

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

 网易云音乐
CLOUD MUSIC INC.
雲音樂股份有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 9899)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2024**

Our Board is pleased to announce the unaudited consolidated results of our Company and its subsidiaries (collectively referred to as the “**Group**”) for the Reporting Period, being the six months ended 30 June 2024. These interim results have been reviewed by our auditor, PricewaterhouseCoopers, in accordance with the International Standard on Review Engagement 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by our Board’s audit committee.

	Six months ended 30 June		Change (%)
	2024	2023	
	(Unaudited)	(Unaudited)	
	<i>(RMB in thousands, except percentages)</i>		
Revenue	4,070,493	3,908,380	+4.1%
Gross profit	1,425,731	965,147	+47.7%
Profit before income tax	813,578	311,961	+160.8%
Profit for the period	809,949	293,750	+175.7%
Non-IFRS Measure:			
Adjusted net profit ⁽¹⁾	880,749	331,893	+165.4%

Note:

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

Non-IFRS measure

To supplement our consolidated results, which are prepared and presented in accordance with IFRS, our Company uses adjusted net profit 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, as an analysis of, or superior to, our Group's results of operations or financial condition as reported under IFRS. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies, and may not be comparable to other similarly titled measures used by other companies. Our presentation of this non-IFRS measure should not be construed as an implication that our future results will be unaffected by unusual or non-recurring items.

General notes

In this announcement: (i) "we", "us", and "our" refer to our Company and where the context otherwise requires, our Group; (ii) numbers may be subject to rounding and approximations to one or two decimal places; and (iii) unless otherwise stated, the exchange rates used are RMB1 to HK\$1.0957 and US\$0.1403.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Coming into 2024, we remained steadfast in prioritizing development in our core music business and fostering a long-lived, thriving community. We continued to propel quality development across our music-centric ecosystem, strengthening our music-centric monetisation, resulting in improved profitability. Our appeal to users was enhanced due to our premium offering enhancements, such as improving our content ecosystem and personalized distribution, adding innovative features, and strengthening community attributes. These successful efforts, including a recent comprehensive upgrade of the “NetEase Cloud Music” app, helped us further augment our unique community and deepen user engagement. Combined with advanced membership privileges offered, we delivered solid growth in our subscription-based memberships, driving monetisation momentum from our core online music business.

During the first half of 2024, we continued to **engage users across our leading music-inspired community**. Our total user base remained largely stable, with a DAU/MAU ratio (daily active user/monthly active user ratio) consistently staying above 30%. Our growing online music subscriber group is particularly well-engaged on our platform. Along with our unique music-inspired community, personalised recommendation is one of our key focuses and the primary goal of our recent product upgrade is to reinforce these long-term differentiations. In our app’s new version, we further improved users’ music discovery and consumption via enhanced personalised recommendations and innovative features for a premium listening experience. Additionally, we continued to cultivate our music-centric community centred around our iconic Comments section, leading to increased community content generation and consumption, as well as more user interactions amid a revitalized community atmosphere. These efforts have resulted in improved user engagement, i.e., average time spent listening to music within our mobile app.

In the first half of 2024, we continually broadened our content offerings for our diverse audience. With the addition of major Korean music labels like JYP Entertainment and Kakao Entertainment, we continued rounding out our copyrighted content library. Combined with our strong support for independent artists and enhancements to our in-house music offering, we have created a **differentiated content ecosystem**. In addition to top-tier music content, we are fuelling growth in our signature music genres, such as hip-hop, through initiatives across copyrighted content collaboration, independent music cultivation, and in-house music production.

We worked diligently to **strengthen our music-centric monetisation capabilities** during the first half of 2024, achieving solid growth momentum year-over-year. Our revenue from subscription-based memberships continued its healthy upward trend with a 25.5% year-over-year growth, driven by an increase in the number of subscribers. We successfully introduced premium offerings, such as expanded content and innovative features, broadened membership privileges (including various IP-themed music players and a new interpersonal feature, etc.) and joint programs with external partners, as well as innovative promotional campaigns. Notably, membership retention rates, time spent and activity ratios were all improved across our expanding, high-quality subscriber base. In addition to subscriptions, we strengthened our advertising commercialisation capabilities during the period, supported by enhanced operational efficiency and optimized algorithms for performance-based ads, as well as more diverse advertisement formats and initiatives. Our exploration of ad-supported models also began contributing to our ad revenue growth.

We **further improved our profitability** during the first half of 2024, primarily driven by the benefits of economies of scale. Our **gross margin** increased to 35.0% for the first half of 2024, considerably improved from 24.7% for the same period of 2023, owing to our increased business scale, strong monetisation of our core online music business that led to ongoing improvement of operating leverage, as well as a one-off adjustment of certain copyright costs that boosted the gross profit margin by approximately 2.6 percentage points for the first half of 2024. Consequently, we achieved a net profit of RMB809.9 million for the first half of 2024, compared with a net profit of RMB293.8 million for the same period of 2023. Excluding the impact of equity-settled share-based payments, we achieved an adjusted net profit of RMB880.7 million for the first half of 2024, compared with an adjusted net profit of RMB331.9 million for the same period of 2023.

Going forward, we will remain committed to bringing more high-quality music to our users, cultivating our community, enhancing user experience, and strengthening our operating capabilities. Our strategic blueprint calls for the following actions:

- Further diversify and enhance our differentiated content offerings, with greater efficiency. We plan to deepen our collaboration with copyright holders and strengthen our capabilities in independent artist incubation and in-house music production, focusing on our signature music genres;
- Nurture our music-oriented community ecosystem and explore innovative inter-person interaction via enhancements to our comprehensive product offerings, including embedding more interactive features into our products 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 continued enhancement of economies of scale, and enhanced operating efficiency.

Comprehensive and differentiated content ecosystem

We are further enriching our content library, including both licensed music and original music. We continually update our diverse music selection to meet the evolving needs of our users, particularly younger users who have varied tastes and a desire to discover new music. In addition to top-tier music works, we especially focus on promoting our signature music genres, particularly hip-hop.

Enhancing partnerships with copyright holders

Throughout the period, we have remained dedicated to broadening our collaboration with music copyright holders, rounding out our Korean music content library. We have consistently demonstrated our commitment to fostering strong partnerships with music labels, ultimately benefiting both copyright holders and music enthusiasts.

- ***Expansive catalogue of music labels.*** We expanded our catalogue of music labels during the first half of 2024, including new partnerships with major Korean labels including JYP Entertainment and Kakao Entertainment, as well as Chinese music labels such as KC DIGITAL and Guoran Entertainment, etc.
- ***In-depth collaborations with our copyright partners.*** We created and launched an innovative, exclusive tab page for Taylor Swift’s new album “THE TORTURED POETS DEPARTMENT: THE ANTHOLOGY,” successfully promoting its sales. The album achieved over 100 million streams on our platform in just 19 days after its release. Regarding physical albums, we extended our collaborative efforts with copyright holders on content distribution and commercialization, focusing on supporting mid-tier artists. For instance, Shi Kai’s album “Counting Stars All Night” has achieved over RMB10 million in sales on our platform.
- ***Amplifying offerings in signature music genres.*** We actively broadened our content library to appeal to the preferences of younger audiences on our platform. Music genres such as hip-hop, rock and Japanese ACG have surged in popularity on our platform. Throughout the period, we further expanded our content library in those signature genres, adding music content from influential rappers such as Pharaoh (法老) and KeyNG (楊和蘇), popular rock group Penicillin (盤尼西林), as well as J-Pop music from Vap Japan and B-zone (known for iconic anime OSTs like “Detective Conan,” “Slam Dunk,” and “Dragon Ball GT”).

Strengthening our leading independent artists' ecosystem

We continuously enhance our support system for independent artists, offering them comprehensive assistance throughout their music industry journey. This includes support from creation to promotion and financial aid. As of June 2024, our platform had over 732,000 registered independent artists who contributed around 3.6 million music tracks to our library. We are dedicated to supporting emerging musicians, especially in our signature genres like hip-hop, to help them advance their music careers and ultimately enhance the original music ecosystem on our platform.

- ***Supporting musicians in content creation.*** We support a diverse range of music talent throughout the creative process that help them achieve their creative potential. We have made our all-in-one AI music creation tool, NetEase Tianyin, accessible to both independent musicians and individual users. Not only does it make musicians' production process more efficient but also makes music creation more accessible overall, empowering more music lovers to become musicians. For NetEase Cloud Music X Studio, our AI-based voice synthesis software developed in partnership with Xiaoice, we integrated top IP Luo Tianyi and introduced five new natural singing voices including ethnic and bel canto singing styles, enabling musicians to find the appropriate voice for their unique projects and helping them express their creative ideas.
- ***Exploring and improving the exposure of musicians and their work.*** We leverage our internal and external resources to boost the presence of musicians and their high-quality work. For example, we officially launched Live Cover, an innovative feature within the music player interface offering musicians a new channel for promoting their content and themselves. Our **region-oriented music promotions** include our renowned "City Tour Guide" (城市雲游指南) special planning series, for which we released Northeast Special Edition and launched an online plus offline event in Guizhou, and our Project Cornerstone (石頭計劃) city flash mob activities to provide musicians with more offline performance opportunities. In addition, we joined hands with the CCTV program "Music on the Journey (《樂在旅途》)" to showcase local original musicians on the CCTV stage.
- ***Helping musicians realise commercial value.*** Our platform's diverse monetisation approaches and upgraded support initiatives are designed to help musicians improve their financial yields. In April 2024, we rolled out the latest phase of our musician support project, "Project Cloud Ladder 2024" (雲梯計劃 2024 第一期), which further bolsters financial backing for musicians by offering a more attractive financial settlement mechanism along with broadened scope of incentives. Furthermore, we continuously strengthened support for musicians of different identities. We recently implemented the second phase of a revenue-sharing program for music arrangers, providing financial aid through royalties for both arrangers and beatmakers.

Developing and promoting differentiated in-house music

Drawing on our expertise in music, wide and varied user base, and in-depth user insights, our multiple in-house studios focused on creating unique music content to further enrich our content matrix, catering to the diverse needs of various audiences.

- ***Crafting high-quality music content tailored to a variety of needs, with a focus on signature genre.*** In the first half of 2024, our in-house studios successfully produced and popularised multiple hit songs, represented by 《紫荊花盛開》. We focused on our signature music genres, such as hip-hop, and produced multiple popular hip-hop song tracks, including a Henan Dialect rap song “5:20 AM” (《5:20 AM》), as well as “Xie Tian Xie Di” (《謝天謝帝》), “Ren Shang Ren” (《人上人》), and “Hai Shi Hui Xiang Ni” (《還是會想你》). Additionally, our in-house produced work “Farewell Letter” (《訣別書》), a purely instrumental music with a farewell theme, has gained popularity both within and outside the instrumental music community.
- ***Growing off-site exposure and popularity.*** Our in-house music works have been featured across the country at various prominent events and on TV shows in China. These include the CCTV 2024 Spring Festival Gala (央視春晚), Henan TV’s 2024 Lantern Festival Gala (河南衛視元宵晚會), Beijing TV’s New Year’s Eve Special (北京衛視跨年之夜), Henan TV’s May 1st Gala (河南衛視五一晚會), as well as popular variety shows.
- ***Expanding our offline public broadcasting collaborations,*** focusing on brands and scenarios that appeal to young people on our platform. For instance, we have partnered with Wanda Plaza, Blueglass Yogurt, Manner Coffee, and the Wandering micro department store brand, covering nearly 6,000 stores in total, all aimed at promoting our in-house music and increasing brand awareness among students and white-collar workers.

Diversified audio-based content offerings

In addition to music tracks, we have been actively expanding the long-form audio offerings on our platform. In the first half of 2024, the average listening time per user of long-form audio on our platform increased significantly by 49.4%, driven by our enhanced high-quality content that further engages long-form audio users and encourages more extensive consumption.

- ***PUGC/UGC – podcast.*** With our podcasts’ focus on music-inspired content, they offer music fans an enjoyable way to discover quality and lesser-known songs, 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. For instance, our self-produced radio drama “The Villain Wants to be Saved” (《惡人想要搶救一下》), adapted from the popular Chinese anime of the same name, resonates with the platform’s young user base. This has proven to be an effective strategy in attracting new users and increasing user engagement on our platform.

Community ecosystem and product innovation

Throughout the first half of 2024, we continued innovating products, enhancing features, and revitalising our differentiated community. During the period, we made significant progress in product innovation, particularly with the comprehensive upgrade of the “NetEase Cloud Music” app conducted from early 2024, which focused on several key areas: enhancing personalised content recommendations, improving traffic allocation across different content verticals, and actively fostering our music-centric community centred around music comments. Our efforts have helped to elevate the user experience, increase music’s resonance with our user community and boost music interaction.

Optimising users’ music discovery and listening experience

- ***Music content discovery and distribution.*** In our recent main app upgrade, we effectively strengthened the app’s personalised recommendations functionality, including enhancing the overall app framework and content distribution strategy and optimising content recommendation features such as daily recommendations and Private DJ. These initiatives have amplified the efficiency and coverage of content recommendations, resulting in a more personalized music discovery experience.
- ***Enhancing the basic listening experience.*** During the Reporting Period, we optimized the vinyl playback experience, leading to improved user stickiness. Our efforts included upgrading the encyclopaedia and the lyrics consumption experience, as well as releasing new music player interface series, including full-screen cover, Forbidden City style, music comment style, Artist series, IP-themed player in collaboration with NetEase games, and Farmer Bob, among others. These trendy IP-themed music players not only offer users a fresh experience, but also opened up more monetization opportunities.

Fostering music-inspired community resonance and connections

During the first half of 2024, we actively nurtured our unique music-inspired community attributes, by amplifying the value of our iconic Comments section across various app scenarios, diversifying UGC content formats and categories, enhancing algorithms and operational activities, and much more. These efforts led to a better community experience for both users and UGC creators, which is crucial in maintaining and improving our strong user activity and stickiness.

- ***Community consumption and interaction.*** We continuously amplify the value of comments through product, operational, and algorithmic optimizations. Our initiatives include featuring hot comments on the vinyl player, introducing a new player interface that displays selected comments on the cover page, and refining our comment distribution system. Additionally, we have diversified the “Moments Square (動態廣場)” section’s content with popular music comments and a new user-generated format combining text and images. These efforts have led to a notable increase in user engagement with community content and interactions.
- ***Community content generation.*** We initiated efforts to increase user participation in creating UGC within our community. For example, we enhanced operational activities by coordinating comments with new song releases and popular topics to engage users in sharing their thoughts and feelings in the Comments section. Additionally, we curated various operational activities in the “Moments Square (動態廣場)” section centred around specific topics.

Expanding music consumption and communicative scenarios

- ***Expanding collaboration with the NetEase franchise.*** We recently partnered with NetEase's online education division, beginning with a collaboration on Youdao Dictionary. This partnership combines our expertise in music content with online learning, integrating music consumption with specific English word searches to offer users a unique integrated experience.
- ***IoT layouts.*** We continued optimizing our functionality that lets users easily switch between different terminals like mobile, PC, TV, and in-car scenarios, effectively addressing diverse user needs and improving user experience. We also officially launched an initiative enabling regular vinyl membership subscribers to access content on IoT terminals. These efforts help us improve overall user activity and engagement across multiple terminals and scenarios.

FINANCIAL REVIEW

Overview

Over the Reporting Period, we recorded a revenue of RMB4,070.5 million and a gross profit of RMB1,425.7 million. Our gross profit significantly increased by RMB460.6 million, primarily due to increased revenues from sales of membership subscriptions and continued improvement in cost control measures. We recorded a net profit of RMB809.9 million for the six months ended 30 June 2024, compared with a net profit of RMB293.8 million for the six months ended 30 June 2023.

Excluding the impact of equity-settled share-based payments, our adjusted net profit reached RMB880.7 million for the six months ended 30 June 2024, compared with an adjusted net profit of RMB331.9 million for the six months ended 30 June 2023.

Revenue

Our revenue increased by 4.1% from RMB3,908.4 million for the six months ended 30 June 2023 to RMB4,070.5 million for the six months ended 30 June 2024.

Revenue from our online music services increased by 26.6% from RMB2,021.4 million for the six months ended 30 June 2023 to RMB2,559.7 million for the six months ended 30 June 2024. In particular, revenue from sales of membership subscriptions increased from RMB1,709.0 million for the six months ended 30 June 2023 to RMB2,144.3 million for the six months ended 30 June 2024, driven by an increase in monthly paying users of online music services.

Revenue from our social entertainment services and others decreased by 19.9% from RMB1,887.0 million for the six months ended 30 June 2023 to RMB1,510.8 million for the six months ended 30 June 2024. The decrease was mainly due to a more cautious operating strategy for social entertainment services and actively prioritizing our core music business. We have also further strengthened our internal risk control mechanism.

Cost of Revenue

Our cost of revenue decreased by 10.1% from RMB2,943.2 million for the six months ended 30 June 2023 to RMB2,644.8 million for the six months ended 30 June 2024, attributable to a decrease in content service costs from RMB2,399.4 million for the six months ended 30 June 2023 to RMB2,014.4 million for the same period of 2024. 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. Additionally, we have recorded a one-off adjustment of certain content licensing fees. 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 47.7% from RMB965.1 million for the six months ended 30 June 2023 to RMB1,425.7 million for the six months ended 30 June 2024, and our gross margin increased from 24.7% for the six months ended 30 June 2023 to 35.0% for the six months ended 30 June 2024. The one-off adjustment of certain content licensing fees mentioned above increased the gross profit margin in the first half of 2024 by approximately 2.6 percentage points.

Selling and Marketing Expenses

For the six months ended 30 June 2024 and 2023, our selling and marketing expenses were RMB369.4 million and RMB369.8 million respectively, which basically remained stable for these two periods.

General and Administrative Expenses

Our general and administrative expenses increased by 23.7% from RMB72.6 million for the six months ended 30 June 2023 to RMB89.8 million for the same period of 2024, primarily due to an increase in employee benefit expenses.

Research and Development Expenses

Our research and development expenses decreased by 10.2% from RMB440.7 million for the six months ended 30 June 2023 to RMB395.6 million for the same period of 2024, primarily due to the improved utilisation of technical resources, and the optimisation of our employee structure which led to a decrease in employee benefit expenses.

Other Income

Our other income decreased from RMB22.8 million for the six months ended 30 June 2023 to RMB21.2 million for the same period of 2024, primarily due to a decrease in value-added tax subsidies and an increase in government grants.

Other Gains/(Losses), Net

We recorded other gains, net of RMB7.8 million for the six months ended 30 June 2024, compared with other losses, net of RMB0.2 million for the six months ended 30 June 2023. The change was primarily due to the realised gain upon disposal on financial assets through profit or loss during the period, which offsets our net foreign exchange losses incurred in the six months ended 30 June 2024.

Finance Income, Net

Our finance income, net increased from RMB208.6 million for the six months ended 30 June 2023 to RMB214.4 million for the same period of 2024, primarily due to the continued growth in deposit amounts.

Taxation

We recorded income tax expenses of RMB18.2 million for the six months ended 30 June 2023 as compared to income tax expenses of RMB3.6 million for the same period of 2024, primarily due to a decrease in withholding tax of interest income.

Profit for the Period

As a result of the above, we generated a net profit amounted to RMB809.9 million for the six months ended 30 June 2024, compared with a net profit of RMB293.8 million for the six months ended 30 June 2023.

Adjusted Net Profit

Our adjusted net profit reached RMB880.7 million for the six months ended 30 June 2024, compared with an adjusted net profit of RMB331.9 million for the six months ended 30 June 2023. Adjusted net profit is a non-IFRS measure and is defined as profit for the period attributable to the equity holders of the Company adjusted by adding back equity-settled share-based payments as appropriate. The following table reconciles the profit for the period to adjusted net profit for both periods:

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	<i>(in RMB thousands)</i>	
Profit for the period attributable to the equity holders of the Company	809,832	293,750
Add:		
Equity-settled share-based payments ^{Note (1)}	70,917	38,143
Adjusted net profit	880,749	331,893

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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended 30 June	
		2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Revenue	2	4,070,493	3,908,380
Cost of revenue	3	<u>(2,644,762)</u>	<u>(2,943,233)</u>
Gross profit		1,425,731	965,147
Selling and marketing expenses	3	(369,427)	(369,826)
General and administrative expenses	3	(89,750)	(72,573)
Research and development expenses	3	(395,647)	(440,743)
Other income		21,178	22,813
Other gains/(losses), net		<u>7,848</u>	<u>(207)</u>
Operating profit		599,933	104,611
Share of results of investments accounted for using equity method		(753)	(1,290)
Finance income		214,529	208,820
Finance cost		<u>(131)</u>	<u>(180)</u>
Profit before income tax		813,578	311,961
Income tax expense	4	<u>(3,629)</u>	<u>(18,211)</u>
Profit for the period		<u>809,949</u>	<u>293,750</u>
Profit for the period attributable to:			
Equity holders of the Company		809,832	293,750
Non-controlling interest		<u>117</u>	<u>—</u>
		<u>809,949</u>	<u>293,750</u>
Earnings per share attributable to equity holders of the Company (expressed in RMB per share)			
Basic earnings per share	5	3.88	1.39
Diluted earnings per share	5	<u>3.84</u>	<u>1.38</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Six months ended 30 June	
		2024	2023
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Profit for the period		809,949	293,750
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Currency translation differences		<u>40,105</u>	<u>234,363</u>
Total comprehensive income for the period		<u>850,054</u>	<u>528,113</u>
Total comprehensive income for the period attributable to:			
Equity holders of the Company		<u>849,937</u>	<u>528,113</u>
Non-controlling interest		<u>117</u>	<u>–</u>
		<u>850,054</u>	<u>528,113</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Assets			
Non-current assets			
Property, plant and equipment		26,007	33,022
Right-of-use assets		7,066	6,313
Investments accounted for using equity method		78,216	78,969
Prepaid contents royalties		134,488	166,054
Prepayments and deposits		8,215	3,034
Long-term bank deposits		1,400,000	—
		<u>1,653,992</u>	<u>287,392</u>
Current assets			
Accounts and bills receivable	7	1,180,114	923,464
Prepaid contents royalties		464,658	589,231
Prepayments, deposits and other receivables		301,595	186,056
Amounts due from group companies		57,580	98,315
Short-term bank deposits		6,228,823	5,484,688
Restricted cash		1,862	21,005
Cash and cash equivalents		2,560,079	4,020,400
		<u>10,794,711</u>	<u>11,323,159</u>
Total assets		<u><u>12,448,703</u></u>	<u><u>11,610,551</u></u>

	<i>Notes</i>	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Equity			
Equity attributable to equity holders of the Company			
Share capital		138	137
Other reserves		18,590,885	18,532,229
Accumulated losses		<u>(9,281,698)</u>	<u>(10,091,464)</u>
		9,309,325	8,440,902
Non-controlling interest		<u>117</u>	–
Total equity		<u>9,309,442</u>	<u>8,440,902</u>
Liabilities			
Non-current liabilities			
Contract liabilities		78,235	66,539
Lease liabilities		<u>5,316</u>	<u>3,358</u>
		<u>83,551</u>	<u>69,897</u>
Current liabilities			
Accounts payable	8	17,443	171
Accruals and other payables		1,794,176	2,015,242
Contract liabilities		1,129,129	1,001,013
Amounts due to group companies		112,211	76,196
Income tax payable		721	4,129
Lease liabilities		<u>2,030</u>	<u>3,001</u>
		<u>3,055,710</u>	<u>3,099,752</u>
Total liabilities		<u>3,139,261</u>	<u>3,169,649</u>
Total equity and liabilities		<u>12,448,703</u>	<u>11,610,551</u>

NOTES

1 BASIS OF PREPARATION

This condensed consolidated interim financial information of the Group for the six months ended 30 June 2024 (the “Interim Financial Information”) has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board.

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. Accordingly, this Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2023, which have been prepared in accordance with IFRS Accounting Standards.

1.1 Change in accounting policy and disclosures

The accounting policies used in the preparation of this financial information are consistent with those as described in the annual consolidated financial statements of the Group for the year ended 31 December 2023, except as set out below.

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

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

Amendments to IFRS 16	Lease liability in a sale and leaseback
Amendments to IAS 1	Classification of liabilities as current or non-current and non-current liabilities with covenants
Amendments to IAS 7 and IFRS 7	Supplier finance arrangements

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.

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

Below new and amended standards have been issued but are not yet effective for the year beginning on 1 January 2024 and have not been early adopted by the Group during the six months ended 30 June 2024:

		Effective for accounting periods beginning on or after
Amendments to IAS 21	Lack of exchangeability	1 January 2025
Amendments to IFRS 9 and IFRS 7	Amendments to the classification and measurement of financial instruments	1 January 2026
IFRS 18	Presentation and disclosure in financial statements	1 January 2027
IFRS 19	Subsidiaries without public accountability: disclosures	1 January 2027
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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

2 REVENUE AND SEGMENT INFORMATION

(a) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Type of goods or services:		
Online music services	2,559,735	2,021,417
Social entertainment services and others	1,510,758	1,886,963
	<u>4,070,493</u>	<u>3,908,380</u>
Timing of revenue recognition:		
At a point in time	1,561,945	1,947,634
Over time	2,508,548	1,960,746
	<u>4,070,493</u>	<u>3,908,380</u>
Total	<u>4,070,493</u>	<u>3,908,380</u>

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 six months ended 30 June 2024 and 2023.

(b) Segment information

The chief operating decision maker (the "CODM") has been identified as the Board, who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group as a whole. For the purpose of internal reporting and management's operation review, the CODM considered that the Group's businesses are operated and managed as one single segment and no separate segment information was presented for the six months ended 30 June 2024 and 2023.

Since the Group domiciles and operates in the PRC, substantially all revenue and non-current assets of the Group were generated and were located in the PRC during the six months ended 30 June 2024 and 2023.

3 EXPENSES BY NATURE

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Content service costs ^(Note)	2,014,439	2,399,396
Technology costs	220,061	240,365
Employee benefit expenses	591,693	579,839
Promotion and advertising expenses	328,815	336,475
Payment channel fees	241,144	194,772
Net impairment losses/(reversal of impairment losses) on financial assets	1,454	(1,655)
Depreciation of property, plant and equipment	8,653	8,597
Auditor's remuneration		
– Audit services related to the Group	2,650	3,000
– Other audit related services and non-audit services	680	693
Legal and professional fees	7,569	5,854
Others	82,428	59,039
	<u>3,499,586</u>	<u>3,826,375</u>
Total cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses	<u>3,499,586</u>	<u>3,826,375</u>

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

4 TAXATION

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

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Current income tax		
– PRC corporate income tax	<u>3,629</u>	<u>18,211</u>
	<u>3,629</u>	<u>18,211</u>

Hong Kong

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

PRC

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

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

Cayman Islands

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

5 EARNINGS PER SHARE

(a) Basic earnings per share

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

	Six months ended 30 June	
	2024 (Unaudited)	2023 (Unaudited)
Profit for the period attributable to equity holders of the Company (in RMB'000)	<u>809,832</u>	<u>293,750</u>
Weighted average number of shares outstanding	<u>208,732,750</u>	<u>211,204,866</u>
Basic earnings per share (in RMB)	<u>3.88</u>	<u>1.39</u>

(b) Diluted earnings per share

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

	Six months ended 30 June 2024 (Unaudited)	Six months ended 30 June 2023 (Unaudited)
Profit attributable to equity holders of the Company for the calculation of diluted EPS (in RMB'000)	809,832	293,750
Weighted average number of ordinary shares in issue	208,732,750	211,204,866
Adjustments for share options and share awards	1,990,646	1,574,259
Weighted average number of ordinary shares for the calculation of diluted EPS	210,723,396	212,779,125
Diluted earnings per share (in RMB)	3.84	1.38

6 DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended 30 June 2024 and 2023.

7 ACCOUNTS AND BILLS RECEIVABLE

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Accounts receivable	1,185,523	928,942
Less: loss allowance	(5,917)	(6,951)
Accounts receivable, net	1,179,606	921,991
Bills receivable	508	1,473
	1,180,114	923,464

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

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Up to 3 months	1,181,433	909,174
3 to 6 months	894	440
Over 6 months	3,196	19,328
	1,185,523	928,942

The loss allowances for accounts and bills receivable as at 30 June 2024 and 2023 reconcile to the opening loss allowances is as follows:

	Six months ended 30 June	
	2024 <i>RMB'000</i> (Unaudited)	2023 <i>RMB'000</i> (Unaudited)
At 1 January	6,951	3,321
Net reversal of impairment loss during the period	(1,034)	(3,293)
	<hr/>	<hr/>
At 30 June	5,917	28
	<hr/> <hr/>	<hr/> <hr/>

8 ACCOUNTS PAYABLE

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Accounts payable	17,443	171
	<hr/> <hr/>	<hr/> <hr/>

Accounts payable are unsecured and are usually paid within 30 to 45 days of recognition and denominated in RMB.

As at 30 June 2024 and 31 December 2023, the aging of accounts payable are all between 0-90 days based on invoice date.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there were no significant events that might affect our Group since the end of the Reporting Period.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

Compliance with the Corporate Governance Code

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

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

Review of Interim Results

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

The interim results for the six months ended 30 June 2024 have not been audited but have been reviewed by PricewaterhouseCoopers, the auditor of our Company, in accordance with International Standard on Review Engagement 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the International Auditing and Assurance Standards Board.

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

During the Reporting Period, neither our Company nor any of our subsidiaries had purchased, sold or redeemed any of our Company's securities (including sale of treasury shares (as defined under the Listing Rules)) listed on the Stock Exchange.

Use of Proceeds from the Global Offering

Our Company completed a global offering on 2 December 2021. The net proceeds from this global offering amounted to HK\$3,160 million (equivalent to approximately RMB2,584 million), which will be used in the manner set out in our Prospectus. As at 30 June 2024, we had not utilised any net proceeds, which are held as short-term bank deposits. Our Company expects to utilise the remaining net proceeds in the next 30 months.

INTERIM DIVIDEND

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

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

DEFINITIONS

“Board”	the board of directors of our Company
“China” or the “PRC”	the People's Republic of China, and for the purpose of this announcement only, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	Cloud Music Inc., 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 to the Listing Rules
“Director(s)”	director(s) of our Company
“Group”	our Company and its subsidiaries, including consolidated affiliated entities, the financials of which are consolidated into our Company's accounts
“IFRS”	IFRS Accounting Standards, as issued from time to time by the International Accounting Standards Board

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Monthly paying users of online music services”	the average of the number of user whose membership subscription packages remain active as of the last day of each month in a given period. Monthly paying users of online music services for any given period excludes the number of users who only purchase digital music singles and albums during such period because these users’ purchasing patterns tend to reflect specific hit releases, which fluctuate from period to period
“Prospectus”	our Company’s prospectus dated 23 November 2021, a copy of which is available on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at http://ir.music.163.com
“Reporting Period”	six months ended 30 June 2024
“share(s)”	share(s) of our Company
“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

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

Hong Kong, 22 August 2024

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