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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)

CONTINUING CONNECTED TRANSACTION ADVERTISING COOPERATION FRAMEWORK AGREEMENT REVISION OF PROPOSED ANNUAL CAP FOR 2020

BACKGROUND

Reference is made to the prospectus of iDreamSky Technology Holdings Limited (the “**Company**”) dated November 26, 2018 (the “**Prospectus**”) in relation to, among other things, the framework agreement dated November 21, 2018 entered into between Shenzhen iDreamSky and Tencent Computer (the “**Advertising Cooperation Framework Agreement**”). Unless otherwise defined, terms used herein shall have the same meaning as those defined in the Prospectus.

THE ADVERTISING COOPERATION FRAMEWORK AGREEMENT

On November 21, 2018, Shenzhen iDreamSky entered into the Advertising Cooperation Framework Agreement, pursuant to which our Group and the Tencent Computer agreed to cooperate on, including, but not limited to:

- (A) the provision of advertising service by Shenzhen iDreamSky to Tencent Computer to promote its products or services through platforms operated or engaged by Shenzhen iDreamSky, in return for service fees payable by Tencent Computer to the Group; and
- (B) acting as an intermediary to link the user traffic of third parties with advertising services offered by the Tencent Group. The Group will conduct collective negotiations with the Tencent Group in respect of the advertising services offered by the Tencent Group in return for service fees payable by the relevant third parties to the Group.

The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately.

In return for the advertising services provided, the Tencent Group shall pay the Group an advertising service fee using one or more of the following methods, depending on the means of cooperation and the platforms where the advertising services are provided:

- (a) **Cost-Per-Time**: charged on the basis of length of duration of advertising services;
- (b) **Cost-Per-Click**: charged on the basis of the price of each click and number of clicks of online users;
- (c) **Cost-Per-Download**: charged on the basis of actual download volumes of our products or services;
- (d) **Cost-Per-Activation**: charged on the basis of number of newly activated users;
- (e) **Cost-Per-Sale**: charged on the basis of revenue generated from users procured through each other's platform;
- (f) **Cost-Per-Mille**: charged on the basis of the number of impressions (expressed in thousands) generated by online users;
- (g) fixed amount of advertising fee; and
- (h) other fee arrangements agreed by the parties.

The channel expense will be agreed by the parties separately.

The advertising service fee will be determined after arm's length negotiation between the Group with reference to the prevailing market rates announced by the parties.

The term of the Advertising Cooperation Framework Agreement commenced from December 6, 2018 (i.e. the Listing Date) and will expire on December 31, 2020.

REVISION OF THE PROPOSED ANNUAL CAP FOR THE TRANSACTIONS CONTEMPLATED UNDER THE ADVERTISING COOPERATION FRAMEWORK AGREEMENT FOR THE YEAR ENDING DECEMBER 31, 2020

In view of (i) the overall growth in internet advertising sector during the COVID-19 outbreak in the first four months of 2020; (ii) the expected increase in demand for the Group’s advertising services and (iii) the enhanced cooperation with Tencent Group Companies increase in respect of the advertising service, the Board has proposed to revise the annual cap of the advertising fee payable by Tencent Group to the Group for the year ending December 31, 2020 under the Advertising Cooperation Framework Agreement (the “**Revised Annual Cap**”):

	Original proposed annual caps for the years ended/ending December 31,			Actual transaction amount for the year ended December 31,		Revised Annual Cap for the year ending December 31,
	2018	2019	2020	2018	2019	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
advertising fee payable by Tencent Group to the Group	10,000	12,000	14,400	9,535	11,336	39,000

Basis for the Revised Annual Cap

In determining the Revised Annual Cap, the Board took into account the following factors:

- (a) the fees payable to the Group by Tencent Group under the Advertising Cooperation Framework Agreement for the first four months ended April 30, 2020 amounted to RMB11,586,000 based on the Group’s management accounts;
- (b) influenced by the outbreak of the COVID-19 in the first four months of 2020, daily average online time of the Group’s users increased significantly, and the overall internet advertising sector grew significantly;
- (c) the year-on-year increase of approximately 18.1% of the revenue of the Company for the year ended December 31, 2019;

- (d) the Group's demand for advertising services is expected to increase due to (A) the high quality games with large user base that the Group continues to develop, launch and upgrade and (B) its constant acquisition of external traffic to monetize the Group's advertising services; and
- (e) the increasing scale of the Group's operation and the estimated increase in the future needs of the Tencent Group after arm's length negotiation and discussion.

Notwithstanding the Revised Annual Cap, the terms of the Advertising Cooperation Framework Agreement remain unchanged.

The above Revised Annual Cap is not intended, and does not purport, to be an indication of the Group's future performance or profitability and investors should not rely on the Revised Annual Cap in deciding whether to invest in the Shares of the Company.

REASONS FOR AND BENEFITS OF THE REVISED ANNUAL CAP

The Company believes that the enhanced cooperation with Tencent Group pursuant to the Advertising Cooperation Framework Agreement will enable both parties to leverage the competitive edges of each other, and further increase the Group's advertising service business.

In light of the above, the Directors believe that it is for the benefit of the Group to continue to cooperate with Tencent Group under the Advertising Cooperation Framework Agreement and consider that the transactions under the Advertising Cooperation Framework Agreement are entered into in the usual and ordinary course of business of the Group. The Directors (including the independent non-executive Directors) consider that the Revised Annual Cap is based on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. Ma Xiaoyi, a non-executive Director, currently holds senior management role at Tencent, and has therefore abstained from voting on the relevant Board resolutions approving the Revised Annual Cap for the year ending December 31, 2020. Save as disclosed above, none of the other Directors has or is considered to have material interests in the transactions contemplated under the Advertising Cooperation Framework Agreement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tencent is a substantial shareholder of the Company holding through its wholly-owned subsidiaries approximately 18.59% of the total issued shares of the Company, and Tencent Computer is a consolidated affiliated entity of Tencent. Therefore, Tencent Computer is a connected person of the Company, and the Advertising Cooperation Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Revised Annual Cap on an annual basis exceed 0.1% but are below 5%, the Revised Annual Cap is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL

The Group is a digital entertainment platform with a leading position in game publishing market in China, and adopts a free-to-play model for all of its games and has also expanded service offerings to other digital entertainment areas, such as e-sports, comics and video. Shenzhen iDreamSky is a PRC Consolidated Affiliated Entity of the Company and is principally engaged in publication and operation of games through mobile apps and websites.

Tencent through its subsidiaries, principally provides value-added services and online advertising services to users mainly in the PRC. Tencent Computer is a consolidated affiliated entity of Tencent and is principally engaged in the business of provision of value-added services and internet advertisement services in the PRC.

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

Shenzhen, the PRC, June 1, 2020

As at the date of this announcement, the Board of Directors 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. Zhang Han as Non-executive Directors, and Ms. Yu Bin, Mr. Li Xintian and Mr. Zhang Weining as Independent Non-executive Directors.