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iDreamSky Technology Holdings Limited

创梦天地科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1119)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

The Board is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2019. The results have been audited by the Auditor in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the year ended December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,480,792	1,763,548	2,364,641	2,792,970
Gross profit	544,131	709,428	1,038,823	1,225,738
Profit before income tax	16,801	173,692	297,047	390,585
Profit for the year	5,121	151,904	267,833	360,397
Adjusted profit for the year*	176,038	238,347	443,640	553,211

* To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted profit for the year as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Our adjusted profit for the year was derived from our profit for the year excluding share-based compensation expenses, listing expenses, fair value gains or losses on financial assets, impairment provision of contract assets and goodwill resulting from a business combination and gain from the reversal of the unpaid consideration payables from a business combination, if any.

Business Review and Outlook

We are the leading digital entertainment platform in China. Our mission is to deliver joy through technology and creativity. We aim to build an online and offline ecosystem of choice for entertainment around the clock. Our continuous growth is achieved through self-developed core businesses and external collaboration. Such growth has been driven by our philosophy of *iDreamSky Flywheel* (創夢飛輪). It is our belief that, only by offering high quality content can persistently attract mass user base in a cost-efficient manner; only by improving service system and enhancing user experience can continue to grow our user engagement; only by strengthening data-driven operations can achieve greater monetization. With all of the above, we are then able to cooperate with top-tier game developers and enhance our in-house game development capabilities, ultimately securing more quality content and positioning ourselves for sustained growth.

In 2019, Chinese and the overseas gaming market continued to demonstrate a strong momentum. During the year, the Chinese game market has undergone a healthier, more standardized and stable development. According to the “2019 China Game Industry Report” issued by the CGIGC (中國音數協遊戲工委), the actual sales of China’s game industry in 2019 reached RMB230.88 billion, up 7.7% year-over-year. The number of Chinese game users reached 640 million, representing an increase of 2.5% compared to 2018.

In 2019, the Group continued to integrate operations and development, and actively responded to the rapidly changing market environment with its large user base and rich high quality content, thus achieving outstanding results. At the same time, we placed greater emphasis on improving our development capabilities, and continued to increase investment in research and development, bringing more high quality game content to global game users.

Results Highlights

In 2019, the Group has enjoyed a successful year, highlighted by achieving a solid 18.1% year-over-year revenue growth, which was driven by outstanding performance in games and information services. The Group’s net profit for the year ended December 31, 2019 was RMB360.4 million, representing an increase of 34.6% compared with that of the previous year. The Group’s adjusted net profit for the year ended December 31, 2019 was RMB553.2 million, an increase of 24.7% compared with that of the previous year.

Complementing this success, our average MAUs increased from 129.2 million in 2018 to 131.3 million in 2019. We were able to monetize this through an integration of in-app-purchase (IAP), advertising and subscription based revenue models. Our IAP monthly paid users (MPU) decreased from 6.7 million in 2018 to 5.7 million in 2019, but the IAP monthly average revenue per paying user (ARPPU) increased from RMB24.5 in 2018 to RMB31.9 in 2019.

We actively cooperate with domestic and overseas well-known content providers on products in a variety of game genres. As at December 31, 2019, we possessed 60 games, including 23 RPGs, five matching puzzle games, 10 casual competition games, six endless running games and 16 others. In 2019, we launched a number of new games, such as *Decisive Battle against Marfa* (決戰瑪法) (MMORPG) and *Mob Psycho 100* (路人超能100) (anime collectible card game).

Throughout 2019, we have obtained pre-approvals for 19 games which cover a variety of high quality casual and mid-and hardcore games.

Business Review

– Enhancing the advantage of casual game development

We have officially launched a new self-developed running game *DreamWorks Adventure* (夢工場大冒險) in March 2020 and it has been recommended as the best new game by the Apple's App Store. This game has been well received by the market, with five intellectual properties (IPs) of classic characters from DreamWorks Animation productions featuring: *The Croods* (瘋狂原始人), *Kung Fu Panda* (功夫熊貓), *Shrek* (怪物史萊克), *Madagascar* (馬達加斯加) and *How to Train Your Dragon* (馴龍高手). This running game represents a transformation of us from being cooperating with globally well-known game developers to a developer and operator of self-developed high quality content. The combination of “Super IP + iDreamSky Competitive Genre” is set to advance the core competencies of the Group in the leisure market to new heights.

We will continue to strengthen its competitive development edges in casual games, put more efforts in developing its matching puzzle games, running games, and casual competition games.

– Enhancing the abilities of medium and hardcore game development

Cross Gate (mobile version) (魔力寶貝(手機版)), our core self-developed turn-based MMORPG game, continues to generate stable revenue for the Group. Leveraging the operation capabilities accumulated by the team, the Group will continue to develop turn-based gaming products.

Another significant self-developed game, *Rakshasa Street: Warrior Body* (鎮魂街：武神軀), with top domestic comic IP Rakshasa Street is expected to be launched in 2020. *Art of War 3* (全球行動), our first RTS game in cooperation with Tencent will also be launched in 2020.

– **Cooperation with global content providers**

We will continue to retain our source-code-based exclusive publishing model while deepening our cooperation with globally-leading game developers. The matching puzzle game *Gardenscape* (夢幻花園) has been online for more than two years, and it continues to deliver strong gross billings and maintaining large number of users. The performance of *Homescapes* (夢幻家園) launched in 2019 also continues to grow at a healthy rate.

In 2019, we have obtained the pre-approval of eight overseas games, among which *Homescapes* (夢幻家園) and *DreamWorks Adventure* (夢工場大冒險) have become well-known boutique games in the industry.

In addition, in 2019, we successfully licensed high quality overseas game *Super Animal Royale* (小動物之星) (casual competition game), which has a planned launch date of 2020 on mobile and PC platforms.

Currently, we have already established in-depth cooperation with a number of globally-leading game developers, including Playrix, Sybo, Imangi Studios, Kiloo Games, etc.

– **Intelligent user acquisition capability**

Our self-developed performance advertising automation platform, the *Chuangliang Ads SaaS System* (創量廣告SaaS系統), can achieve automatic batch ad placement through direct connection with mainstream market media platforms (including *Tencent AD*, *ByteDance's Ocean Engine*, and *Kuai Ads*). Thanks to the support of big data analysis and AI technology, human experience-based decision making can be transformed into machine-recommended decision making, effectively lowering traffic cost and improving advertising efficiency. While the *Chuangliang Ads SaaS System* has been monetized for less than half a year, it has already been used by dozens of industry customers, managed monthly advertising budgets in excess of RMB100 million, and managed clear evidence of its huge potential.

– **Diversified monetization capabilities: in-app-purchase, advertising, and subscription model**

In-app-purchase represents the major monetization model in the gaming industry. We have developed data-driven operation capabilities based on our large user base, which helps to continuously increase users' life time value (LTV).

The hyper casual game market has risen rapidly, thanks to the traffic delivered by the top media platforms. Their advantages of small size, ease of use and accessibility have attracted many users. According to Gamma Date, this market sector is already sitting at RMB8,670 million in direct revenue and a user base of over 400 million, which indicates huge business potential.

To tap the tremendous opportunity, we have embarked on a strategic initiative in the hyper-casual games category, with whose games packed with genuinely eye-catching performances. It has achieved solid progress, successfully developing several popular hyper-casual games such as *Cat Condo* (貓咪公寓) and *I Am an Archer* (我是神箭手). Such success can be seen in *Cat Condo* (貓咪公寓), an isle game focusing on taking care of pets, with more than 5 million registered users, ranking among the top 10 free games on iOS, and it is frequently and strongly recommended by the Apple App Store.

In 2019, Apple, Google, and Huawei successively launched subscription services. The Group has also launched a subscription membership service based on the availability of a wide range of high quality contents and our large user base. In the coming years, we strive to turn our subscribers into the most valuable user group of iDreamSky.

– **Overseas Publishing Strategy starts to bear fruit**

China has become the world's largest mobile game market since 2018. In the past few years, leading Chinese game developers such as Tencent and Netease have successively expanded into overseas markets on the back of their products. As domestic games expand overseas, there will be more opportunities for high quality domestic games in the international markets. In particular, some products that have been successful in China can enjoy a second wave of growth in overseas markets.

Global expansion has been one of most important growth strategies. We offer a high quality game portfolio with rich contents, promoted by our self-develop capability and industry-leading publishing and operation capabilities accumulated through years of experience in the industry. This can be seen in the successful launch of our core self-developed game *Cross Gate (mobile version)* (魔力寶貝 (手機版)) in Southeast Asia, Hong Kong, Macao and Taiwan in 2019. The game was ranked first in Taiwan's iOS free app games and was among the top five most popular games there on Google Play.

Also, the Group announced its strategic cooperation with MY.GAMES, a gaming brand owned by MAIL.RU, one of the largest internet company in Russia. As part of the agreement, both parties will carry out in-depth cooperation in game publishing and investment to tap the global gaming market together. The cooperation will allow us to leverage the MY.GAMES' overseas resources and expertise in gaming industry, enrich our game offerings in China as well as elevate our market profile in overseas markets. Additionally MY.GAMES will also be benefiting from our position and resources in the Chinese gaming industry in establishing its presence in the Chinese market.

Business Outlook

– Three Major Growth Opportunities for the Gaming Business

Looking forward, content itself will become the main growth driver for the development and growth of the industry. As an online-integrated development and operation platform, we will focus on three strategic areas of the gaming genres in the future:

The first of these is the matching puzzle games. According to the data provided by Data Magic, the market size of matching puzzle games in 2019 has grown by approximately 12% as compared to 2018. Matching puzzle games is one of our longest-standing competitive categories, where we have solid advantages in terms of market size and user base, and have achieved pleasing results. Based on years of experience in this genre operations, we will continue to gain greater market share by combining self-development capabilities and acting as global high quality content agencies.

The second of these is other casual games, which cover three categories of casual games: running games, casual competition games and simulation games. According to App Annie's 2019 global game download statistics, casual games accounted for about 60% of the iOS and Google Play store top 10 list. The rapid development of casual competition games presents both a tremendous opportunity and an exciting challenge for us. We will further increase the online duration of users, extend the commercial lives and further explore the monetization potential of casual games. We will also promote the cooperation between game content providers, distributors and advertising platforms by leveraging our existing large user base.

The third major focus genre is mid-and hardcore RPG games, including card RPG, ARPG, shooting RPG, and turn-based RPG. We will continue to invest in the self-developed mid-and hardcore RPG games. In 2019, we demonstrated our integrated development and operation capability through the operations of *Cross Gate (mobile version)* (魔力寶貝(手機版)) and *Decisive Battle against Marfa* (決戰瑪法), etc. In 2020, we will invest in a variety of high quality games, including *Rakshasa Street: Warrior Body* (鎮魂街：武神軀), *Glory All-Star* (榮耀全明星) (tentative name), etc. and strengthen cooperation with global PC and console game developers to introduce global AAA games to the mobile game market and promote the integration of global research and development capabilities.

– **Continue to strengthen new entertainment experiences online and offline**

Great Moments Voyage is a brand of offline experience store, in cooperation with Tencent to build an online and offline destination for entertainment around the clock, integrating movies, games, e-sports and game related merchandise. Combining Tencent’s online digital content and SONY’s officially authorized console game content, we are able to deliver diversified immersive experience to our users.

To tap this expanding market, we will further expand our offline entertainment business nationwide in 2020.

– **Continuously improve operation capabilities**

We will strengthen the advertising model based on our large user base. In recent years, the advertising model has become an increasingly important monetization method for casual games. In today’s market, media giants are increasingly using programmatic placement, conducting big data analysis on user profiles and user behaviors to improve the effective conversion rate. Therefore, precise classification and accurate placement of advertisements are the main driving forces for successful marketing development in the future.

In terms of customer types, our programmatic advertising business covers well-known game companies, e-commerce companies, online education platforms and many other industries. Additionally in terms of content display and distribution channels, we can also well understand and fully meet the different needs of our customers. Utilizing our mature big data architecture and intelligent AI system to link up advertisers and top media platforms, offering more precise, efficient and intelligent advertising placement services.

– **Enrich the strategic portfolio of high quality cloud games**

With the looming rollout of 5G and continuous evolution of cloud technology, game content will inevitably pose a new round of challenges for development technology and content publishing.

In the long run, native cloud games will bring revolutionary gaming experience enhancements, inspire the creation of new game categories, leading to a comprehensive improvement in user market penetration, payment ratio, ARPU, and bringing a revolution to the content of the gaming industry. Based on the development history and trends of the industry, we firmly believe that people will only go for high quality games regardless of changes in technology, game publishing channels, and ways of distribution. Therefore, we have been focusing on the development of and strategic investment into high quality content, and will continue to integrate global high quality content resources to build our competitive advantages. At the same time, we will actively build “data-driven” operational capabilities, continue to improve user service capabilities, and bring joy to users through technology and creativity.

Strategic cooperation and capital market activities

– **Strengthen cooperation with strategic investors**

We have continuously strengthened the cooperation with our strategic investors including Tencent, SONY, JD, etc., to obtain rights and resources from these investors in content development and operation, online and offline entertainment platforms to continuously improve user experience.

– **Further recognition earned in the capital market**

In January 2019, iDreamSky and OCT Culture Group held a signing ceremony, announcing the establishment of a digital creative industry fund jointly, which invested RMB70 million in Tencent’s video Great Moments Voyage.

In November 2019, the Group secured an investment from the Greater Bay Area Homeland Development Fund, to issue convertible bonds due 2023. The two parties will carry out in-depth cooperation in the areas of digital creative industrial upgrading and technological innovation across the Greater Bay Area.

Appreciation

Technological innovation is one of the fundamental ways of creating a new entertainment experience. We have devoted significant efforts into bringing richer and higher quality digital entertainment experiences to users, through adoption of artificial intelligence and cloud technology.

The year of 2020 will be an important year leading the next decade of the gaming industry. As mentioned earlier, new technologies such as 5G and cloud gaming are driving further upgrades and transformation in the industry. Whether looking at it from the ever-increasing demand of millennium users who trill for rich and diverse entertainment experience, or from the continuous upgrading and transformation of the supply-side structure. It is obvious that high quality content coupled with superb user service satisfaction will be increasingly important in securing competitive advantage in the industry, which plays to the Group's strengths.

Apart from having strategic insights into the industry and its business operations, the core corporate competencies in business development can also be demonstrated through its organizational capabilities. We will continue to enhance our brand equity as an employer and organizational capabilities to attract and cultivate more professional talents, empowering the team to develop stronger strategical mindsets and execution capabilities.

With an unwavering commitment in providing excellent content, we will leverage our core business competencies to fulfill market demand and offer a more lively and enjoyable experience for users as well as satisfactory returns for Shareholders.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

		Year ended December 31,	
		2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	3	2,792,970	2,364,641
Cost of revenues	4	(1,567,232)	(1,325,818)
Gross profit		1,225,738	1,038,823
Selling and marketing expenses	4	(293,343)	(303,373)
General and administrative expenses	4	(250,275)	(284,655)
Research and development expenses	4	(191,077)	(99,102)
Net impairment losses on financial assets and contract assets	4	(70,016)	(30,189)
Other income		28,337	15,249
Other (losses)/gains, net	5	(95,802)	3,244
Fair value gains/(losses) on financial assets at fair value through profit or loss		74,672	(10,631)
Operating profit		428,234	329,366
Finance income		11,239	16,358
Finance costs		(46,889)	(51,023)
Finance cost, net		(35,650)	(34,665)
Share of results of investments accounted for using the equity method		(1,999)	2,346
Profit before income tax		390,585	297,047
Income tax expense	6	(30,188)	(29,214)
Profit for the year		360,397	267,833
Other comprehensive income			
Items that may be reclassified to profit or loss			
— Currency translation differences		21,419	(3,883)
Items that will not be reclassified to profit or loss			
— Currency translation differences		(21,130)	43,415
Total comprehensive income for the year		360,686	307,365

		Year ended December 31,	
		2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year attributable to:			
— Equity holders of the Company		352,233	246,384
— Non-controlling interests		8,164	21,449
		<u>360,397</u>	<u>267,833</u>
Total comprehensive income attributable to:			
— Equity holders of the Company		352,522	285,916
— Non-controlling interests		8,164	21,449
		<u>360,686</u>	<u>307,365</u>
Earning per share			
— Basic earnings per share (<i>in RMB</i>)	7	<u>0.29</u>	<u>0.23</u>
— Diluted earnings per share (<i>in RMB</i>)	7	<u>0.28</u>	<u>0.23</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

		As at December 31,	
		2019	2018
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		31,712	26,893
Intangible assets		1,419,264	682,702
Investment property		26,012	—
Right-of-use assets		46,177	—
Investments accounted for using the equity method		406,708	284,896
Financial assets at fair value through profit or loss		354,320	267,506
Prepayments and other receivables		79,014	41,480
Goodwill		566,902	989,233
Contract asset		4,131	21,653
Deferred tax assets		51,483	36,496
		<u>2,985,723</u>	<u>2,350,859</u>
Current assets			
Trade receivables	8	1,005,256	820,894
Amounts due from related parties		8,523	39,032
Prepayments and other receivables		1,285,881	1,031,745
Contract asset		2,122	26,440
Contingent consideration assets		—	20,089
Contract costs		151,967	119,824
Financial assets at fair value through profit or loss		114,544	87,547
Cash and cash equivalents		532,746	1,121,641
		<u>3,101,039</u>	<u>3,267,212</u>
Total assets		<u><u>6,086,762</u></u>	<u><u>5,618,071</u></u>

		As at December 31,	
		2019	2018
	<i>Notes</i>	RMB'000	RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		75	75
Share premium		2,542,476	2,542,476
Reserves		379,654	254,552
Retained earnings		635,353	329,898
		<u>3,557,558</u>	<u>3,127,001</u>
Non-controlling interests		388,035	51,105
		<u>3,945,593</u>	<u>3,178,106</u>
LIABILITIES			
Non-current liabilities			
Borrowings		254,148	129,805
Lease liabilities		26,559	—
Deferred government grants		2,417	5,429
		<u>283,124</u>	<u>135,234</u>
Current liabilities			
Borrowings		1,016,291	984,357
Lease liabilities		22,366	—
Trade payables	9	160,793	153,001
Amounts due to related parties		21,159	21,159
Other payables and accruals		317,045	885,046
Income tax liabilities		45,480	40,766
Deferred government grants		9,452	11,626
Contract liabilities		265,459	208,776
		<u>1,858,045</u>	<u>2,304,731</u>
Total liabilities		2,141,169	2,439,965
		<u>2,141,169</u>	<u>2,439,965</u>
Total equity and liabilities		6,086,762	5,618,071
		<u><u>6,086,762</u></u>	<u><u>5,618,071</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

	Attributable to equity holders of the Company								Non-controlling interests	Total Equity
	Share Capital	Share premium	Capital reserve	Merger reserves	Statutory reserves	Translation differences	Other reserves	Retained earnings	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2018	—	—	360,900	228,130	9,482	(6,296)	632,375	106,781	1,331,372	1,336,694
Profit for the year	—	—	—	—	—	—	—	246,384	246,384	267,833
Other comprehensive income	—	—	—	—	—	—	—	—	—	—
— Currency translation differences	—	—	—	—	—	39,532	—	—	39,532	39,532
Total comprehensive income for the year	—	—	—	—	—	39,532	—	246,384	285,916	307,365
Transactions with owners										
Capital reduction from equity holders of the Company's subsidiary	—	—	(2,250)	(47,750)	—	—	—	—	(50,000)	(50,000)
Effect of Reorganization of the Group	61	1,084,848	(358,650)	(180,380)	—	—	(545,818)	—	61	61
Capital injection from equity holders of the Company	5	753,766	—	—	—	—	—	—	753,771	753,771
Proceeds from initial public offering ("IPO"), net of transaction costs	9	703,862	—	—	—	—	—	—	703,871	703,871
Profit appropriation to statutory reserves	—	—	—	—	23,267	—	—	(23,267)	—	—
Share-based compensation expenses	—	—	—	—	—	—	85,910	—	85,910	85,910
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	17,434
Contributions from non-controlling shareholder of Shanghai Huohun Internet Technology Co., Ltd ("Shanghai Huohun")	—	—	16,100	—	—	—	—	—	16,100	23,000
Total transactions with owners recognized directly in equity for the year	75	2,542,476	(344,800)	(228,130)	23,267	—	(459,908)	(23,267)	1,509,713	1,534,047
Balance at December 31, 2018	75	2,542,476	16,100	—	32,749	33,236	172,467	329,898	3,127,001	3,178,106

Attributable to equity holders of the Company

	Share Capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Translation differences RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total Equity RMB'000
Balance at January 1, 2019	75	2,542,476	16,100	32,749	33,236	172,467	329,898	3,127,001	51,105	3,178,106
Profit for the year	—	—	—	—	—	—	352,233	352,233	8,164	360,397
Other comprehensive income	—	—	—	—	—	—	—	—	—	—
— Currency translation differences	—	—	—	—	289	—	—	289	—	289
Total comprehensive income for the year	—	—	—	—	289	—	352,233	352,522	8,164	360,686
Transactions with owners										
Profit appropriation to statutory reserves	—	—	—	46,778	—	—	(46,778)	—	—	—
Share-based compensation expenses	—	—	—	—	—	100,301	—	100,301	—	100,301
Capital injection from non-controlling interests	—	—	—	—	—	—	—	—	107,000	107,000
Transaction with non-controlling interests	—	—	—	—	—	(22,266)	—	(22,266)	221,766	199,500
Total transactions with owners recognized directly in equity for the year	—	—	—	46,778	—	78,035	(46,778)	78,035	328,766	406,801
Balance at December 31, 2019	75	2,542,476	16,100	79,527	33,525	250,502	635,353	3,557,558	388,035	3,945,593

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	391,257	240,895
Income taxes paid	(40,461)	(34,495)
Net cash inflow from operating activities	<u>350,796</u>	<u>206,400</u>
Cash flows from investing activities		
Interest received from wealth management products	388	868
Placement of wealth management products	(159,120)	(488,730)
Receipt from maturity of wealth management products	159,120	488,730
Proceeds from disposals of property, plant and equipment	105	200
Purchase of property, plant and equipment	(14,444)	(30,921)
Purchase/prepayment of intangible assets	(940,985)	(472,152)
Loans to related parties	(402)	(34,094)
Repayment of loans due from related parties	32,516	10,052
Loans to third parties	(137,171)	(99,797)
Repayment of loans due from third parties	111,436	61,025
Prepayment for investments	—	(10,000)
Repayment of deposit for investments	10,000	—
Investments in financial assets at fair value through profit or loss	(66,976)	(158,365)
Proceeds from disposal of financial assets at fair value through profit or loss	10,000	16,846
Investments in associates and joint ventures	(111,175)	(127,800)
Proceeds from disposal of investments in associates and joint ventures	—	10,080
Prepayment of land use right	(41,824)	—
Acquisition of a subsidiary, net of cash acquired	—	(337,420)
Net cash outflow from investing activities	<u>(1,148,532)</u>	<u>(1,171,478)</u>

	Year ended December 31,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from financing activities		
Proceeds from capital injection from non-controlling shareholders of the Company's subsidiary	107,000	—
Distribution and payments to the equity holders of the Group	—	(50,000)
Proceeds from capital injection to the Company	—	753,832
Proceeds from borrowings	491,696	300,000
Repayment of borrowings	(333,264)	(188,986)
Loans from related parties	—	21,159
Principal elements of lease payment	(20,659)	—
Interest expenses paid	(46,888)	(51,023)
Proceeds from IPO, net of transaction costs	—	688,864
	<hr/>	<hr/>
Net cash inflow from financing activities	197,855	1,473,846
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	<u>(599,851)</u>	<u>508,768</u>
	<hr/>	<hr/>
Cash and cash equivalents at the beginning of the financial year	1,121,641	605,075
Effects of exchange rate changes on cash and cash equivalents	10,956	7,798
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	<u>532,746</u>	<u>1,121,641</u>

Notes to the Consolidated Financial Statements:

1. General information

The Company was incorporated in the Cayman Islands on January 3, 2018 as an exempted company with limited liability. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities are principally engaged in the licensing and operating of single player mobile games and mobile online games (the “**Listing Business**”) in the PRC.

The Company has its listing on the Stock Exchange on December 6, 2018.

This consolidated financial statements for the year ended December 31, 2019 are presented in RMB, unless otherwise stated.

2. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable IFRSs. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019:

- IFRS 16 Leases;
- Prepayment features with negative compensation — amendments to IFRS 9
- Long-term interests in associates and joint ventures — amendments to IAS 28;
- Annual improvements to IFRS standards 2015–2017 cycle;
- Plan amendment, curtailment or settlement — amendments to IAS 19; and
- Interpretation 23 uncertainty over income tax treatments.

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on January 1, 2019. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of January 1, 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6%.

	2019 RMB’000
Operating lease commitments disclosed	
as at December 31, 2018	52,437
Discounted using the lessee’s incremental borrowing rate of	
at the date of initial application	47,410
Less: short-term leases recognised on a straight-line basis	
as expense	(34)
Less: contracts reassessed as service agreements	(1,639)
	<hr/>
Lease liability recognised as at January 1, 2019	<u>45,737</u>
Of which are:	
Current lease liabilities	15,453
Non-current lease liabilities	30,284
	<hr/>
	<u>45,737</u>

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at December 31, 2018.

The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

- right-of-use assets — increased by RMB45,737,000
- lease liabilities — increased by RMB45,737,000

There was no impact on retained earnings on January 1, 2019.

(b) Newly adopted accounting policy for investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is computed on a straight-line basis, after taking into account the estimated residual value (10% of original cost), over the estimated useful lives. The estimated useful lives of the Group's investment properties are 31 years.

(c) New standards and interpretations not yet adopted

Certain new accounting standards, amendments and interpretations to existing standards have been published that are not effective in current year and have not been early adopted by the Group.

		Effective for the financial year beginning on or after
Amendments to IFRS 3	Definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020
Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
IAS 39, IFRS 7 and IFRS 9	Hedge accounting (Amendment)	1 January 2020
IFRS 17	Insurance contracts	1 January 2022
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	1 January 2020
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2022

The above new standards, amendments and interpretations to existing standards are effective for annual periods beginning after January 1, 2020 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

3. Revenues

	Year ended December 31,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Game revenue	2,446,876	2,087,561
Information service revenue	332,142	269,962
Other revenue	13,952	7,118
	<u>2,792,970</u>	<u>2,364,641</u>

The timings of revenues recognition by category is as follows:

	Year ended December 31,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
At a point in time	1,175,952	1,206,335
Over time	1,617,018	1,158,306
	<u>2,792,970</u>	<u>2,364,641</u>

4. Expenses by Nature

Expenses included in cost of revenues, selling and marketing expenses, general and administrative expenses, research and development expenses and net impairment losses on financial assets and contract assets are analyzed below:

	Year ended December 31,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Channel costs	1,006,632	975,182
Employee benefits expenses	337,569	236,142
Promotion and advertising expenses	279,913	297,883
Revenue share to content providers	276,652	215,188
Amortization of intangible assets	117,438	86,143
Impairment provisions for intangible assets	20,117	14,072
Outsourcing expenses for technical services	41,405	13,937
Travelling and entertainment expenses	22,019	17,496
Professional service fees	10,473	88,522
Cloud computing, bandwidth and server custody fees	20,805	26,416
Rental expenses	3,595	18,146
Impairment provisions for financial assets and contract assets	70,016	30,189
Impairment provisions for prepayments	105,176	7,967
Depreciation of property, plant and equipment	9,295	7,693
Depreciation of right-of-use assets	23,430	—
Depreciation of investment property	645	—
Auditor's remuneration		
— Audit services	5,500	3,200
— Non-audit services	1,451	—
Other tax expenses	3,424	2,728
Others	16,388	2,233
Total cost of revenue, selling and marketing expenses, administrative expenses, research and development expenses and net impairment losses on financial assets and contract assets	<u>2,371,943</u>	<u>2,043,137</u>

5. Other losses/(gains), net

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Net losses on disposal of property, plant and equipment	225	588
Compensation	-	(1,689)
Gains on disposal of subsidiaries	(24,567)	(2,509)
Losses on disposal of financial assets	1,429	-
Goodwill impairment	422,331	-
Gain from the reversal of the unpaid consideration payables from the acquisition of Shanghai Huohun	(294,911)	-
Others	(8,705)	366
	<u>95,802</u>	<u>(3,244)</u>

6. Income tax expense

The income tax expense of the Group for the years ended December 31, 2018 and 2019 is analyzed as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Current income tax:		
— PRC corporate income tax	45,175	43,965
Deferred income tax:		
— Origination and reversal of temporary differences	(14,987)	(14,751)
Income tax expense	<u>30,188</u>	<u>29,214</u>

7. Earnings per share and dividends

(a) Earnings per share

(i) Basic

	Year ended December 31,	
	2019	2018
Profit attributable to equity holders of the Company (RMB'000)	352,233	246,384
Weighted average number of shares in issue (thousands)	<u>1,205,430</u>	<u>1,060,334</u>
Basic earnings per share (in RMB)	<u><u>0.29</u></u>	<u><u>0.23</u></u>

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the respective year.

(ii) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume all dilutive potential ordinary shares.

	Year ended December 31,	
	2019	2018
Profit attributable to equity holders of the Company (RMB'000)	352,233	246,384
Weighted average number of shares in issue (thousands)	1,205,430	1,060,334
Adjustments for employee incentive plan (thousands)	<u>39,598</u>	<u>19,796</u>
Weighted average number of shares for calculating diluted earnings per share (thousands)	<u>1,245,028</u>	<u>1,080,130</u>
Diluted earnings per share (in RMB)	<u><u>0.28</u></u>	<u><u>0.23</u></u>

(b) Dividends

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2019 (2018: nil).

8. Trade receivables

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Third party payment channels and mobile carriers	40,526	76,687
Third party distribution channels	696,149	592,963
Advertising customers	274,651	132,848
Related parties	51,124	57,151
	1,062,450	859,649
Less: provision for impairment	(57,194)	(38,755)
	1,005,256	820,894

- (a) The credit terms of trade receivables granted by the Group are generally 3 months. Aging analysis based on recognition date of the gross trade receivables at the respective reporting dates are as follows:

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Within 3 months	401,271	390,562
3 months to 1 year	505,947	389,012
1 to 2 years	119,011	48,438
2 to 3 years	11,153	26,719
Over 3 years	25,068	4,918
	1,062,450	859,649

- (b) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of each type of the trade receivables to measure the expected credit losses. During the years ended December 31, 2018 and 2019, the expected losses rate for third party payment channels and mobile carriers and related parties is close to zero; the expected credit losses rate for third party distribution channels and advertising customers are determined according to provision matrix as follows:

	Third party distribution channels	Advertising customers
Within 3 months	3%	1%
3 months to 1 year	5%	2%
1 to 2 years	8%	5%
2 to 3 years	50%	50%
Over 3 years	100%	100%

Movements in the provision for impairment of trade receivables as follows:

	Year ended December 31,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	38,755	17,283
Acquisition of a subsidiary	—	1,300
Provision for impairment	27,045	21,188
Receivables written off during the year as uncollectible	(8,578)	(1,016)
Reversal	(28)	—
At the end of the year	<u>57,194</u>	<u>38,755</u>

The provisions and reversal of provisions for impaired receivables have been included in 'net impairment losses on financial assets and contract assets' in the consolidated statement of comprehensive income.

- (c) The carrying amount of the Group's trade receivables is denominated in the following currencies:

	As at December 31,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	899,565	857,373
USD	162,885	2,276
	<u>1,062,450</u>	<u>859,649</u>

- (d) As at December 31, 2018 and 2019, the fair values of trade receivables approximate their carrying amounts. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the net receivable balance.
- (e) As at December 31, 2018 and 2019, certain trade receivables were pledged to banks to secure certain bank facilities granted to the Group.

9. Trade payables

	As at December 31,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Third parties	143,451	121,192
Related parties	17,342	31,809
	<u>160,793</u>	<u>153,001</u>

Trade payables are primarily related to the purchase of services for server custody, game licenses, and the revenue collected by the Group which is to be shared to cooperate game developers according to respective cooperation agreements. The credit terms of trade payables granted to the Group are usually 3 months.

- (a) The aging analysis of trade payable based on recognition date is as follows:

	As at December 31,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	79,208	56,726
3 months to 1 year	51,464	29,845
1 to 2 years	21,784	43,004
2 to 5 years	8,337	23,426
	<u>160,793</u>	<u>153,001</u>

- (b) The carrying amount of the Group's trade payables is denominated in the following currencies:

	As at December 31,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	153,031	145,656
USD	7,762	7,345
	<u>160,793</u>	<u>153,001</u>

- (c) As at December 31, 2018 and 2019, the fair value of trade payables approximated to their carrying amount.

10. Subsequent Event

After the outbreak of Coronavirus Disease 2019 (“**COVID-19 outbreak**”) in early 2020, a series of precautionary and control measures have been and will continue to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. Up to the date of this announcement, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues

Revenues increased by 18.1% to approximately RMB2,793.0 million for the year ended December 31, 2019 on a year-on-year basis. The following table sets forth our revenues by line of business for the years ended December 31, 2019 and 2018:

	For the year ended December 31,			
	2019		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Game revenue	2,446,876	87.6	2,087,561	88.3
Information service revenue	332,142	11.9	269,962	11.4
Other revenue	13,952	0.5	7,118	0.3
	<u>2,792,970</u>	<u>100</u>	<u>2,364,641</u>	<u>100</u>

- Game revenue.** The largest portion of revenues is derived from our games, which contributed 87.6% and 88.3% of our total revenues for the years ended December 31, 2019 and 2018, respectively. The increase in game revenue from RMB2,087.6 million for the year ended December 31, 2018 to RMB2,446.9 million for the year ended December 31, 2019 was primarily due to the solid performance of our high-grossing games, including *Cross Gate (Mobile version)* (魔力寶貝(手機版)), *FIFPro World Players' Union* (全民冠軍足球), *Decisive Battle against Marfa* (決戰瑪法), *Gardenscapes* (夢幻花園) and *Homescapes* (夢幻家園).

The following table sets forth our key operational metrics for the years indicated.

	For the year ended December 31,	
	2019	2018
Average MAUs (<i>millions</i>)	131.3	129.2
Average MPUs (<i>millions</i>)	5.7	6.7
Average ARPPU (<i>RMB</i>)	31.9	24.5

- * Our key operating metrics included data from all games published and operated by us. During the year ended December 31, 2019, *Cross Gate (Mobile version)* (魔力寶貝(手機版)) and *FIFPro World Players' Union* (全民冠軍足球) were the only two games not published or operated by us, which were published and operated by Tencent.

- **MAUs.** Our average MAUs increased from 129.2 million in 2018 to 131.3 million in 2019, which was primarily contributed by the popularity of mobile games we offered.
- **MPUs.** Our average MPUs decreased from 6.7 million in 2018 to 5.7 million in 2019. The reason for the decrease in our average MPUs is that some of the in-app-purchase (IAP) paying was replaced with incentive advertisements in some casual games (such as *Subway Surfers* (地鐵跑酷) and *Temple Run 2* (神廟逃亡2), etc.), resulting in a decline in the number of IAP paying users for these games compared to last year.
- **Monthly ARPPU.** Our monthly ARPPU increased from RMB24.5 in 2018 to RMB31.9 in 2019, primarily due to the launch of more mid-and hardcore games which could generate higher ARPPU.
- **Information service revenue.** Our information service revenue is primarily derived from our advertising services. The increase in information service revenue from RMB270.0 million for the year ended December 31, 2018 to RMB332.1 million for the year ended December 31, 2019 was primarily the result of (i) our increased in-game advertisement slots which generated from our publishing games and other games or apps proxy from third parties; and (ii) the higher rates charged to advertisers or advertising agents as a result of the market conditions during this year.
- **Other revenue.** Other revenue increased from RMB7.1 million for the year ended December 31, 2018 to RMB14.0 million for the year ended December 31, 2019. Our other revenue is derived primarily from (i) our fund management fees; (ii) revenues generated from Great Moments Voyage; and (iii) the revenue generated from licensing of the TV play *The Native Pilgrimage to the West* (天真派西遊記).

Cost of revenues

Our cost of revenues increased by 18.2% from RMB1,325.8 million for the year ended December 31, 2018 to RMB1,567.2 million for the year ended December 31, 2019. The increase primarily reflected greater channel costs and revenue share to content providers and the increase in impairment provisions for receivables and prepayments related to unearned pre-paid revenue sharing which could not be fully deducted due to contract expiration.

As a percentage of revenues, cost of revenues remained stable at 56.1% for the years ended December 31, 2018 and 2019.

Selling and marketing expenses

Our selling and marketing expenses decreased by 3.3% from RMB303.4 million for the year ended December 31, 2018 to RMB293.3 million for the year ended December 31, 2019. As a percentage of revenue, our selling and marketing expenses decreased from 12.8% for year ended December 31, 2018 to 10.5% for year ended December 31, 2019. The decrease was primarily due to a decrease in promotion and advertising expenses as we made our advertisement more accurately and intelligently and thereby lowering user acquisition cost in 2019.

General and administrative expenses

Our general and administrative expenses decreased by 12.1% from RMB284.7 million for the year ended December 31, 2018 to RMB250.3 million for the year ended December 31, 2019. As a percentage of revenues, our general and administrative expenses decreased from 12.0% for the year ended December 31, 2018 to 9.0% for the year ended December 31, 2019. The decrease was primarily due to (i) our enhanced management efficiency and (ii) a decrease of listing expenses from RMB74.0 million in 2018 to nil in 2019.

Research and development expenses

Our research and development expenses increased by 92.8% from RMB99.1 million for the year ended December 31, 2018 to RMB191.1 million for the year ended December 31, 2019. As a percentage of revenue, our research and development expenses increased from 4.2% for the year ended December 31, 2018 to 6.8% for the year ended December 31, 2019. The increase was primarily due to our increased in-house game development expenses as we launched several game development projects in 2019.

Net impairment losses on financial assets and contract assets

Our net impairment losses on financial assets and contract assets increased by 131.8% from RMB30.2 million for the year ended December 31, 2018 to RMB70.0 million for the year ended December 31, 2019, primarily due to the increase in the net impairment losses on contract assets arising from our acquisition of 70% equity interests in Shanghai Huohun (上海火魂網絡科技有限公司) in August 2018.

Other losses/(gains), net

We incurred net other losses of RMB95.8 million for the year ended December 31, 2019, compared with net other gain of RMB3.2 million for the year ended December 31, 2018. Net other losses for the year ended December 31, 2019 primarily derived from impairment provision of goodwill of RMB422.3 million arising from our acquisition of Shanghai Huohun, offsetting the gain of RMB294.9 million from the reversal of the unpaid consideration payables for the acquisition of Shanghai Huohun.

Income tax expense

Income tax expense increased by 3.4% to RMB30.2 million for the year ended December 31, 2019 on a year-on-year basis. The effective tax rate by dividing income tax expense by profit before income tax decreased from 9.8% for the year ended December 31, 2018 to 7.7% for the year ended December 31, 2019. The decrease was mainly due to higher percentage of profit before income tax subjected to preference income tax rates.

Profit for the year

In 2019, our profit for the year amounted to RMB360.4 million, representing an increase of approximately RMB92.6 million or 34.6% compared with RMB267.8 million in 2018.

Other Financial Information

	For the year ended	
	December 31,	
	2019	2018
	RMB'000	RMB'000
Adjusted profit for the year ⁽¹⁾	553,211	443,640
EBITDA ⁽²⁾	588,282	441,906
Adjusted EBITDA ⁽³⁾	781,096	617,713

Notes:

- (1) Adjusted profit for the year was derived from our profit for the year excluding share-based compensation expenses, listing expenses, fair value gains or losses on financial assets, impairment provision of contract assets and goodwill resulting from a business combination and gain from the reversal of the unpaid consideration payables from a business combination, if any.
- (2) EBITDA is net income or loss before interest, taxes, depreciation and amortization.
- (3) Adjusted EBITDA is calculated using adjusted profit for the year, adding back depreciation of property, plant and equipment, investment property and right-of-use assets, amortization of intangible assets, income tax expense and interest expenses.

Non-IFRS Financial Measure

To supplement the consolidated financial statements of the Group prepared in accordance with IFRS, the three non-IFRS measures, namely adjusted profit for the year, EBITDA and adjusted EBITDA, as additional financial measures, have been presented in this annual results announcement. These unaudited non-IFRS financial measures are used by management of the Company to evaluate the Company's financial performance by eliminating the impact of items that they consider not indicative of the Company operating performance and should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information regarding the Group's financial performance to investors and Shareholders of the Company. The Company's management also believes that the non-IFRS measures are appropriate for evaluating the Group's operating results and the relevant trends relating to its financial position. From time to time in the future, there may be other items that the Company may exclude in reviewing its financial results.

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the years ended December 31, 2019 and 2018 to the nearest measures prepared in accordance with IFRS:

	For the year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Reconciliation of profit for the year to adjusted profit for the year		
Profit for the year	360,397	267,833
Add: Fair value (gains)/losses on financial assets at fair value through profit or loss	(74,672)	10,631
Add: Share-based compensation expenses	100,301	85,910
Add: Listing expenses	—	79,266
Add: Impairment losses on contract assets	39,765	—
Add: Impairment provision of goodwill resulting from a business combination	422,331	—
Less: Gain from the reversal of the unpaid consideration payables from a business combination	(294,911)	—
Adjusted profit for the year	<u>553,211</u>	<u>443,640</u>
Reconciliation of profit for the year to EBITDA and adjusted EBITDA		
Profit for the year	360,397	267,833
Add: Depreciation of property, plant and equipment, investment property and right-of-use assets	33,370	7,693
Add: Amortization of intangible assets	117,438	86,143
Add: Income tax expense	30,188	29,214
Add: Interest expense	46,889	51,023
EBITDA	588,282	441,906
Add: Fair value (gains)/losses on financial assets at fair value through profit or loss	(74,672)	10,631
Add: Share-based compensation expenses	100,301	85,910
Add: Listing expenses	—	79,266
Add: Impairment losses on contract assets	39,765	—
Add: Impairment provision of goodwill resulting from a business combination	422,331	—
Less: Gain from the reversal of the unpaid consideration payables from a business combination	(294,911)	—
Adjusted EBITDA	<u>781,096</u>	<u>617,713</u>

Liquidity and Financial Resources

We adopt a prudent treasury management policy to ensure that our Group maintains a healthy financial position.

As at December 31, 2019, the Group's total cash and cash equivalents decreased by 52.5% to approximately RMB532.7 million from approximately RMB1,121.6 million as at December 31, 2018. The decrease in total cash and cash equivalents during the year under review was primarily resulted from the repayment of borrowings, payment for investments and purchase of intangible assets. Our cash and cash equivalents were primarily denominated in RMB, HKD and USD.

As at December 31, 2019, the Group's total borrowings amounted to approximately RMB1,270.4 million (2018: RMB1,114.2 million). As at December 31, 2019, the RMB-denominated borrowings accounted for approximately 56.0% (2018: 52.2%) of the Group's total borrowings. Among the Group's total borrowings as at December 31, 2019, a substantial portion of approximately 80.0% (2018: 88.4%) would be due within one year.

As at December 31, 2019, the current assets of the Group amounted to approximately RMB3,101.0 million, and the current liabilities of the Group amounted to approximately RMB1,858.0 million. As at December 31, 2019, the current ratio (being the current assets to current liabilities ratio) of the Group was 1.67 as compared with 1.42 as at December 31, 2018.

Debt ratio is calculated based on our total liabilities as at the respective date divided by our total assets as at the same date. As at December 31, 2019, the debt ratio of the Group was 35.2% as compared with 43.4% as at December 31, 2018.

Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, amount due to related parties, lease liabilities less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statements of financial position. As at December 31, 2019 and 2018, the gearing ratio of the Group is 20.47% and 0.43% respectively.

Pledge of Assets

Among the total borrowings of the Group as at December 31, 2019, approximately RMB1,110.4 million (2018: RMB918.2 million) were secured by the Group's land and buildings, certain trade receivables, certain game intellectual properties and the deposit of US\$40 million, which accounted for approximately 87.4% (2018: 82.4%) of the Group's total borrowings.

Contingent Liabilities

As at December 31, 2019, the Group did not have any unrecorded significant contingent liabilities or guarantees against us (2018: nil).

Capital Expenditure

For the year ended December 31, 2019, our total capital expenditure was approximately RMB889.5 million, compared to RMB462.9 million for the year ended December 31, 2018. Our capital expenditure primarily included expenditures for royalty fees paid to game developers, land use right, purchase of investment property and purchase of property, plant and equipment. We plan to fund our capital expenditures through a combination of operating cash flows and the IPO Proceeds. We may adjust our capital expenditure according to our future development plans or in light of market conditions and other factors that we consider appropriate.

Material Acquisitions and Disposals and Significant Investments

The Group did not have any material acquisitions and disposals and significant investments during the year ended 31 December 2019.

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, HKD and USD. Therefore, foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of our Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary.

We did not hedge against any fluctuations in foreign currency during the years ended December 31, 2019 and 2018.

Employee and Remuneration Policy

We had 703 and 1,022 full-time employees as at December 31, 2018 and 2019, respectively. Substantially all of our employees are based in the PRC.

Our success depends on our ability to attract, retain and motivate qualified personnel. We offer our employees competitive compensation packages and a collegial and creative working environment, and as a result, we have generally been able to attract and retain qualified personnel and maintain a stable core management team. We compensate our employees with basic salaries, performance-based bonuses and share-based incentives.

USE OF PROCEEDS

The IPO Proceeds from the listing of the shares of the Company on the Main Board of the Stock Exchange were approximately HKD776.4 million. During the year ended December 31, 2019, the IPO Proceeds were utilized in accordance with the intended purposes as set out in the Prospectus, with the balance amounted to approximately HKD263.2 million. The balance of IPO Proceeds will continue to be utilized according to the manner and proportions as disclosed in the Prospectus. Details are set out in the following table:

	Net amount available as at December 31, 2018 <i>HKD million</i>	Actual net amount utilized during the year ended December 31, 2019 <i>HKD million</i>	Unutilized amount as at December 31, 2019 <i>HKD million</i>
Expansion of our game portfolio and enrich our contents offerings ⁽¹⁾	295.0	245.2	49.8
Strategic acquisition ⁽²⁾	186.3	54.7	131.6
Strengthen our in-house development and research capabilities ⁽²⁾	178.6	143.4	35.2
Working capital and other general corporate purposes	69.9	69.9	—
Expansion of our offline entertainment services ⁽²⁾	46.6	—	46.6
Total	776.4	513.2	263.2

Notes:

- (1) Unutilized amount will be used by the Company in accordance with the expected timeline as disclosed in the Prospectus.
- (2) The completion time of using the relevant unutilized amounts will be determined based on the future business development of the Company.

DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2019 (2018: nil).

Compliance with the Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance for the Reporting Period.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should be performed by different individuals.

At present, the roles of the chairman of the Board and the chief executive officer of the Company are performed by Mr. Chen Xiangyu. Owing to his background, qualification and experience in relation to the Company, Mr. Chen Xiangyu is regarded as the best candidate for assuming the dual roles. The Board considers Mr. Chen Xiangyu’s assumption of the dual roles enables the Company to maintain the consistency of the Company’s policies and the stability and efficiency of the Company’s operations, which is proper and in the best interests of the Company.

During the daily operations of the Company, all material decisions are approved by the Board and the relevant board committees, as well as the senior management team. In addition, the Directors proactively participate in all the board meeting and the relevant board committee meetings, and the Chairman ensures all the Directors are duly informed of all the matters to be approved at the meetings. In addition, the senior management team provide the Board with sufficient, clear, complete and reliable company information on a regular basis and from time to time. The Board also regularly meets and reviews the operations of the Company under the leadership of Mr. Chen Xiangyu on a quarterly basis.

The Board is therefore of the view that there is an adequate balance of power and that appropriate safeguards are in place. The arrangement will have no effect on the balance of power and authority between Board and the Company’s senior management team. The Board will continue to regularly monitor and review the Company’s current structure and to make necessary changes when appropriate.

Save as disclosed above, the Company has complied with all applicable code provisions of the CG Code for the Reporting Period. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct regarding directors’ securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the Reporting Period.

Purchase, Sale or Redemption of Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries or consolidated affiliated entities has purchased, sold or redeemed any of the Company’s listed securities.

Audit Committee

The Audit Committee, together with the Auditor, has reviewed the Group’s audited consolidated financial statements for the year ended December 31, 2019. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

Subsequent Event

After the outbreak of Coronavirus Disease 2019 (“**COVID-19 outbreak**”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. Up to the date of this announcement, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

Auditor’s Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group’s results for the year ended December 31, 2019 have been agreed by the Auditor to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

Publication of the Annual Results and Annual Report on the Websites of the Stock Exchange and the Company

This annual results announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.idreamsky.com>), and the annual report of the Group containing all the information required by the Listing Rules will be published on the websites of the Stock Exchange and the Company in due course.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“ARPPU” or “average revenue per paying user”	the average amount of game revenue that the Group generates from each paying user for a particular period refers to the average game revenue for the period divided by the average of the paying users during that period;
“Audit Committee”	the audit committee of the Company;
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company;
“Board”	the board of Directors;
“Company” or “our Company” or “iDreamSky”	iDreamSky Technology Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange under stock code 01119;
“Director(s)”	the director(s) of the Company;
“Group” or “our Group” or “we” or “us”	the Company, its subsidiaries and its PRC consolidated affiliated entities from time to time;
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“IFRS”	International Financial Reporting Standards;
“IPO proceeds”	the net proceeds of approximately HK\$776.4 million from the global offering of the shares of the Company, after deducting professional fees, underwriting commissions and other related listing expenses;

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“matching puzzle game(s)”	games in which users have to put three identical elements in a row or line to eliminate them;
“MAU (s)” or “monthly active user(s)”	the number of unique accounts that interacted with the Group’s mobile games in a particular month, which include multiple accounts held by one single user;
“MMORPG (s)” or “multi-player online role-playing game(s)”	games in which a large number of players, typically from hundreds to thousands, assume the roles of characters in a fictional setting;
“MPU (s)” or “monthly paying user(s)”	the number of unique accounts through which a payment is made for the Group’s mobile games in a particular month, which includes multiple accounts held by one single user;
“PRC” or “China”	the People’s Republic of China, excluding, for the purposes of this announcement only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“Prospectus”	the prospectus of the Company dated November 26, 2018;
“Reporting Period”	the year ended December 31, 2019;
“RMB”	Renminbi, the lawful currency of the PRC;
“RPG (s)” or “role-playing game(s)”	games in which users assume the roles of characters in a fictional setting;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“Tencent”	Tencent Holdings Limited, one of the Company’s substantial shareholders, a limited liability company incorporated under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange under stock code 700;
“US\$” or “USD”	U.S. dollars, the lawful currency of the United States of America.

By Order of the Board
iDreamSky Technology Holdings Limited
Chen Xiangyu
Chairman

Shenzhen, the PRC, March 26, 2020

As at the date of this announcement, the Board of the Company comprises Mr. Chen Xiangyu as Chairman and Executive Director, Mr. Guan Song, Mr. Jeffrey Lyndon Ko and Mr. Lei Junwen as Executive Directors, Mr. Ma Xiaoyi and Mr. Du Feng as Non-executive Directors, and Ms. Yu Bin, Mr. Li Xintian and Mr. Zhang Weining as Independent Non-executive Directors.