



Cloud Music Inc.

(incorporated in the Cayman Islands with limited liability)

Stock code: 9899



2024 INTERIM
REPORT

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Yat Keung Li
Mr. Dewei Zheng (*resigned as a non-executive Director with effect from 15 February 2024*)
Mr. Ran Wang (*resigned as a non-executive Director with effect from 23 May 2024*)

Independent Non-executive Directors

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

AUDIT COMMITTEE

Mr. Ying Kit Caleb Lo (*Chairperson*)
Mr. Xianfeng Gu
Mr. Zhong Xu

REMUNERATION COMMITTEE

Mr. Zhong Xu (*Chairperson*)
Mr. Xianfeng Gu
Mr. Ying Kit Caleb Lo

NOMINATION COMMITTEE

Mr. Xianfeng Gu (*Chairperson*)
Mr. Ying Kit Caleb Lo
Mr. Zhong Xu

COMPANY SECRETARY

Ms. Wong Wai Yee Ella

AUTHORISED REPRESENTATIVES

Mr. Yong Li
Ms. Wong Wai Yee Ella

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and Registered Public Interest
Entity Auditor
22/F, Prince's Building
Central, Hong Kong

REGISTERED OFFICE

P.O. Box 309, Uglan House
Grand Cayman KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEADQUARTERS

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

Corporate Information

LEGAL ADVISORS

As to Hong Kong law and United States law

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

As to PRC law

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20th Floor, China Resources Building
8 Jianguomenbei Avenue
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As to Cayman Islands law

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANK

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

STOCK CODE

9899

COMPANY WEBSITE

<http://ir.music.163.com>

Financial and Business Highlights

	Six months ended 30 June		
	2024 (Unaudited)	2023 (Unaudited)	Change (%)
	(RMB in thousands, except percentages)		
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	880,749	331,893	+165.4%

IFRS NUMBERS:

- Our revenue increased by 4.1% from RMB3.9 billion for the six months ended 30 June 2023 to RMB4.1 billion for the six months ended 30 June 2024.
- 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.
- 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.

NON-IFRS NUMBERS:

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 (Unaudited)	2023 (Unaudited)
	(in RMB thousands)	
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.

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

- ***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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 (Unaudited)	2023 (Unaudited)
	(in RMB thousands)	
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.

Management Discussion and Analysis

Liquidity and Capital Resources

As at 30 June 2024, we funded our cash requirements principally from cash generated from operating activities. We had cash and cash equivalents of RMB2.6 billion as at 30 June 2024 (as at 31 December 2023: RMB4.0 billion).

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

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

	Six months ended 30 June	
	2024 (Unaudited)	2023 (Unaudited)
	(in RMB thousands)	
Net cash generated from/(used in) operating activities	581,782	(372,932)
Net cash (used in)/generated from investing activities	(1,985,048)	232,614
Net cash used in financing activities	(53,596)	(167,225)
Net decrease in cash and cash equivalents	(1,456,862)	(307,543)
Cash and cash equivalents at the beginning of the period	4,020,400	2,916,534
Exchange differences on cash and cash equivalents	(3,459)	4,320
Cash and cash equivalents at the end of the period	2,560,079	2,613,311

Contingent Liabilities

Save as disclosed in Note 22 to the interim financial information of the Group set out in this report, our Company had no other material contingent liabilities as at 30 June 2024.

Management Discussion and Analysis

ADDITIONAL INFORMATION

Employee and Remuneration Policy

As at 30 June 2023 and 2024, we had 1,435 and 1,300 employees, respectively. As at 30 June 2024, substantially all of our employees were based in China.

Additionally, our Company has two share incentive plans, the material terms of which are described in our Prospectus, announcement dated 18 August 2022 and circular dated 24 May 2023. The total remuneration cost incurred by us for the six months ended 30 June 2024 was RMB591.7 million (for the six months ended 30 June 2023: RMB579.8 million).

Save as disclosed above, there has been no material changes to our financial performance during the Reporting Period since what was disclosed in our Company's annual report for the financial year ended 31 December 2023 that would need to be disclosed under paragraphs 32 and 40(2) of Appendix D2 to the Listing Rules, a copy of which is available on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at <http://ir.music.163.com>.

Continuing Disclosure Obligations pursuant to the Listing Rules

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

Future Plans for Material Investments or Capital Assets

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

Change in Information of Directors and Chief Executives

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

Compliance with Rules 3.10 and 3.21 of the Listing Rules

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

Other Information

DISCLOSURE OF INTERESTS

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

As at 30 June 2024, the interests and short positions of our Directors or chief executives of the Company in any of our shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)), as recorded in the register required to be kept by 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 our 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	59.83%	Long position
Mr. Yong Li ⁽²⁾	Beneficial owner	331,322	0.15%	Long position
Ms. Yanfeng Wang ⁽³⁾	Beneficial owner	18,360	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. William Lei 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 our Company's Pre-IPO Share Incentive Plan (the "**2016 Plan**"), and (ii) 31,322 shares under our Company's 2022 Restricted Share Unit Plan (the "**2022 Plan**", and together with the 2016 Plan, the "**Plans**").
- (3) Ms. Yanfeng Wang is entitled to receive up to (i) 2,700 shares pursuant to the exercise of options granted under the 2016 Plan, and (ii) 15,660 shares under the 2022 Plan.
- (4) The calculation is based on the total number of 215,654,651 shares in issue as at 30 June 2024.
- (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	8,854 ADSs	0.00%	Long position
Ms. Yanfeng Wang ⁽³⁾	Beneficial owner	2,941 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 available for viewing on the Stock Exchange's website at www.hkexnews.hk) and publicly available information and 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. William Lei 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 30 June 2024, 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 30 June 2024, 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 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	59.83%	Long position
Shining Globe Holding Limited ⁽¹⁾	Beneficial owner	129,034,168	59.83%	Long position
TMF (Cayman) Ltd. ⁽¹⁾	Beneficial owner	129,034,168	59.83%	Long position
Alibaba Group Holding Limited ⁽²⁾	Interest in a controlled corporation	15,085,625	7.00%	Long position
Taobao Holding Limited ⁽²⁾	Interest in a controlled corporation	15,085,625	7.00%	Long position
Taobao China Holding Limited ⁽²⁾	Beneficial owner	15,085,625	7.00%	Long position
GIC Private Limited ⁽³⁾	Interest in a controlled corporation	13,923,356	6.46%	Long position
	Investment manager	225,000	0.10%	Long position
GIC (Ventures) Pte. Ltd. ⁽³⁾	Interest in a controlled corporation	13,923,356	6.46%	Long position
GIC Special Investments Private Limited ⁽³⁾	Investment manager	13,923,356	6.46%	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 our Company. 129,034,168 shares are held by Shining Globe International Limited through NetEase. Shining Globe International Limited is wholly owned by Shining Globe Holding Limited, which is in turn wholly owned by a trust for which TMF (Cayman) Ltd. acts as the trustee and the beneficiaries of which include Mr. Ding and his family. Mr. Ding is also the settlor of the trust.
- (2) Taobao China Holding Limited is a wholly-owned subsidiary of Alibaba Group Holding Limited, a company incorporated in the Cayman Islands, with its American 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 our Company.

Other Information

- (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 holds 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 include 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 215,654,651 shares in issue as at 30 June 2024.

Save as disclosed above, as at 30 June 2024 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 our shares or underlying shares which were required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or which were required to be entered in the register required to be kept under Section 336 of the Securities and Futures Ordinance.

SHARE INCENTIVE PLANS

Our Company had two share incentive plans in effect during the Reporting Period: (a) the 2016 Plan; and (b) the 2022 Plan. 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 our Company ceased making new grants under the 2016 Plan.

Further details of the Plans

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

0 new shares, representing 0% of the weighted average of number of issued shares of the Company (excluding treasury shares (as defined under the Listing Rules)) for the Reporting Period, may be issued in respect of all options and awards granted during the Reporting Period to eligible participants pursuant to the Plans.

The 2016 Plan

Under the 2016 Plan, prior to Listing, our Company granted share options ("**options**") to eligible participants; upon and after Listing, we ceased granting options and only granted share awards in the form of restricted share units ("**RSUs**") under the 2016 Plan. As at 1 January 2023, 506,143 awards were available for grant under the 2016 Plan. Following the approval of the amended 2022 Plan on 15 June 2023, our Company ceased to make further grants of RSUs under the 2016 Plan. Accordingly, no options or awards were available for grant under the 2016 Plan as at 31 December 2023, 1 January 2024 and 30 June 2024, respectively. No service provider sublimit was set under the 2016 Plan.

As at 30 June 2024, our Company had share options outstanding under the 2016 Plan to subscribe for an aggregate of 2,939,075 shares granted to 342 grantees (including Directors and senior management of our Company, and employees of our Group and NetEase Group). The following table sets out details of the grantees holding outstanding options under the 2016 Plan during the Reporting Period.

Details of movements during the Reporting Period													
Name or category of Position/ grantee ⁽¹⁾	Relationship	Date of grant	Vesting period (from date of grant)	Exercise period	Outstanding as at Exercise price per share beginning of 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 the 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	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	300	Nil	Nil	2,700	N/A	N/A	HK\$93.15
318 grantees	Employee participants	10 July 2017 to 15 June 2021	1 year to 4 years	from the vesting date and within 10 years from date of grant	US\$8 to US\$11	3,386,400	1,075,425	68,600	Nil	2,242,375	N/A	N/A	HK\$98.38
22 grantees	Related entity participants	10 July 2017 to 15 June 2021	1 year to 4 years	from the vesting date and within 10 years from date of grant	US\$8 to US\$11	686,000	289,500	2,500	Nil	394,000	N/A	N/A	HK\$96.17
Total					4,375,400	Nil	1,365,225	71,100	Nil	2,939,075			

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 price of the 68,600 options of employee participants and 2,500 options of related entity participants that lapsed during the Reporting Period was US\$11.

Other Information

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.

Name or category of grantee ⁽¹⁾	Position/ Relationship	Date of grant	Vesting period (from date of grant)	Details of movements during the Reporting Period					Weighted average closing price of our shares immediately before the vesting date			
				Outstanding as at beginning of the 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 the 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
119 grantees	Employee participants	2 June 2022 to 14 June 2023	3 months to 3 years	846,091	Nil	191,009	78,391	Nil	576,691	N/A	N/A	HK\$92.32
Total				846,091	Nil	191,009	78,391	Nil	576,691			

Note:

- (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.

Other Information

The 2022 Plan

Under the 2022 Plan, our Company may only grant RSUs to eligible participants. The 2022 Plan does not involve any grant of options.

The maximum number of new shares that may be issued pursuant to all awards made under the 2022 Plan to eligible participants is 10,462,280 shares (being the scheme mandate limit), representing approximately 4.85% of the total number of issued shares of our Company as at the date of this interim report, subject to an annual limit of 3% of the total number of shares in issue at the relevant time, and the maximum number of new shares that may be issued pursuant to all awards made under the 2022 Plan to service provider participants is 2,077,569 shares, representing 19.9% of the scheme mandate limit and approximately 0.96% of the issued shares of our Company as at the date of this interim report, subject to an annual limit of 1% of the total number of shares in issue at the relevant time.

10,462,280 awards over new shares (including 2,077,569 awards over new shares under the service provider sublimit) were available for grant under the 2022 Plan as at 1 January 2023 and 31 December 2023, respectively. All grants made under the 2022 Plan during the Reporting Period will be satisfied with existing shares of the Company upon vesting. Accordingly, 10,462,280 awards over new shares (including 2,077,569 awards over new shares under the service provider sublimit) remained available for grant under the 2022 Plan as at 1 January 2024 and 30 June 2024, respectively.

Other Information

The following table sets out details of grantees holding unvested RSUs under the 2022 Plan during the Reporting Period. The vesting of such grants will be satisfied with existing shares upon vesting. The purchase price for these RSUs was nil.

Name or category of grantee ⁽¹⁾	Position/ Relationship	Date of grant	Vesting period (from date of grant)	Details of movements during the Reporting Period						Outstanding as at end of the 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
				Outstanding at beginning of the Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Lapsed during the Reporting Period	Cancelled during the Reporting Period	Granted during the Reporting Period				
Mr. Yong Li	Director	15 September 2023 and 5 March 2024	3 years	16,357	14,965	Nil	Nil	Nil	31,322	HK\$93.15	HK\$88.35	N/A	
Ms. Yanfeng Wang	Director	15 September 2023 and 5 March 2024	3 years	8,178	7,482	Nil	Nil	Nil	15,660	HK\$93.15	HK\$88.35	N/A	
474 grantees	Employee participants	31 August 2023 to 31 May 2024	3 years	1,782,686	1,446,236	Nil	144,515	Nil	3,084,407	HK\$93.15 and HK\$102.40	HK\$88.35 and HK\$110.10	N/A	
10 grantees	Related entity participants	15 September 2023 to 31 May 2024	3 years	35,760	34,099	Nil	66	Nil	69,793	HK\$93.15 and HK\$102.40	HK\$88.35 and HK\$110.10	N/A	
Total				1,842,981	1,502,782	Nil	144,581	Nil	3,201,182				

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

Other Information

BOARD AND CORPORATE GOVERNANCE

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

Compliance with the 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, 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.

DEALINGS IN OUR COMPANY'S LISTED SECURITIES

Model Code for Securities Dealings by Directors

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

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

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

During the Reporting Period, neither our Company nor any of our subsidiaries had purchased, sold or redeemed any of our Company's securities (including sale of treasury shares (as defined under the Listing Rules)) listed on the Stock Exchange. Our Company did not hold any treasury shares (as defined under the Listing Rules) as at 30 June 2024.

Other Information

USE OF NET PROCEEDS FROM GLOBAL OFFERING

Our Company's shares were listed on the Stock Exchange on 2 December 2021. In parallel with the listing of our shares, our Company allotted and issued 16,000,000 new shares under our global offering issued, which resulted in approximately HK\$3,160 million (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 during the Reporting Period:

Purpose	% of use of proceeds	Net proceeds (HK\$ million)	Utilised during the Reporting Period (HK\$ million)	Unutilised amount as at 30 June 2024 (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. Our Company will gradually apply the remaining net proceeds in the next 30 months in the manner set out in the Prospectus. See "Future Plans and Use of Proceeds" section of the Prospectus for further details.

EVENTS AFTER THE REPORTING PERIOD

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

INTERIM DIVIDEND

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

Report on Review of Interim Financial Information

To the Board of Directors of Cloud Music Inc.

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 26 to 54, which comprises the interim condensed consolidated balance sheet of Cloud Music Inc. (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2024 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 22 August 2024

Condensed Consolidated Statement of Profit or Loss

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Note	Six months ended 30 June	
		2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Revenue	5	4,070,493	3,908,380
Cost of revenue	6	(2,644,762)	(2,943,233)
Gross profit		1,425,731	965,147
Selling and marketing expenses	6	(369,427)	(369,826)
General and administrative expenses	6	(89,750)	(72,573)
Research and development expenses	6	(395,647)	(440,743)
Other income		21,178	22,813
Other gains/(losses), net		7,848	(207)
Operating profit		599,933	104,611
Share of results of investments accounted for using equity method		(753)	(1,290)
Finance income	8	214,529	208,820
Finance cost		(131)	(180)
Profit before income tax		813,578	311,961
Income tax expense	9	(3,629)	(18,211)
Profit for the period		809,949	293,750
Profit for the period attributable to:			
Equity holders of the Company		809,832	293,750
Non-controlling interest		117	–
		809,949	293,750
Earnings per share attributable to equity holders of the Company (expressed in RMB per share)			
Basic earnings per share	10	3.88	1.39
Diluted earnings per share	10	3.84	1.38

Condensed Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Note	Six months ended 30 June	
		2024 RMB'000 (Unaudited)	2023 RMB'000 (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		40,105	234,363
Total comprehensive income for the period		850,054	528,113
Total comprehensive income for the period attributable to:			
Equity holders of the Company		849,937	528,113
Non-controlling interest		117	–
		850,054	528,113

Condensed Consolidated Balance Sheet

AS AT 30 JUNE 2024

	Note	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (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	13	134,488	166,054
Prepayments and deposits		8,215	3,034
Long-term bank deposits	14	1,400,000	–
		1,653,992	287,392
Current assets			
Accounts and bills receivable	12	1,180,114	923,464
Prepaid contents royalties	13	464,658	589,231
Prepayments, deposits and other receivables		301,595	186,056
Amounts due from group companies	21	57,580	98,315
Short-term bank deposits	14	6,228,823	5,484,688
Restricted cash	15	1,862	21,005
Cash and cash equivalents		2,560,079	4,020,400
		10,794,711	11,323,159
Total assets		12,448,703	11,610,551
Equity			
Equity attributable to equity holders of the Company			
Share capital	16	138	137
Other reserves	17	18,590,885	18,532,229
Accumulated losses		(9,281,698)	(10,091,464)
		9,309,325	8,440,902
Non-controlling interest		117	–
Total equity		9,309,442	8,440,902
Liabilities			
Non-current liabilities			
Contract liabilities		78,235	66,539
Lease liabilities		5,316	3,358
		83,551	69,897

Condensed Consolidated Balance Sheet

AS AT 30 JUNE 2024

	Note	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Current liabilities			
Accounts payable	19	17,443	171
Accruals and other payables	20	1,794,176	2,015,242
Contract liabilities		1,129,129	1,001,013
Amounts due to group companies	21	112,211	76,196
Income tax payable		721	4,129
Lease liabilities		2,030	3,001
		3,055,710	3,099,752
Total liabilities		3,139,261	3,169,649
Total equity and liabilities		12,448,703	11,610,551

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2024

Attributable to equity holders of the Company							
Note	Share	Other	Accumulated		Non-	Total	
	capital	reserves	losses	Total	controlling	equity	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(Note 17)						
(Unaudited)							
Balance at 1 January 2024	137	18,532,229	(10,091,464)	8,440,902	–	8,440,902	
Profit for the period	–	–	809,832	809,832	117	809,949	
Other comprehensive income:							
Currency translation differences	–	40,105	–	40,105	–	40,105	
Total comprehensive income for the period	–	40,105	809,832	849,937	117	850,054	
Transactions with equity holders:							
Exercise of share options	17, 18	1	91,509	–	91,510	–	91,510
Equity-settled share-based payment under the share option scheme of the Pre-IPO Share Incentive Plan	17, 18(e)	–	7,627	(66)	7,561	–	7,561
Equity-settled share-based payment under the share award scheme of the Pre-IPO Share Incentive Plan	17, 18(e)	–	41,433	–	41,433	–	41,433
Equity-settled share-based payment under the share award scheme of the Post IPO Share Incentive Plan	17, 18(e)	–	21,923	–	21,923	–	21,923
Repurchase of shares	17, 18(a)	–	(143,941)	–	(143,941)	–	(143,941)
Total transactions with equity holders		1	18,551	(66)	18,486	–	18,486
Balance at 30 June 2024		138	18,590,885	(9,281,698)	9,309,325	117	9,309,442

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Note	Six months ended 30 June	
		2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash generated from/(used in) operations		588,827	(368,968)
Income taxes paid		(7,045)	(3,964)
Net cash generated from/(used in) operating activities		581,782	(372,932)
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,628)	(2,930)
Proceeds from disposal of property, plant and equipment		1,149	901
Placement of short-term bank deposits		(3,961,732)	(1,388,296)
Placement of long-term bank deposits		(1,400,000)	–
Proceeds from maturity of short-term bank deposits		3,256,371	1,544,842
Placement for investments in financial assets at fair value through profit or loss		(3,348,000)	–
Proceeds from disposal of financial assets at fair value through profit or loss		3,355,192	–
Interest received		114,600	78,097
Net cash (used in)/generated from investing activities		(1,985,048)	232,614
Cash flows from financing activities			
Exercise of share options		91,270	40,202
Repurchase of shares	17, 18(a)	(143,941)	(205,298)
Principal elements of lease payments		(794)	(1,959)
Interest elements of lease payments		(131)	(170)
Net cash used in financing activities		(53,596)	(167,225)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		4,020,400	2,916,534
Exchange differences on cash and cash equivalents		(3,459)	4,320
Cash and cash equivalents at end of the period		2,560,079	2,613,311

Notes to the Interim Financial Information

1 GENERAL INFORMATION AND BASIS OF PREPARATION

1.1 General information

Cloud Music Inc. (the “Company”) was incorporated in the Cayman Islands on 2 February 2016 as an exempted company with limited liability. The registered office is at PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands.

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

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

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

The condensed consolidated interim financial information for the six months ended 30 June 2024 is unaudited and has been reviewed by the audit committee and external auditor of the Company. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 22 August 2024.

1.2 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.

Notes to the Interim Financial Information

2 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent with those applied to the annual consolidated financial statements for the year ended 31 December 2023.

Notes to the Interim Financial Information

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 *Financial risk factors*

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

This condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial information as set out in annual consolidated financial statements of the Group for the year ended 31 December 2023.

There have been no changes in the risk management policies since 31 December 2023.

4.2 *Fair value estimation*

The Group measures its financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

As at 30 June 2024 and 31 December 2023, 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 long-term bank deposits, short-term bank 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 payable, accruals and other payables, lease liabilities and amounts due to group companies, approximate their fair values due to their short maturities.

Notes to the Interim Financial Information

5 REVENUE AND SEGMENT INFORMATION

(a) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (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
	4,070,493	3,908,380

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Timing of revenue recognition:		
At a point in time	1,561,945	1,947,634
Over time	2,508,548	1,960,746
Total	4,070,493	3,908,380

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.

Notes to the Interim Financial Information

6 EXPENSES BY NATURE

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Content service costs (Note)	2,014,439	2,399,396
Technology costs	220,061	240,365
Employee benefit expenses (Note 7)	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
Total cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses	3,499,586	3,826,375

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

7 EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Salaries and bonuses	431,039	450,958
Welfare and other employee benefits	89,737	90,738
Equity-settled share-based payments	70,917	38,143
	591,693	579,839

Note: The employee benefit expenses included labour outsourcing services from NetEase Group during the six months ended 30 June 2024 and 2023 of RMB5,537,000 and RMB2,987,000, respectively.

Notes to the Interim Financial Information

8 FINANCE INCOME

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Interest income from bank deposits	214,529	208,820

9 INCOME TAX EXPENSE

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	3,629	18,211
	3,629	18,211

Hong Kong

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

PRC

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

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

Cayman Islands

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

Notes to the Interim Financial Information

10 EARNINGS 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)	809,832	293,750
Weighted average number of shares outstanding	208,732,750	211,204,866
Basic earnings per share (in RMB)	3.88	1.39

(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)	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

11 DIVIDENDS

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

Notes to the Interim Financial Information

12 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 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
At 1 January	6,951	3,321
Net reversal of impairment loss during the period	(1,034)	(3,293)
At 30 June	5,917	28

Notes to the Interim Financial Information

13 PREPAID CONTENTS ROYALTIES

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Current	464,658	589,231
Non-current	134,488	166,054
	599,146	755,285

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

14 BANK DEPOSITS

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Long-term bank deposits	1,400,000	–
Short-term bank deposits	6,228,823	5,484,688

The effective interest rates for these long-term bank deposits were 2.35% per annum as at 30 June 2024.

The weighted average effective interest rate on short-term bank deposits of the Group with initial terms of over three months as at 30 June 2024 and 31 December 2023 was 5.08% and 5.63% per annum, respectively.

Notes to the Interim Financial Information

15 RESTRICTED CASH

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Restricted cash, denominated in RMB	1,862	21,005

Restricted cash as at 30 June 2024 and 31 December 2023 represent deposits restricted in relation to certain legal claims. Details of the claims of the Group are set out in Note 22.

16 SHARE CAPITAL

Authorised:

	Total number of ordinary shares '000	Nominal value of ordinary shares US\$'000
(Unaudited) At 1 January 2024 and 30 June 2024	1,000,000	100

Issued and fully paid:

	Number of ordinary shares	Nominal value of share capital RMB'000
(Unaudited) As at 1 January 2024	214,289,426	137
Exercise of share options	1,365,225	1
As at 30 June 2024	215,654,651	138
(Unaudited) As at 1 January 2023	211,906,086	135
Exercise of share options	1,761,040	1
As at 30 June 2023	213,667,126	136

Notes to the Interim Financial Information

17 OTHER RESERVES

	Share premium	Shares held under share award scheme	Contributions from ultimate holding company	Share-based compensation reserve	PRC statutory reserve	Exchange reserve	Total
	RMB'000	RMB'000	RMB'000 (Note (a))	RMB'000	RMB'000 (Note (b))	RMB'000	RMB'000
(Unaudited)							
As at 1 January 2024	17,285,792	(397,533)	32,364	353,570	4,430	1,253,606	18,532,229
Exercise of share options	155,322	-	-	(63,813)	-	-	91,509
Vest of share awards	(747)	14,010	-	(13,263)	-	-	-
Equity-settled share-based payment under the share option scheme of the Pre-IPO Share Incentive Plan	-	-	1,743	5,884	-	-	7,627
Equity-settled share-based payment under the share award scheme of the Pre-IPO Share Incentive Plan	-	-	-	41,433	-	-	41,433
Equity-settled share-based payment under the share award scheme of the Post IPO Share Incentive Plan	-	-	-	21,923	-	-	21,923
Repurchase of shares	-	(143,941)	-	-	-	-	(143,941)
Currency translation differences	-	-	-	-	-	40,105	40,105
As at 30 June 2024	17,440,367	(527,464)	34,107	345,734	4,430	1,293,711	18,590,885

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

* the amount is less than RMB1,000

Notes to the Interim Financial Information

17 OTHER RESERVES *(Continued)*

Notes:

(a) Contributions from ultimate holding company

The contributions from ultimate holding company represent deemed contribution from NetEase as a result of NetEase granting restricted share units to eligible grantees of the Group.

(b) PRC statutory reserve

According to the Companies Laws of the PRC and the articles of association of the relevant subsidiaries established in the PRC, PRC subsidiaries are required to transfer not less than 10% of their net profit to PRC statutory reserve before distributions are made to the equity owners. Such a transfer is not required when the balance of the PRC statutory reserve reaches 50% of the subsidiaries' registered capital. The PRC statutory reserves shall only be used to make up losses of the subsidiaries, to expand the subsidiaries' production operations, or to increase the capital of the subsidiaries. Upon approval by the resolutions of the subsidiaries' shareholder in general meetings, the subsidiaries may convert their PRC statutory reserves into registered capital and issue bonus capital to existing owners in proportion to their existing ownership structure.

Notes to the Interim Financial Information

18 SHARE-BASED COMPENSATION

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

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

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

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

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

During the six months ended 30 June 2024 and 2023, 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.

Notes to the Interim Financial Information

18 SHARE-BASED COMPENSATION *(Continued)*

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

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

(i) Share options

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

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

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

	Number of share options	Weighted average exercise price per share option US\$
(Unaudited)		
Outstanding as at 1 January 2024	4,375,400	9.89
Exercised during the period	(1,365,225)	9.46
Forfeited during the period	(71,100)	11.00
Outstanding as at 30 June 2024	2,939,075	10.07
Vested and exercisable at 30 June 2024	2,582,000	9.94
(Unaudited)		
Outstanding as at 1 January 2023	7,162,040	8.20
Exercised during the period	(1,761,040)	3.29
Forfeited during the period	(123,675)	10.89
Outstanding as at 30 June 2023	5,277,325	9.78
Vested and exercisable at 30 June 2023	4,070,225	9.41

Notes to the Interim Financial Information

18 SHARE-BASED COMPENSATION (Continued)

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

(i) Share options (Continued)

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

Grant date	Expiry date	Exercise price	Vesting year*	Six months ended 30 June	
				2024 (Unaudited)	2023 (Unaudited)
18 January 2017	18 January 2024	US\$8	4 years from grant date	–	138,900
10 July 2017	10 July 2024	US\$8	4 years from grant date	20,000	254,000
23 November 2017	23 November 2024	US\$8	4 years from grant date	99,000	251,000
12 February 2018	12 February 2025	US\$8	4 years from grant date	48,000	106,000
21 May 2018	21 May 2025	US\$8	4 years from grant date	562,900	971,000
17 August 2018	17 August 2025	US\$8	4 years from grant date	132,000	195,050
19 November 2018	19 November 2025	US\$8	4 years from grant date	10,000	53,400
2 March 2019	2 March 2026	US\$8	4 years from grant date	40,000	95,000
21 May 2019	21 May 2026	US\$8	4 years from grant date	1,500	86,500
25 September 2019	25 September 2026	US\$11	4 years from grant date	574,400	873,250
22 November 2019	22 November 2026	US\$11	4 years from grant date	126,000	216,250
1 March 2020	1 March 2027	US\$11	4 years from grant date	117,000	165,800
20 May 2020	20 May 2027	US\$11	4 years from grant date	44,400	66,400
30 September 2020	30 September 2027	US\$11	4 years from grant date	204,750	324,000
24 November 2020	24 November 2027	US\$11	4 years from grant date	137,500	184,000
19 February 2021	19 February 2028	US\$11	1 year from grant date	4,700	5,000
26 February 2021	26 February 2028	US\$11	4 years from grant date	50,250	104,000
27 May 2021	27 May 2028	US\$11	4 years from grant date	658,575	1,033,675
15 June 2021	15 June 2028	US\$11	1 year from grant date	200	3,000
15 June 2021	15 June 2028	US\$11	4 years from grant date	107,900	151,100
Total				2,939,075	5,277,325
Weighted average remaining contractual life of options outstanding at end of the period				2.32 years	2.19 years

Notes to the Interim Financial Information

18 SHARE-BASED COMPENSATION *(Continued)*

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

(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 six months ended 30 June 2023, the Company granted certain share awards to Eligible Grantees following the terms of the Pre-IPO Share Incentive Plan, subject to the satisfaction of certain performance objectives as set out in the award agreements. The share awards are granted without consideration, and the vesting period is 1-3 years in equal tranches.

Movements in the number of share awards granted to Eligible Grantees of the Group for the six months ended 30 June 2024 and 2023 are as follows:

	Number of share awards	Weighted average grant date fair value HK\$
(Unaudited)		
Outstanding as at 1 January 2024	846,091	77.11
Vested during the period	(191,009)	79.72
Forfeited during the period	(78,391)	81.08
Outstanding as at 30 June 2024	576,691	75.71
(Unaudited)		
Outstanding as at 1 January 2023	1,086,400	71.72
Granted during the period	361,499	85.70
Vested during the period	(131,198)	73.63
Forfeited during the period	(171,988)	74.11
Outstanding as at 30 June 2023	1,144,713	75.56

The fair value of the share awards was calculated based on the market price of the Company's shares at the respective grant date.

Notes to the Interim Financial Information

18 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 Class A ordinary shares.

Share awards

During the six months ended 30 June 2024, 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 six months ended 30 June 2024 are as follows:

	Number of share awards	Weighted average grant date fair value HK\$
Outstanding as of 1 January 2024	1,842,981	79.95
Granted during the period	1,502,782	90.25
Forfeited during the period	(144,581)	83.36
Outstanding as of 30 June 2024	3,201,182	84.63

The fair value of the share awards was calculated based on the market price of the Company's shares at the respective grant date.

Number of share awards outstanding as of 1 January 2023 and 30 June 2023 was nil.

Notes to the Interim Financial Information

18 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 share award scheme for the six months ended 30 June 2024 and 2023.

	Number of shares	RMB'000
(Unaudited)		
Outstanding as at 1 January 2024	5,508,642	397,533
Repurchase of shares from market	1,681,650	143,941
Share awards vested during the period	(191,009)	(14,010)
Outstanding as at 30 June 2024	6,999,283	527,464
(Unaudited)		
Outstanding as at 1 January 2023	627,193	30,388
Repurchase of shares from market	3,003,800	205,298
Share awards vested during the period	(131,198)	–*
Outstanding as at 30 June 2023	3,499,795	235,686

* the amount is less than RMB1,000

(d) Restricted share units plan of NetEase Group

2019 Restricted Share Unit Plan of NetEase Group

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

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

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

Notes to the Interim Financial Information

18 SHARE-BASED COMPENSATION *(Continued)*

(d) Restricted share units plan of NetEase Group (Continued)

2019 Restricted Share Unit Plan of NetEase Group (Continued)

Movement in the number of RSUs granted to Eligible Grantees of the Group for the six months ended 30 June 2024 and 2023 are as follows:

	Number of RSUs	Weighted average grant date fair value US\$
(Unaudited)		
Outstanding as at 1 January 2024	11,035	94.62
Granted during the period	3,815	105.90
Vested and transferred during the period	801	100.31
Forfeited during the period	(800)	94.49
Outstanding as at 30 June 2024	14,851	102.02
(Unaudited)		
Outstanding as at 1 January 2023	23,221	80.54
Granted during the period	3,325	82.14
Vested and transferred during the period	(10,524)	63.64
Forfeited during the period	(4,598)	85.82
Outstanding as at 30 June 2023	11,424	94.45

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

(e) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the six months ended 30 June 2024 and 2023 as part of employee benefit expenses were as follows:

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Share options issued under the Pre-IPO Share Incentive Plan	5,818	19,309
Share awards granted under the Pre-IPO Share Incentive Plan to Eligible Grantees	41,433	16,369
Share awards granted under the Post-IPO Share Incentive Plan to Eligible Grantees	21,923	–
RSUs granted under the NetEase Group Restricted Shares Units Plan to Eligible Grantees of the Group	1,743	2,465
	70,917	38,143

Notes to the Interim Financial Information

19 ACCOUNTS PAYABLE

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

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.

20 ACCRUALS AND OTHER PAYABLES

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Accrued content service costs	1,314,391	1,426,645
Accrued expenses	214,362	204,846
Accrued salaries and staff benefits	150,279	257,883
Deposits from customers	41,367	47,508
Other taxes payable	45,456	28,189
Others	28,321	50,171
	1,794,176	2,015,242

Notes to the Interim Financial Information

21 RELATED PARTY TRANSACTIONS

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

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the six months ended 30 June 2024:

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

(a) Transactions

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Purchase of property, plant and equipment from NetEase Group	1,171	1,696
Purchase of goods from NetEase Group	2,341	2,981
Purchase of technology and other services from NetEase Group	166,840	201,166
Provision of advertising services to NetEase Group	52,421	99,478
Provision of other services to NetEase Group	8,397	11,789
Sales of property, plant and equipment to NetEase Group	855	423

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

(b) Balances with related parties

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
	Amounts due from NetEase Group	57,580
Amounts due to NetEase Group	112,211	76,196

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

Notes to the Interim Financial Information

21 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management personnel compensation

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Salaries and bonuses	2,952	2,775
Welfare and other employee benefits	222	198
Equity-settled share-based payments	3,466	2,686
	6,640	5,659

22 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 30 June 2024, there were certain claims pending in the courts and arbitrations, or otherwise unresolved. Based on currently available information, management does not believe that the ultimate outcome of these unresolved matters, individually and in the aggregate, is reasonably possible to have a material adverse effect on the Group's financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties and the Group's view of these matters may change in the future. Where an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the Group's financial position, results of operations or cash flows for the period in which the unfavorable outcome occurs, and potentially in future periods.

Definitions

“Board”	the board of directors of our Company
“China” or the “PRC”	the People’s Republic of China, and for the purpose of this interim report only, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	Cloud Music Inc., 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
“Latest Practicable Date”	12 September 2024, being the latest practicable date for ascertaining certain information in this interim report before its publication
“Listing”	the listing of our shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Listing Rules
“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
“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

Definitions

“NetEase Group”	NetEase and its subsidiaries and consolidated affiliated entities, and unless the context otherwise requires, excluding our Group
“Prospectus”	our Company’s prospectus dated 23 November 2021, a copy of which is available on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at http://ir.music.163.com
“Reporting Period”	the six months ended 30 June 2024
“Stock Exchange”	The Stock Exchange of Hong Kong Limited