendix IV to the Prospectus, and the circular of the Company dated 24 May 2023, respectively. Please refer to the "Other Information – Share Incentive Plans – Details of Share Incentive Plans of our Company" section below for further details. The total remuneration cost incurred by us during the Reporting Period was RMB1,154.0 million (2022 financial year: RMB1,203.2 million).

Report of Directors

PRINCIPAL RISKS AND UNCERTAINTIES

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

(a) ability to achieve or maintain profitability in the future;

(b) ability to accurately predict and effectively cater to changing user preferences in terms of content and product offerings;

(c) ability to protect, maintain and enhance our brand and community culture;

(d) uncertainties with compliance with laws and regulations in the PRC and other jurisdictions relating to data privacy and security;

(e) uncertainties with respect to the enactment, interpretation and implementation of certain laws, regulations and government policies in the PRC;

(f) ability to effectively execute monetisation strategies;

(g) intense competition for users, users' time and attention, content, talent, advertising customers and other resources; and

(h) risks related to industry, business and operations.

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

CONTRACTS WITH CONTROLLING SHAREHOLDER AND MANAGEMENT

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

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

Report of Directors

MATERIAL LITIGATION

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

INFORMATION RELATING TO OUR DIRECTORS

Directors' Service Contracts

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

Each of the non-executive Directors has entered into an appointment letter with the Company for an initial term of three years from the Listing Date or from the date of appointment (as the case may be). Either party may terminate the agreement by giving prior written notice.

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

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

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

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed at pages 26 to 30 and in Note 10 to the consolidated financial statements, none of our Directors nor any entity connected with our Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended 31 December 2023.

Directors' Rights to Acquire Shares or Debenture

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

Report of Directors

Emolument Policy and Directors' Remuneration

In compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code, the Company has established a remuneration committee to assist our Board in formulating remuneration policies. Remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for our independent non-executive Directors, their remuneration is determined by our Board upon recommendation from our Board's remuneration committee. Our Directors and the senior management personnel are eligible participants of our share incentive plans (details of which are summarised in "Share Incentive Plans" at pages 48 to 53 of this annual report. Details of the remuneration of our Directors, senior management (which is also our key management) and the five highest paid individuals are set out in Note 10, 32(c) and 9 to the consolidated financial statements.

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

Over the Reporting Period, the aggregate amount of remuneration (including basic salaries, housing allowances, other allowances, and benefits in kind, contributions to pension plans and discretionary bonuses) for our Directors was approximately RMB9.2 million (as set out in Note 10 to the consolidated financial statements).

Directors' Interests in Competing Business

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

Continuing Disclosure Obligations pursuant to the Listing Rules

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

Report of Directors

CONTINUING CONNECTED TRANSACTIONS

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

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

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

Note:

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

Contractual Arrangements

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

As a result of these foreign ownership restrictions, these businesses are operated by our consolidated affiliated entities (as disclosed in note 17 in the consolidated financial statements), which are in turn, controlled by us and from which we derive the economic benefits through a series of contractual arrangements. These contractual arrangements are narrowly tailored to achieve our business purpose and minimise the potential for conflict with relevant PRC laws and regulations.

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

Report of Directors

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

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

(a) If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with PRC regulations on foreign investment in internet and other related businesses, or if these regulations or their interpretation change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

(b) We rely on contractual arrangements with our VIEs and their shareholders for our operations in China, which may not be as effective in providing operational control as direct ownership.

(c) We may lose the ability to use and enjoy assets held by our VIEs and their subsidiaries that are important to our business if our VIEs and their subsidiaries declare bankruptcy or become subject to a dissolution or liquidation proceeding.

(d) Contractual arrangements we have entered into with our VIEs may be subject to scrutiny by the PRC tax authorities. A finding that we owe additional taxes could negatively affect our financial condition and the value of your investment.

(e) If the chops of our PRC subsidiaries, our VIEs and their subsidiaries, are not kept safely, are stolen or are used by unauthorised persons or for unauthorised purposes, the corporate governance of these entities could be severely and adversely compromised.

(f) The shareholders of Hangzhou Yuedu may have potential conflicts of interest with us, which may materially and adversely affect our business.

(g) Substantial uncertainties exist with respect to how the Foreign Investment Law may impact the viability of our current corporate structure and operations.

Report of Directors

Summary of the agreements underlying our contractual arrangements

The contractual arrangements in place during the Reporting Period include:

(a) an operating agreement dated 2 November 2023 entered into among Hangzhou NetEase Cloud Music Technology Co., Ltd. (杭州網易雲音樂科技有限公司) ("**WFOE**"), Hangzhou Yuedu Technology Co., Ltd. ("**Hangzhou Yuedu**"), William Lei Ding (丁磊) ("**Mr. Ding**") and Wei Li (李巍) ("**Ms. Li**"), pursuant to which WFOE agreed to be the guarantor of Hangzhou Yuedu in, and provide full guarantee for the performance of the, contracts, agreements or transactions entered into between Hangzhou Yuedu and third-parties in connection with Hangzhou Yuedu's business and operations. As counter-guarantee, Hangzhou Yuedu agreed to pledge its accounts receivable in its operations and assets to WFOE.

(b) an exclusive purchase option agreement dated 2 November 2023 entered into among WFOE, Ms. Li and Hangzhou Yuedu, pursuant to which, (i) Ms. Li irrevocably granted to WFOE an option to purchase (or a person designated by WFOE to purchase) part or all of the equity interests held by Ms. Li in Hangzhou Yuedu at a purchase price equal to the outstanding loans owed by Ms. Li to WFOE under the loan agreement (detailed in (e) below); and (ii) Hangzhou Yuedu irrevocably granted to WFOE an option to purchase (or a person designated by the WFOE to purchase) part or all of the assets held by Hangzhou Yuedu or its subsidiaries at the minimum purchase price permitted under PRC laws and regulations.

(c) an equity pledge agreement dated 2 November 2023 entered into between WFOE and Ms. Li, pursuant to which Ms. Li pledged to WFOE a first security interest in all of Ms. Li's rights, title and interests in Hangzhou Yuedu.

(d) a shareholder voting right trust agreement dated 2 November 2023 entered into between WFOE and Ms. Li, and agreed and accepted by Hangzhou Yuedu, pursuant to which Ms. Li irrevocably entrusted WFOE (and the person designated by WFOE) to exercise on Ms. Li's behalf all shareholder's voting rights and all other shareholder's rights at the shareholders' meeting of Hangzhou Yuedu.

(e) a loan agreement dated 2 November 2023 entered into between WFOE and Ms. Li, pursuant to which WFOE shall provide to Ms. Li interest-free loan(s) to pay for the capital contribution towards the registered capital of Hangzhou Yuedu.

Items (a) to (e) are referred to as the "**2023 Agreements**"

(f) an operating agreement dated 9 November 2022 entered into among WFOE, Hangzhou Yuedu, Mr. Ding and Dong Zhang (張棟) ("**Mr. Zhang**"). This agreement was terminated on 2 November 2023 as a result of Mr. Zhang ceasing to have any interest in Hangzhou Yuedu (and therefore, ceasing to be a registered shareholder of Hangzhou Yuedu).

(g) an exclusive purchase option agreement dated 9 November 2022 entered into among WFOE, Mr. Zhang and Hangzhou Yuedu. This agreement was terminated on 2 November 2023 as a result of Mr. Zhang ceasing to have any interest in Hangzhou Yuedu (and therefore, ceasing to be a registered shareholder of Hangzhou Yuedu).

Report of Directors

(h) an equity pledge agreement dated 9 November 2022 entered into between WFOE and Mr. Zhang. This agreement was terminated on 2 November 2023 as a result of Mr. Zhang ceasing to have any interest in Hangzhou Yuedu (and therefore, ceasing to be a registered shareholder of Hangzhou Yuedu).

(i) a shareholder voting right trust agreement dated 9 November 2022 entered into between WFOE and Mr. Zhang, and agreed and accepted by Hangzhou Yuedu. This agreement was terminated on 2 November 2023 as a result of Mr. Zhang ceasing to have any interest in Hangzhou Yuedu (and therefore, ceasing to be a registered shareholder of Hangzhou Yuedu).

(j) a loan agreement dated 9 November 2022 entered into between WFOE and Mr. Zhang. This agreement was terminated on 2 November 2023 as a result of Mr. Zhang ceasing to have any interest in Hangzhou Yuedu (and therefore, ceasing to be a registered shareholder of Hangzhou Yuedu).

Items (f) to (j) are referred to as the "**2022 Agreements**". Save for the parties to the agreements, the terms and conditions of the 2022 Agreements are substantially the same as those of the 2023 Agreements.

(k) an amended and restated cooperation agreement dated 18 May 2021 entered into between Hangzhou Yuedu and WFOE, pursuant to which the parties would cooperate to provide clients with, among other things, internet information services, technical support and maintenance services relating to the research and development and operation of computer softwares, internet technology services, and technology development, technical assistance and support for electronic publishing and telecommunications.

(l) an amended and restated exclusive purchase option agreement dated 18 May 2021 entered into among WFOE, Mr. Ding and Hangzhou Yuedu, pursuant to which (i) Mr. Ding irrevocably granted to WFOE an option to purchase (or a person designated by WFOE to purchase) part or all of the equity interests held by Mr. Ding in Hangzhou Yuedu at a purchase price equal to outstanding loans owed by Mr. Ding to WFOE under the loan agreement entered into between WFOE and Mr. Ding on the same date; and (ii) Hangzhou Yuedu irrevocably granted to WFOE an option to purchase (or a person designated by WFOE to purchase) part or all of the assets held by Hangzhou Yuedu or its subsidiaries at the minimum purchase price permitted under PRC laws and regulations.

(m) an amended and restated equity pledge agreement dated 18 May 2021 entered into between WFOE and Mr. Ding, pursuant to which Mr. Ding pledged to WFOE a first security interest in all of Mr. Ding's rights, title and interests in Hangzhou Yuedu.

(n) an amended and restated shareholder voting right trust agreement dated 18 May 2021 entered into between WFOE and Mr. Ding, and agreed and accepted by Hangzhou Yuedu, pursuant to which Mr. Ding irrevocably entrusted WFOE (and the person designated by WFOE) to exercise on Mr. Ding's behalf all shareholder's voting rights and all other shareholder's rights at the shareholders' meeting of Hangzhou Yuedu.

Report of Directors

(o) an amended and restated loan agreement dated 18 May 2021 entered into between WFOE and Mr. Ding, pursuant to which WFOE shall provide to Mr. Ding interest-free loan(s) to pay for the capital contribution towards the registered capital of Hangzhou Yuedu.

(p) a cooperation agreement dated 18 May 2021 entered into between Hangzhou Rege and WFOE, pursuant to which the parties would cooperate to provide clients with, among other things, supply of music licence, innovation consultancy services, technical support and maintenance services relating to the research and development and operation of computer softwares, internet technology services, and technology development, technical assistance and support for electronic publishing and telecommunications.

(q) an amended and restated operating agreement dated 18 May 2021 entered into among WFOE, Hangzhou Rege and Yong Peng (彭勇) ("**Mr. Peng**"), pursuant to which WFOE agreed to be the guarantor of Hangzhou Rege in, and to provide full guarantee for the performance of the, contracts, agreements or transactions entered into between Hangzhou Rege and third-parties in connection with Hangzhou Rege's business and operations. As counter-guarantee, Hangzhou Rege agreed to pledge its accounts receivable in its operations and assets to WFOE.

(r) an amended and restated exclusive purchase option agreement dated 18 May 2021 entered into among the WFOE, Mr. Peng and Hangzhou Rege, pursuant to which (i) Mr. Peng irrevocably granted to WFOE an option to purchase (or a person designated by the WFOE to purchase) part or all of the equity interests held by Mr. Peng in Hangzhou Rege at a purchase price equal to the original and any additional paid-in capital paid by Mr. Peng for the equity interest; and (ii) Hangzhou Rege irrevocably granted to WFOE an option to purchase (or a person designated by WFOE to purchase) part or all of the assets held by Hangzhou Rege or its subsidiaries at the minimum purchase price permitted under PRC laws and regulations.

(s) an amended and restated equity pledge agreement dated 18 May 2021 entered into between WFOE and Mr. Peng, pursuant to which Mr. Peng pledged to WFOE a first security interest in all of Mr. Peng's rights, title and interests in Hangzhou Rege.

(t) an amended and restated shareholder voting right trust agreement dated 18 May 2021 entered into between WFOE and Mr. Peng, and agreed and accepted by Hangzhou Rege, pursuant to which Mr. Peng irrevocably entrusted WFOE (and the person designated by WFOE) to exercise on Mr. Peng's behalf all shareholder's voting rights and all other shareholder's rights at the shareholders' meeting of Hangzhou Rege.

Substantially all of the Group's total revenue and net assets are derived from our consolidated affiliated entities that are subject to the contractual arrangements. The total revenue and net assets derived from our consolidated affiliated entities that are subject to the contractual arrangements is approximately RMB7,645 million during the Reporting Period and approximately RMB50.8 million as at 31 December 2023, respectively.

Report of Directors

2021 NetEase Group Framework Agreement

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

(a) the Group would provide to NetEase Group, (i) advertising services (the "**Advertising Services CCTs**"), and (ii) Other Services (the "**Other Services CCTs**"); and

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

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

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

Annual cap and actual transaction amounts

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

Transaction	**Annual Cap for the Reporting Period RMB million**	**Transaction Amount in the Reporting Period RMB million**
Other Services CCTs	48.0	20.3
Bandwidth, Server Custody and Rack Services CCTs	141.4	76.7
Shared Services CCTs	51.3	40.4
Product Procurement CCTs	46.7	5.5
Advertising Services CCTs	N/A (see below)	223.8
Advertising Agency Services CCTs	N/A (see below)	–
Information Technology CCTs	468.9	274.2

Report of Directors

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

Quantity of advertising units x Base rate for each advertising unit x Discounted rate x (1 – rebate ratio)

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

Quantity of advertising units x Base rate for each advertising unit x Discounted rate x Rebate ratio

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

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

2023 NetEase Group Framework Agreement

On 28 November 2023, the Company (for itself and on behalf of the Group) and NetEase (for itself and on behalf of NetEase Group) renewed the NetEase Group Framework Agreement, which operates from 1 January 2024 until 31 December 2026 (the "**2023 NetEase Group Framework Agreement**"); accordingly, transactions under this framework agreement did not take place during the Reporting Period. For more information, see the Company's announcement dated 28 November 2023.

Continuing Transactions

Pursuant to the 2023 NetEase Group Framework Agreement, the following continuing connected transactions with annual caps that are 0.1% or higher under the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules (the "**Continuing Transactions**"):

(a) the Group would provide to NetEase Group, (i) advertising services (the "**Renewed Advertising Services CCTs**"), and (ii) Other Services (the "**Renewed Other Services CCTs**"); and

(b) NetEase Group would provide to the Group, among others, (i) bandwidth, server custody and rack services (the "**Renewed Bandwidth, Server Custody and Rack Services CCTs**"), (ii) information technology services (the "**Renewed Information Technology Services CCTs**"), (iii) shared services (the "**Renewed Shared Services CCTs**"), and (iv) product procurement (the "**Renewed Product Procurement CCTs**").

Report of Directors

1. *Advertising Services*

Transaction

The Group provides advertising services to end-advertising clients (being primarily third parties) in exchange for advertising service fees. These advertising services include: embedding advertisements across the Group's platforms or through the Group's services, coordinating advertising campaigns using music or products available on the Group's platforms, and facilitating collaborations between the end-advertising client and the Group's users, artists or stakeholders in the music industry. Certain of these end-advertising clients or advertising services are referred to the Group through NetEase Group, and accordingly, part of the service fees generated from this portion of advertising services will be recorded by the Group as connected transactions with NetEase Group.

Pricing Policy

Transaction fees charged under this transaction will be based on: the quality of advertising units concerned, a base rate for each advertising unit, a discount rate, and a rebate ratio. The base rate of each advertising unit adopts the "effective cost-per-mille" (or eCPM) pricing model, which is calculated based on the resources/support required and the cost of advertising space per one thousand units of advertisement impressions. The rebate ratio and the discount rate are percentage multiples determined with reference to the average market rate and is based on the specific contract terms; this allows for greater flexibility and depends on various factors, including advertising volume, advertising duration and any bundling services subscribed for by the end-advertising client.

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

Quantity of advertising units x Base rate for each advertising unit x Discounted rate x (1 – rebate ratio)

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

- a base rate for each advertising unit, determined with reference to market rates;
- the volume/quantity of each advertising unit, according to the request of the end-advertising client;
- a discounted rate, which provides the Group with greater flexibility to tailor the end price according to, among other factors, the end-advertising client, campaign, seasonality, and overall market factors; these rates are pre-agreed and based on a progressive scale based on the aforementioned factors, and is on the same basis as those offered to third parties; and
- a rebate ratio, which represents the percentage charged by NetEase Group to the Group for services they had provided us in the overall process.

This formula and its rates (including base rate and discount rate) are on the same basis as those offered by the Group to third parties.

Report of Directors

Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts and the expected growth in advertising revenue during the annual cap period. This expected growth is based on the continued widening scope of users, and the gradual increase in selling price of each advertising item, quantity and audience exposure over time, as the Group's advertising services yield better results based on greater experience and enhanced technology. Nevertheless, the annual caps also take into account the prevalence of referrals of advertising services or end-advertising clients from non-connected persons of the Company, which would off-set the increase in the expected annual transaction amounts under this transaction going forward.

2. *Other Services*

Transaction

The Group will provide to NetEase Group services such as the products/services from us or from our users/partners posted on our platforms/websites (including music streaming, certain rights to use or sub-license intellectual property relating to music and brands associated with the products developed on our platforms/websites). The Group will also provide traffic direction services under this transaction through a portal on its mobile application that directs to NetEase Group's platforms/websites or products/services.

Pricing Policy

Transaction fees for music streaming and membership services will be charged at a discount (at a rate comparable to, and no less better than, those provided to third-party businesses that we also cooperate with) and bundled with NetEase Group's products/services or enjoyed by NetEase Group's members and staff. The licensing of intellectual property and other products/services the Group provides to NetEase Group will be negotiated separately on a project basis, with reference to market prices and the same products/services offered to third-parties outside of NetEase Group.

Transaction fees for traffic direction services will be based on market prices and volume of use and apportioned with NetEase Group according to a fee split. The fee split depends on the actual traffic volume directed through the portal, the type of products/services generating the revenue (or distribution channel), and a fee split ratio that depends on the popularity of the product/service.

The discount rate and fee split ratio are calculated on the same basis as those offered to third parties, and is largely based on pre-agreed progressive scale based on purchase amount (for the discount rate) or actual accrued/shared amount (for the fee split).

Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts, the expected growth of business of NetEase Group and the Group over the annual cap period, the estimated growth of users interested in the products/services of the Group's platforms, and changes in prevailing market rates of products and services over these periods.

Report of Directors

3. *Bandwidth, Server Custody and Rack Services*

Transaction

NetEase Group will provide the Group with bandwidth, server custody and rack services, which includes content delivery network (or CDN) and Internet Data Centre (or IDC) services, that NetEase Group has or will procure from third-parties for relevant hardware and services, data storage services, hard disks, storage and central processing units (or CPUs), as well as such services and solutions developed by NetEase Group and tailored to the Group's needs.

Pricing Policy

Transaction fees will vary depending on the type of services offered. Server custody fees, sharing of bandwidth equipment and costs associated with engaging operating and maintenance personnel services will be apportioned on a "cost-plus" pricing basis (being a portion of the total costs incurred by NetEase Group to the provider, plus a percentage to cover additional costs and expenses, such as personnel/maintenance/hosting, incurred by NetEase Group in sharing the service).

Transcoding services will be priced based on market prices applying a discount. The market prices are based on comparisons of charged or quoted prices by comparable providers for comparable services, such as speed of responding, and reviewed and renegotiated periodically with the provider. For comparable market prices, the Group makes periodic enquiries (e.g., on an annual basis or towards the end of the contract period) with other comparable third-party providers (such as one or multiple providers, depending on supply of appropriate and comparable market competitors) to update and compare market prices, to ensure that it is still beneficial or appropriate for the Group to continue transacting with NetEase Group for these services.

Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts, the expected growth of business of the Group over the annual cap period, and changes in prevailing market rates of the products and services offered by NetEase Group and third-parties over these periods. In particular, with the market's growth, the Group's user base (including new and retained user numbers), user engagement time, the quality and breadth of products/services offered on the Group's platforms/websites, among other things, are all expected to grow. This growth will require increased demand for services under this transaction, particularly in areas of data storage services, storage and CPUs, as the amount of data passed through and processed on our systems increase.

Report of Directors

4. *Information Technology Services*

Transaction

NetEase Group will provide the Group with information technology services, including cloud hosting and data storage services, big data services (including extraction and analysis services), algorithm training, and security analysis services.

Pricing Policy

Transaction fees for security analysis services will be priced based on the lowest market price with a discount, while other information technology services will be based on a "cost-plus" pricing policy. For comparable market prices, the Group makes periodic enquiries (e.g., on an annual basis or towards the end of the contract period) with other comparable third-party providers (such as one or multiple providers, depending on supply of appropriate and comparable market competitors) to update and compare market prices, to ensure that it is still beneficial or appropriate for the Group to continue transacting with NetEase Group for these services.

Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts, the expected growth of business of the Group over the annual cap period (and therefore, corresponding growth in the Group's need for information technology services, particularly in data processing, storage and analysis services), and changes in prevailing market rates offered by NetEase Group and third-parties over the same periods. Similar to the basis of the annual caps for the transaction above, with the market's growth, the Company anticipates a corresponding increase demand for services under this transaction, particularly in the demand for greater information technology maintenance and support services, as well as adjustments in benchmark market prices for comparable services in response to market changes and inflation.

5. *Shared Services*

Transaction

NetEase Group will share various services with the Group, including the sharing of premises and use of administrative resources, facilities, furniture, administrative purchases and various support services, some of which may be procured from third-parties should the Company desire or consider it more beneficial.

Pricing Policy

Transaction fees for shared services will be apportioned on a "cost-plus" pricing basis (being a portion of the total costs incurred by NetEase Group to the provider, plus a percentage to cover additional costs and expenses, such as personnel/maintenance/instalment, incurred by NetEase Group in sharing the service).

Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts, the expected growth of business of the Group over the annual cap period (and corresponding growth in staff demand and costs), and changes in prevailing market rates of the shared services offered by NetEase Group and third-parties or for comparable services procurable directly from third-parties over the same periods. With the growth of online music entertainment market, the Company anticipates increased staff and office needs, which in-turn would lead to increased demand for shared services under this transaction, particularly in areas of premises sharing and administrative resources sharing, as well as adjustments in benchmark market prices for comparable costs in response to market changes and inflation.

Report of Directors

6. *Product Procurement*

Transaction

NetEase Group will procure for the Group fixed assets such as laptops, hardware and other products for the use of our employees or for our Group to provide as employee benefits to incentivise our staff and enhance our working environment.

Pricing Policy

The procured products will be provided either at-cost or based on market prices applying a discount. The market prices are based on comparisons of charged or quoted prices by providers for comparable products/items, and reviewed and renegotiated periodically with the provider. For comparable market prices, the Group makes periodic enquiries (e.g., on an annual basis or towards the end of the contract period) with other comparable third-party service providers (such as one or multiple providers, depending on supply of appropriate and comparable market competitors) to update and compare market prices, to ensure that it is still beneficial or appropriate for the Group to continue transacting with NetEase Group for these services. For those products that have no market price against which to compare (given that the Group is not able to identify an appropriate comparable provider that is able to offer comparable items within comparable conditions), the Group will refer to the "at cost" pricing basis.

Basis of Annual Caps

The annual caps are determined with reference to the historical transaction amounts, the expected growth of business of the Group over the annual cap period, and changes in prevailing market rates of the products procured by NetEase Group over these periods. With an increase in growth and staff numbers, the Company anticipates a corresponding increase in costs associated with staff and working environment, which in-turn would lead to an increased demand for the products procured under this transaction, as well as adjustments in benchmark market prices for comparable costs in response to market changes and inflation.

As mentioned above, the Continuing Transactions are renewals of their respective transactions under the 2021 NetEase Group Framework Agreement, and as such, the transaction subject-matter, pricing policy, and rationale for the Continuing Transactions remain consistent with that disclosed in the "Connected Transactions" section of the Prospectus for the 2021 NetEase Group Framework Agreement.

Report of Directors

Internal Control of Connected Transactions

The Company has internal control measures in place to ensure that its connected transactions (including continuing connected transactions) are in compliance with applicable Listing Rules. These internal control measures include:

(a) the Company has designated teams within the finance and business departments who monitor the transaction amounts on a quarterly basis and will notify the Company's legal team when the accrued transaction amount is approaching their respective annual caps and the Group anticipates that the annual cap(s) will need to be revised;

(b) the Company has in place a connected transactions policy and relevant members have attended training on the requirements under Chapter 14 and Chapter 14A of the Listing Rules; and

(c) the Company has available guidance from external parties (including legal counsel and external auditors) to advise them on connected transactions issues.

Implication under the Listing Rules and Confirmations

Waivers applied for under the Listing Rules

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

For more information on the above continuing connected transactions, including the waivers obtained for the contractual arrangements and transactions under the 2021 NetEase Group Framework Agreement, please refer to the "Connected Transactions" section of the Prospectus for details of these waivers.

Confirmation from Independent Non-executive Directors

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

Confirmations from the Company's Independent Auditor

PricewaterhouseCoopers, the auditor of the Company, has confirmed in a letter to our Board that, with respect to the continuing connected transactions mentioned above during the Reporting Period, nothing has come to their attention that would cause them to believe that any of the factors listed under Rule 14A.56 of the Listing Rules, where applicable, had existed during the Reporting Period.

During the Reporting Period, save as disclosed in "Continuing Connected Transactions" of this annual report, no related party transactions disclosed in Note 32 to the financial statements constituted a connected transaction or continuing connected transaction that should be disclosed pursuant to the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to these continuing connected transactions entered into by the Group during the Reporting Period.

Report of Directors

USE OF NET PROCEEDS FROM GLOBAL OFFERING

The Company's shares were listed on the Stock Exchange on 2 December 2021. In parallel with the Listing, the Company allotted and issued 16,000,000 new shares under our global offering issued, which resulted in approximately HK$3,160 million (equivalent to approximately RMB2,584 million) raised in net proceeds. Details of our global offering are set out in the Prospectus and our allotment results announcement published on the Stock Exchange's website on 1 December 2021.

Set out below is the status of use of proceeds from the global offering as at 31 December 2023.

Purpose	% of use of proceeds	Net proceeds (HK$ million)	Utilised for the year ended 31 December 2023 (HK$ million)	Unutilised amount as at 31 December 2023 (HK$ million)
Continuously cultivating our community	40%	1,264	–	1,264
Continuously innovating and improving technological capabilities	40%	1,264	–	1,264
Selected mergers, acquisitions, and strategic investments, including to continue seeking potential businesses and assets that would provide synergies with our business and resources, particularly in areas including content sourcing, data and audio technology	10%	316	–	316
Working capital and general and administrative purposes	10%	316	–	316
Total	**100%**	**3,160**	–	**3,160**

There was no change in the intended use of net proceeds as disclosed in the Prospectus. The Company will gradually apply the remaining net proceeds in the next 36 months in the manner set out in the Prospectus. See "Future Plans and Use of Proceeds" section of the Prospectus for further details.

Report of Directors

AUDITOR

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

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Mr. Dewei Zheng, a non-executive Director during the Reporting Period, tendered his resignation as a Director, and his resignation took effect on 15 February 2024. For details, please refer to the Company's announcement dated 2 February 2024.

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

By the order of our Board
Mr. William Lei Ding
Chairman

Hong Kong
14 March 2024

Directors and Senior Management

During the Reporting Period, our board consisted of three executive Directors, three non-executive Directors and three independent non-executive Directors.

DIRECTORS

Executive Directors

Mr. William Lei Ding, aged 52, is an executive Director and the chief executive officer of the Company and chairperson of our Board. Mr. Ding is the founder of NetEase, and has served as a director since its inception in July 1999 and as its chief executive officer since November 2005. Between 1999 to 2005, Mr. Ding served a number of roles within NetEase, including the chief architect, the acting chief executive officer, acting chief operating officer, and co-chief technology officer of NetEase. Mr. Ding currently serves on the board of directors of Youdao, Inc. (NYSE: DAO) since January 2015. Mr. Ding received a Bachelor of Science degree in Communication Technology from the University of Electronic Science and Technology of China.

Mr. Yong Li, aged 46, is an executive Director and the vice president of business intelligence of the Company. Mr. Li joined NetEase in April 2019 and served as a vice president of Kaola. Prior to joining the Company, Mr. Li was a senior technical expert in Tencent Holdings Limited from July 2010 to April 2015. He then served as vice president at Vipshop Holdings Ltd. from April 2015 to June 2018. Mr. Li served as a general manager of operations at Hillhouse Capital in 2018. Mr. Li received a bachelor's degree in information management in July 1999 and a master's degree in statistics in January 2002 from Anhui University of Finance and Economics. He also received his doctoral degree in informatics from Nanjing University in September 2004. Mr. Li served as a post-doctoral researcher in computer science at Tsinghua University from September 2004 to September 2006.

Ms. Yanfeng Wang, aged 37, is an executive Director. She is one of the senior directors for self-produced content in the Company since July 2020, and is also responsible for the Group's brand public relations and communications, since 2015. Prior to that, she was a senior editor and column writer at NetEase Media between May 2013 to March 2015, and a senior editor at Phoenix New Media Limited from June 2011 to May 2013. Ms. Wang received a bachelor's degree in Chinese Language and Literature from Beijing Normal University in July 2008. She also received her master's degree in Literature from Communication University of China in June 2011.

Directors and Senior Management

Non-executive Directors

Mr. Yat Keung Li, aged 51, is a non-executive Director. Mr. Li currently serves as the Vice president of NetEase. Mr. Li first joined NetEase in 2003 and took several senior roles in marketing, business partnership and corporate development within the group. Prior to NetEase, Mr. Li successively served as an account manager and associate account director at DDB Group Hong Kong from August 1999 to October 2003, and as a brand executive at Leo Burnett Hong Kong from January 1998 to July 1999. Mr. Li received his Bachelor of Science in Physics from the University of Hong Kong in November 1996.

Mr. Dewei Zheng, aged 40, is a non-executive Director. Mr. Zheng joined NetEase in July 2005 and worked at the games promotion department until July 2009, and served as the sales director of the games market department from August 2009 to August 2012. He then served as the sales director, senior sales director and chief marketing officer of the marketing channel centre at NetEase from September 2012 to September 2018. Mr. Zheng has been serving as the senior chief marketing officer at NetEase Games since January 2019, and the chairperson and chief executive officer of Xi'an Yunrui Network Technology Co., Ltd. (西安雲睿網絡科技有限公司). Mr. Zheng received a bachelor's degree in Information Management and Information System from Sichuan University in July 2005. As mentioned above in this annual report, Mr. Zheng tendered his resignation as a Director, and his resignation took effect on 15 February 2024. For more information, please see the Company's announcement dated 2 February 2024.

Mr. Ran Wang, aged 37, was appointed as a non-executive Director on 15 June 2023. Mr. Wang has been a non-executive Director of Huitongda Network Co., Ltd. (匯通達網絡股份有限公司) (SEHK: 9878) since November 2022, and has been an executive director of the strategic investment department of Alibaba Group Holding Limited (NYSE: BABA; SEHK: 9988) since July 2018; since October 2021, he has been a director of Shanghai Baison Co., Ltd. (上海百勝軟件股份有限公司), a company listed on the National Equities Exchange and Quotations (known as the New Third Board) in the PRC (NEEQ: 832722). From May 2013 to July 2018, Mr. Wang served as the investment manager of Private Equity Asia Department of Morgan Stanley (China) Private Equity Investment Management Co., Ltd. (摩根士丹利(中國)股權投資管理有限公司); from February 2012 to 2013, he served as an analyst of the Bank of China Group Investment Limited. Mr. Wang graduated from the University of Oxford with a master's degree in financial economics.

Directors and Senior Management

Independent Non-executive Directors

Mr. Ying Kit Caleb Lo, aged 62, is an independent non-executive Director, and the chairperson of the audit committee and a member of the remuneration committee and nomination committee. Mr. Lo served at Motorola for more than 10 years since 1992 in China and Singapore and held several positions of finance management including the finance controller. Mr. Lo then joined Hangzhou H3C Technologies Co., Ltd. And has served as a vice president and the chief financial officer, during which he concurrently served as a vice president and the chief financial officer of the China region of HP Inc. (NYSE: HPQ) from May 2014 to August 2015. Mr. Lo then served as CFO and Co-President of New H3C Group prior to joining JiHu Information Technology (Hubei) Co., Ltd as CFO in September 2021, a JV of GitLab Inc. Mr. Lo has the appropriate professional accounting or related financial management experience for the purpose of Rule 3.10(2) of the Listing Rules. Mr. Lo received his CPA certificate from University of Illinois in February 1995 and he was admitted as a CPA in Hong Kong in October 1995. He is also a member of the American Institute of Certified Public Accountants, and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lo received his diploma in Business Administration from Hong Kong Shue Yan College in July 1986. He received his Master of Business Administration from Oklahoma City University in May 1991.

Mr. Xianfeng Gu, aged 53, is an independent non-executive Director, and the chairperson of the nomination committee and a member of the audit committee and remuneration committee. Mr. Gu has worked at Stony Brook University since June 2004 and has served as a tenured professor since September 2009, and an Empire Innovation Professor since January 2021. He was previously an assistant professor at University of Florida from August 2003 to May 2004. Mr. Gu received a bachelor's degree in Computer Science from Tsinghua University in July 1994. He also received his Ph.D. degree in Computer Science from Harvard University in March 2003.

Mr. Zhong Xu, aged 55, is an independent non-executive Director, and the chairperson of the remuneration committee and a member of the audit committee and nomination committee. Mr. Xu has won various international competitions as a pianist, including the First Prize at the Maria Canals International Piano Competition in 1988, the Third Prize at the Hamamatsu International Piano Competition in 1991, the Santander Prize of Honour at the Santander Paloma O'Shea International Piano Competition in 1992, the First Prize and three other awards at the Tokyo International Piano Competition in 1992 and the Fourth Prize at the Tchaikovsky International Piano Competition in Moscow in 1994. He was awarded the "Chevalier de L'Ordre des Arts et des Lettres" in 2010, and the "Officier de L'Ordre des Arts et des Lettres" in 2018 by the Ministry of Culture and Communication of France. Mr. Xu has served as the Principal Director of Fondazione Arena di Verona, the General Director of Shanghai Opera House, the Chief Conductor of Suzhou Symphony Orchestra, the dean of the School of Music at Soochow University and one of the International Chairs at Royal Welsh College of Music and Drama. He previously served as the Artistic Director of Teatro Massimo Bellini and the Music Director of Israel Haifa Symphony Orchestra. Mr. Xu started his study in Piano in November 1986 at Le Conservatoire national superieur de musique et de danse de Paris. He is also recognised as a level 1 conductor by the Assessment Committee of the Qualification for Senior Professional and Technical Occupations in the Art Categories under the Shanghai Municipal Human Resources and Social Security Bureau.

Directors and Senior Management

SENIOR MANAGEMENT

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

Mr. Xing Zhang, aged 41, is the vice president of products of the Company. He joined the Company in January 2023. From July 2007 to September 2014, Mr. Zhang served a number of positions within NetEase, including product planner and product director. He then worked as a product director at Alibaba from March 2015 to May 2021, and as a product director at ByteDance from May 2021 to December 2022. Mr. Zhang received his bachelor's degree in Information Engineering from Zhejiang University in June 2005 and his master's degree in Design and Art from Zhejiang University in June 2007.

Ms. Yuan Wei, aged 29, is the vice president of copyrights of the Company. She joined the Company in April 2021 and served positions including business assistant for CEO and copyright director. Prior to joining the Company, Ms. Wei worked for the Diversity Alliance in the United States, Milan Records under Sony Music Entertainment, and was responsible for music and strategic cooperation at BIGO from August 2019 to April 2021. Ms. Wei received her bachelor's degree in Law from China University of Political Science and Law in June 2017, and her master's degree in Entertainment, Media, and Intellectual Property Law from the University of California, Los Angeles in May 2018.

Ms. Ju Lu, aged 43, is the vice president of finance of the Company. She has served as our financial controller since joining in 2018. Previously, she served as the chief financial officer at UNIS-WDC Storage Co., Ltd. (紫光西部數據有限公司) from May 2016 to February 2018. She was the finance controller at StormNet Information Technology (Shanghai) Co., Ltd. (戰上風信息技術(上海)有限公司) from March 2011 to March 2016. Ms. Lu also worked at Ernst & Young Hua Ming LLP from September 2002 to December 2010 and left as a senior manager. Ms. Lu received her CICPA qualification from the Shanghai Institute of Certified Public Accountants and her AICPA qualification from the Missouri State Board of Accountancy in the U.S. She also obtained a legal professional qualification certificate from the Ministry of Justice of PRC in March 2019. She received her Bachelor of Economics degree in Accounting from Fudan University in July 2002.

COMPANY SECRETARY

Ms. Wong Wai Yee Ella, aged 48, is the Company secretary. Ms. Wong is also a Director of Corporate Services of Tricor Services Limited and has been providing corporate secretarial and compliance services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Wong currently holds company secretary or joint company secretary positions in multiple companies listed on the Stock Exchange.

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

Other Information

DISCLOSURE OF INTERESTS

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

As at 31 December 2023, the interests and short positions of our Directors or chief executives of the Company in any of our shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)), as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interest in the Company

Name of Director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of holding(4)	Long position/ Short position
Mr. William Lei Ding	Other(1)	129,034,168	60.21%	Long position
Mr. Yong Li(2)	Beneficial owner	316,357	0.15%	Long position
Ms. Yanfeng Wang(3)	Beneficial owner	11,178	0.01%	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. Ding is also the settlor of the trust.

(2) Mr. Yong Li is entitled to receive up to (i) 300,000 shares pursuant to the exercise of options granted under the Company's Pre-IPO Share Incentive Plan (i.e. the 2016 Plan), and (ii) 16,357 shares under the Company's 2022 Restricted Share Unit Plan (i.e. the 2022 Plan).

(3) Ms. Yanfeng Wang is entitled to receive up to (i) 3,000 shares pursuant to the exercise of options granted under the 2016 Plan, and (ii) 8,178 shares under the 2022 Plan.

(4) The calculation is based on the total number of 214,289,426 shares in issue as at 31 December 2023.

(5) Details of the options granted to the Directors mentioned above are set out in the section headed "Share Incentive Plans" below.

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	22,105 ADSs	0.00%	Long position
Ms. Yanfeng Wang[3]	Beneficial owner	3,368 ADSs 100 shares	0.00%	Long position

Notes*:*

(1) The calculation is based on the number of outstanding shares of NetEase as at 31 March 2024 as disclosed in the annual report of NetEase (a copy of which is/will be available for viewing on the Stock Exchange's website at www.hkexnews.hk by the end of April 2024) and publicly available information, to the best knowledge of the Company.

(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. Ding is also the settlor of the trust. This reflects the position as at 31 March 2024, which is based on the latest available published information. For more information, please refer to the annual report of NetEase.

(3) The interests underlying the ADSs comprise the Director's entitlement to receive shares in NetEase pursuant to restricted share units under the 2009 Stock Incentive Plan and/or the 2019 Restricted Share Unit Plan of NetEase, where each restricted share unit represents one ADS of NetEase (being equal to five NetEase shares). This includes vested and unvested restricted share units, with the unvested portion subject to the terms and conditions of the grant.

Save as disclosed above, as at 31 December 2023, none of our Directors or chief executives of the Company had or was deemed to have any interests or short positions in our shares, underlying shares or debentures of the Company or any of its associated corporations which would be required to be disclosed.

Other Information

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

As at 31 December 2023, so far as our Directors are aware, the following persons (other than our Directors or chief executives of the Company) had interests or short positions in our shares or underlying shares of the Company as recorded in the register required to be kept by the 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	60.21%	Long position
Shining Globe Holding Limited[1]	Beneficial owner	129,034,168	60.21%	Long position
TMF (Cayman) Ltd.[1]	Beneficial owner	129,034,168	60.21%	Long position
Alibaba Group Holding Limited[2]	Interest in a controlled corporation	20,733,975	9.68%	Long position
Taobao Holding Limited[2]	Interest in a controlled corporation	20,733,975	9.68%	Long position
Taobao China Holding Limited[2]	Beneficial owner	20,733,975	9.68%	Long position
GIC Private Limited[3]	Interest in a controlled corporation	13,923,356	6.50%	Long position
	Investment manager	225,000	0.10%	Long position
GIC (Ventures) Pte. Ltd.[3]	Interest in a controlled corporation	13,923,356	6.50%	Long position
GIC Special Investments Private Limited[3]	Investment manager	13,923,356	6.50%	Long position

Notes:

(1) Mr. William Lei 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 the 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 depositary 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 the 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 the 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 the Company on an aggregated basis.

(4) The calculation is based on the total number of 214,289,426 shares in issue as at 31 December 2023.

Other Information

Save as disclosed above, as at 31 December 2023 and based on publicly available information, no other person (other than our Directors or chief executives of the Company) had an interest or short position in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or which were required to be entered in the register required to be kept under section 336 of the Securities and Futures Ordinance.

SHARE INCENTIVE PLANS

Details of Share Incentive Plans of our Company

Overview

Adoption

The 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. The 2022 Plan was adopted on 18 August 2022 and amended on 15 June 2023, following which, the 2022 Plan constituted a share scheme governed by the requirements of Chapter 17 of the Listing Rules and the Company ceased making new grants under the 2016 Plan.

Purpose of the Plans

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

Awards

Under the 2016 Plan, our Company granted awards (including options and restricted share units) to eligible participants. Upon the adoption of the amended 2022 Plan (which took place on 15 June 2023), we ceased granting awards under the 2016 Plan.

Under the 2022 Plan, we may only grant restricted share units ("**RSUs**") to eligible participants.

Further details of the Plans

The following table summarises the material terms of the Plans. For further information about the 2016 Plan, please see pages IV-20 to IV-24 of Appendix IV to the Prospectus. For further information about the 2022 Plan, please see the circular of the Company dated 24 May 2023. Both of these documents are accessible on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (http://ir.music.163.com).

No option was granted under the 2016 Plan during the Reporting Period. No new shares may be issued in respect of the awards granted during the Reporting Period to eligible participants pursuant to the Plans.

Other Information

	2016 Plan	2022 Plan
Scheme mandate limit	15,000,000 shares	10,462,280 shares, subject to an annual limit of 3% of the Company's total issued share number at the relevant time.
Service provider sublimit	N/A	2,077,569 shares, subject to an annual limit of 1% of the Company's total issued share number at the relevant time.
Number of shares available for issue pursuant to awards granted and ungranted under the plan *(assuming no granted awards have lapsed or are cancelled or satisfied in a manner other than issuing new shares)*	5,221,491 shares, representing 2.44% of the Company's total issued share number as at the date of this annual report.	10,462,280 shares, representing 4.88% of the Company's total issued share number as at the date of this annual report.
Eligible participants	Eligibility is determined by the plan administrator, and includes: • employees of the Company, our parent, a subsidiary or affiliate of the Company, or any related entity to which a participant provides services as an employee (a "**service provider**"); and • directors of the Company, our parent, a subsidiary or related entity of the Company, or consultant or adviser rendering services to a service provider.	Eligibility is determined by the plan administrator, and includes: • employees, directors or officers of the Group on the grant date ("**employee participants**"); • employees, directors or officers of a "holding company" of the Company (as defined in the Securities and Futures Ordinance); a "subsidiary" of a holding company of the Company (as recognised by applicable accounting standards) other than the Group; or an "associate" of the Company (as defined in the Listing Rules) ("**related entity participants**"); and • service providers that, in the opinion of the plan administrator, provide services to the Group on a continuing or recurring basis in our ordinary and usual course of business and that are in the interests of the long-term growth of the Group or to which grants of awards under the RSU Plan would be in the interest of the Company and our shareholders as a whole, and includes artists, performers or other suppliers and service providers ("**service provider participants**").

Other Information

	2016 Plan	**2022 Plan**
Maximum entitlement of each participant	None	None
Exercise period for options	10 years from date of grant.	N/A
Vesting period	A period to be determined by the plan administrator.	A minimum of 12 months from the date of grant, except limited circumstances as set out in the Company's circular dated 24 May 2023.
Consideration payable for accepting a grant	None, unless otherwise specified by the plan administrator.	None, unless otherwise specified by the plan administrator.
Basis of determining the exercise price of options	Determined by the plan committee and set forth in the award agreement which may be a fixed or variable price related to the fair market value of the shares.	N/A
Basis of determining the purchase price of awards (where any)	The purchase price is nil.	The purchase price is nil.
Scheme life *(unless terminated earlier by our Board)*	10 years from adoption date, with a scheme life of approximately 3 years remaining.	10 years from adoption date, from 18 August 2022 to 17 August 2032.

Other Information

Details of grants made under the Plans

2016 Plan

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

Name or category of grantee[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	Details of movements during the Reporting Period: Granted during the Reporting Period	Exercised during the Reporting Period	Lapsed during the Reporting Period[2]	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 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	4,000	Nil	Nil	Nil	N/A	N/A	HKD85.20
336 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	1,436,940	399,800	Nil	3,386,400	N/A	N/A	HKD83.40
28 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	942,400	3,500	Nil	686,000	N/A	N/A	HKD73.52
Total						**7,162,040**	**Nil**	**2,383,340**	**403,300**	**Nil**	**4,375,400**			

Notes:

(1) With respect to each award granted, upon each vesting date, the portion of the award that vests shall depend on the grantee meeting a specified threshold in their performance evaluations during the one-year period prior to the vesting date.

(2) The exercise prices of the 399,800 options of employee participants and 3,500 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 (the June 2023 grants will be satisfied with existing shares) 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
143 grantees	Employee participants	2 June 2022 to 14 June 2023	3 months to 3 years	1,086,400	361,499	376,651	225,157	Nil	846,091	HKD83.00 and HKD86.65	HKD85.50 and HKD85.80	HKD83.35
Total				**1,086,400**	**361,499**	**376,651**	**225,157**	**Nil**	**846,091**			

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 the market price of the Company's shares at the respective grant date. please refer to Note 26 to the "Notes to the Consolidated Financial Statements".

Other Information

2022 Plan

The following table sets out details of grantees holding unvested RSUs under the 2022 Plan during the Reporting Period. The vesting of such grants shall be satisfied with existing Shares upon vesting. 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[3]	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
Mr. Yong Li	Director	15 September 2023	3 years	0	16,357	Nil	Nil	Nil	16,357	HKD80.00	HKD80.00	N/A
Ms. Yanfeng Wang	Director	15 September 2023	3 years	0	8,178	Nil	Nil	Nil	8,178	HKD80.00	HKD80.00	N/A
3 grantees	the five highest paid individuals[4]	15 September 2023	3 years	0	36,394	Nil	Nil	Nil	36,394	HKD80.00	HKD80.00	N/A
393 grantees	Employee participants	31 August 2023 to 23 November 2023	3 years	0	1,784,235	Nil	37,943	Nil	1,746,292	HKD75.30 to HKD86.65	HKD79.35 to HKD85.20	N/A
5 grantees	Related entity participants	15 September 2023 and 23 November 2023	3 years	0	35,760	Nil	Nil	Nil	35,760	HKD80.00 and HKD86.65	HKD80.00 and HKD85.20	N/A
Total				**0**	**1,880,924**	**Nil**	**37,943**	**Nil**	**1,842,981**			

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 the market price of the Company's shares at the respective grant date, please refer to Note 26 to the "Notes to the Consolidated Financial Statements".

(3) For these cancelled RSUs, if any, the purchase price was nil.

(4) The five highest paid individuals during the Reporting Period in aggregate did not include the Directors disclosed above.

Corporate Governance Report

Our board is pleased to present the corporate governance report for the Company for the 2023 financial year.

The Company has adhered to efficient and advance corporate governance principles and constantly improves its corporate governance to ensuring that Company's operations are sustainable and in line with the long-term interests of the Company and its shareholders as a whole. In 2023, all the meetings including shareholders' meeting, the Board and its subordinate committees operated soundly. By improving its transparency, accountability and efficiency, the Company believes that the benefits of its stakeholders (including employees and whom it does business and the communities as well) will be maximised.

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

CORPORATE GOVERNANCE PRACTICES

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

During the year ended 31 December 2023, the Company has adopted and complied with all applicable code provisions of the Corporate Governance Code except for the deviation as set out below.

Pursuant to code provision C.2.1 of the Corporate Governance Code, the roles of chairperson and chief executive should be separate and not be performed by the same person. The 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 the Company. Mr. Ding is the founder of NetEase, our parent company and controlling Shareholder, and has extensive experience in the business operations and management of the 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 the Group and enables more effective and efficient overall strategic planning. This structure will enable the 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 the Group as a whole.

The 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 the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted management securities dealing policies that are on terms no less stringent than the Model Code to regulate all dealings by Directors and relevant insiders in securities of the Company and other matters covered by the Model Code.

Specific enquiry has been made to all of 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 the Company during the Reporting Period.

Corporate Governance Report

BOARD OF DIRECTORS

Board Composition

During the Reporting Period, our Board comprised three executive Directors, three non-executive Directors and three independent non-executive Directors.

For details on the members of our Board and their biographies, see "Directors and Senior Management" at pages 41 to 44 of this annual report.

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

Chairman and Chief Executive Officer

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

Board Meetings, Committee Meetings and General Meetings

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

Name of Director	Board	Remuneration Committee	Nomination Committee	Audit Committee	General Meeting
Executive Directors:					
Mr. William Lei Ding	4/4	0/0	0/0	0/0	2/2
Mr. Yong Li	4/4	0/0	0/0	0/0	2/2
Ms. Yanfeng Wang	4/4	0/0	0/0	0/0	2/2
Non-executive Directors:					
Mr. Yat Keung Li	4/4	0/0	0/0	0/0	2/2
Mr. Dewei Zheng *(resigned as a non-executive Director with effect from 15 February 2024)*	4/4	0/0	0/0	0/0	2/2
Mr. Feng Yu[(1)] *(resigned as a non-executive Director with effect from 15 June 2023)*	0/2	0/0	0/0	0/0	0/1
Mr. Ran Wang *(appointed as a non-executive Director on 15 June 2023)*	2/2	0/0	0/0	0/0	1/1
Independent Non-executive Directors:					
Mr. Ying Kit Caleb Lo	4/4	1/1	1/1	2/2	2/2
Mr. Xianfeng Gu	4/4	1/1	1/1	2/2	2/2
Mr. Zhong Xu[(2)]	3/4	0/1	0/1	1/2	2/2

Notes:

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

(2) Mr. Zhong Xu could not attend one of the Board meetings, one of the Remuneration Committee meetings, one of the Nomination Committee meetings and one of the Audit Committee meetings due to other arrangement. He has reviewed the relevant proposals before the meetings and authorised an alternate in writing to vote on his behalf so as to ensure his views were fully reflected in the meetings.

Corporate Governance Report

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

Independence of Independent Non-Executive Directors

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

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

Board Independence Evaluation

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

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

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

During the year ended 31 December 2023, all Directors have completed the independence evaluation in the form of a questionnaire individually and supplemented by individual interviews. The Board Independence Evaluation Report was presented to the Board and the evaluation results were satisfactory.

During the year ended 31 December 2023, the Board and the nomination committee reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism and the results were satisfactory.

Corporate Governance Report

Appointment, Re-election and Removal of Directors

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

The Directors shall disclose to the Company details of other offices held by them.

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

Corporate Governance Report

Continuous Professional Development of Directors

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

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

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

During the Reporting Period, the Company organised (i) one training session conducted by the qualified professionals for the independent non-executive Directors (namely Mr. Ying Kit Caleb Lo, Mr. Xianfeng Gu and Mr. Zhong Xu) which covered a wide range of relevant topics including directors' duties and responsibilities, risk management and internal controls, etc. and (ii) one training session conducted by the company secretary of the Company for all Directors (namely Mr. William Lei Ding, Mr. Yong Li, Ms. Yanfeng Wang, Mr. Yat Keung Li, Mr. Dewei Zheng, Mr. Ran Wang, Mr. Ying Kit Caleb Lo, Mr. Xianfeng Gu and Mr. Zhong Xu), which covered disclosure of interest requirements under Part XV of the Securities and Futures Ordinance and relevant requirements for directors' dealings in securities. In addition, relevant reading materials including directors' manual, legal and regulatory updates and seminar handouts have been provided to all Directors for their reference and study.

Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against Directors, officers and senior management of the Company arising out of corporate activities. See also "Permitted Indemnity" at page 19 of this annual report.

BOARD COMMITTEES

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

Audit Committee

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

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

Corporate Governance Report

The audit committee held two meetings to review the interim and annual financial results and reports for 2023 financial year and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works, and arrangements for employees to raise concerns about possible improprieties.

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

Remuneration Committee

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

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

During the Reporting Period, the remuneration committee met once to report to our Board on the remuneration packages of individual executive Directors and senior management and to review and approve material matters relating to share schemes (including grants made under the Plans during the Reporting Period).

Details of the Directors' remuneration for the year ended 31 December 2023 are set out in Note 10 to the consolidated financial statements.

The remuneration of the senior management (other than Directors) of the Group by band for the 2023 financial year is set out below:

Remuneration bands (HKD)	**Number of persons**
HK$0-HK$5,000,000	2
HK$5,000,001-HK$10,000,000	1
Total	**3**

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

Corporate Governance Report

Nomination Committee

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

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

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

BOARD POLICIES AND CORPORATE GOVERNANCE FUNCTIONS

Board Diversity Policy

The Company has adopted a board diversity policy which sets out the approach to achieve diversity of our Board. The Company recognises and embraces the benefits of having a diverse board of directors and sees increasing diversity at our Board level, including gender diversity, as an essential element in maintaining the Company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. In reviewing and assessing suitable candidates to serve as a director of the Company, the nomination committee will consider a number of aspects, including but not limited to gender (including avoiding a single gender board), age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. The nomination committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on our Board and recommend them to our Board for adoption. The nomination committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. As at the date of this report, the Company has achieved gender diversity with a female director on the Board and two female managers in the senior management team. For more details such as the gender ratio in the workforce, please refer to page 104 to 105 of the "Environmental, Social and Governance Report".

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

Corporate Governance Report

Director Nomination Policy

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

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

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

(a) The nomination committee shall nominate candidates for the consideration of the Board. The nomination committee may propose candidates who were not nominated by the Board. The Board shall have the final decision on all matters in relation to its nomination of any candidates to stand for election at a general meeting of the Company.

(b) A candidate nominated by the Board to stand for election at a general meeting (the "Board Candidate") will submit the necessary personal information, together with their written consent to be elected as a Director and to the publication of their personal information for the purpose of or in relation to their standing for election as a Director. The nomination committee may request the Board Candidate to provide additional information and documents if they consider necessary.

(c) A circular will be available to Shareholders (the "Shareholder Circular") to provide information of the Board Candidate. The Shareholder Circular will include the personal information of the Board Candidate as required by the applicable laws, rules and regulations, inter alia, their name, brief biography (including qualifications and relevant experience), independence and proposed remuneration.

(d) The Board Candidate shall not assume that they have been nominated by the Board to stand for election at the general meeting prior to the despatch/publication of the Shareholder Circular.

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

Corporate Governance Report

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

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

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

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

Corporate Governance Function

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

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

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

Corporate Governance Report

Dividend Policy

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

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

FINANCIAL STATEMENTS, INTERNAL CONTROL AND RISK MANAGEMENT

Directors' Responsibility in Respect of the Financial Statements

Our Directors acknowledge their responsibility for preparing the financial statements of the Company for the 2023 financial year.

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

The statement of the independent auditor of the Company, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report at pages 106 to 110 of this annual report.

Auditor's Responsibility and Remuneration

The Company appointed PricewaterhouseCoopers as the external auditor for the 2023 financial year. A statement by PricewaterhouseCoopers about their reporting responsibilities for the financial statements is included in the Independent Auditor's Report at pages 106 to 110.

Corporate Governance Report

Details of the fees paid and payable in respect of the audit and non-audit services (represent the interim review services) provided by PricewaterhouseCoopers for the 2023 financial year are set out in the table below:

Services rendered for the Company	**Total fees paid and payable** RMB'000
Audit services related to the Group	5,820
Non-audit services	980
Total	**6,800**

Risk Management and Internal Controls

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

Risk Management

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

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

The Company consider that our Directors and members of the senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control. See "Directors and Senior Management" at pages 41 to 44 for details of their qualification and experiences.

Corporate Governance Report

Internal Control

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

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

(i) We maintain internal procedures to ensure that we have obtained all material requisite licences, permits and approvals for our business operation, and conduct regular reviews to monitor the status and effectiveness of those licences and approvals. Relevant business departments work with related functional departments to obtain requisite governmental approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.

(ii) To comply with the rapidly evolving laws and regulations in the internet industry, we have professional teams in the Group to enforce our strict internal procedures, which include without limitation monitoring laws and regulations updated from time to time and conducting relevant researches and studies; monitoring notices, instructions and requirements issued by the regulatory authorities and communicating with relevant authorities to obtain further instructions when necessary; collecting external professional opinions on any new laws and regulations; issuing appropriate plans of compliance for each product and ensuring the implementation of such plans; carry out supervision, inspection and feedback on the implementation.

(iii) To comply with the laws and regulations relating to live-streaming entertainment business, we have established various regulating mechanisms including the Management of Practices of Live Streaming Performers《主播管理規範》, the Management of Practices on Users《用戶管理規範》and Penalties on Violation of the Rules by Live Streaming Talent Agencies《LOOK 直播公會違規處罰規則》. We have also established a comprehensive review system on live streams that covers all sections from the registration of performers, to the process of live streaming, and to the reporting after the end of the live streaming programs. The specific actions include but are not limited to the following:

- Firstly, we have established a management and security system. For instance, we have implemented a stringent real-name basis system through which performers are required to registered with information such as their real name and ID numbers. Such information will be verified by authorised third-party organisations using biometrics technologies such as face recognition and identity authentication, to match the face of performers with their identity information and confirm the validity of such identity information. During the face recognition process, after obtaining the consent from the performers, the system will capture the face information of the performers through camera, and will instruct the performers perform certain actions, such as blinking and opening the mouth, to confirm it is a real person. The authorised third-party organisation will compare the pictures captured by the camera with photos in the performers' ID cards to verify whether the performers are the holders of such ID cards. The content review system adopts a "machine + manual" approach, with the help from technologies such as AI capture and key words detection, voice recognition, and risk characteristic models. The review team is on 24/7 shifts to ensure sufficient manpower to monitor all live stream content.

Corporate Governance Report

- Secondly, we have established a protection mechanism for minor users. We have set up and continuous upgrade the youth review mode, which cover various aspects of minor usage, including Internet addiction and virtual gifting. We have also set up multiple real-name authentication portals. Any user identified as a minor user by real-name authentication cannot be registered as a live streaming performer or top up in the live streaming service.
- Finally, we have established a management mechanism of live streaming performers. We have set up penalties for prohibited conducts such as spreading vulgar content in live streaming rooms and inducing minors to make virtual gifting. The penalties include but not limited to warning, closing live streaming room, banning performance, freezing account, blocking or suspending settlement of revenue sharing for the month and suspending provision of publicity and promotion resources. We have also a tagging system for contents of live streaming programmes and a grading system based on quality of live streaming programmes and performers, and different levels are allocated with different resources.

(iv) Our Directors (who are responsible for monitoring the corporate governance of the Group), with help from the legal advisers, also periodically review the compliance status with all relevant laws and regulations.

(v) Our board has established the audit committee, which: (i) makes recommendations to our Directors on the appointment and removal of external auditors; and (ii) reviews the financial statements and renders advice in respect of financial reporting as well as oversees internal control procedures of the Group.

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

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

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

COMPANY SECRETARY

Ms. Wong Wai Yee Ella has been appointed as the Company's company secretary. Ms. Wong's primary contact person at the Company is Ms. Ju Lu, vice president of finance of the Company. See "Directors and Senior Management" at page 44 in this annual report for Ms. Wong's biography.

In the 2023 financial year, Ms. Wong has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Corporate Governance Report

SHAREHOLDER RIGHTS AND COMMUNICATIONS

Convening of Extraordinary General Meetings by Shareholders and Putting Forward Proposals at General Meetings

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

Shareholders who wish to put forward proposals at general meetings may achieve this by means of convening an extraordinary general meeting following the procedures set out in paragraph above.

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

Putting Forward Enquiries to the Board and Contact Details

For putting forward any enquiries to our Board, Shareholders may send written enquiries to the Company as follows:

Attn.: The Board of Directors, Cloud Music Inc.
Room 1201, Block A Hangzhou International Expo Center
No. 353 Benjing Avenue, Qianjiang Century City, Xiaoshan District
Hangzhou, Zhejiang Province, China.

The Company will not normally deal with verbal or anonymous enquiries.

Corporate Governance Report

Communication with Shareholders and Investors Relations

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

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

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

(a) Corporate Communication

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

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

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

(c) Corporate Website

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

Corporate Governance Report

(d) Shareholders' Meetings

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

(e) Shareholders and Investors Enquiries

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

(f) Webcast

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

(g) Other Investor Relations Communication Platforms

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

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

Changes in Constitutional Documents

On 15 June 2023, the Company amended certain provisions of its articles of association to, among other things, bring the articles of association to comply with the core shareholders' protection requirements set out Appendix A1 (formerly Appendix 3) to the Listing Rules that took effect on 1 January 2022 by way of adoption of the new memorandum and articles of association in substitution for, and to the exclusion of, the memorandum and articles of association, upon the approval by the shareholders by special resolution at the annual general meeting of 2023. For further details, please refer to the circular of the Company dated 24 May 2023.

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

Environmental, Social and Governance Report

ABOUT THIS REPORT

Introduction

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

Reporting Period

This report covers the period from January 1, 2023 to December 31, 2023 (the "reporting period"), with some content retrospectively referencing prior years or extending into 2024.

Reporting Scope

This report covers Cloud Music Inc. (the "Company", "Cloud Music", "we", "us" or "our") and its subsidiaries.

Reporting Guidelines

This report was compiled in accordance with *Environmental, Social and Governance Reporting Guide* in Appendix C2 (formerly Appendix 27) of the *Listing Rules* issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Adhering to reporting principles such as materiality, quantitative, and consistency, this report was prepared following the procedures of identifying and prioritizing stakeholders and material ESG-related issues, determining the scope of the ESG report, collecting relevant materials and data, compiling the report based on the information, and reviewing the contents of the report to ensure its completeness, substance, accuracy, and balance.

Materiality

This report focuses on the disclosure of ESG issues identified by the Company's Board of Directors as having material impacts on investors and other stakeholders. For details on the identification process and outcomes of Cloud Music's ESG material issues for 2023, please refer to the "Stakeholder Engagement" and "ESG Material Issues" sections in chapter one.

Quantitative

This report discloses Cloud Music's quantitative ESG data, along with the standards and methodologies used for data collection, statistics, and calculations. Additionally, textual explanations are provided for the data. For Cloud Music's 2023 quantitative ESG data, please refer to Appendix 2 "ESG Performance Indicators" and the corresponding sections in each chapter.

Consistency

Unless otherwise stated, the Company adheres to a consistent statistical method for data disclosure in each reporting period.

Sources and Credibility

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

Environmental, Social and Governance Report

Languages and Formats

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

Compiling Process

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

Confirmation and Approval

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

Access and Feedback

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

Email: music.ir@service.netease.com

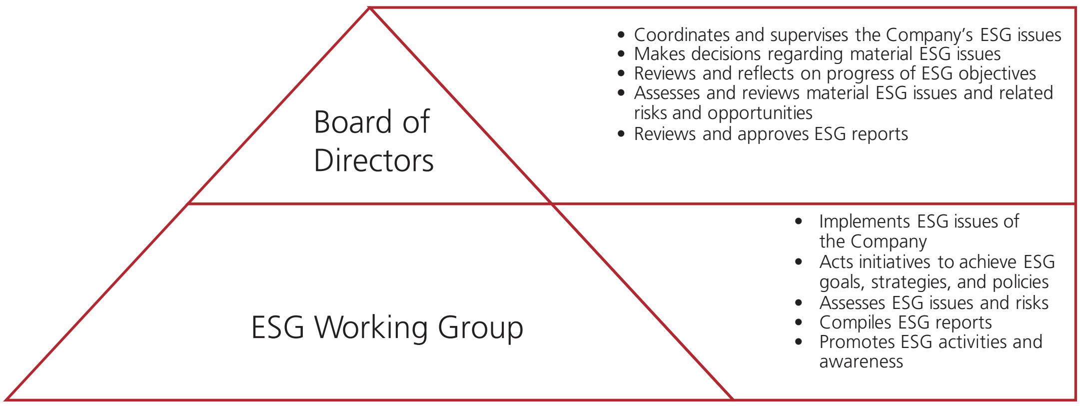
Environmental, Social and Governance Report

1 ESG GOVERNANCE

Cloud Music is dedicated to sustainable development and embeds ESG matters in its daily operations through the ESG governance structure. Cloud Music proactively maintains two-way communication with stakeholders to collect their suggestions, and accurately understands their concerns on ESG issues. To maintain the steady and sustainable growth of the Company, Cloud Music has continuously improved its compliance management system and enhanced its risk control capability.

1.1 ESG Governance Structure

Could Music's ESG governance structure consists of the Board of Directors and the ESG Working Group. With clearly defined responsibilities and functions, they collaborate to ensure that the Company's ESG work is carried out in an orderly manner.



ESG Governance Structure

Statement by the Board of Directors

The Board of Directors values the incorporation of ESG principles into the Company's growth strategy and is ultimately responsible for the Company's ESG initiatives and performance. The duties of the Board include reviewing ESG strategies and policies and regularly monitoring the progress of ESG goals. The Board is keenly aware of its importance in coordinating ESG matters and is committed to staying updated on ESG trends and constantly improving its ESG governance awareness. During the reporting period, the Board reviewed the annual ESG report, and offered suggestions for the ESG management for next year. The ESG Working Group is responsible for implementing the Company's ESG strategies, goals, and guidelines, and regularly reporting to the Board on ESG work progresses.

Environmental, Social and Governance Report

1.2 Stakeholder Engagement

Cloud Music has established a regular stakeholder communication system. Through transparent and varied communication channels, Cloud Music can stay informed of stakeholders' thoughts and expectations on its sustainability work. Cloud Music keeps in touch with internal and external stakeholders, striving to identify their key concerns and help Cloud Music efficiently manage ESG risks and opportunities. The table below shows the key stakeholders and their expectations identified by Cloud Music during the year.

Table: Key Stakeholders and Communication Channels

Stakeholder	Expectations and Demands	Communication Channels
Users	• Content Innovation • Content Compliance • Customer Services • Privacy and Data Security	• Customer Satisfaction Surveys • Customer Complaint Handling • The Company's Website • Official WeChat Account
Partners and Industry Associations	• Experience Sharing • Support for Industry Development	• Strategic Cooperation • Industry Exchanges
Employees	• Compensation and Benefits • Health and safety • Employee Communication • Promotion and Career Advancement Opportunities	• Employee Satisfaction Surveys • Suggestions Channel • Team building Activities
Shareholders and Investors	• Corporate Governance • Return on Investment (ROI) and Growth • Risk Management • Tackling Climate Change	• Shareholder Meetings • Road Shows • Information Disclosure via ESG and Annual Reporting
Communities and Charities	• Volunteering • Support for Local Development • Care for Disadvantaged Groups	• Charity Work • Community Building Activities • Visits
Government and Regulatory Authorities	• Product Compliance • Anti-corruption • Tackling Climate Change	• Policy Consulting • Reception of Visitors • Meetings
Media	• Promoting Industry Development • Support for Local Development • Care for Vulnerable Groups • Tackling Climate Change	• Press Conferences • Social Media
Suppliers	• Supplier Management • Transparent Procurement • Products and Service Quality Assurance	• Supplier Training • Supplier Qualification Assessment

Environmental, Social and Governance Report

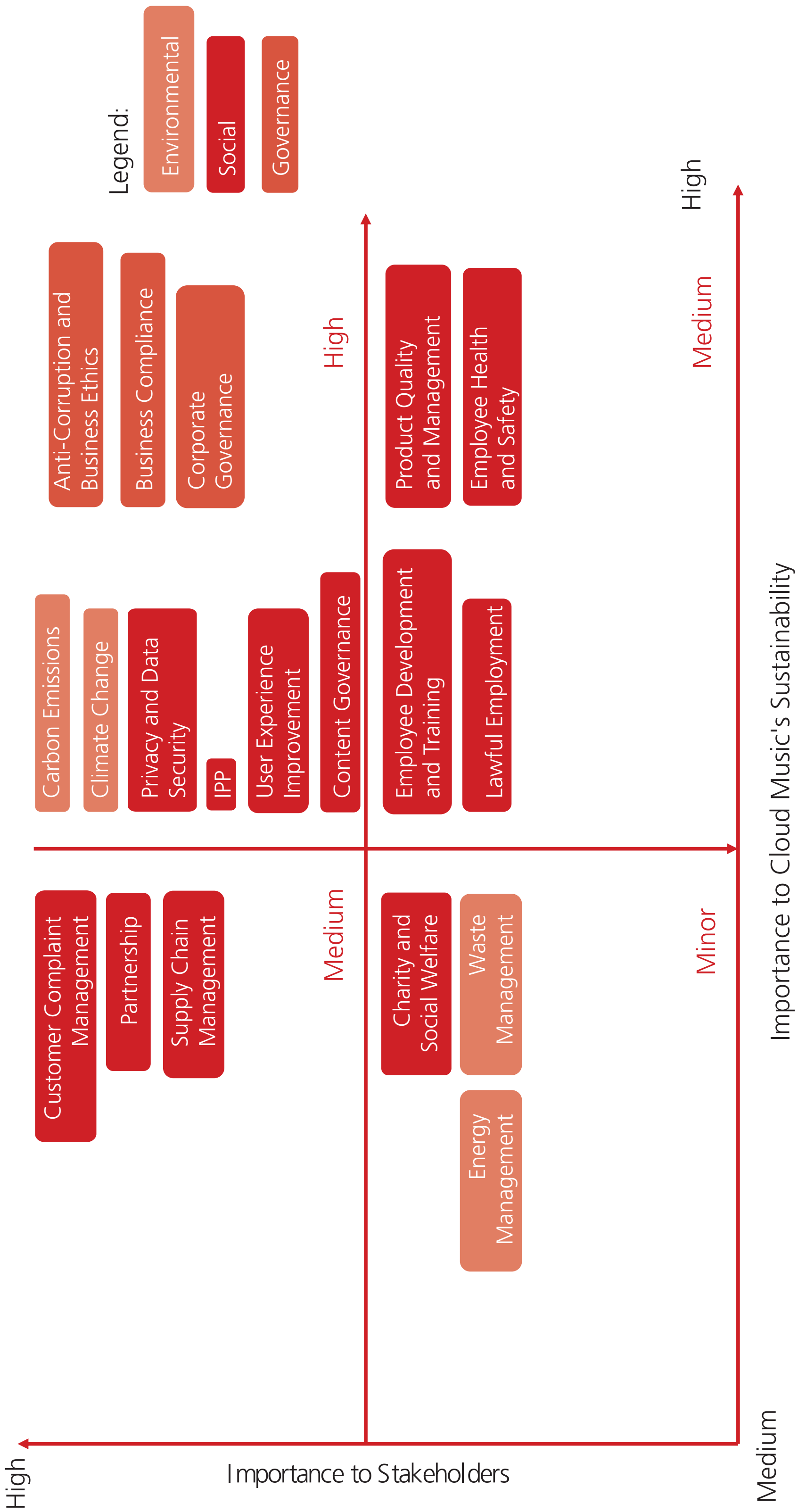
1.3 Material ESG Issues

Cloud Music regularly collects stakeholders' feedbacks relevant to the Company's sustainability work and promptly identifies ESG issues that the Stock Exchange and its industry peers are concerned about. Based on the above, Cloud Music forms an initial library of ESG issues for the Company's sustainability management. During the reporting period, Cloud Music identified 19 material issues that have a significant impact on the Company's sustainability based on feedbacks from its management, stakeholder communications, and peer benchmarking results. Cloud Music has prioritized these issues based on their importance and developed a matrix of material ESG issues, which are discussed in detail in this report.

Table: List of Material ESG Issues

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

Environmental, Social and Governance Report



Matrix of Material ESG Issues

Environmental, Social and Governance Report

1.4 Compliance Governance

In accordance with the requirements under the applicable laws and regulations, including the *Company Law of the People's Republic of China*, the *Basic Standard for Enterprise Internal Control with Implementation Guidelines*, the *Listing Rules* issued by the Stock Exchange, etc., Cloud Music has formulated corporate governance policies and systems, enhancing the Company's governance on the relevant compliance. During the reporting period, Cloud Music set up the risk management structure at the operation level. The risk committee, composed of certain senior management personnel, is in charge of reviewing and deciding on material risks issues, and overseeing and directing the execution committee under it in carrying out daily risk management. The execution committee is responsible for identifying and assessing risks, devising prompt mitigation strategies, and regularly reporting the risk monitoring progress to the risk committee.

During the reporting period, Cloud Music identified material risks in the aspects of corporate governance, business ethics, employment, intellectual property, cyber and data security, etc. Cloud Music carried out management and preventative measures based on risk factors and levels. In addition, Cloud Music has been establishing an online compliance risk assessment system, aiming to reduce the overall business risks through end-to-end project management and compliance evaluation.

Cloud Music values compliance and proactively foster compliance awareness of the employees. During the reporting period, Cloud Music provided regular publicity and training sessions to the relevant business units and employees to keep them updated on the latest laws, regulations, supervisory requirements, and industry standards.

Interpretation of New Internet Regulations

- During the reporting period, Cloud Music offered detailed interpretation of the new regulations, including the *Measures for the Administration of Internet Advertising* and the *Regulations on the Protection of Minors in Cyberspace,* that fits the Company's business scenarios for its all employees. This initiative aimed to deepen the understanding of the regulations among business personnel and facilitate compliance with the new rules.

Training on Livestreaming Compliance

- To improve the compliance awareness of its livestreaming staff, Cloud Music invited lawyers to provide targeted training, aiming to remind them of the compliance requirements by sharing real-world cases and potential offenses, effectively reminding business personnel to adhere to compliance standards.

Compliance Training Examples

Environmental, Social and Governance Report

2 ENVIRONMENT

Cloud Music is committed to pursuing sustainable development and reducing the impact of its operations on the environment, strictly complying with the *Environmental Protection Law of the People's Republic of China*, the *Energy Conservation Law of the People's Republic of China*, the *Water Law of the People's Republic of China*, and other laws and regulations to improve the overall performance in waste management, resource management, and tackling climate change.

2.1 Environmental Targets

Following *the Stock Exchange's ESG Reporting Guide* on environmental KPIs, Cloud Music has set environmental targets based on the environmental performance in previous years and its own business characteristics and keeps tracking yearly progress.

Cloud Music's Environmental Targets

Environmental Target		Section
Carbon Emissions	Improve our capability to manage carbon emissions data and take various measures to reduce carbon emissions year by year	Resource Management
Waste Reduction	Take effective measures to reduce wastes	Waste Management
Energy Use Efficiency	Build a sound energy use system and improve energy efficiency	Resource Management
Water Use Efficiency	Take effective measures to improve water use efficiency	Resource Management

Environmental, Social and Governance Report

2.2 *Waste Management*

Cloud Music strictly complies with the requirements specified in all relevant laws and regulations, such as the *Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste*, and is committed to developing a sound internal management system that ensures compliant disposal of all wastes.

We promote the reduction, reusing and recycling of waste through strict waste sorting. For kitchen waste, we implement centralized disposal measures. For recyclable waste, we conduct targeted collection and transportation. Hazardous waste like fluorescent lamps are managed in a centralized manner and handed over to professional organizations for safe disposal and recycling.

- Common waste: Food scraps, leftovers, etc.
- Disposal method: We designate qualified third-party service provider(s) to clean and deliver the waste to the government's disposal station

Kitchen Waste

- Common waste: Bottles, cartons, etc.
- Disposal method: We entrust qualified service provider(s) to recycle them

Recyclable Waste

- Common waste: Fluorescent lamps, electronic waste, etc.
- Disposal method: We use refillable toner cartridges and ink cartridges, which are recycled by service provider(s) and disposed of in compliance with regulations after reaching the end of their service life

Hazardous Waste

2.3 *Resource Management*

Cloud Music strives to enhance resource management and integrates the sustainability concept into its business operations in compliance with relevant laws and regulations. In 2023, we further refined resource management by undertaking a series of initiatives to increase the utilization efficiency of electricity, paper, and water across our office premises to achieve low-carbon operations.

Environmental, Social and Governance Report

2.3.1 Energy Management

Cloud Music attaches great importance to the efficient use of energy. Through our SpaceEase system, we analyze the main energy resources consumed in office spaces, helping us optimize the energy use structure and efficiency, maximizing the value of energy.

In terms of energy conservation, we have taken various measures in office areas, including:

Smart Illuminating System

- We employ a smart lighting network which controls illuminance dynamically to improve power consumption efficiency in office areas.

Smart Fresh Air, Ventilation, and Air Conditioning System

- We reduce unnecessary energy consumption by continuously monitoring indoor environmental data, allowing us to adjust airconditioning settings.

Energy Consumption Management System

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

We place emphasis on energy conservation and carbon reduction across our operations. We have established a fee-sharing system for data center hosting to optimize server utilization and energy management.

2.3.2 Resource Conservation

Cloud Music implements standardized and systematic management practices to promote resource utilization efficiency, as we strive to create resource-efficient office spaces.

In our pursuit of a green workplace, we focus on infrastructure construction, digital transformation, and awareness enhancement. We encourage paperless workflows and resource sharing among employees to maximize the value of available resources. We also prioritize cultivating a culture of green workplace within our organization by launching a series of promotional videos.

Regarding waste reduction, we encourage every employee to participate in the Clean-Your-Plate initiative. Additionally, we offer different meal portions so that employees can personalize their choices and we have on-site inspectors to advise on food saving. Furthermore, we implement various green initiatives that align with our business characteristics to raise employees' awareness of green and low-carbon practices, promote environmental protection, and encourage sustainable lifestyles.

Environmental, Social and Governance Report

2.3.3 Water Resource Management

Cloud Music focuses on water resource management and implements initiatives to conserve water and improve efficiency of water use.

To enhance water resource utilization, we collect and store rainwater through the campus recycling system for daily domestic and greening purposes. Additionally, we minimize water loss from leaks by regularly inspecting pipeline and upgrading public facilities.

2.4 Responding to Climate Change

Climate change poses significant risks globally and is a critical concern for stakeholders. Cloud Music has proactively identified and analyzed climate-related risks and opportunities based on the Task Force on Climate-related Financial Disclosure (TCFD) framework, and developed corresponding responses.

Examples of Transition Risk Identification and Response

Risk Type		Description	Impact	Measure
Transition	Policy and legal	Enhanced emissions reporting obligations	Rising cost and extra budget of carbon inventory and refined management.	Implement more refined management and calculation and take carbon inventories within the enterprise.
		Legal and regulatory requirements and supervision	Rising environmental protection-related budgets due to tightened policies.	Comply with laws and regulations and perform obligations on time to avoid penalties and other business losses.
	Reputation	Changing consumer preferences	Keep up with consumer preferences with timely market research and targeted measures.	Create works that call for environmental protection and sustainability through Cloud Music's products.
		Growing concern from stakeholders about the negative feedback	Pay more attention to the possible negative public opinion and strive to establish a positive corporate image.	Establish a regular and multifaceted two-way communication mechanism with stakeholders.

Environmental, Social and Governance Report

Examples of Physical Risk Identification and Response

Risk Type		Description	Impact	Measure
Physical	Acute	Typhoon	Typhoons could destroy the Internet infrastructure, disrupt our services, and increase repair and purchasing costs.	Continuously monitor geo-climatic information, develop emergency plans, and strengthen risk control.
		Extreme weather, such as rainstorms	The occurrence of extreme weather may bring secondary disasters such as floods and mudslides, causing damage to Internet infrastructure and thus increasing operating costs.	Set up emergency plans to minimize the impact of extreme weather on business operations.
	Chronic	Increase in average temperature	A warming climate could increase thermal stress for our campuses and data centers, resulting in higher repair and energy costs due to damage to facilities.	Renovate energy and ventilation systems in office building and data centers to improve energy efficiency.
		Sea level rise	Rising sea level could cause floods and even submersion of some of our properties, damaging our facilities and Internet infrastructure, which could increase operating costs.	Continuously monitor geo-climatic information, determine the sea level risk line, and activate the emergency plan when the line is reached.

Environmental, Social and Governance Report

3 TALENT DEVELOPMENT

Cloud Music adheres to the people-oriented philosophy. We respect and care for all the employees, and safeguard their rights and welfare. We cultivate a healthy, safe, harmonious and fair workplace to promote work-life balance. Additionally, we provide employees with platforms for self-development, thereby enhancing their creativity and sense of accomplishment, and enabling them to realize their self-worth.

3.1 Employment and Labor Policies

We comply with the legal and regulatory requirements in our hiring and employment practices, and ensure our employees' rights are well-protected. We continually enhance our compensation and benefits system, striving to build and maintain a fair, healthy, and transparent workplace.

3.1.1 Employment and Dismissal

We strictly abide by the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China*, and other laws and regulations related to employment. We follow internal polices, such as the recruitment system and the employee handbook, to ensure strict legal compliance in our employment practices. We endeavor to guarantee that the recruitment process is fair and transparent, and that the promotion and dismissal processes are clear and consistent, thereby protecting the rights of employees.

3.1.2 Compensation and Benefits

We value the contributions of all employees and continuously provide competitive incentives and benefits to enhance their job satisfaction and fulfillment. Our cash compensation system consists of fixed pay, variable pay, and long-term incentives, as well as employee benefits such as health care insurance, canteens, and holiday gifts.

Our employee handbook specifies the leave entitlements for our employees, such as statutory annual leave, full-pay sick leave, marriage leave, maternity leave, and parental leave. Our employees work in compliance with the legal working hours, and we also provide flexible working options to support their work-life balance.

3.1.3 Labor Rights

Cloud Music is committed to respecting and protecting labor rights and legal entitlements, ensuring compliance at every stage of employment process. We respect our employees' willingness throughout the employment to ensure that employees work voluntarily and prohibiting forced labor. We check identity documents during the recruitment to ensure that the candidates meet the legal minimum working age and prevent the employment of child labor. In the event of any violations of rules in recruitment, we immediately conduct investigations and take corrective actions. During the reporting period, no incidents of forced labor or child labor have occurred.

We uphold the principle of fairness in the workplace and oppose any form of discrimination and bias. We strive to prevent workplace harassment and have set up channels for employees to report any misconduct that infringes on their rights. Additionally, we also value the diversity of our workforce and keep attracting talents to build a diverse and inclusive workforce.

Environmental, Social and Governance Report

3.2 Health and Safety

Cloud Music attaches great importance to the physical and mental health of its employees, and constantly improves health and safety measures in the workplace. Cloud Music collects its employees' feedback, arranges various employee activities, and strives to create a warm and harmonious work environment.

3.2.1 Physical and Mental Health

We adhere to the *Fire Protection Law of the People's Republic of China* and the *Work Safety Law of the People's Republic of China* to provide employees with a safe working environment and conditions. We regularly inspect our fire control system and security system to ensure smooth operations and enhance food safety supervision in our staff canteen. We advocate a healthy work style, organize annual checkups and purchase medical and commercial insurance for our employees. For mental healthcare, we provide employees with our Employee Assistance Program (EAP) to support them to cope with psychological stress and emotional issues. In the last three years, there were no fatalities caused by work-related incidents in Cloud Music.

3.2.2 Employee Communication

We have established a suggestion channel for employees to provide feedback on various aspects, such as team building, office environment, cafeteria operation, information system, etc. We assign dedicated personnel to follow up on each suggestion and make sure that our employees' voices are heard and addressed. During the reporting period, we also conducted the 2023 Employee Dedication & Satisfaction Survey and implemented improvements based on the 2022 survey results.

3.2.3 Work-Life Balance

We organized various employee care activities to promote our employees' work-life balance, thereby creating a warm and friendly team. During the reporting period, we celebrated the 10th anniversary of Cloud Music with all our employees. The celebration featured a debate competition, a strategy-sharing session, and a live concert for our employees to unwind themselves, enjoy music, and have fun.

3.3 Development and Training

Cloud Music offers diverse development paths and continuously improves its talent development system to support the growth of its employees. We empower employees' development through performance management and talent training, respecting and fulfilling their individualized development needs, and building a solid and competitive talent pool.

Environmental, Social and Governance Report

3.3.1 Performance Management

We have established a comprehensive system that integrates objective setting, process management, and result appraisal to evaluate and enhance employee performance. We motivate our employees to strive for excellence based on the performance results, which consider both employee skill improvement and long-term development. We conduct regular staff appraisals to provide employees with timely results and feedbacks based on data analysis and user feedbacks. We also guide employees through communications to foster self-improvement and teamwork performance.

During the reporting period, we carried out a systematic talent review and analysis, evaluating the suitability of our key talents to our organizational structure. We also developed a succession plan for key talents and a customized talent development plan to improve the allocation of talents in different teams and boost their potential value.

3.3.2 Employee Training

We have established a distinctive talent training system that offers customized training courses tailored to the career development needs of all employees, new hires, high-potential talents, and management to enhance their professional skills and competence. We combine music classes and internal learning platforms to infuse music culture and industry insights, in order to develop our employees' music literacy with a music-focused training system. In addition, we fully respect the individual development of our employees and encourage them to participate in external assessments and industry conferences by offering relevant incentives and training programs. During the reporting period, our various types of training programs reached all our employees.

All-staff Training	Helps employees understand our business better through various training programs, such as business interpretation and music knowledge sharing
New Staff Training	Helps new hires blend in with the team and get familiar with the business through boot camps and exclusive courses
High-potential Talents Training	Assists high-potential employees to strengthen their technical and soft skills, gain insights about the business, and improve their knowledge application and transfer abilities
Management Training	Supports junior managers to transition into their new roles, enhances managers' team leadership, and cultivates a business mindset among managers

Cloud Music's Employee Training System

Environmental, Social and Governance Report

4 SUPPLY CHAIN MANAGEMENT

Cloud Music prioritizes standardized management in procurement process. We strive to develop a comprehensive supplier management system and a clear supplier audit mechanism, forming stable and high-quality business relationships.

4.1 Systematic Supplier Chain Management

Cloud Music places great emphasis on the institutional management of procurement process and supplier admission. We have established internal policies for bidding and procurement, and have set clear criteria and methods to screen and evaluate suppliers based on our internal supplier management system. In addition, to enhance our supply chain management, we verify supplier qualifications, fulfillment capabilities, and creditworthiness thoroughly before admittance.

Building upon a clear supplier admission process, Cloud Music has established a comprehensive supplier grading and review mechanism to ensure the compliance of the entire procurement process.

As at the end of the reporting period, Cloud Music had 92 centralized procurement suppliers, with 91 in the Chinese mainland and one in other regions.

4.2 Supply Chain Compliance Management

Cloud Music adheres to and enforces the internal supplier assessment standard, and conducts regular and comprehensive assessments of suppliers, covering quality, cost, delivery time, services, and other key factors. We require suppliers that do not meet our standards to take corrective actions promptly through the Performance Improvement Program (PIP). We also monitor their progress to improve the procurement quality.

Cloud Music attaches great importance to the social risks in our procurement activities, so we strive to build a culture of integrity by embedding business ethics into every step and detail of our procurement process. We also conduct annual integrity training for our suppliers, and all of them have passed the examination. Moreover, during the reporting period, we kept cultivating in our suppliers a sense of integrity in various ways, effectively delivering the integrity requirements in place.

Environmental, Social and Governance Report

5 PRODUCT RESPONSIBILITY

Cloud Music is committed to providing an exceptional user experience through high-quality, reliable products and services. By delivering high-quality contents tailored to user preferences, we aim to nurture a vibrant music community platform. In addition, we integrate data security and privacy protection into product development and services, safeguarding users' rights.

5.1 Products and Services

Cloud Music fulfills its responsibility in ensuring the health and safety of its products through systematic management of content health, product quality, and user service.

5.1.1 Product Quality

Adhering to applicable laws and regulations in China, such as the *Regulation on Internet Information Service of the People's Republic of China*, Cloud Music prioritizes content quality and continuously strengthen content protection mechanisms. We are dedicated to cultivating a positive platform with a constructive influence. We consistently enhance our content management through developer self-tests and audit controls.

➢ **Product Quality Control**

In product development phase, Cloud Music conducts developer self-tests and quality assurance tests to ensure high quality of products and contents. Additionally, we employ a comprehensive content review process which enhanced efficiency.

During the reporting period, we introduced a stringent internal review mechanism on the feasibility of current and new functions and implement early-stage quality control to further enhance the adaptability of products.

➢ **Responsible Advertising**

Cloud Music adheres to relevant laws and regulations, such as the *Advertising Law of the People's Republic of China*, *Measures for the Administration of Internet Advertising*. We also conduct rigorous inspections of various advertisements.

➢ **Content Security Assurance**

Cloud Music prioritizes content security by establishing a robust management framework and a 24/7 content safety emergency response mechanism to prompt emergency responding and handling.

During the reporting period, Cloud Music conducted a special campaign on content security, fully integrating with the business characteristics. By doing so, we enhanced our security strategies and mechanisms to ensure the security of content and improve user experience.

5.1.2 Product Innovation

Cloud Music places a strong emphasis on innovation. We continuously explore new practices to enhance user experience and maximize commercial value. We pledge to offer users higher-quality and more captivating products and services.

In terms of R&D and product quality, Cloud Music always adopts a user-oriented approach in our management style. In 2023, adhering to the aspiration of "returning to music", Cloud Music continued to unleash the innovation capability and responded to the needs of users and business partners to actively champion the growth of the original music creation.

Environmental, Social and Governance Report

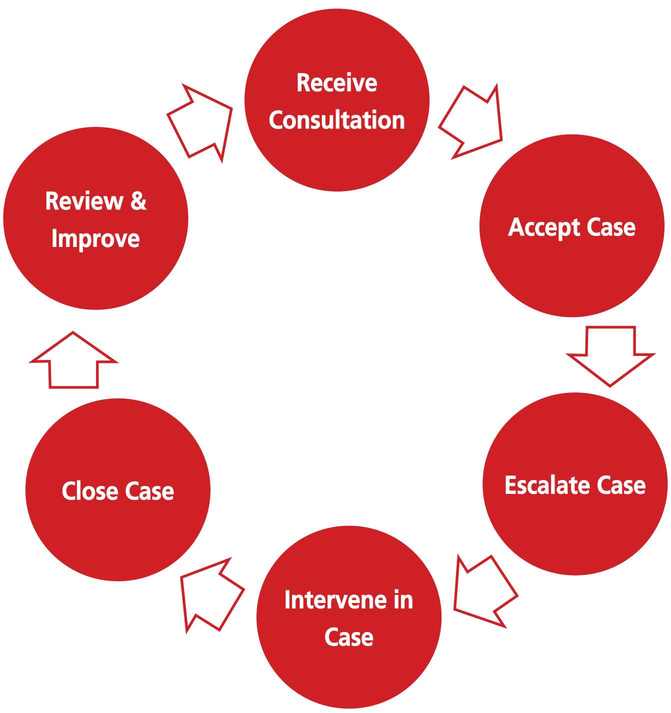
5.1.3 User Service

Cloud Music is dedicated to providing genuine and attentive services by actively listening to users' feedback and consistently improving overall experiences. Through dedicated user experience projects, we continuously refine user service processes, establishing a clear and organized management system that ensures responsive and efficient services.

- **Voice of the Customer (VoC)**

We value every user's input and provide efficient channels for the timely receipt and handling of complaints and feedback. During the reporting period, we introduced a new channel by setting up an official user service account on Xiaohongshu, a popular social social platform in China, proactively identifying and resolving user issues.

Our comprehensive user complaint handling process forms a closed loop from case acceptance, resolution, to retrospective review. We promptly follow up on user complaint processes and results, conducting quality checks and retrospectives to continuously improve services and products, and optimize user experience. Dedicated personnel were assigned to facilitate the efficient handling of complaint and challenging cases. Additionally, we launched a self-service query tool for users to promptly check the handling progress.



Cloud Music's Customer Complaint Handling Process

Environmental, Social and Governance Report

In 2023, we received a total of over 600 user complaints, with a 100% resolution rate and a user satisfaction rate of 94.91%, up 0.4% in comparison to 2022.

- **User Experience Optimization**

Cloud Music insists on providing community users with a high outstanding experience through convenient and effective communication services. In 2023, we continued to optimize our user experience in different dimensions including:

Conducting User Experience Projects

- We optimized product experiences across various scenarios, addressing issues at the source to elevate user satisfaction and overall experience.

Building Self-Service Resolution Capabilities

- Our service team has strengthened self-service capabilities, providing users with intelligent and appropriate self-help solutions.

Continuous Optimizing Solutions

- We analyzed user dissatisfaction cases from their perspectives and introduce a number of service initiatives such as the special care refund service, tailoring solutions to meet specific user needs and concerns.

Improving Service Capabilities

- In 2023, we introduced over 10 new training courses, conducted more than 780 hours of service improvement training, and added safety awareness training to enhance the professional competence of our user service personnel.

Cloud Music User Experience Optimization Measures

In 2023, Cloud Music conducted dozens of field surveys targeting students, musicians, record companies, and other user groups. By gathering feedback from frontline users and stakeholders, we derived supportive insights and developed business action plans to further enhance the basic experience of our products and gained positive user feedback.

Environmental, Social and Governance Report

5.2 Intellectual Property Rights

Cloud Music strictly adheres to relevant laws and regulations, such as the *Copyright Law of the People's Republic of China* and the *Patent Law of the People's Republic of China*. We implement internal management policies on intellectual property management and establish a comprehensive and efficient monitoring and maintenance mechanism to control related risks. We also foster deep collaboration with musicians and copyright holders, contributing to the ongoing development of original music in China.

We prioritize the protection of intellectual property rights and deepen cooperation with copyright holders. We aim to establish a comprehensive intellectual property protection system by proactively safeguarding our rights and avoiding infringement on the rights of others.

Rights Protection

- Copyright Application: We promptly apply for copyrights for works, software, trademarks, patents, etc.
- Infringement Monitoring: We utilize an industry-leading music content infringement monitoring system and collaborate with professional rights protection suppliers to expand our monitoring scope and promptly address infringements to assert our rights.

Avoiding Infringement

- Protection Channels: We have established channels for protecting rights and implement copyright protection and takedown mechanisms that align with laws, regulations, and industry standards.
- Authorization Tags: We tag authorized musics with authorization information to keep track of the latest authorization status of the music within the music library.
- Tech-empowered Inspection: We employ technical means to monitor and block infringing content on Cloud Music.

Cloud Music Intellectual Property Protection Efforts

During the reporting period, Cloud Music deepened its collaboration with copyright holders, assisted musicians in protecting their rights, and established an internal music trading platform. These initiatives further maintained fair competition in the music market, facilitated digital transactions of music copyrights, and nurtured a healthy music copyright ecosystem.

Environmental, Social and Governance Report

Additionally, Cloud Music places importance on raising awareness of intellectual property among employees. We conducted a series of intellectual property training to various business departments on topics centered on music copyrights, trademark protection, patent applications, and regulatory compliance to raise the awareness of intellectual property risks.

Music Copyright	Patent Application	Compliance Review
Conduct training sessions for departments including business, music library, and product, covering the fundamental principles of music copyright, copyright transactions, and real-life case studies on copyright protection	Provide comprehensive training for new employees on patent basics, patent application procedures, and relevant policies	Deliver compliance guidance to operations, advertising, and other teams, integrating insights from trending incidents to prevent potential copyright infringements

Cloud Music Intellectual Property Training Programs

In 2023, Cloud Music achieved significant results in intellectual property rights protection. Various infringement links were taken down and dozens of hotlinking piracy websites were shut down. Our rights protection efforts also facilitated platform collaboration in different scenarios, effectively realizing the value of copyrights.

5.3 Data Security and Privacy Protection

Cloud Music is dedicated to upholding data security and user privacy, integrating data security and compliance into its product development and operational services. We consistently strengthen the data security and privacy protection management system, and we bolster governance and safeguard data security and user privacy by refining internal procedures and control measures.

Environmental, Social and Governance Report

5.3.1 Data Security

Cloud Music is devoted to continuously improving its data security management policies. Alongside our existing policies such as the "Cloud Music General Rules of Data Security Management" and the "Cloud Music Policies on Data Classification and Grading," we introduced the "Cloud Music Background System Permission Management Standard" and the "Cloud Music Data Extraction and Sharing Process Standard" during the reporting period to ensure the security of data usage.

We have established a multi-process security management model encompassing covered data usage authorization, multi-party audit assessments, effective protection measures, and data backup to maintain the ongoing effectiveness of data security controls. During the reporting period, Cloud Music upgraded the mechanism to continuously safeguard sensitive data, further enhancing its data security capabilities.

➢ **Data Security Audit**

Cloud Music has regular and special mechanisms to audit data security, monitor and promptly rectify related risks and vulnerabilities to ensure the overall security of its data systems. Our ongoing efforts include optimizing the permission management system in line with the "Cloud Music Background System Permission Management Standard" and leveraging technical means in risk auditing for more efficient risk detection.

During the reporting period, we conducted internal and external audits of data security. We carried out data security activities, proactively following regulatory requirements, to ensure the effectiveness of data security measures. Internally, our audit team follows the *Telecommunications Network and Internet Data Security Evaluation Specification (YD/T-3956-2021)* and the *Information Security Technology – Personal Information Security Specification (GB/T-35273-2020)* to conduct special audits and optimize our data security workflow. Externally, Cloud Music continues to maintain internal systems and products stable and compliant. We have invited third-party organizations to certify and obtained the filing certificate of telecommunications network security level and the classified protection of cybersecurity certificate.

Environmental, Social and Governance Report

- **Data Security Training**

  Cloud Music emphasizes privacy protection and data security training for employees to enhance their awareness and establish a long-term data security protection culture. During the reporting period, in addition to actively participating in data security initiatives organized by the NetEase Inc, Cloud Music conducted online and offline promotion and training, promoting and interpreting regulatory documents and permission management requirements.

5.3.2 User Privacy Protection

Cloud Music is committed to safeguarding user privacy by setting up a specialized privacy protection team and employing measures from both the technical and management perspectives to protect users' data. In 2023, Cloud Music made multiple revisions to its user privacy policy to further regulate personal information protection efforts.

During the reporting period, we conducted a thorough privacy compliance assessment of our products, focusing on data collection, authorization mechanisms, service disclosure, advertising compliance, etc., ensuring product privacy compliance.

Strict Management of User Data Collection

Data Categorization and Classification

Data Storage and Encryption

Multi-level Access Control

Data Masking

Cloud Music's Primary Management Measures on User Privacy Security

Environmental, Social and Governance Report

6 ANTI-CORRUPTION

Cloud Music does not tolerate any acts of corruption that breach professional ethics. We are dedicated to embedding a culture of integrity throughout every facet of our operations.

6.1 Integrity and Business Ethics Policies

Cloud Music strictly adheres to the *Criminal Law of the People's Republic of China, Anti-Unfair Competition Law of the People's Republic of China, Anti-Money Laundering Law of the People's Republic of China* as well as internal policies on integrity, bribery, extortion, and money laundering. During the reporting period, we improved provisions regarding gift acceptance and strengthened our anti-corruption and anti-fraud measures, aiming to maintain a healthy, fair, and transparent workplace.

Cloud Music has a standardized process in place to investigate professional ethics reports and take disciplinary actions.

During the reporting period, there was one concluded legal case regarding corruption, and the person involved was sentenced in accordance with the law.

We follow the internal report handling process to address reports of ethical concerns. Our whistleblower protection system provides that the employees who are responsible for handling such cases are mandated to sign confidentiality agreements, so as to protect whistleblowers' legitimate rights. Additionally, we staunchly oppose any form of retaliation and have established a penalty system to address such incidents.

Environmental, Social and Governance Report

6.2 Integrity and Business Ethics Campaigns

To foster a culture of integrity and business ethics and reduce related risks, Cloud Music holds various campaigns and training sessions each year.

In 2023, we launched a compliance culture campaign to cultivate a compliant, honest, and transparent business culture. Activities such as online compliance quiz, charity auction, and compliance culture bazaar further strengthened the awareness of business ethics among our employees. In addition, Cloud Music also provided training for the Board of Directors and the management. With regard to suppliers, Cloud Music held regular training sessions to communicate the Company's requirements of business ethics, thereby improving the suppliers' integrity awareness. During the reporting period, we held 3 integrity training sessions participated by a total of 1,598 people.

7 INVESTING IN COMMUNITY

Cloud Music is committed to creating values for society while driving its own sustainability development. By leveraging the "Power of Music," Cloud Music empowers society and industry through various welfare projects and activities, promoting the common development of the Company, society and the industry.

7.1 Participating in Philanthropy

Using music as the medium to touch hearts and inspire love is the original aspiration of Cloud Music's public welfare program. Cloud Music is attentive to social needs and is committed to exploring new ways of supporting social welfare. During the reporting period, we collaborated with external organizations to conduct several social welfare activities, leveraging the unique strengths of our music platform to support and assist diverse groups.

➢ **Cloud Music Plans a Musical Journey to Dreamland for Restless Sleepers Around World Sleep Day**

Cloud Music, in partnership with China News Service Zhejiang Branch, presented a special public welfare event "Insomnia Hotel" for World Sleep Day in March 2023. We offered a variety of soothing sounds in our app to help users who struggle with insomnia. We have crafted numerous pieces of music for study and sleep with different scenarios, catering to hundreds of millions of users who seek musical companionship.

➢ **Trip of Miracle Fulfills Music Dream of Hearing-impaired Children**

In July 2023, Cloud Music cooperated with Zhejiang Rehabilitation Medical Center and other organizations to release a new digital public welfare album, Trip of Miracle, which features 10 hearing-impaired children who were invited to the studio to fulfill their musical dreams with professional musicians. Part of the revenue from streaming will be donated to help marginalized groups be better socially integrated.

During the reporting period, Cloud Music's total investment in social welfare amounted to RMB90,000. We aim to create greater social value through music and contribute to the society.

Environmental, Social and Governance Report

7.2 Empowering Industry Development

Cloud Music is constantly exploring innovations of producing and sharing music, and actively engaging in different events to create and exchange value with our industry peers.

- **Cloud Music Reveals Its First Virtual Singer Chen Shuiruo at AI Achievement Exhibition**

  In October 2023, Chen Shuiruo, the first virtual singer of Cloud Music, delivered a stunning China-chic AI song and dance performance at the AI Achievement Exhibition. This performance was an innovative blend of AI technology and traditional art, marking a significant achievement of Cloud Music in the field of music production and communication.

- **Efforts to Promote China's Digital Music Industry in the Next Decade**

  In October 2023, William Ding, CEO of NetEase, attended the 2023 Digital Music Industry Conference as a special guest and shared his insights and recommendations on the future development of China's digital music industry. His speech focused on how Cloud Music will unleash the potential of the digital music industry and his observations and insights for future development. In addition, at the conference, Cloud Music announced the launch of the fifth season of Project Cornerstone to support independent artists, discover talented musicians from different regions, and foster growth in both their career and the music industry.

Environmental, Social and Governance Report

APPENDIX 1: THE STOCK EXCHANGE'S ESG REPORTING GUIDE

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Environmental			
Aspect A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	2.2 Waste Management
	A1.1	The types of emissions and respective emissions data.	Cloud Music is a non-manufacturing enterprise. Based on the principle of materiality, the types of emission and relevant data are not reported or disclosed.
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Appendix 2: ESG Performance Indicators
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Appendix 2: ESG Performance Indicators
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Appendix 2: ESG Performance Indicators
	A1.5	Description of emission target(s) set and steps taken to achieve them.	2.1 Environmental Targets 2.2 Waste Management
	A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	2.2 Waste Management

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Environmental			
Aspect A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	2.3 Resource Management
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas, or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Appendix 2: ESG Performance Indicators
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Appendix 2: ESG Performance Indicators
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	2.1 Environmental Goal 2.3 Resource Management
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	2.3 Resource Management
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	No packaging material is used for our business.
Aspect A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	2.3 Resource Management
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	2.3 Resource Management

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Environmental			
Aspect A4: Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	2.4 Responding to Climate Change
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	2.4 Responding to Climate Change
Social			
Aspect B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	3.1 Employment and Labor Policies
	B1.1	Total workforce by gender, employment type (for example, full - or part-time), age group and geographical region.	Appendix 2: ESG Performance Indicators
	B1.2	Employee turnover rate by gender, age group and geographical region.	Appendix 2: ESG Performance Indicators

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Social			
Aspect B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	3.2 Health and Safety
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Appendix 2: ESG Performance Indicators
	B2.2	Lost days due to work injury.	Appendix 2: ESG Performance Indicators
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	3.2 Health and Safety
Aspect B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	3.3 Development and Training
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Appendix 2: ESG Performance Indicators
	B3.2	The average training hours completed per employee by gender and employee category.	Appendix 2: ESG Performance Indicators

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Social			
Aspect B4: Labor Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	3.1 Employment and Labor Policies
	B4.1	Description of measures to review employment practices to avoid child and forced labor.	3.1 Employment and Labor Policies
	B4.2	Description of steps taken to eliminate such practices when discovered.	3.1 Employment and Labor Policies
Aspect B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	4.1 Systematic Supplier Chain Management
	B5.1	Number of suppliers by geographical region.	Appendix 2: ESG Performance Indicators
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	4.1 Systematic Supplier Chain Management
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	4.2 Supply Chain Compliance Management
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	4.2 Supply Chain Compliance Management

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Social			
Aspect B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	5.1 Products and Services
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product recalls are irrelevant to our business.
	B6.2	Number of products and service related complaints received and how they are dealt with.	5.1 Products and Services
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	5.2 Intellectual Property Rights
	B6.4	Description of quality assurance process and recall procedures.	Product quality assurance and recalls are irrelevant to our business.
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	5.3 Data Security and Privacy Protection

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs			Chapter
Social			
Aspect B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	6.1 Integrity and Business Ethics Policies
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	6.1 Integrity and Business Ethics Policies
	B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	6.1 Integrity and Business Ethics Policies
	B7.3	Description of anti-corruption training provided to directors and staff.	6.2 Integrity and Business Ethics Campaigns
Aspect B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities’ interests.	7.1 Participating in Philanthropy 7.2 Empowering Industry Development
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	7.1 Participating in Philanthropy 7.2 Empowering Industry Development
	B8.2	Resources contributed (e.g. money or time) to the focus area.	7.1 Participating in Philanthropy 7.2 Empowering Industry Development

Environmental, Social and Governance Report

APPENDIX 2: ESG PERFORMANCE INDICATORS

Indicator		Unit	2023
Waste			
Non-hazardous Waste	Kitchen Garbage	Tonne	249.75
	Other Waste	Tonne	1,349.87
Hazardous Waste	Electronic Waste	Tonne	1.74
	Other Waste	Tonne	0.01
Non-hazardous Waste Discharge Intensity		Tonne/Person	1.18
Hazardous Waste Discharge Intensity		Tonne/Person	0.001
Energy Consumption			
Direct Energy Consumption[1]	Gasoline	Tonne	1.99
	Diesel	Tonne	0.81
	Natural Gas	m^3	115,447.00
	Electricity from Renewable Energy	MWh	330.91
Indirect Energy Consumption[2]	Electricity Purchased for Offices	MWh	2,100.18
	Purchased Green Electricity	MWh	806.00
Total Direct Energy Consumption		GWh	1.61
Total Indirect Energy Consumption		GWh	2.91
Total Comprehensive Energy Consumption[3]		GWh	4.52
Comprehensive Energy Consumption Intensity		GWh/Person	0.003
Carbon Emissions			
Scope 1[4] Emissions		Tonne of CO_2e	597.82
Scope 2[5] Emissions		Tonne of CO_2e	1,488.07
Scopes 1 + 2		Tonne of CO_2e	2,085.89
Scope 3		Tonne of CO_2e	6,982.49
Per Capita Emissions from Operations (Scopes 1 + 2)		Tonne of CO_2/Person	1.53
Total Per Capita Emissions (Scopes 1 + 2 + 3)		Tonne of CO_2/Person	6.67

1 Direct energy consumption includes gasoline consumption, electricity from renewable energy, and natural gas consumption for self-owned properties.

2 Indirect energy consumption includes the consumption of purchased electricity for self-owned properties.

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

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

5 Indirect (Scope 2) GHG emissions are calculated based on the *2011 and 2012 Average CO_2 Emission Factors for Regional Power Grids in China* published by the China National Development and Reform Commission.

Environmental, Social and Governance Report

Indicator		Unit	2023
Water Consumption			
Total Water Consumption		Tonne	41,286.55
Water Use Intensity		Tonne/Person	30.38
Employees[6]			
Employees by Gender	Male	Person	816
	Female	Person	543
Employees by Age Group	30 and under	Person	532
	31 to 50	Person	824
	Over 50	Person	3
Employees by Geographical Region	Chinese mainland	Person	1,357
	Other regions	Person	2
Number of Employees by Employment Type	Full-time Employees	Person	1,359
	Contract Employees and Others	Person	327
Employee Turnover Rate[7]		%	27
Turnover Rate by Gender	Male	%	26
	Female	%	29
Turnover Rate by Age Group	30 and under	%	36
	31 to 50	%	21
	Over 50	%	29
Turnover Rate by Geographical Region	Chinese mainland	%	28
	Other regions	%	0

6 Unless otherwise specified, employee data refers to or includes full-time employees.

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

Environmental, Social and Governance Report

Indicator		Unit	2023
Health and Safety[6]			
Number of work-related fatalities in the past three years (including the reporting period)		Person	0
Lost days due to work injury in the past three years		Day	0
Work-related fatality rate in the past three years[8]		%	0
Employee Training[6]			
Percentage of Trained Employees		%	100.00
Trained Employees by Gender	Male	%	58.70
	Female	%	41.30
Trained Employees by Employee Category	Middle and senior management	%	1.34
	Junior management	%	1.68
	Non-management	%	96.98
Average Training Hours		Hour/Person	39.87
Average Training Hours by Gender	Male	Hour/Person	39.87
	Female	Hour/Person	39.87
Average Training Hours by Employee Category	Middle and senior management	Hour/Person	27.21
	Junior management	Hour/Person	29.47
	Non-management	Hour/Person	40.22
Supplier Management			
Number of Centralized Suppliers		Quantity	92
Number of Centralized Suppliers by Geographical Region	Chinese Mainland	Quantity	91
	Other regions	Quantity	1

[6] Unless otherwise specified, employee data refers to or includes full-time employees.

[8] Work-related fatality rate = Number of work-related fatalities/Total number of employees* 100%

Independent Auditor's Report

To the Shareholders of Cloud Music Inc.

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Cloud Music Inc. (the "Company") and its subsidiaries (the "Group"), which are set out on pages 111 to 180, comprise:

- the consolidated balance sheet as at 31 December 2023;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policies information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

Independent Auditor's Report

KEY AUDIT MATTERS

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

The key audit matter identified in our audit is related to revenue recognition.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to notes 2.2.12 and 5 to the consolidated financial statements. The Group's revenue is primarily from the provision of online music services and social entertainment services and others. Online music services mainly include revenue from membership subscriptions, contents sublicensing, sales of digital music album and songs, and online advertising on the Group's online platforms. Social entertainment services and others mainly include revenue from sales of virtual items in live streaming platforms operating by the Group. During the year ended 31 December 2023, revenue of the Group amounting to approximately RMB7.87 billion which is recognised when or as the control of the services or goods is transferred to the customers.	Our procedures in relation to revenue recognition included: • Evaluated the appropriateness of the revenue recognition policies as adopted by management; • Understood, evaluated and tested, on a sample basis, the key internal controls in relation to recognition of revenue from online music services and social entertainment services; • Understood, evaluated and tested, on a sample basis, the key controls in relation to the general control environment of the IT Systems and the underlying automated controls relevant to capturing, processing and recording of data and transactions supporting the corresponding revenue of the Group;

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
We focused on this area as significant efforts were spent on auditing the revenue recognised by the Group due to the variety of services offered by the Group, magnitude of the revenue amount and most of the revenue recorded are dependent on information generated from the relevant information technology systems ("IT Systems") where significant volume of data are captured and processed.	• By using computer-assisted audit techniques, tested the mathematical accuracy and the completeness of the system generated reports that summarised the key inputs for the calculation of revenue; and tested, on a sample basis, reconciliation of data from these reports to the relevant revenue amount recognised; and • Tested revenue transactions, on a sample basis, by comparing the underlying contracts, the key terms and attributes of the contracts, the services consumed and cash receipts, where relevant, against the underlying data recorded in the relevant IT Systems used in transaction processing and recalculated the revenue amount recognised. Based on the procedures performed, we found revenue recognition of the Group to be supportable by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 14 March 2024

Consolidated Statement of Profit or Loss

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Year ended 31 December 2023 RMB'000	2022 RMB'000
Revenue	5	**7,866,992**	8,992,221
Cost of revenue	8	**(5,764,322)**	(7,699,103)
Gross profit		**2,102,670**	1,293,118
Selling and marketing expenses	8	**(758,235)**	(634,677)
General and administrative expenses	8	**(165,102)**	(171,598)
Research and development expenses	8	**(868,699)**	(1,011,057)
Other income	6	**71,799**	142,315
Other losses, net	7	**(52,253)**	(2,614)
Operating profit/(loss)		**330,180**	(384,513)
Share of results of investments accounted for using equity method	18	**(63)**	(2,722)
Finance income	11	**437,879**	183,105
Finance cost		**(317)**	(349)
Profit/(loss) before income tax		**767,679**	(204,479)
Income tax expense	12	**(33,497)**	(17,015)
Profit/(loss) for the year attributable to equity holders of the Company		**734,182**	(221,494)
Profit/(loss) per share attributable to equity holders of the Company (expressed in RMB per share)			
Basic earnings/(loss) per share	13	**3.49**	(1.06)
Diluted earnings/(loss) per share	13	**3.47**	(1.06)

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2023

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Profit/(loss) for the year	**734,182**	(221,494)
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Currency translation differences	**105,712**	519,465
Other comprehensive income for the year, net of taxes	**105,712**	519,465
Total comprehensive income for the year attributable to equity holders of the Company	**839,894**	297,971

Consolidated Balance Sheet

AS AT 31 DECEMBER 2023

	Notes	As at 31 December 2023 RMB'000	2022 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	15	**33,022**	45,836
Right-of-use assets	16	**6,313**	7,824
Investments accounted for using equity method	18	**78,969**	79,032
Prepaid contents royalties	20	**166,054**	283,128
Prepayments and deposits	21	**3,034**	300
		287,392	416,120
Current assets			
Accounts and bills receivable	19	**923,464**	558,141
Prepaid contents royalties	20	**589,231**	506,328
Prepayments, deposits and other receivables	21	**186,056**	155,918
Amounts due from group companies	32	**98,315**	138,504
Short-term bank deposits	22	**5,484,688**	6,191,529
Restricted cash	23	**21,005**	8,318
Cash and cash equivalents	23	**4,020,400**	2,916,534
		11,323,159	10,475,272
Total assets		**11,610,551**	10,891,392
Equity			
Equity attributable to equity holders of the Company			
Share capital	24	**137**	135
Other reserves	25	**18,532,229**	18,643,784
Accumulated losses		**(10,091,464)**	(10,823,860)
Total equity		**8,440,902**	7,820,059
Liabilities			
Non-current liabilities			
Contract liabilities	29	**66,539**	55,244
Lease liabilities	16	**3,358**	5,623
		69,897	60,867

Consolidated Balance Sheet

AS AT 31 DECEMBER 2023

	Notes	As at 31 December 2023 RMB'000	2022 RMB'000
Current liabilities			
Accounts payable	27	**171**	211
Accruals and other payables	28	**2,015,242**	2,234,597
Contract liabilities	29	**1,001,013**	714,259
Amounts due to group companies	32	**76,196**	53,002
Income tax payable		**4,129**	5,621
Lease liabilities	16	**3,001**	2,776
		3,099,752	3,010,466
Total liabilities		**3,169,649**	3,071,333
Total equity and liabilities		**11,610,551**	10,891,392

The consolidated financial statements on pages 111 to 180 were approved by the Board of Directors on 14 March 2024 and were signed on its behalf:

William Lei Ding
Director

Yong Li
Director

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2023

		Attributable to equity holders of the Company			
	Notes	Share capital RMB'000	Other reserves RMB'000 (Note 25)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2023		135	18,643,784	(10,823,860)	7,820,059
Profit for the year		–	–	734,182	734,182
Other comprehensive income:					
Currency translation differences		–	105,712	–	105,712
Total comprehensive income for the year		–	105,712	734,182	839,894
Transactions with equity holders:					
Exercise of options	25	2	78,126	–	78,128
Equity-settled share-based payment under the share option scheme of the Pre-IPO Share Incentive Plan	25	–	28,910	(1,075)	27,835
Equity-settled share-based payment under the share award scheme of the Pre-IPO Share Incentive Plan	25	–	34,176	–	34,176
Equity-settled share-based payment under the share award scheme of the Post IPO Share Incentive Plan	25	–	22,307	–	22,307
Appropriations to statutory reserves	25	–	711	(711)	–
Repurchase of shares	25	–	(381,497)	–	(381,497)
Total transactions with equity holders		2	(217,267)	(1,786)	(219,051)
Balance at 31 December 2023		137	18,532,229	(10,091,464)	8,440,902

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Attributable to equity holders of the Company			
		Share capital RMB'000	Other reserves RMB'000 (Note 25)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2022		132	17,981,771	(10,600,233)	7,381,670
Loss for the year		–	–	(221,494)	(221,494)
Other comprehensive income:					
Currency translation differences		–	519,465	–	519,465
Total comprehensive income for the year		–	519,465	(221,494)	297,971
Transactions with equity holders:					
Issuance of new shares	24	–*	–*	–	–*
Exercise of options	25	3	64,526	–	64,529
Equity-settled share-based payment under the share option scheme of the Pre-IPO Share Incentive Plan	25	–	76,442	(1,283)	75,159
Equity-settled share-based payment under the share award scheme of the Pre-IPO Share Incentive Plan	25	–	31,762	–	31,762
Appropriations to statutory reserves	25	–	850	(850)	–
Repurchase of shares	25	–	(31,032)	–	(31,032)
Total transactions with equity holders		3	142,548	(2,133)	140,418
Balance at 31 December 2022		135	18,643,784	(10,823,860)	7,820,059

* the amount is less than RMB1,000

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Year ended 31 December 2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Cash generated from operations	30(a)	**223,841**	1,854,272
Income taxes paid		**(34,788)**	(11,364)
Net cash generated from operating activities		**189,053**	1,842,908
Cash flows from investing activities			
Purchase of property, plant and equipment	15	**(5,545)**	(26,092)
Proceeds from disposal of property, plant and equipment		**2,225**	1,996
Placement of short-term deposits		**(7,247,979)**	(13,618,808)
Proceeds from maturity of short-term deposits		**8,061,199**	13,409,106
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	241,102
Refund of prepayment for an investment		**–**	6,406
Interest received		**417,166**	144,879
Net cash generated from investing activities		**1,227,066**	158,589
Cash flows from financing activities			
Exercise of options		**77,378**	63,550
Repurchase of shares		**(381,497)**	(31,032)
Payment of listing expenses		**–**	(32,974)
Principal elements of lease payments	30(b)	**(3,240)**	(2,106)
Interest elements of lease payments	30(b)	**(317)**	(349)
Net cash used in financing activities		**(307,676)**	(2,911)
Net increase in cash and cash equivalents		**1,108,443**	1,998,586
Cash and cash equivalents at beginning of the year		**2,916,534**	853,454
Exchange differences on cash and cash equivalents		**(4,577)**	64,494
Cash and cash equivalents at end of the year	23	**4,020,400**	2,916,534

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION AND HISTORY OF THE GROUP

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".

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

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION

This note provides a list of the accounting policies adopted in the preparation of these consolidated financial statements.

2.1 Basis of preparation

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

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 New standards and amendments adopted by the Group

The Group has applied the following amendments to standards for the first time for their annual reporting period commencing on 1 January 2023:

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 Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 New standards and amendments to standards not yet adopted

Certain new standards and amendments to standards have been issued but are not yet effective for the year beginning on 1 January 2023 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2024
Amendments to IAS 1	Non-current liabilities with covenants	1 January 2024
Amendments to IFRS 16	Lease liability in a sale and leaseback	1 January 2024
Amendments to IAS 7 and IFRS 7	Supplier finance arrangements	1 January 2024
Amendments to IAS 21	Lack of exchangeability	1 January 2025
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is in the process of making an assessment of the impact of these new standards and amendments of standards, and has concluded on a preliminary basis that the adoption of these new and amended standards is not expected to have a significant impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Summary of material accounting policies

2.2.1 Principles of consolidation and equity accounting

(a) Subsidiaries

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Summary of material accounting policies (Continued)

2.2.1 Principles of consolidation and equity accounting (Continued)

(b) Subsidiaries controlled through Contractual Arrangements

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

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

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

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

(c) Associates

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Summary of material accounting policies *(Continued)*

2.2.1 Principles of consolidation and equity accounting (Continued)

(d) Equity accounting

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

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

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.2.5.

(e) Changes in ownership interests

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 *Summary of material accounting policies* *(Continued)*

2.2.2 Segment reporting

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

2.2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Summary of material accounting policies *(Continued)*

2.2.4 Prepaid contents royalties

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

2.2.5 Impairment of non-financial assets

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

2.2.6 Accounts and bills receivable

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

Accounts and bills receivable are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the accounts receivable with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 19 for further information about the Group's accounting for accounts and bills receivable and Note 3.1(b) for a description of the Group's impairment policies.

2.2.7 Cash and cash equivalents

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Summary of material accounting policies (Continued)

2.2.8 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Summary of material accounting policies *(Continued)*

2.2.8 Current and deferred income tax (Continued)

(b) Deferred income tax *(Continued)*

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

2.2.9 Employee benefits

(a) Short-term obligation

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

(b) Post-employment obligations

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Summary of material accounting policies *(Continued)*

2.2.10 Share-based payments

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

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

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

– including any market performance conditions (e.g. the entity's share price),

– excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining as an employee of the entity over a specified time period), and

– including the impact of any non-vesting conditions (e.g. the requirement for employees to save or hold shares for a specific period of time).

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 *Summary of material accounting policies* *(Continued)*

2.2.11 *Share held under share award scheme*

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

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

2.2.12 *Revenue recognition*

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

(a) Revenue from online music services

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

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

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

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Summary of material accounting policies (Continued)

2.2.12 Revenue recognition (Continued)

(a) Revenue from online music services *(Continued)*

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

(b) Revenue from social entertainment services and others

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

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

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

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Summary of material accounting policies *(Continued)*

2.2.12 Revenue recognition (Continued)

(c) Principal agent consideration

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

(d) Contract liabilities

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

2.2.13 Research and development expenses

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are capitalised as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the intangible asset so that it will be available for use or sales; (b) management intends to complete the intangible asset and use or sell it; (c) there is an ability to use or sell the intangible asset; (d) it can be demonstrated how the intangible asset will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and (f) the expenditure attributable to the intangible asset during its development can be reliably measured. Other development costs that do not meet these criteria are expensed as incurred. There were no development costs meeting these criteria and capitalised as intangible assets as at 31 December 2023 and 2022.

2.2.14 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to equity owners of the Company, excluding any costs of servicing equity other than ordinary shares.
- By the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period and excluding treasury shares.

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Summary of material accounting policies *(Continued)*

2.2.14 Earnings per share (Continued)

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

– The after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

– The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.3 Summary of other accounting policies

2.3.1 Separate financial statements

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

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

2.3.2 Property, plant and equipment

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.3 Summary of other accounting policies (Continued)

2.3.2 Property, plant and equipment (Continued)

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

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

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

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

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

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

2.3.3 Investments and other financial assets

(a) Classification

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

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

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

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.3 Summary of other accounting policies (Continued)

2.3.3 Investments and other financial assets (Continued)

(b) Recognition and derecognition

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

(c) Measurement

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

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

Debt instruments

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

- Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other (losses)/gains, net" together with foreign exchange gains and losses. Impairment losses are charged to profit or loss.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "other gains/(losses), net" in the consolidated statements of profit or loss. Interest income from these financial assets is recognised using the effective interest rate method. Foreign exchange gains and losses are presented in "other gains/(losses), net" and impairment loss are charged to profit or loss.

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.3 Summary of other accounting policies (Continued)

2.3.3 Investments and other financial assets (Continued)

(c) Measurement *(Continued)*

Debt instruments *(Continued)*

- FVPL: Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at FVPL. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in "other gains/(losses), net" for the period in which it arises.

Equity instruments

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

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

(d) Impairment

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.3 Summary of other accounting policies (Continued)

2.3.4 Offsetting financial instruments

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

2.3.5 Restricted cash

Cash that restricted from withdrawal, use or pledged as security is reported separately on the face of the consolidated balance sheets, and is not included in the total cash and cash equivalents in the consolidated statements of cash flow. The Group's restricted cash mainly represents the deposits restricted in relation to legal claims.

2.3.6 Accounts and other payables

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

2.3.7 Provisions and contingent liabilities

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.3 Summary of other accounting policies *(Continued)*

2.3.8 Interest income

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

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

2.3.9 Government grants

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

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

2.3.10 Leases

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF ACCOUNTING POLICY INFORMATION *(Continued)*

2.3 *Summary of other accounting policies* (Continued)

2.3.10 Leases (Continued)

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

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

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

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

3 FINANCIAL RISK MANAGEMENT

3.1 *Financial risk factors*

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

(a) Market risk

(i) Foreign exchange risk

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

As at 31 December 2023 and 2022, the impact of foreign exchange fluctuations is not material as the Group's entities had no material financial assets or financial liabilities denominated in a currency that different from its functional currency and therefore no sensitivity analysis is presented for foreign exchange risk.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

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

If the interest rate of cash and cash equivalents and short-term deposit had been 50 basis points higher/lower, the profit before income tax for the year ended 31 December 2023 would have been higher/lower RMB44.5 million.

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

(b) Credit risk

(i) Risk management

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

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

(ii) Impairment of financial assets

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

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

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 *Financial risk factors* *(Continued)*

(b) Credit risk (Continued)

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

Accounts and bills receivable

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

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

On that basis, the loss allowance as at 31 December 2023 and 2022 was determined as follows for accounts and bills receivable:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Gross carrying amount	**930,415**	561,462
Loss allowance provision	**(6,951)**	(3,321)
Expected loss rate	**0.75%**	0.59%

The loss allowances for accounts and bills receivable as at 31 December 2023 and 2022 reconcile to the opening loss allowances is as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
At 1 January	**3,321**	3,228
Net impairment loss during the year	**3,630**	93
At 31 December	**6,951**	3,321

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk (Continued)

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

Accounts and bills receivable *(Continued)*

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

Other financial assets at amortised cost

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

(c) Liquidity risk

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

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

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 *Financial risk factors* *(Continued)*

(c) Liquidity risk (Continued)

	On demand RMB'000	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
At 31 December 2023					
Accounts payable	–	171	–	–	171
Accruals and other payable (excluding non-financial liabilities)	–	1,729,170	–	–	1,729,170
Amounts due to group companies	76,196	–	–	–	76,196
Lease liabilities	–	3,196	2,136	1,314	6,646

	On demand RMB'000	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
At 31 December 2022					
Accounts payable	–	211	–	–	211
Accruals and other payable (excluding non-financial liabilities)	–	1,928,645	–	–	1,928,645
Amounts due to group companies	53,002	–	–	–	53,002
Lease liabilities	–	3,041	1,897	4,001	8,939

3.2 *Capital risk management*

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

The Group monitors capital (including share capital and share premium) by regularly reviewing the capital structure. As part of this review, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. As at 31 December 2023 and 2022, the directors of the Company consider that the capital risk of the Group is minimal as the Group's capital structure is mainly financed by ordinary and preferred shares with net cash and there is no material external interest-bearing debts during the years ended 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

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

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

As at 31 December 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 deposits, cash and cash equivalents, amounts due from group companies, accounts and bills receivable, other receivables and deposits and the Group's financial liabilities, including accounts payables, accruals and other payables and amounts due to group companies, approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Impairment assessment of non-financial assets

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

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

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

(b) Contractual arrangements

As disclosed in Note 2.2.1 (b), the Group exercises control over certain Structured Entities and has the right to recognise and receive substantially all the economic benefits from them through the Contractual Arrangements. The Directors consider that the Group controls these Structured Entities notwithstanding that it does not have direct or indirect legal ownership in equity of these entities as the Group has power over the financial and operating policies of these entities and receives substantially all the economic interest returns generated from the business activities of these entities through these Contractual Arrangements. Accordingly, all these Structured Entities are accounted for as controlled Structured Entities and their financial statements have also been consolidated by the Company throughout the years ended 31 December 2023 and 2022.

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

(c) Share-based payments

The Group measures the cost of equity-settled transactions with employees and others who provide similar services as employees with reference to the fair value of the equity instruments at the date at which they are granted with estimated forfeiture rate of eligible grantees. Significant estimates are involved in the determination of forfeiture rate, which include the use of the most appropriate calculation model and inputs based on the actual forfeiture rate of the Group.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Income taxes

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

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

5 REVENUE AND SEGMENT INFORMATION

(a) Disaggregation of revenue from contracts with customers

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Type of goods or services:		
Online music services	**4,350,913**	3,698,781
Social entertainment services and others	**3,516,079**	5,293,440
	7,866,992	8,992,221
Timing of revenue recognition:		
A point in time	**3,633,357**	5,421,795
Over time	**4,233,635**	3,570,426
Total	**7,866,992**	8,992,221

There was no significant concentration risk as no revenue from a single customer was more than 10% of the Group's total revenue for the years ended 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information

The CODM has been identified as the Board, who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group as a whole. For the purpose of internal reporting and management's operation review, the CODM considered that the Group's businesses are operated and managed as one single segment and no separate segment information was presented for the years ended 31 December 2023 and 2022.

During the year ended 31 December 2023, the Group principally operated in the PRC and substantial all of its revenue was generated in the PRC. All of its non-current assets were located in the PRC during the years ended 31 December 2023 and 2022.

6 OTHER INCOME

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Government grants and value-added tax subsidies	**71,799**	142,315

7 OTHER LOSSES, NET

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Net foreign exchange (losses)/gains	**(2,043)**	5,003
Fair value gain of financial assets at fair value through profit or loss	**–**	330
Impairment loss for investments in associates (Note 18)	**–**	(11,160)
Others (Note)	**(50,210)**	3,213
	(52,253)	(2,614)

Note:

In connection with an investigation initiated by local authority on certain individuals' activities through the use of the online platform operated by the Group, certain of the Group's bank balances of RMB122,975,000 were restricted during the first half of the year. As at 31 December 2023, the restricted bank balances were fully released while RMB50,000,000 (the "Amount") was seized by the local authority as evidence in connection to the aforesaid investigation. Based on the understanding of the nature and development of the investigation, management considers there is no reasonable expectation of recovering the Amount. Therefore, a loss was recognised accordingly.

Based on the legal opinion obtained from the Group's external legal counsel and management's assessment, management is of the view that the Group's relevant business operations are in compliance in all material respects in relation to the relevant applicable laws and regulations in the PRC.

Notes to the Consolidated Financial Statements

8 EXPENSES BY NATURE

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Content service costs (Note)	**4,598,724**	6,711,646
Technology costs	**483,114**	547,257
Employee benefit expenses (Note 9)	**1,154,001**	1,203,220
Promotion and advertising expenses	**688,312**	563,469
Payment channel fees	**417,296**	313,523
Net impairment losses on financial assets	**3,895**	2,321
Depreciation of property, plant and equipment	**16,474**	22,557
Auditors' remuneration		
– Audit services related to the Group	**5,820**	5,820
– Other audit related services and non-audit services	**980**	1,077
Legal and professional fees	**13,546**	13,909
Others	**174,196**	131,636
Total cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses	**7,556,358**	9,516,435

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

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Salaries and bonuses	**882,748**	907,972
Welfare and other employee benefits	**186,935**	188,327
Equity-settled share-based payments (Note 26(e))	**84,318**	106,921
	1,154,001	1,203,220

Note: The employee benefit expenses included labour outsourcing services from NetEase Group during the years ended 31 December 2023 and 2022 of RMB14,494,000 and RMB22,793,000, respectively.

Notes to the Consolidated Financial Statements

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

During the years ended 31 December 2023 and 2022, employee benefit expenses were charged to the consolidated profit or loss as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of revenue	**398,662**	360,772
Selling and marketing expenses	**62,817**	67,327
General and administrative expenses	**117,969**	124,841
Research and development expenses	**574,553**	650,280
	1,154,001	1,203,220

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the years ended 31 December 2023 and 2022 include one director in 2023 and 2022, whose emoluments were reflected in the analysis presented in Note 10. The emoluments paid and payable to the five individuals during the years ended 31 December 2023 and 2022 are as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Salaries and bonus	**17,363**	12,521
Pension costs-defined contribution plans	**202**	190
Welfare and other employee benefits	**538**	471
Equity-settled share-based payments	**10,590**	8,815
	28,693	21,997

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December	
	2023	2022
Emolument bands (in HK$)		
HK$3,500,001 to HK$4,000,000	**–**	3
HK$4,000,001 to HK$4,500,000	**2**	–
HK$5,500,001 to HK$6,000,000	**1**	–
HK$6,500,001 to HK$7,000,000	**–**	1
HK$7,000,001 to HK$7,500,000	**–**	1
HK$8,000,001 to HK$8,500,000	**1**	–
HK$9,000,001 to HK$9,500,000	**1**	–
	5	5

Notes to the Consolidated Financial Statements

10 BENEFITS AND INTERESTS OF DIRECTORS

The remuneration of every director during the years ended 31 December 2023 and 2022 is set out below:

For the year ended 31 December 2023:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
Name	Fees RMB'000	Salary RMB'000	Estimated money value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
William Lei Ding	–	–	–	–	–
Yat Keung Li	–	–	–	–	–
Yong Li	–	4,020	1,130	40	5,190
Yanfeng Wang	–	1,449	1,048	40	2,537
Feng Yu (Note (i))	–	–	–	–	–
Dewei Zheng (Note (ii))	–	–	–	–	–
Xianfeng Gu	–	500	–	–	500
Ying Kit Caleb Lo	–	500	–	–	500
Zhong Xu	–	500	–	–	500
Ran Wang (Note (iii))	–	–	–	–	–

Notes to the Consolidated Financial Statements

10 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

For the year ended 31 December 2022:

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

Notes:

(i) Resigned since Jun 2023.

(ii) Resigned since Feb 2024.

(iii) Appointed as non-executive director since Jun 2023.

(a) *Directors' retirement or termination benefits*

None of the directors received or will receive any retirement or termination benefits during the years ended 31 December 2023 and 2022.

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

During the years ended 31 December 2023 and 2022, the Company did not pay consideration to any third parties for making available directors' services.

(c) *Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors*

During the years ended 31 December 2023 and 2022, there is no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled body corporates and connected entities of such directors.

Notes to the Consolidated Financial Statements

10 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(d) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted at 31 December 2023 or at any time during the years ended 31 December 2023 and 2022.

11 FINANCE INCOME

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Interest income from bank deposits	**437,879**	183,105

12 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	**33,497**	17,015
Deferred income tax	**–**	–
	33,497	17,015

(a) Cayman Islands

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

(b) Hong Kong

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

(c) PRC

Under the Enterprise Income Tax ("EIT") Law, foreign invested enterprises and domestic enterprises are subject to a unified EIT rate of 25%, except for a subsidiary of the Group in the PRC that was approved as High and New Technology Enterprise ("HNTE") which enjoys a preferential tax rate of 15% from 2023 onwards and subject to re-approval by the related authorities in every three years.

Notes to the Consolidated Financial Statements

12 INCOME TAX EXPENSE *(Continued)*

(c) PRC (Continued)

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

The taxation on the Group's loss before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended 31 December 2023 and 2022, being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Profit/(loss) before income tax	**767,679**	(204,479)
Tax calculated at a tax rate of 25%	**191,920**	(51,120)
Effect of different tax rates applicable to different companies within the Group	**(58,259)**	(6,391)
Effect of preferential income tax rate of a subsidiary	**(59,915)**	13,341
Expenses not deductible for tax purposes	**12,899**	4,927
Income not subject to tax	**(7,743)**	(8)
Super deduction for research and development expenses	**(48,996)**	(45,582)
Withholding tax on finance income	**30,581**	14,951
Utilization of previously unrecognised tax losses	**(58,666)**	–
Tax losses and other temporary differences not recognised	**31,875**	86,420
Others	**(199)**	477
	33,497	17,015

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods.

As at 31 December 2023 and 2022, the Group had unrecognised tax losses to be carried forward against future taxable income amounted to RMB7,395 million and RMB6,976 million respectively. These unrecognised tax losses will mainly expire within 5 to 10 years. As at 31 December 2023 and 2022, the potential deferred income tax assets in respect of the above unrecognised tax losses amounted to RMB1,127 million and RMB1,060 million, respectively. Unrecognised tax assets in respect of other deductible temporary differences are relatively insignificant.

Notes to the Consolidated Financial Statements

13 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 year.

	Year ended 31 December	
	2023	2022
Profit/(loss) for the year attributable to equity holders of the Company (in RMB'000)	**734,182**	(221,494)
Weighted average number of shares outstanding	**210,413,914**	208,985,465
Basic earnings/(loss) per share (in RMB)	**3.49**	(1.06)

(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 share awards granted by the Company (collectively forming the denominator for computing the diluted EPS).

	Year ended 31 December 2023
Profit attributable to equity holders of the Company for the calculation of diluted EPS (in RMB'000)	**734,182**
Weighted average number of ordinary shares in issue	**210,413,914**
Adjustments for share options and share awards	**1,405,291**
Weighted average number of ordinary shares for the calculation of diluted EPS	**211,819,205**
Diluted earnings per share (in RMB)	**3.47**

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 year ended 31 December 2022.

14 DIVIDENDS

No dividends have been paid or declared by the Company during each of the years ended 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT

	Servers and network equipment RMB'000	Leasehold improvements RMB'000	Office furniture, equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2022					
Cost	93,854	1,255	16,562	2,828	114,499
Accumulated depreciation	(63,450)	(871)	(6,135)	–	(70,456)
Net book amount	30,404	384	10,427	2,828	44,043
Year ended 31 December 2022					
Opening net book amount	30,404	384	10,427	2,828	44,043
Additions	17,881	32	6,773	1,406	26,092
Transfer	–	4,234	–	(4,234)	–
Disposals	(1)	–	(1,741)	–	(1,742)
Depreciation charge	(15,863)	(928)	(5,766)	–	(22,557)
Closing net book amount	32,421	3,722	9,693	–	45,836
As at 31 December 2022					
Cost	111,732	5,522	19,724	–	136,978
Accumulated depreciation	(79,311)	(1,800)	(10,031)	–	(91,142)
Net book amount	32,421	3,722	9,693	–	45,836
Year ended 31 December 2023					
Opening net book amount	**32,421**	**3,722**	**9,693**	**–**	**45,836**
Additions	**2,095**	**61**	**3,389**	**–**	**5,545**
Disposals	**–**	**–**	**(1,885)**	**–**	**(1,885)**
Depreciation charge	**(9,708)**	**(1,009)**	**(5,757)**	**–**	**(16,474)**
Closing net book amount	**24,808**	**2,774**	**5,440**	**–**	**33,022**
As at 31 December 2023					
Cost	**113,827**	**5,583**	**17,817**	**–**	**137,227**
Accumulated depreciation	**(89,019)**	**(2,809)**	**(12,377)**	**–**	**(104,205)**
Net book amount	**24,808**	**2,774**	**5,440**	**–**	**33,022**

Notes to the Consolidated Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

During the years ended 31 December 2023 and 2022, depreciation was charged to the consolidated statements of profit or loss as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of revenue	**2,452**	6,044
Selling and marketing expenses	**123**	113
General and administrative expenses	**574**	573
Research and development expenses	**13,325**	15,827
	16,474	22,557

16 RIGHT-OF-USE ASSETS/LEASE LIABILITIES

Items recognised in the consolidated balance sheet

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Right-of-use assets		
At 1 January	**7,824**	10,505
Depreciation (Note)	**(2,896)**	(2,681)
Addition	**1,605**	–
Modification	**(220)**	–
At 31 December	**6,313**	7,824
Lease liabilities		
At 1 January	**8,399**	10,505
Addition	**1,605**	–
Modification	**(405)**	–
Payments	**(3,557)**	(2,455)
Interest expenses	**317**	349
At 31 December	**6,359**	8,399
Current	**3,001**	2,776
Non-current	**3,358**	5,623
	6,359	8,399

Notes to the Consolidated Financial Statements

16 RIGHT-OF-USE ASSETS/LEASE LIABILITIES *(Continued)*

Items recognised in the consolidated balance sheet (Continued)

Note:

Depreciation of approximately RMB2.9 million (2022: RMB2.7 million) was included in cost of revenue. The total cash outflow for leases in 2023 was RMB3.6 million (2022: RMB2.5 million).

17 SUBSIDIARIES

The Group's principal subsidiaries (including Structured Entities) during the years ended 31 December 2023 and 2022 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interest held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of incorporation and kind of legal entity	Principal activities	Particulars of issued/registered/ paid-in capital	Effective interest held 2023	Effective interest held 2022
Subsidiaries directly held:					
Cloud Village Limited	Hong Kong, limited liability company	Investment holdings	HKD1	100%	100%
Dream Studio, Inc.	Cayman Islands, limited liability company	Investment holdings	US$1	100%	100%
Indirectly held:					
Hangzhou NetEase Cloud Music Technology Co., Ltd.	PRC, limited liability company	Provision of online music streaming services in the PRC	US$1,349,000,000/ US$1,309,000,000	100%	100%
Structured Entities /consolidated affiliated entities (Note)					
Hangzhou Yuedu Technology Co., Ltd.	PRC, limited liability company	Provision of online music streaming services and social entertainment services in the PRC	RMB10,000,000/ RMB10,000,000	100%	100%
Hangzhou Rege Culture Creativity Co., Ltd.*	PRC, limited liability company	Dormant	RMB100,000/ -	100%	100%
Guangzhou Yuedu Technology Co., Ltd.	PRC, limited liability company	Provision of online music streaming services and social entertainment services in the PRC	RMB1,000,000/ -	100%	100%

Notes to the Consolidated Financial Statements

17 SUBSIDIARIES *(Continued)*

* English names are translated for identification purpose only.

Note: The Company does not have direct or indirect legal ownership in equity of the Structured Entities. Nevertheless, under certain Contractual Arrangements entered into with the Structured Entities and their registered owners, the Company and its other legally owned subsidiaries have rights to exercise power over the Structured Entities, receive variable returns from its involvement in the Structured Entities, and have the ability to affect those returns through its power over these Structured Entities. As a result, they are presented as Structured Entities of the Group.

18 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Associates	**78,969**	79,032

Movement of investments in associates is analysed as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
At 1 January	**79,032**	92,914
Share of results	**(63)**	(2,722)
Impairment loss (Note)	**–**	(11,160)
At 31 December	**78,969**	79,032

Note:

Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investments may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indicators, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less cost of disposal and value in use.

The Group made an aggregate impairment provision of nil and approximately RMB11,160,000 against the carrying amounts of certain investments in associates during the years ended 31 December 2023 and 2022, respectively. The impairment losses mainly were resulted from revisions of financial and business outlook of certain associates and changes in the market environment of the associates' underlying businesses.

Notes to the Consolidated Financial Statements

18 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD *(Continued)*

Details of the principal associate are as follows:

Name of entity	Date of incorporation	Place of business/ country of incorporation	Percentage of ownership attributable to the Group 2023	2022	Principal activities
Indirectly held:					
AIVA Technologies S.A.R.L	23 September 2016	Luxembourg	**20%**	20%	Provision of online AI soundtrack creating services

19 ACCOUNTS AND BILLS RECEIVABLE

	As at 31 December 2023 RMB'000	2022 RMB'000
Accounts receivable	**928,942**	559,462
Less: loss allowance	**(6,951)**	(3,321)
Accounts receivable, net	**921,991**	556,141
Bills receivable	**1,473**	2,000
	923,464	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 31 December 2023 RMB'000	2022 RMB'000
Up to 3 months	**909,174**	536,744
3 to 6 months	**440**	327
Over 6 months	**19,328**	22,391
	928,942	559,462

The carrying amount of accounts and bills receivable approximated their fair values and were denominated in RMB. Information about the impairment of accounts and bills receivable and the Group's exposure to credit risk can be found in Note 3.1.

Notes to the Consolidated Financial Statements

20 PREPAID CONTENTS ROYALTIES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current	**589,231**	506,328
Non-current	**166,054**	283,128
	755,285	789,456

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

21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Non-current assets		
Deposits	**300**	300
Prepayments	**2,734**	–
	3,034	300
Current assets		
Interest receivable	**83,636**	58,771
Prepaid payment channel fees	**69,016**	52,350
Prepaid promotion, advertising and other expenses	**17,447**	20,315
Value-added tax recoverable	**13,088**	21,954
Rental and other deposits	**800**	784
Others	**4,578**	5,972
	188,565	160,146
Less: loss allowance	**(2,509)**	(4,228)
	186,056	155,918

Notes to the Consolidated Financial Statements

22 SHORT-TERM BANK DEPOSITS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Short-term bank deposits	**5,484,688**	6,191,529

The weighted average effective interest rate on bank deposits of the Group with initial terms of over three months as at 31 December 2023 and 2022 was 5.63% and 2.20% per annum, respectively.

The carrying amounts of bank deposits with initial terms of over three months approximated their fair values and were denominated in the following currencies:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
US$	**3,484,688**	6,191,529
RMB	**2,000,000**	–
	5,484,688	6,191,529

Notes to the Consolidated Financial Statements

23 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cash at bank	**4,020,400**	2,916,534

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
US$	**2,787,812**	25,095
RMB	**1,210,144**	2,882,268
HK$	**22,444**	9,171
	4,020,400	2,916,534

The conversion of the RMB denominated balances maintained in the PRC into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Restricted cash

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Restricted cash, denominated in RMB	**21,005**	8,318

Restricted cash of RMB21,005,000 (2022: RMB8,318,000) mainly represents a deposit restricted in relation to a legal claim. Details of the claims of the Group are set out in Note 33.

Notes to the Consolidated Financial Statements

24 SHARE CAPITAL

Authorised:

	Total number of ordinary shares '000	Total nominal value of shares US$'000
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	1,000,000	100

Issued and fully paid:

	Number of ordinary shares	Nominal value of share capital RMB'000
As at 1 January 2022	207,756,876	132
Issue of new shares	355,000	-*
Exercise of share options	3,794,210	3
As at 31 December 2022 and 1 January 2023	**211,906,086**	**135**
Exercise of share options	**2,383,340**	**2**
As at 31 December 2023	**214,289,426**	**137**

* the amount is less than RMB1,000

Notes to the Consolidated Financial Statements

25 OTHER RESERVES

	Share premium RMB'000	Shares held under share award scheme RMB'000	Contributions from ultimate holding company RMB'000 (Note (a))	Share-based compensation reserve RMB'000	PRC statutory reserve RMB'000 (Note (b))	Exchange reserve RMB'000	Total RMB'000
As at 1 January 2023	17,113,324	(30,388)	28,812	380,423	3,719	1,147,894	18,643,784
Exercise of share options	163,343	–	–	(85,217)	–	–	78,126
Vest of share awards	9,125	14,352	–	(23,477)	–	–	–
Equity-settled share-based payment under the share option scheme of the Pre-IPO Share Incentive Plan	–	–	3,552	25,358	–	–	28,910
Equity-settled share-based payment under the share award scheme of the Pre-IPO Share Incentive Plan	–	–	–	34,176	–	–	34,176
Equity-settled share-based payment under the share award scheme of the Post IPO Share Incentive Plan	–	–	–	22,307	–	–	22,307
Repurchase of shares	–	(381,497)	–	–	–	–	(381,497)
Appropriations to statutory reserves	–	–	–	–	711	–	711
Currency translation differences	–	–	–	–	–	105,712	105,712
As at 31 December 2023	17,285,792	(397,533)	32,364	353,570	4,430	1,253,606	18,532,229

Notes to the Consolidated Financial Statements

25 OTHER RESERVES *(Continued)*

	Share premium RMB'000	Shares held under share award scheme RMB'000	Contributions from ultimate holding company RMB'000 (Note (a))	Share-based compensation reserve RMB'000	PRC statutory reserve RMB'000 (Note (b))	Exchange reserve RMB'000	Total RMB'000
As at 1 January 2022	16,899,507	–	23,564	427,402	2,869	628,429	17,981,771
Issuance of new shares	–	–*	–	–	–	–	–*
Exercise of share options	202,542	–	–	(138,016)	–	–	64,526
Vest of share awards	11,275	644	–	(11,919)	–	–	–
Equity-settled share-based payment under the share option scheme of the Pre-IPO Share Incentive Plan	–	–	5,248	71,194	–	–	76,442
Equity-settled share-based payment under the share award scheme of the Pre-IPO Share Incentive Plan	–	–	–	31,762	–	–	31,762
Repurchase of shares	–	(31,032)	–	–	–	–	(31,032)
Appropriations to statutory reserves	–	–	–	–	850	–	850
Currency translation differences	–	–	–	–	–	519,465	519,465
As at 31 December 2022	17,113,324	(30,388)	28,812	380,423	3,719	1,147,894	18,643,784

* the amount is less than RMB1,000

Notes:

(a) Contributions from ultimate holding company

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

(b) PRC statutory reserve

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

Notes to the Consolidated Financial Statements

26 SHARE-BASED COMPENSATION

During the years ended 31 December 2023 and 2022, the Group has a Pre-IPO Share Incentive Plan and a Post-IPO Incentive Plan in place, and the Group was also a party to the Restricted Share Unit ("RSU") plan of NetEase whereas restricted share units may be issued to eligible grantees of the Group.

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

During the year ended 31 December 2016, the board of directors of the Company approved the establishment of a Pre-IPO Share Incentive Plan (the "Pre-IPO Share Incentive Plan") with the purpose of motivating, attracting and retaining those individuals for outstanding performance to generate superior returns to the shareholders of the Group. The Pre-IPO Share Incentive Plan is valid and effective for 10 years from the date of 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 ordinary shares.

(i) Share options

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

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

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

	Number of share options	**Weighted average exercise price per share option** US$
Outstanding as of 1 January 2022	11,654,900	6.49
Exercised during the year	(3,794,210)	2.50
Cancelled during the year	(27,450)	10.73
Forfeited during the year	(671,200)	10.57
Outstanding as of 31 December 2022 and 1 January 2023	**7,162,040**	**8.20**
Exercised during the year	**(2,383,340)**	**4.67**
Forfeited during the year	**(403,300)**	**10.74**
Outstanding as of 31 December 2023	**4,375,400**	**9.89**
Vested and exercisable at 31 December 2023	**3,654,800**	**9.68**
Vested and exercisable at 31 December 2022	5,432,665	7.33

Notes to the Consolidated Financial Statements

26 SHARE-BASED COMPENSATION *(Continued)*

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

(i) Share options (Continued)

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

Grant date	Expiry date	Exercise price	Vesting year*	Year ended 31 December 2023	2022
25 May 2016	25 May 2023	US$1	4 years from grant date	–	1,222,600
18 January 2017	18 January 2024	US$8	4 years from grant date	–	273,965
10 July 2017	10 July 2024	US$8	4 years from grant date	180,400	307,000
23 November 2017	23 November 2024	US$8	4 years from grant date	222,900	265,000
12 February 2018	12 February 2025	US$8	4 years from grant date	82,000	122,000
21 May 2018	21 May 2025	US$8	4 years from grant date	853,400	1,091,000
17 August 2018	17 August 2025	US$8	4 years from grant date	142,000	256,000
19 November 2018	19 November 2025	US$8	4 years from grant date	25,000	75,000
2 March 2019	2 March 2026	US$8	4 years from grant date	80,000	103,900
21 May 2019	21 May 2026	US$8	4 years from grant date	26,500	109,750
25 September 2019	25 September 2026	US$11	4 years from grant date	777,000	933,750
22 November 2019	22 November 2026	US$11	4 years from grant date	186,000	225,000
1 March 2020	1 March 2027	US$11	4 years from grant date	154,000	177,000
20 May 2020	20 May 2027	US$11	4 years from grant date	65,400	68,650
30 September 2020	30 September 2027	US$11	4 years from grant date	314,000	329,000
24 November 2020	24 November 2027	US$11	4 years from grant date	161,500	185,000
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	77,000	118,000
27 May 2021	27 May 2028	US$11	4 years from grant date	880,900	1,130,925
15 June 2021	15 June 2028	US$11	1 year from grant date	2,400	3,000
15 June 2021	15 June 2028	US$11	4 years from grant date	140,000	160,500
Total				4,375,400	7,162,040
Weighted average remaining contractual life of options outstanding at end of the year				2.55 years	3.52 years

Notes to the Consolidated Financial Statements

26 SHARE-BASED COMPENSATION *(Continued)*

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

(i) Share options (Continued)

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

Based on fair value of the underlying ordinary shares, the Group has used Binomial model to determine the fair value of the share option as of the grant date.

(ii) Share awards

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).

During the year ended 31 December 2023 and 31 December 2022, the Company granted certain share awards to eligible grantees following the terms of the Pre-IPO Share Incentive Plan, subject to the satisfaction of certain performance requirements as set out in the award agreements. The share awards are granted without consideration, and the vesting period is one to three years in equal tranches.

Movements in the number of share awards granted to eligible grantees of the Group for the year ended 31 December 2023 and 2022 are as follows:

	Number of share awards	Weighted average grant date fair value HK$
Outstanding as of 1 January 2022	–	–
Granted during the year	1,498,130	72.24
Vested during the year	(188,707)	73.79
Forfeited during the year	(223,023)	73.42
Outstanding as of 31 December 2022 and 1 January 2023	**1,086,400**	**71.72**
Granted during the year	**361,499**	**85.70**
Vested during the year	**(376,651)**	**71.98**
Forfeited during the year	**(225,157)**	**73.48**
Outstanding as of 31 December 2023	**846,091**	**77.11**

The fair value of the share awards was calculated based on the market price of the Company's shares at the respective grant date.

Notes to the Consolidated Financial Statements

26 SHARE-BASED COMPENSATION *(Continued)*

(b) *Post-IPO Share Incentive Plan of the Company*

During the year ended 31 December 2022, the board of directors of the Company approved the establishment of a 2022 RSU Plan (the "Post-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 Post-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 Post-IPO Share Incentive Plan is 10,462,280 ordinary shares.

Share awards

During the year ended 31 December 2023, the Company granted certain share awards to eligible grantees following the terms of the Post-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 one to three years in equal tranches.

Movements in the number of share awards granted to eligible grantees of the Group for the year ended 31 December 2023 and 2022 are as follows:

	Number of share awards	Weighted average grant date fair value HK$
Outstanding as of 1 January 2022, 31 December 2022 and 1 January 2023	–	–
Granted during the year	1,880,924	79.98
Forfeited during the year	(37,943)	81.52
Outstanding as of 31 December 2023	1,842,981	79.95

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 Consolidated Financial Statements

26 SHARE-BASED COMPENSATION *(Continued)*

(c) *Treasury shares for the share award scheme*

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 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.

The following table represents the movements for number of shares under the Trustee for the year ended 31 December 2023 and 31 December 2022.

	Number of shares	RMB'000
As at 1 January 2022	–	–
Issuance of new shares	355,000	–
Repurchase of shares from market	460,900	31,032
Share awards vested during the year	(188,707)	(644)
As at 31 December 2022 and 1 January 2023	**627,193**	**30,388**
Repurchase of shares from market	**5,258,100**	**381,497**
Share awards vested during the year	**(376,651)**	**(14,352)**
As at 31 December 2023	**5,508,642**	**397,533**

(d) *Restricted share units plan*

2019 Restricted Share Unit Plan

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

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

All, one-second, one-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.

Notes to the Consolidated Financial Statements

26 SHARE-BASED COMPENSATION *(Continued)*

(d) Restricted share units plan *(Continued)*

2019 Restricted Share Unit Plan (Continued)

Movement in the number of RSUs granted to Eligible Grantees of the Group for the years ended 31 December 2023 and 2022 are as follows:

	Number of RSUs	Weighted average grant date fair value US$
Outstanding as at 1 January 2022	22,612	62.93
Granted during the year	6,868	94.07
Vested and transferred during the year	(4,944)	(23.22)
Forfeited during the year	(1,315)	(63.88)
Outstanding as at 31 December 2022 and 1 January 2023	**23,221**	**80.54**
Granted during the year	**7,273**	**87.71**
Vested and transferred during the year	**(16,336)**	**73.39**
Forfeited during the year	**(3,123)**	**84.92**
Outstanding as at 31 December 2023	**11,035**	**94.62**

(e) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expenses were as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Share options issued under the Pre-IPO Share Incentive Plan	**24,283**	69,911
Share awards granted under the Pre-IPO Share Incentive Plan to Eligible Grantees	**34,176**	31,762
Share awards granted under the Post-IPO Share Incentive Plan to Eligible Grantees	**22,307**	–
RSUs granted under the NetEase Group Restricted Shares Units Plan to Eligible Grantees of the Group	**3,552**	5,248
	84,318	106,921

Notes to the Consolidated Financial Statements

27 ACCOUNTS PAYABLE

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Accounts payable	**171**	211

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

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

28 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current liabilities		
Accrued content service costs	**1,426,645**	1,679,545
Accrued expenses	**204,846**	167,318
Accrued salaries and staff benefits	**257,883**	273,855
Deposits from customers	**47,508**	42,025
Other taxes payable	**28,189**	32,097
Others	**50,171**	39,757
	2,015,242	2,234,597

29 CONTRACT LIABILITIES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Contract liabilities related to online music services	**999,653**	721,219
Contract liabilities related to social entertainment services and others	**67,899**	48,284
Contract liabilities	**1,067,552**	769,503
Less: Non-current portion	**(66,539)**	(55,244)
Current portion	**1,001,013**	714,259

Notes to the Consolidated Financial Statements

29 CONTRACT LIABILITIES *(Continued)*

(i) Significant changes in contract liabilities

Contract liabilities mainly represent advance payments received from customers related to music membership subscription, sublicensing of contents royalties and sales of virtual items. Contract liabilities increased by RMB298,049,000 and RMB114,334,000 during the years ended 31 December 2023 and 2022, respectively, mainly due to the increase of music membership subscription.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the year related to carried forward contract liabilities.

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**714,259**	604,614

(iii) Unsatisfied performance obligations

The following table shows unsatisfied performance obligations mainly resulting from fixed-price contracts:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within one year	**1,001,013**	714,259
Over one year	**66,539**	55,244
	1,067,552	769,503

As at 31 December 2023 and 2022, the Group expects that the unsatisfied performance obligations resulting from the above contracts that will be recognised as revenue within one year amounting to RMB1,001,013,000 and RMB714,259,000 respectively. The remaining unsatisfied performance obligations are primarily expected to be recognised as revenue within the second year after the respective balance sheet dates.

Notes to the Consolidated Financial Statements

30 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Profit/(loss) before income tax	**767,679**	(204,479)
Adjustments for:		
Depreciation of property, plant and equipment (Note 15)	**16,474**	22,557
Depreciation of right-of-use assets (Note 16)	**2,896**	2,681
Impairment loss for investments in associates (Note 7)	**–**	11,160
Net impairment loss on financial assets	**53,889**	2,321
Equity-settled share-based payments (Note 9)	**84,318**	106,921
Gain on disposal of property, plant and equipment	**(340)**	(254)
Gain on fair value changes of financial assets at fair value through profit or loss	**–**	(330)
Share of results of investments accounted for using equity method	**63**	2,722
Finance income	**(437,879)**	(183,105)
Finance cost	**317**	349
	487,417	(239,457)
Changes in working capital:		
Changes in accounts receivable	**(368,876)**	115,416
Changes in other operating assets	**16,461**	891,807
Changes in accounts payable	**(40)**	77
Changes in other operating liabilities	**101,566**	1,094,747
Changes in restricted cash	**(12,687)**	(8,318)
Cash generated from operations	**223,841**	1,854,272

Notes to the Consolidated Financial Statements

30 CASH FLOW INFORMATION *(Continued)*

(b) Reconciliation of liabilities arising from financing activities

	Lease liabilities RMB'000
Balance at 1 January 2022	10,505
Principal elements of lease payments	(2,106)
Interest elements of lease payments	(349)
Non-cash movements	349
Balance at 31 December 2022	8,399
Balance at 1 January 2023	**8,399**
Principal elements of lease payments	**(3,240)**
Interest elements of lease payments	**(317)**
Non-cash movements	**1,517**
Balance at 31 December 2023	**6,359**

Notes to the Consolidated Financial Statements

31 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Financial assets		
Measured at amortised cost		
Accounts and bills receivable (Note 19)	**923,464**	558,141
Deposits and other receivables	**86,804**	61,195
Amounts due from group companies (Note 32)	**98,315**	138,504
Short-term bank deposits (Note 22)	**5,484,688**	6,191,529
Cash and cash equivalents (Note 23)	**4,020,400**	2,916,534
Restricted cash (Note 23)	**21,005**	8,318
	10,634,676	9,874,221

Notes to the Consolidated Financial Statements

31 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Financial liabilities		
Measured at amortised cost		
Accounts payable (Note 27)	**171**	211
Accruals and other payables (excluding non-financial liabilities)	**1,729,170**	1,928,645
Amounts due to group companies (Note 32)	**76,196**	53,002
Lease liabilities (Note 16)	**6,359**	8,399
	1,811,896	1,990,257

32 RELATED PARTY TRANSACTIONS

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

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the years ended 31 December 2023 and 2022:

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

Notes to the Consolidated Financial Statements

32 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Purchase of property, plant and equipment from NetEase Group	**2,077**	4,391
Purchase of goods from NetEase Group	**3,465**	6,036
Purchase of technology and other services from NetEase Group	**391,341**	481,383
Provide advertising services to NetEase Group	**223,840**	411,644
Provide other services to NetEase Group	**19,059**	18,675
Sales of property, plant and equipment to NetEase Group	**1,212**	1,055

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

(b) Balances with related parties

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Amounts due from NetEase Group	**98,315**	138,504
Amounts due to NetEase Group	**76,196**	53,002

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

(c) Key management personnel compensation

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Salaries and bonus	**5,457**	10,390
Welfare and other employee benefits	**426**	511
Equity-settled share-based payments	**6,582**	1,373
	12,465	12,274

Notes to the Consolidated Financial Statements

33 CONTINGENT LIABILITIES

The Group, in the ordinary course of its business, is involved in certain claims, legal proceedings and arbitration that arise from time to time. As at 31 December 2023, there were certain claims pending in the courts and arbitrations, or otherwise unresolved. The Group is unable to estimate the reasonably possible loss or a range of reasonably possible losses for legal proceedings in the early stages or where there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints. Although the results of unsettled claims cannot be predicted with certainty, the Group does not believe that, as at 31 December, 2023, the Group may have incurred a material loss, or a material loss in excess of the accrued expenses, with respect to such loss contingencies.

Notes to the Consolidated Financial Statements

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Assets		
Non-current assets		
Investment in an associate	**17,575**	17,575
Investments in subsidiaries	**12,639,617**	9,412,591
	12,657,192	9,430,166
Current assets		
Prepayments, deposits and other receivables	**439,314**	90,621
Short-term bank deposits	**587,864**	6,191,529
Cash and cash equivalents	**2,717,223**	16,709
	3,744,401	6,298,859
Total assets	**16,401,593**	15,729,025
Equity		
Equity attributable to equity holders of the Company		
Share capital	**137**	135
Reserves (34(b))	**16,395,707**	15,716,442
Total equity	**16,395,844**	15,716,577
Liability		
Current liability		
Accruals and other payables	**2,570**	6,827
Income tax payable	**3,179**	5,621
	5,749	12,448
Total liabilities	**5,749**	12,448
Total equity and liabilities	**16,401,593**	15,729,025

Notes to the Consolidated Financial Statements

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Reserve movement of the Company

	Share premium RMB'000	Share-based compensation reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2023	17,113,324	380,423	1,138,138	(2,920,957)	5,514	15,716,442
Profit for the year	–	–	–	269,114	–	269,114
Exercise of share options	163,343	(85,217)				78,126
Vest of share awards	9,125	(23,477)	–	–	–	(14,352)
Equity-settled share-based payment under the share option scheme of the Pre-IPO Share Incentive Plan	–	25,358	–	(1,075)	–	24,283
Equity-settled share-based payment under the share award scheme of the Pre-IPO Share Incentive Plan	–	34,176	–	–	–	34,176
Equity-settled share-based payment under the share award scheme of the Post IPO Share Incentive Plan	–	22,307	–	–	–	22,307
Currency translation differences	–	–	265,611	–	–	265,611
As at 31 December 2023	17,285,792	353,570	1,403,749	(2,652,918)	5,514	16,395,707

Notes to the Consolidated Financial Statements

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) *Reserve movement of the Company* *(Continued)*

	Share premium RMB'000	Share-based compensation reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2022	16,899,507	427,402	(354)	(3,038,029)	5,514	14,294,040
Profit for the year	–	–	–	118,355	–	118,355
Exercise of share options	202,542	(138,016)	–	–	–	64,526
Vest of share awards	11,275	(11,919)	–	–	–	(644)
Equity-settled share-based payment under the share option scheme of the Pre-IPO Share Incentive Plan	–	71,194	–	(1,283)	–	69,911
Equity-settled share-based payment under the share award scheme of the Pre-IPO Share Incentive Plan	–	31,762	–	–	–	31,762
Currency translation differences	–	–	1,138,492	–	–	1,138,492
As at 31 December 2022	17,113,324	380,423	1,138,138	(2,920,957)	5,514	15,716,442

Five Year Financial Summary

CONDENSED CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	**2023** **RMB'000**
Revenue	2,318,390	4,895,731	6,997,622	8,992,221	**7,866,992**
Gross (loss)/profit	(1,056,714)	(595,335)	142,674	1,293,118	**2,102,670**
(Loss)/profit before income tax	(2,013,622)	(2,949,887)	(2,051,423)	(204,479)	**767,679**
(Loss)/profit for the year attributable to equity holders of the Company	(2,015,759)	(2,951,463)	(2,056,092)	(221,494)	**734,182**
Other comprehensive (loss)/income for the year, net of taxes	(69,632)	426,610	169,800	519,465	**105,712**
Total comprehensive (loss)/income for the year attributable to equity holders of the Company	(2,085,391)	(2,524,853)	(1,886,292)	297,971	**839,894**

CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 31 December				
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	**2023** **RMB'000**
Assets					
Non-current assets	780,734	1,194,773	618,919	416,120	**287,392**
Current assets	8,256,428	6,862,629	8,768,719	10,475,272	**11,323,159**
Total assets	9,037,162	8,057,402	9,387,638	10,891,392	**11,610,551**
Equity					
Total equity holders' (deficits)/equity	(2,945,509)	(5,306,766)	7,381,670	7,820,059	**8,440,902**
Liabilities					
Non-current liabilities	10,771,952	11,191,508	58,448	60,867	**69,897**
Current liabilities	1,210,719	2,172,660	1,947,520	3,010,466	**3,099,752**
Total liabilities	11,982,671	13,364,168	2,005,968	3,071,333	**3,169,649**
Total equity and liabilities	9,037,162	8,057,402	9,387,638	10,891,392	**11,610,551**

Definitions

"Board"	the board of directors of our Company
"China" or the "PRC"	the People's Republic of China, and for the purpose of this annual report only, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
"Company"	Cloud Music Inc., the shares of which are listed on the Main Board of the Stock Exchange under the stock code "9899"
"Corporate Governance Code"	the Corporate Governance Code set out in Appendix C1 (formerly Appendix 14) to the Listing Rules
"Director(s)"	the director(s) of the Company
"Group"	our Company and its subsidiaries, including consolidated affiliated entities, the financials of which are consolidated into our Company's accounts
"IFRS"	IFRS Accounting Standards, as issued from time to time by the International Accounting Standards Board
"Latest Practicable Date"	15 April 2024, being the latest practicable date for ascertaining certain information in this annual report before its publication
"Listing"	the listing of our shares on the Main Board of the Stock Exchange
"Listing Date"	2 December 2021, the date on which our shares were listed and on which dealings in our shares were first permitted to take place on the Stock Exchange

Definitions

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"MAUs of online music services"	the monthly average number of users in a given period that have accessed the NetEase Cloud Music application at least once in a given month through mobile devices or PC devices, as the case may be; duplicate access is eliminated from the calculation based on our estimates by user account
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 (formerly Appendix 10) to the Listing Rules
"Monthly ARPPU of online music services"	the monthly average of the revenues from membership subscriptions for that period divided by the number of monthly paying users of online music services for that period
"Monthly ARPPU of social entertainment services"	the monthly average of the revenues of the social entertainment services for that period divided by the number of monthly paying users of social entertainment services for that period
"Monthly paying users of online music services"	the average of the number of user whose membership subscription packages remain active as of the last day of each month in a given period. Monthly paying users of online music services for any given period excludes the number of users who only purchase digital music singles and albums during such period because these user purchasing patterns tend to reflect specific hit releases, which fluctuate from period to period
"Monthly paying users of social entertainment services"	the average of the number of users who contribute revenues to our social entertainment services for each month in a given period

Definitions

"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 the Group
"Prospectus"	the Company's prospectus dated 23 November 2021, a copy of which is available on the Stock Exchange's website at www.hkexnews.hk
"Registered Independent Artists"	the artists who have registered on our platform to qualify for publishing their songs and have published at least one song on our platform
"Reporting Period"	the financial year ended 31 December 2023
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), and includes our consolidated affiliated entities and any other entity the financials of which are consolidated into the accounts of the Company

网易云音乐

（incorporated in the Cayman Islands with limited liability）

Stock code：9899