
Cloud Music Inc. Fiscal Year 2023 Earnings Conference Call

7:00 PM Hong Kong Time, February 29, 2024

In 2023, we made considerable strides, continuously expanding our deep content moats to meet the needs of our diverse audience. At the same time, we enhanced our community atmosphere and introduced more innovative, music-led product experiences, contributing to our growth and development. Our devotion to strengthening our music-oriented monetisation capabilities also paid off. As a result of these efforts, we achieved a significant increase in subscription memberships during the year and a breakthrough in our bottom line, achieving a positive net profit on an annual basis for the first time in our Company's history.

Despite the industry's slowdown in growth, our community continues to thrive. **Our total MAUs reached 206 million for 2023, up 9% year-over-year.** This increase was attributable to the continuous improvement of our high-quality services and user experience, enhanced brand awareness and platform operational capabilities, and broadened music consumption scenarios. Simultaneously, we strengthened user interaction and improved user engagement across our leading music-inspired community, underpinning our DAU/MAU ratio's ability to remain above 30% in 2023 consistently. With differentiated product innovations and services, we continue injecting new vitality into the community while creating a comprehensive and unique content matrix and community ecosystem. Paired with ongoing expansion and upgraded membership privileges, we continue to attract and maintain users with a high level of engagement and willingness to pay on our platform. In addition, we introduced a series of measures to make the premium privileges of online music membership more accessible and enable more users to take advantage of and more deeply engage in membership benefits to attract more high-quality active users and paying users, driving our long-term scalability and commercialisation potential. Our rapidly expanding online music subscription membership base has shown higher levels of activity and time spent on our platform compared to non-paying users. Membership retention rates also continued to rise on an annual basis.

In terms of product innovation, our focus has been on enhancing users' experiences in music discovery and consumption, particularly by integrating AI technology. Simultaneously, we nurtured our music-oriented communities with resonant products. As we gain more insights into users' music preferences and strengthen our AI recommendation algorithms, the proportion of music streams stemming from our platform's recommendations also grew, further amplifying our leading advantage in personalised music recommendations.

In terms of content, we continued to broaden our content library, expanding our music tracks on the platform while improving cost-efficiency. During the year, we further built out our copyrighted content offering, increased support for independent musicians and enhanced our in-house music production capabilities, focusing on advantageous music genres such as hip-hop. These efforts reinforce our unique content ecosystem that encourages users' active participation and subscriptions to our products and content services.

Meanwhile, **we continued to advance our music-oriented commercialisation capabilities.** Our online music revenue grew throughout 2023, while revenue from social entertainment services decreased year over year due to the adjustments we made to our operating strategies and product functions, which we've discussed on prior calls. These initiatives focus on our core online music ecosystem, which bodes well for our healthy and sustainable long-term business development.

Our online music business subscription revenue increased by 20% year over year in 2023, primarily due to increased subscription memberships and steady improvement in ARPPU. We enhanced our premium offerings, adding expansive content and innovative features, and broadened membership privileges and joint programs with external partners, delivering a notable 15.3% year-over-year increase in our subscriber base. We also strengthened our advertising commercialisation capabilities in 2023, backed by our brand's increasing influence and more diversified advertisement formats. In particular, our ad-supported mode has made steady progress and began contributing to our incremental advertising revenue stream in the second half of 2023.

The benefits we gain from economies of scale and continued cost optimisation are translating to an **improved financial profile**. With strong monetisation in our core online music business and improved copyright cost structures and revenue sharing ratios, our Gross Margin soared to 26.7% in 2023, compared with 14.4% in 2022. Accordingly, we achieved a record-level Adjusted Net Profit of RMB 819 million in 2023, compared to an Adjusted Net Loss of RMB 115 million in 2022.

Going forward, our strategic approach places us on course to achieve long-term sustainable development. We remain committed to bringing more premium and differentiated music to our users, innovating product experiences and cultivating our community. In doing so will further propel high-quality user and membership growth and strengthen our commercialisation capabilities. Our continued operating leverage, combined with cost optimisation measures and disciplined cost management, will also help us navigate healthy, sustainable profitability over time.

With that overview, I'd like to update you on what we are doing in each of the primary areas of our business, including our content ecosystem, product innovation and community, and commercialisation.

On our comprehensive and differentiated content ecosystem

We are further amplifying our content library to include a greater range of music, including tracks from established labels, independent artists, and our in-house studios. By the end of 2023, we had approximately 149 million cumulative music tracks. We continually update our diverse selection of music 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 are focused on promoting our advantageous music genres, such as hip-hop, Chinese folk, and rock. Our initiatives around these genres involve collaborating with copyright holders, nurturing independent musicians, and producing original music, driving further development of advantageous music genres favoured by a wide range of our users on our platform.

Looking first at our music label partnerships.

Throughout 2023, we fostered these partnerships, deepened our **collaboration with music copyright holders**, and expanded our catalogue of music labels with the addition of new partnerships with renowned labels such as B'in Music, CoMix Wave Films, Sodagreen/Oaeen (鱼丁糸), and RYCE Entertainment. Partnerships broaden our extensive music library, and in 2023 we added songs from influential musicians, singers, and groups, including Mayday, Sodagreen, Jackson Wang, Karen Mok (莫文蔚), Li Yuchun(李宇春), Phoenix Legend(凤凰传奇), Cheer Chen(陈绮贞), Crowd Lu(卢广仲), Cui Jian(崔健), and Zheng Jun(郑钧). In copyright agreements, we successfully renewed our partnership with EE-Media, deepening our two-way collaboration to promote popular Chinese music content. We also added more overseas record labels, expanding our content with additions like DREAMUS (represented by popular artists including Shinhwa), JTBC (which is renowned for its vast library of original soundtracks), Lantis and Space Shower, among others.

At the same time, we adopted a refined procurement strategy, **focusing on high-quality content and advantageous music genres** like hip-hop and Chinese folk. These genres particularly resonate with our younger audiences, and we actively brought in more content from these music categories to foster this vital demographic. The prominence of hit songs, including "Wo Ji De" by Chinese folk musician Lei Zhao, "Snow Distance" by Capper & Yan Luo, and "Leng Zhan" by TizzyT and Vinida, showcase the positive momentum we have built on our platform across these sought-after genres. In 2023, we also successfully promoted digital album sales in these advantageous music genres, including albums from MC HotDog (热狗), KeyNG (杨和苏), Eason Shen (沈以诚), and MaSiWei.

Premium digital and physical albums, born of deep cooperation with copyright holders and top artists, saw impressive sales in 2023. For example, the latest digital album from Eason Chan titled 《CHIN UP!》 recorded the No. 1 sales volume on the NetEase Cloud Music platform in China. We also made a new breakthrough in the physical album market in 2023 with our debut co-published physical album, Chenyu

Hua's latest album, “希忘(Xiwang) Hope,” which brought in more than RMB20 million in total gross sales. Soon after, we successfully promoted the sales of Zhang Jie's physical album, "Wainanjie 1982," which also achieved an impressive sales performance.

The revival of the offline entertainment sector and the booming music industry were also a boon for us in 2023. We actively secured a series of copyright for **trendy music variety shows**, propelling music content consumption and user activity on our platform.

Turning to our unique independent artist programs. As of December 2023, we have attracted around 684,000 registered independent artists who have uploaded around 3.1 million music tracks to our library. We have been committed to investing in initiatives that bolster musicians, improve music creation tools, and expand online and offline music exposure. These initiatives are highly effective in helping independent artists increase their influence and commercial income while strengthening our platform's unique original music ecosystem. All of these promote the original music industry's development while fortifying our platform's unique value proposition.

We continue to help emerging musicians with **programs aimed at discovery and exposure**. Using a range of approaches, including special planning, targeted online operations and offline activities, and location-based initiatives, we leverage our internal and external resources to boost the visibility of musicians and their work. Our focus has primarily been on promoting regional artists and cultivating trending genres.

Our musician discovery programmes aim to identify and nurture talented individuals, such as our ongoing Project Cornerstone (石头计划), which reached its fifth season of discovering fresh musicians. Again, we place great emphasis on advantageous music genres, with successful 2023 programmes like the Take in and Rap Out Project (街头招式计划), the Chinese Rap Rookie Award (中文说唱新人赏), and the New Voice Power Project (新声势力计划). Our region-oriented music promotions included the "City Tour Guide" (城市云游指南) special planning series, an online exposure opportunity for regionally representative talent, and “Localised Sound (近地之声),” a new program

which offers comprehensive support to local musicians via online features and operating activities. To provide musicians with multiple avenues to reach their audiences, we actively promoted emerging musicians and their original works across more high-profile online channels, such as popular musical variety shows and offline channels, including prestigious music festivals. In 2023, these included promoting our artists at the annual Qingdao music festival launched in collaboration with Pepsi and the recently resumed and highly anticipated campus tour music festival featuring NetEase Cloud Music musicians.

Beyond exposure, **helping musicians realise commercial value** is one of our most compelling roles for independent artists. In 2023, we further championed financial backing for musician groups with the staged rollout of “Project Cloud Ladder 2023” (云梯计划2023第一期). Initiated in early 2023, the first phase of this program offered a more attractive financial settlement mechanism that encourages independent artists to generate high-quality original content. In September, we launched Phase 2, introducing the new “Appreciation (赞赏)” tipping feature, facilitating innovative interactions between musicians and fans while providing independent musicians with a new avenue to monetise their talent. After deducting channel fees, 100% of the earnings go directly to the musicians. Our newest supportive measure introduces a royalties-sharing mechanism for music arrangers. We aim to provide financial aid to backstage musicians, and this initiative is another step toward this goal, marking the first time the industry will include arrangers in royalty settlements.

With respect to **music creation**, we introduced a series of AI-powered tools that cover the entire composition process, designed to improve music creation efficiency and lower barriers to entry. Our NetEase “Tianyin” platform is a one-stop platform that integrates various AI music creation tools to assist in music creation and arrangement. Beginning in August, we opened the NetEase “Tianyin” platform to all musicians and continued to optimise the music creation and release process. We collaborated with Xiaoice to develop AI-based vocal synthesis software called X Studio, which provides a variety of natural voices. In addition, we held AI songwriting competitions and launched an “AI

Rap Song Competition" to encourage musicians to create more high-quality songs, especially hip-hop works, by utilising AI tools.

Looking at our in-house music production, we continued to strengthen our capabilities in 2023. Drawing on our expertise in music, a wide and varied user base, and in-depth user insights, our in-house studios continue to centre around creating unique and premium music content, catering to the diverse needs of various audiences.

Since the beginning of 2023, **our in-house studios successfully popularised multiple hit songs**, including "Xiang Yun Duan" (《向云端》), "Jing Wei" (《精卫》) and "To You" (《予你》). Among these, our co-produced song, "Xiang Yun Duan" (《向云端》), has gained remarkable popularity across multiple platforms. It was also successfully performed on the CCTV Chinese New Year Festival Gala stage in February 2024. Additionally, we've produced multiple popular tracks in advantageous genres, including hip-hop songs "Sunshine Boys and Sunshine Girls 2023" (《阳光男孩阳光女孩 2023》) and "Sheng Shan" (《圣山》).

We continue to advance our in-house production and promotion capabilities. Some of our recent project launches include "Once the Curtain Falls (一次散场)," a pure music project; band projects like "Shall We?" and "Listen to the whisper of the universe (宇宙心事),"; as well as "Living Room Daydream (客厅遐想纪)," a rap project. Additionally, we released the third season of "Best Before Artist (保质期音乐人)," which focuses on emerging R&B genres, and "Sound and Visual Relativity (声画相对论)," a project that explores the potential of music in films.

Our self-produced music works have been featured multiple times on large-scale evening shows (such as "Xiang Yun Duan" (《向云端》) and "Fu Guang" (《浮光》)). Moreover, many large-scale sports events and other influential public events have featured our in-house music studio work. We also deepened our **collaboration with NetEase's portfolio**, producing customised songs for NetEase Games' blockbusters, such as *Eggy Party* (蛋仔派对), *Fantasy Westward Journey* (梦幻西游) and *Onmyoji* (阴阳师). The

commercial value of our in-house music production capabilities is also increasing with our **external platform and commercial brand collaborations**, such as Youku, Mango TV, SAIC Volkswagen, Yili, China Mobile and Vivo.

As for our other audio-based content, in addition to songs, we have been advancing and deepening our audio content portfolio, including podcasts and audiobooks/radio dramas. We aim to provide users with a full range of listening experiences, catering to their diverse interests and demands, ultimately increasing user engagement and exploring potential commercial opportunities. In 2023, we saw a significant increase in our long-form audio content consumption. The total long-form audio content listening time on our platform increased by around 71% in 2023 compared to 2022.

The **PUGC/UGC podcast** is an essential part of our content ecosystem, focusing on music-inspired content and real-life stories. We have recently upgraded our Music-Podcast, a unique format that combines podcasting and music discovery, providing accessible introductions to quality and lesser-known songs to music fans. Music-Podcast is gaining traction and increased user activity and music consumption in 2023.

On top of our PUGC podcast, we have been expanding our **PGC long-form audio content library** in a cost-efficient manner, including audiobooks and radio dramas, particularly by expanding our pool of self-produced content. One of our notable successes is the radio drama, "The Young Master and I (少爷和我)", an adaptation of popular comedy IP. The podcast gained immense popularity and highlights our innovative approach to broadening our audio content library, catering to different users, and improving content creation efficiency.

Product innovation and community ecosystem

Throughout 2023, we continued enhancing our product and community development. Utilising AI technology, we enhanced our products, optimising users' music consumption experience and upgrading music recommendations to better connect music production and consumption. Meanwhile, we continued strengthening music-inspired connections and expanding music consumption scenarios. As a result, we've elevated

the user experience, inspired music resonance, and increased strong and sustained user engagement levels. This powerful combination is actively strengthening our multi-layered community ecology. In addition, NetEase Cloud Music recently underwent a comprehensive product upgrade, with a focus on core sections and product layouts covering content recommendation, playback experience, personal assets, and our community. The main goals were to enhance personalised recommendations, improve the comments-centric community ecology, optimise traffic allocation, and revitalise the platform's primary focus on music by eliminating unnecessary features. The new version not only enhances the music community's atmosphere for enthusiasts but also promotes the widespread dissemination of high-quality music works, benefiting numerous original musicians.

【 Optimising user discovery and consumption experience 】 First off, we have always been committed to providing users with the best possible music discovery and consumption experience.

We continue releasing **premium sound quality and sound effects** while improving user penetration. In addition, our new **innovative feature**, “**Private DJ (私人 DJ)**,” seamlessly integrates content recommendations with intelligent, personalised music introduction and commentary. This feature allows users to recall the old-fashioned radio DJ while enjoying a more personalised music accompaniment as part of their listening experience.

As we continuously improve our understanding of users' music preferences in different scenarios and enhance our **AI-powered recommendation algorithms**, such as large-scale multimodal models (LMM) and multi-scenario recommendation ranking models, we further refined personalised recommendations based on users' preferences and behaviours across the entire platform.

We also unveiled a series of upgrades to our iconic vinyl player. We have made a giant leap forward, providing users with nine new player styles, adding a differentiated audio-visual experience in one of the most well-recognised elements. We have also newly

inked more **cross-over collaborations with popular IP**, such as *Eggy Party (蛋仔派对)*, *Sky (光遇)* and *POP MART (泡泡玛特)*, where users can choose the design and playback experience.

[Fostering community attributes] Secondly, we have augmented the innovative functionality of our music community products to reinforce community attributes and ambience, focusing on music-inspired resonance across our array of community products and creating connections with users through highly interactive features that encourage engagement.

Our **music community centres around the iconic Comments section** on our platform, which inspires musical resonance. Through optimisations in products, operations, and algorithms, we consistently amplify the value of comments across our platform, including the playback page, search function, and landing page layout. Our latest addition, "Moments Square (动态广场)," where users can browse and interact with comments, has become a popular gathering place for users to express and connect with others' sentiments. As we continue to improve and introduce more interactive activities, we have significantly increased content consumption and user interaction based on comments in both the song Comments section and "Moments Square."

We are continuously **enhancing our Fan Space(乐迷团) platform** under our initiatives to upgrade our music-driven community products. This enhances our community of music enthusiasts, facilitating interactions between artists and fans while encouraging interactions among music lovers with a shared passion for music.

[Music consumption scenarios expansion] At the same time, we are extending audio experiences and content consumption across broader scenarios, such as gaming and IoT.

In 2023, we furthered **our collaboration with NetEase Games**. In partnership with popular games such as *Eggy Party (蛋仔派对)*, *Sky (光遇)* and *Racing Master (巅峰极速)*, we are deeply integrating high-quality music with gaming features and player-centric scenes, empowering the consumption and distribution of songs within gaming

scenarios. In addition, we have extended cross-over collaborations on our iconic player interface to more popular gaming IPs such as *Eggy Party* (蛋仔派对) and *Sky* (光遇). We have also launched a cooperative gift package with *Eggy Party* (蛋仔派对) and *Onmyoji* (阴阳师). In our collaboration with *Sky* (光遇), we successfully introduced the "Multi-person Listen Together (多人一起听)" feature within the game, allowing users to experience a combination of gaming, music, and social interaction together.

In **IoT layouts**, we recently added a new feature that lets users easily switch between different terminals like mobile, PC, TV, and in-car scenarios, effectively addressing user needs and improving user experience. In addition, we have recently launched a promotion, upgrading the multi-device benefits of Vinyl memberships. During the promotional period, regular Vinyl membership subscribers can access the membership-exclusive music library across multiple IOT terminals. As the first attempt in China to eliminate additional charges for multi-device usage, we hope to provide a simpler and more consistent membership experience. By allowing more users to experience our premium content in different scenarios, we can further enhance the awareness and perception of our Vinyl membership program, driving long-term growth and loyalty of our Vinyl members.

Branding campaigns

In terms of **branding campaigns**, our users and community inspire our content-driven marketing campaigns and popularise users' mindsets to help us reach a wider audience.

Our annual year-end event – the annual "year in review" report – was another success, showcasing users sharing their personalised music memories and unique stories on our platform.

We also continued our branding campaigns centred around our iconic Comments section. We partnered with the People's Daily in June to create a special event, “是一站也是一战,” inspired by Comments about the college entrance exam. Later in the year, we

released our Music Comments Calendar and organised the slow live broadcast event "Fireworks Gathering," with Music Comments taking centre stage.

We also made a push in student marketing with a series of campus campaigns, such as the NetEase Cloud Music 7th Campus Singer Competition, which successfully concluded in September, and our original music-themed campus tour, where we visited various universities.

We are actively expanding our collaborations with offline music performances and scenes. We set up music comment walls at over 10 music festivals, including the Strawberry Music Festival and the Universe Island Music Festival, engaging with over 1 million music enthusiasts.

Commercialisation

Now, taking a deeper look at our commercialisation.

Throughout 2023, we focused on strengthening our music-oriented monetisation capabilities. Our efforts paid off with solid year-over-year growth across both our membership subscriptions and advertising, further validating our business's sustainability and potential. We have laid a strong foundation for our ongoing commercialisation, where we are unlocking more commercial monetisation and improving our long-term, sustainable profitability potential.

Total **online music services revenues** for the year increased by 18% year over year. Notably, the growth in our membership subscription revenues and advertising revenues was remarkable, rising by 20% and 17% year over year, respectively.

Growth in our annual **membership subscription revenues** was primarily attributed to an increased number of our subscribers, which rose by 15% for the year. We actively increased users' willingness to pay for premium experiences, supported by our enhanced premium content offerings, continued product upgrade, extended premium privileges and joint membership programmes, as well as innovative marketing activities.

For instance, we added membership privileges, such as our membership-exclusive landing page layout, premium sound quality, IP-themed players, and decoration rights, such as customised app icons and widgets.

Moreover, we are actively exploring new collaboration models for our membership programme with both internal and external partners. In addition to our joint programmes with NetEase products, like *Eggy Party* (蛋仔派对), *Onmyoji* (阴阳师) and NetEase email service, we are also actively establishing joint-membership programmes with various external online video and eCommerce platforms. Moreover, we are expanding our presence into offline FMCG scenarios with our recently launched joint membership programme with KFC.

For subscription memberships, our goal is to continually advance content and product development and persistently expand membership privileges and external collaborations, thereby driving long-term, steady and sustainable growth. Additionally, we have implemented various initiatives, such as offering a limited-time free trial for membership benefits and enhancing marketing innovation, to cultivate users' willingness to subscribe. We aim to comprehensively enhance the premium membership experience and increase the usage of membership privileges among users on our platform, thereby improving user awareness and perception of both vinyl VIP and SVIP memberships. Mainly, we are dedicated to expanding and engaging with young users, fostering their interest in music and encouraging their consumption habits. We are confident that our efforts will drive sustained growth in our membership base, unlocking greater potential and opportunities for monetising subscription memberships in the long run.

In addition to subscriptions, we strengthened our **advertising commercialisation capabilities** in 2023. We effectively expanded our advertiser base for both brand ads (such as Mengniu and Audi) and performance-based ads (such as JD.com, Vipshop, miHoYo, and Egg Party) . Performance-based advertising remains an emerging yet impressive growth driver. Particularly, our exploration of ad-supported mode started

generating additional ad revenue in late 2023, which also positively impacted user retention, time spent on our platform, and membership subscriptions.

Our **social entertainment arm** saw a 34% year-over-year decline in revenue as we enacted a series of strategic business optimisations in our social entertainment services in 2023, along with additional function optimisation measures. These initiatives focus on our core online music ecosystem and long-term profitability. Going forward, our goal is to promote the healthy development of our live-streaming services under better integration with our core online music ecosystem. In addition, we will explore more production innovation and monetisation opportunities in the social communications sphere, where we see an opportunity for new revenue potential over time.

Regarding our overall commercialisation, we are exploring diverse monetisation opportunities across differentiated products and offerings that will further engage our community and broaden consumption scenarios. We are confident we can continuously enhance users' stickiness and willingness to pay, especially among our platform's massive base of young users. In addition to driving stable growth in our membership subscription model, we are committed to exploring innovative monetisation methods to tap into more commercial opportunities across our music-centric content and social networking community and through more innovative experiences. Collectively, we expect these initiatives to contribute to our business's sustainable growth momentum over the long term.

Q&A

1. CICC – Xueqing Zhang: What is your perspective on the primary development goal for Cloud Music this year? Which indicators are you more concerned about, financial or business?

William Ding: Firstly, we place a greater emphasis on business indicators. Secondly, we focus on the uniqueness of our content and the user experience of our community products, which are crucial for our future development.

2. BofA – Lei Zhang: What are the considerations for updating the App and how is it currently benefiting Cloud Music?

Xing Zhang: The main focus of our revisions is to prioritize music and strengthen our long-term competitive barriers. We believe that in the future, music library will not be the only crucial competitive edge among various streaming platforms. Instead, personalized recommendation is one of our most important distinguishers along with our unique music-inspired community. These core advantages are not easy to replicate. Therefore, our primary goal is to enhance these two long-term competitive barriers. To achieve this, our recent App update focuses on several key areas: enhancing personalised music recommendations, improving traffic allocation across different vertical content on our platform, and actively strengthening our community's engagement centered around music comments. All of these initiatives will enhance our ability to remain competitive and increase our position over the long term.

3. GS – Lincoln Kong: What are the main factors contributing to the significant increase in the paying ratio and the number of paying users in 2023? How does the Company plan to manage member growth and ARPPU in 2024?

William Ding: Last year, our paying user growth rate was rapid. This can be attributed to two main factors. Firstly, we made extensive efforts in terms of copyright collaboration, resulting in richer content in 2023 compared to 2022. Secondly, Chinese users have become accustomed to paying for high-quality content. Whether it is long-form videos, novels, or music, they are willing to pay around RMB10 per month to access premium content. Specifically, music listeners in China are now willing to pay over RMB10 per month to support Chinese original music content, which marks a significant shift from their habits 10 or 20 years ago. What we see today is positive payment behavior and a better paid-for content environment in China. It is important for us to effectively utilize the music content and music community scene. In addition to

monthly membership subscription, we can provide value-added services that offer users more than just music. This includes opportunities to make new friends and engage with diverse interest-based communities. We believe that NetEase Cloud Music can establish a high-quality and unique music community that stands out globally. Our goal is to provide Chinese users with an emotional experience that goes beyond the music itself.

4. Guotai Junan Securities - Angus Liang: What are the latest technical developments related to AIGC in terms of content production and community? Does AIGC have a positive impact on the number of musicians and users?

William Ding: NetEase prioritizes the application of AIGC in various scenarios, including not only music but also gaming. Over the past year and a half, there has been rapid progress in global AI technology, particularly with the development of ChatGPT since November 2022. AI capabilities can do much more than what it could do over the past decade. For example, Sora can now directly generate high-quality video content. This advancement indicates that AI has the potential to generate a large number of high-quality music, although it may be slightly later than video content in terms of application. Three years ago, we invested in AIVA, a European company in Luxembourg that specializes in AI music generation assistant. Additionally, we have our own platform, NetEase Tianyin, and have collaborated with Xiaoice to launch AI voice synthesis software. We've also introduced the "Private DJ" feature on the NetEase Cloud Music platform, which assists users in music discovering by providing intelligent music recommendations and introductions. All of these initiatives aim to enhance content production in terms of quality and efficiency, as well as improve the user experience. We are actively embracing this wave of AI development, which will raise the overall quality of mid-tier content.

5. GF Securities – Zhe Zhou: What are management's considerations for balancing the increase in paywall and the growth in user numbers?

William Ding: We have definitely considered it, and I believe that NetEase Cloud Music has the ability to actively explore the diversity of paid content. But our main goal right now is to increase NetEase Cloud Music's market share. After all, we are a young

enterprise operating music streaming platform. I think there is no need to be too hasty. We have our own unique user positioning.

6. China Renaissance – Eileen Lin: Could management please provide information on the current layout and future plans of in-house music production?

William Ding: In-house music production is definitely a crucial part of our work. It is also a key means for us to differentiate ourselves from peers in terms of unique content and platform. In the United States, all of the main platforms have their own content: Disney plus, Hulu, Apple Plus, Netflix, Amazon Prime, etc. Just as the U.S. video market accommodates four to five companies simultaneously, we believe that in China, music platforms should also have their own unique offerings and differentiators.

7. CITIC Securities – Tianhao Liu: What are the considerations when deciding on preferential pricing for student members?

William Ding: There is a discount strategy for student groups in both hardware and service platforms. This is pretty usual in the U.S., for example, Apple offers special pricing for student users. NetEase Cloud Music started offering special membership pricing for students last year, so it is not unusual. We may have implemented it later, but it is not strange.

8. Daiwa – Candis Chan: What recent progress has been made in music copyright collaboration? What is the outlook for gross margin improvement in 2024?

William Ding: The content cost paid to major copyright holders has always been our main cost. The chaotic competition in the past has had some lingering effects. As a result, NetEase Cloud Music and government regulatory agencies are actively working toward rationalizing copyright fees in the industry. Therefore, we believe that in the future, we still have ample room to make copyright fees more reasonable and diverse.

9. Citi – Vicky Wei: How has the advertising business developed recently? Specifically, what progress has been made in the development of ad-supported mode?

William Ding: Our ad-supported mode advertisement is still in the early stages and has some imperfections. However, we are actively working towards improvement.

10. CMBI – Wentao Lu: What is management's perception of the Company's current position and future prospects in the social entertainment business?

William Ding: Regarding the live-streaming business, music and live-streaming are closely intertwined. Singing can be performed during live streams. Moving forward, our main focus will be on music and building a strong community. NetEase Cloud Music is a company with a long-term vision dedicated to providing users with the emotional experience of listening to music and sharing happiness with others. We have a clear vision of the product we want our platform to become - one that not only allows countless music lovers in China to explore and discover enjoyable music but also fosters a vibrant community of music enthusiasts. NetEase Cloud Music goes beyond simply providing instrumental and mechanized music listening; it creates a warm emotional environment for experiencing music.