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

2019 ANNUAL REPORT

Contents

Corporate Information	2
Financial Highlights	4
Chairman's Statement	5
Management Discussion and Analysis	12
Report of Directors	25
Directors and Senior Management	51
Corporate Governance Report	56
Environmental, Social and Governance Report	75
Independent Auditor's Report	95
Consolidated Statement of Comprehensive Income	102
Consolidated Statement of Financial Position	104
Consolidated Statement of Changes in Equity	106
Consolidated Statement of Cash Flows	108
Notes to the Consolidated Financial Statements	110
Definitions	214

Corporate Information

Board of Directors

Executive Directors

Mr. Chen Xiangyu *(Chairman of the Board and Chief Executive Officer)*
Mr. Guan Song
Mr. Jeffrey Lyndon Ko
Mr. Lei Junwen

Non-executive Directors

Mr. Ma Xiaoyi
Mr. Du Feng

Independent Non-executive Directors

Ms. Yu Bin
Mr. Li Xintian
Mr. Zhang Weining

Audit Committee

Mr. Zhang Weining *(Chairman)*
Mr. Du Feng
Ms. Yu Bin
Mr. Li Xintian

Remuneration and Appraisal Committee

Ms. Yu Bin *(Chairman)*
Mr. Jeffrey Lyndon Ko
Mr. Lei Junwen
Mr. Li Xintian
Mr. Zhang Weining

Nomination Committee

Mr. Chen Xiangyu *(Chairman)*
Mr. Guan Song
Ms. Yu Bin
Mr. Li Xintian
Mr. Zhang Weining

Strategy Committee

Mr. Chen Xiangyu *(Chairman)*
Mr. Guan Song
Mr. Jeffrey Lyndon Ko
Mr. Lei Junwen
Mr. Ma Xiaoyi
Mr. Zhang Weining

Authorized Representatives

Mr. Lei Junwen
Ms. Leung Suet Lun

Joint Company Secretaries

Mr. Zhang Heng
Ms. Leung Suet Lun

Legal Advisor

As to Hong Kong law:
Clifford Chance
27/F, Jardine House
One Connaught Place
Central
Hong Kong

Auditor

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

Compliance Advisor

SPDB International Capital Limited
33/F, One Hennessy
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Hong Kong

Registered Office

The offices of Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman
KY1–1104
Cayman Islands

Headquarters

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Nanshan District
Shenzhen
PRC

Principal Place of Business in Hong Kong

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Times Square
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Causeway Bay
Hong Kong

Principal Share Registrar

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall Cricket
Square Grand Cayman
KY1–1102, Cayman Islands

Hong Kong Share Registrar

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

Principal Bankers

Shanghai Pudong Development Bank
Shenzhen Zhongxinqu Branch
1/F and 2/F, Block B, International Chamber of Commerce Building
1 Fuhua Road
Futian District
Shenzhen
China

Shanghai Pudong Development Bank
Shanghai Lujiazui Branch
Ground floor, Tangceng Finance Building
710 Dongfang Road
Pudong New District
Shanghai
China

China Merchants Bank Shenzhen Keyuan Branch
Ground floor, Yanxiang Technology Building
31 High-tech Zhongsi Road
Nanshan District
Shenzhen
Guangdong Province
China

Company's Website

http://www.idreamsky.com/

Stock Code

1119

Date of Listing

December 6, 2018

Financial Highlights

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended December 31,				
	2015	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	1,566,684	1,480,792	1,763,548	2,364,641	**2,792,970**
Gross profit	589,361	544,131	709,428	1,038,823	**1,225,738**
Profit before income tax	98,239	16,801	173,692	297,047	**390,585**
Profit for the year	74,382	5,121	151,904	267,833	**360,397**
Adjusted net profit*	169,292	176,038	238,347	443,640	**553,211**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at December 31,				
	2015	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	1,271,514	2,019,209	2,772,325	5,618,071	**6,086,762**
Total liabilities	904,507	1,494,045	1,435,631	2,439,965	**2,141,169**
Total equity	367,007	525,164	1,336,694	3,178,106	**3,945,593**

* 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.

Chen Xiangyu
Chairman

I am pleased to present our annual report for the year ended December 31, 2019 to the shareholders.

OVERVIEW

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 (创梦飛輪)*. 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

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, ten 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 maintain 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 causal 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 adverting 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.

Chen Xiangyu
Chairman
Hong Kong, March 26, 2020

Management Discussion and Analysis

The following table sets forth the comparative figures for the years ended December 31, 2019 and 2018:

	For the year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Revenues	**2,792,970**	2,364,641
Cost of revenues	**(1,567,232)**	(1,325,818)
Gross profit	**1,225,738**	1,038,823
Selling and marketing expenses	**(293,343)**	(303,373)
General and administrative expenses	**(250,275)**	(284,655)
Research and development expenses	**(191,077)**	(99,102)
Net impairment losses on financial assets and contract assets	**(70,016)**	(30,189)
Other income	**28,337**	15,249
Other (losses)/gains, net	**(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	**(30,188)**	(29,214)
Profit for the year	**360,397**	267,833
Adjusted profit for the year	**553,211**	443,640

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	
	RMB'000	**%**	*RMB'000*	%
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
	2,792,970	**100**	2,364,641	100

- **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 *(millions)*	**131.3**	129.2
Average MPUs *(millions)*	**5.7**	6.7
Average ARPPU *(RMB)*	**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 prepayments related to the prepaid revenue sharing to game developers, which is primarily related to certain games licensed by the Group but did not operate well as expected in 2019 due to keen market competition and strategy realignment of the Group.

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 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.

Shanghai Huohun is an internet technology company mainly engaged in developing mobile games in mainland China. On August 7, 2018, the Company acquired 70% of the issued share capital of Shanghai Huohun at a total consideration of RMB1.05 billion. As a result of purchase price allocation, the Company recognised a goodwill of RMB989,233,000 from this acquisition during the year ended December 31, 2018.

The Directors consider Shanghai Huohun as a separate CGU (the "**Shanghai Huohun CGU**") and the goodwill will be allocated to the Shanghai Huohun CGU. The recoverable amount of the Shanghai Huohun CGU is determined based on value in use calculations as at December 31, 2019. Based on our assessment on the recoverable amounts of the Shanghai Huohun CGU, the impairment loss of RMB422.3 million on goodwill were charged to consolidated statement of comprehensive income under "Other losses" (2018: nil).

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 report. 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	**553,211**	443,640
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	**781,096**	617,713

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. As at December 31, 2019, the fixed rate borrowings accounted for approximately 34.8% (2018: 52.0%) 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 statement 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 December 31, 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 *HKD million*	**Actual net amount utilized during the year ended December 31, 2019** *HKD million*	**Unutilized amount as at December 31, 2019** *HKD million*
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
Strength 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.

Updates on acquisition of Shanghai Huohun

On August 7, 2018, the Company acquired 70% of the issued share capital of Shanghai Huohun at a total consideration (the "**Consideration**") of RMB1.05 billion (the "**Acquisition**"). The Consideration was determined after arm's length negotiations between the Company and the then existing shareholders of Shanghai Huohun (the "**Vendors**") by reference to (i) the profit guarantee given by the Vendors, (ii) the price-to-earnings ratio of approximately five times; and (iii) the benefits and merits from the Acquisition including acquisition of R&D talents and potential synergies with the Company's principal business.

At the time of the Acquisition, the Vendors agreed to compensate the Company if the audited net profit for the 12 months commencing from June 1, 2018 and ending on May 31, 2019 ("**Performance Appraisal Period**") in accordance with IFRS is less than RMB0.3 billion ("**Profit Guarantee**"), while RMB0.21 billion was finally recorded as the audited net profit generated from the mobile game business of Shanghai Huohun during the Performance Appraisal Period ("**Final Net Profit**"). In the event that the Final Net Profit is less than RMB0.21 billion, the Company shall have the right ("**Call Option**") to acquire the remaining 30% equity interest of Shanghai Huohun from the Vendors at the consideration of RMB1. Upon the exercise of such Call Option, the Company would, in effect, acquire 100% Shanghai Huohun's equity interest at the total consideration of RMB1.05 billion, and the fair value of the 30% equity interest (RMB315 million = RMB1.05 billion x 30%) would be the compensation amount paid by the Vendors to the Company (the "**Compensation Amount**").

Given that the Vendors had been working day-to-day and developed a very close bounding with Shanghai Huohun's core R&D team before the Acquisition, in order to ensure smooth operation and transition going forward, to retain Shanghai Huohun's core R&D team and also to provide incentive for the Vendors to continue closely work with Shanghai Huohun's core R&D team in developing new games, instead of acquiring the remaining 30% equity interest of Shanghai Huohun from Vendors, the Company entered into a supplemental agreement with the Vendors in May 2019 to receive the Compensation Amount of RMB315 million from Vendors. The Company recognized RMB294,911,000 as other gain in the consolidated statement of comprehensive income for the year ended December 31, 2019, which is the Compensation Amount of RMB315,000,000 net of the contingent consideration assets recognised as at the date of business combination of Shanghai Huohun for the Profit Guarantee arrangement according to IFRS 3 requirements. This contingent consideration assets amount was RMB20,089,000 as at the date of business combination and as at the year end of 2018.

In addition, on June 3, 2019, out of similar consideration (i.e. to ensure smooth operation and transition going forward, to retain Shanghai Huohun's core R&D team and also to provide incentive for the Vendors to continue closely work with Shanghai Huohun's core R&D team in developing new games in light of their close bounding), the Group disposed 19% equity interests in Shanghai Huohun with a cash consideration of RMB199,500,000 to the Vendors, each of whom were independent from the Company and its connected persons (the "**Disposal**"). The consideration for the Disposal was also calculated based on the valuation of 100% Shanghai Huohun's equity interest at RMB1.05 billion. After the Disposal, the Group's equity interest in Shanghai Huohun decreased from 70% to 51% and the Group continued to retain control over Shanghai Huohun. The Disposal did not constitute a notifiable transaction giving rise to disclosure obligations under Chapter 14 of the Listing Rules.

Goodwill impairment of Shanghai Huohun

During the first half of 2019, due to (i) the delay in launch of overseas version of *Cross Gate (Mobile) 魔力寶貝(手機版)*, the turn-based mobile game custom developed by Shanghai Huohun, in Hong Kong, Macau and Taiwan as a result of development of additional features of the game (e.g. development of additional activities and new PVP (Player versus Player) settings in the game, etc.) as requested by overseas operators; and (ii) certain unexpected technical incidents (including server breakdown) in the operation of *Cross Gate (Mobile) 魔力寶貝(手機版)* in the first half of 2019, the financial performance of Shanghai Huohun for Performance Appraisal Period fell below the Profit Guarantee as agreed at the time of the Acquisition, which was an indicator of goodwill impairment. The Company therefore conducted impairment assessment on the goodwill and made RMB350,134,000 impairment during the first half year of 2019. Pursuant to IN5. (c) of IAS36, "goodwill acquired in a business combination to be tested for impairment annually", the directors therefore conducted the goodwill impairment assessment again in the year-end, and as a result of that, the Company recognised an additional RMB72,197,000 goodwill impairment. Therefore, a total goodwill impairment of RMB422,331,000 was recognised in the Group's consolidated statement of comprehensive income for the year ended December 31, 2019.

In assessing and evaluating the goodwill impairment of Shanghai Huohun, the Company engaged Avista Business Consulting (Shanghai) Co., Ltd ("**AVISTA**"), an independent valuer, to conduct valuation of the fair value of Shanghai Huohun as at December 31, 2018 and 2019, respectively.

AVISTA adopted market approach to derive the fair value of Shanghai Huohun as at December 31, 2018 ("**2018 Impairment Valuation**"), with reference to comparable companies selected based on the following criteria: (1) the companies are engaged in mobile games development related business; (2) the companies are listed in major stock exchange markets in Hong Kong, China and the U.S.; (3) the companies are profit making; and (4) the financial information of the companies are available to the public. Further, key assumptions adopted in market approach for the 2018 Impairment Valuation include (1) average P/E ratio of the comparable companies of 5.7, (2) discount on lack of marketability ("**LoMD**") of 16.1%, (3) the control premium of 8%, and (4) the estimated net profit of Shanghai Huohun for the first operating year from June 1, 2018 to May 31, 2019 of RMB300,000,000. Based on the 2018 Impairment Valuation, the recoverable amount of Shanghai Huohun CGU, which used market approach to determine the fair value, is higher than the carrying amount, the Company therefore did not assess the recoverable amount under value in use method and did not record any impairment of Shanghai Huohun's goodwill.

Given that (i) the recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use according to IAS 36; and (ii) the Company had increasing visibility on the financial projection of Shanghai Huonhun considering that it had been controlled and managed by the Company for more than a year, the Company and AVISTA therefore adopted both income approach, specifically the discounted cash flow method to derive the value-in-use of Shanghai Huohun, and market approach, specifically the comparable company method to derive the fair value of Shanghai Huohun as at December 31, 2019 (the "**2019 Impairment Valuation**").

Key assumptions adopted in income approach for the 2019 Impairment Valuation include (1) the average revenue growth rate of Shanghai Huohun between FY2020 and FY2024 of 12.74%; (2) earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") margin between FY2020 and FY2024, ranging from 72.3% to 74.1%, (3) terminal growth rate of 3.0%, and (4) pre-tax discount rate of 29.6%.

Key assumptions adopted in market approach include (1) average P/E ratio of the comparable companies of 5.4, (2) LoMD of 20.6%, (3) the control premium of 8%, and (4) the adjusted net profit of Shanghai Huohun for the year ended December 31, 2019 of RMB147,170,000.

Comparing with 2018 and 2019 valuations of Shanghai Huohun's fair value (i.e. under market approach), there were no material changes on the LOMD and CP adopted. LOMD increased from 16.1% in 2018 Impairment Valuation to 20.6% in 2019 Impairment Valuation according to the updated research paper while CP remained at 8.0% in both 2018 and 2019 Impairment Valuations. The adopted P/E ratio (before LOMD and CP) decreased slightly from 5.7x in 2018 to 5.4x in 2019, reflecting changes in the market expectation over the industry. The only major change between 2018 and 2019 Impairment Valuations was the basis of net profits adopted. In 2018 Impairment Valuation, as Shanghai Huohun was still in rapid development stage, it was considered that the current level of net profits (i.e. FY2018 net profits) could not truly reflect its value and target net profit of Shanghai Huohun as illustrated by the Profit Guarantee was adopted, which was considered to provide a reasonable indication of the profitability of Shanghai Huohun from market participants' perspective. In 2019 Impairment Valuation, the actual 2019 financial performance had missed the Profit Guarantee after a period of actual operation, the actual FY2019 adjusted net profits was adopted.

As at December 31, 2019, the recoverable amount of Shanghai Huohun CGU was determined based on value in use due to the value in use method resulted in a higher recoverable amount, and therefore, the key assumptions adopted in income approach have been disclosed in the note 18 to the Company's audited 2019 financial statements. Based on the 2019 Impairment Valuation, the Company recognised an impairment of Shanghai Huohun's goodwill in the amount of RMB422,331,000 based on its assessment.

In the review of methods and assumptions adopted by AVISTA for the 2019 Impairment Valuation of Shanghai Huohun's goodwill, the Company has taken into account the following factors:

Market Approach

The Company noted that, the same criteria, after careful consideration, were adopted in selecting comparable public companies in valuation as those used in the 2018 Impairment Valuation. As such, the same set of comparable companies were chosen for conducting the market approach valuation as compared to those comparables selected for the 2018 Impairment Valuation, which ensured consistency in basis for valuation. Further, in relation to the key assumptions used for market approach, the Company discussed with AVISTA and understand that:

- LoMD reflects the fact that there is no ready market for shares in a closely held company. As such, AVISTA has assessed the LoMD by making reference to "Determining Discounts for Lack of Marketability: A Companion Guide to The FMV Restricted Stock Study (2016 Edition)" published by FMV Opinions, Inc. While there is no available empirical study on marketability discount for companies specifically engaged in mobile games development businesses, AVISTA has performed further research and reference has been made to "Determining Discounts for Lack of Marketability: A Companion Guide to The FMV Restricted Stock Study (2016 Edition)" published by FMV Opinions, Inc. The overall median discount for lack of marketability as observed in The FMV Study based on data from July 1980 to June 2018 is 20.6%.

- Control premium is the amount that a buyer is willing to pay over the minority equity value of the company in order to acquire a controlling interest in that company. Adjustment for control is made by the application of a control premium to the value of the Target's shares. The paper "The Control Premium: A Preference for Payoff Autonomy" by David Owens, Zachary Grossman & Ryan Fackler suggested a range of 8% to 15%. A control premium of 8.0% is considered appropriate and suitable for this valuation based on AVISTA's professional judgement.

- AVISTA also took into account the adjusted net profit of Shanghai Huohun for the year ended December 31, 2019 for assessing Shanghai Huohun's fair value based on its current profitability.

The Company considered that the selection basis and criteria, as well as the key assumption, adopted were fair and reasonable.

Income Approach

The Company noted that AVISTA primarily took into account the financial budget and forecast prepared by management of Shanghai Huohun when adopting the income approach for valuation, with reference to (1) the average revenue growth rate of Shanghai Huohun between FY2020 and FY2024; (2) EBITDA margin between FY2020 and FY2024, (3) terminal growth rate, and (4) pre-tax discount rate. When assessing the fairness and reasonableness of this valuation methodology, the Company reviewed the internal control procedures in formulating and reviewing the financial budgets and forecast prepared, which includes the following:

(a) the product team of Shanghai Huohun (i) assessed and estimated certain key performance indicators including MAU, paying ratio, ARPPU, and an expected revenue return based on the current performance and expected lifecycle of the games launched; and (ii) carefully assessed the prospects of such games yet to be launched based on the available operating data of comparable games in the market;

(b) the finance team of the Company further assessed the accuracy and reasonableness of the financial budgets and forecast initially proposed by Shanghai Huohun, while the Executive Management Team (EMT) member of the Company reviewed and assessed the reasonableness of the assumptions and comparable data adopted and submitted the same to CEO and CFO of the Company for final review.

The Company also regarded to the financial performance of comparable companies in the market to assess and evaluate the reasonableness of Shanghai Huohun's financial budgets and forecast.

The Board is pleased to present its report together with the audited consolidated financial statements of the Company for the year ended December 31, 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Analysis of the principal activities of the Group is set out in the note 1 to the audited consolidated financial statements.

Business Review and Outlook

A review of our business, a discussion and analysis of our performance during the year, the material factors underlying our results and financial position, certain material events occurred during the year, and the future development of our business have been set out in the section headed "Management Discussion and Analysis" on pages 12 to 24 of this annual report.

Post Balance Sheet Events

The material post balance sheet events are disclosed in note 39 to the consolidated financial statements.

Principal Risks and Uncertainties

We face various risks involved in our daily business operations, including risks that are specific to our game publishing business as well as the industry and regulatory landscape in the PRC. In particular, our commercial launch of mobile games is subject to certain pre-approval and post-filing procedures with the relevant competent regulatory authorities in the PRC, which may change from time to time. For details, please refer to the sections headed "Risk Factors" and "Business — Recent Change in Regulatory Environment" in the Prospectus.

We also operate our business under contractual arrangements, and are therefore subject to the related risks which are summarized in the section headed "Contractual Arrangements — Risks relating to the Contractual Arrangements" on pages 47 to 48 of this annual report.

Environmental Performance and Policies

The Group is a digital entertainment platform that publishes games through mobile apps and websites. Its business operation involves minimum direct discharge of pollutants or hazardous waste to the environment. However, the Group is committed to minimizing the impact on the environment from our business activities. In particular, the Group adheres to green, low-carbon office concept and encourages its employees to participate in resource conservation during their daily work at the office. Further details are set out in the section headed "Environment" in the Environmental, Social and Governance Report on pages 76 to 79 in this annual report.

Compliance with Laws and Regulations

The Group is subject to various PRC laws and regulations in relation to its game publishing operations in the PRC, including, without limitation, in the aspects of value-added telecommunication services, game examination, publishing and operation, virtual currency, real-name registration, anti-addiction system, information security and censorship, and privacy protection.

As far as the Board is aware, during the Reporting Period, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects.

Relationship with Major Stakeholders

We recognize the importance of good corporate governance to our sustainable growth, and strive to maintain effective communication with our major stakeholders, including our Shareholders, employees, customers, suppliers, business partners, the government and, in a broad sense, the community through a range of communication channels, such as WeChat Official Account, our official website and emails to maintain a close and harmonious relationship with them and ultimately achieve long-term success of our Group.

RESULTS

The results of the Group for the year ended December 31, 2019 are set out in the consolidated statement of comprehensive income on pages 102 to 103 of this annual report.

FINAL DIVIDENDS

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

FINANCIAL SUMMARY

A summary of the Company's results, assets and liabilities for the last four financial years are set out on page 4 of this annual report, and the figures for the years ended December 31, 2016 and 2017 are extracted from the Prospectus. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2019, revenue generated from the Group's five largest customers accounted for 19.2% (2018: 10.6%) of the Group's total revenue and our single largest customer accounted for 9.6% (2018: 3.5%) of the Group's total revenue.

Major Suppliers

For the year ended December 31, 2019, the Group's five largest suppliers accounted for 12.0% (2018: 12.7%) of the Group's total purchases and our single largest supplier accounted for 3.5% (2018: 3.8%) of the Group's total purchases.

During the year ended December 31, 2019, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Company's five largest customers and suppliers.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company as at December 31, 2019 are set out in note 29 to the consolidated financial statements.

HUMAN RESOURCES

As at December 31, 2019, the Group had 1,022 employees (2018: 703). The total remuneration expenses, excluding share-based compensation expense, for the year ended December 31, 2019 were RMB237.3 million, representing an increase of 57.9% as compared to the year ended December 31, 2018. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group for the year ended December 31, 2019 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company for the year ended December 31, 2019 are set out in note 26 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group for the year ended December 31, 2019 are set out in note 27 to the consolidated financial statement.

DISTRIBUTABLE RESERVES

As at December 31, 2019, we did not have any distributable reserves (2018: nil).

TAXATION

Tax position of the Group for the year ended December 31, 2019 is set forth in note 12 to the consolidated financial statements.

DIRECTORS

The Directors as at December 31, 2019 and up to the date of this annual report are:

Executive Directors:

Mr. Chen Xiangyu *(Chairman of the Board and Chief Executive Officer)*
Mr. Guan Song
Mr. Jeffrey Lyndon Ko
Mr. Lei Junwen

Non-executive Directors:

Mr. Ma Xiaoyi
Mr. Du Feng

Independent non-executive Directors:

Ms. Yu Bin
Mr. Li Xintian
Mr. Zhang Weining

In accordance with article 16.19 of the articles of association of the Company (the "**Articles of Association**"), Mr. Guan Song, Mr. Lei Junwen, Mr. Zhang Weining shall retire by rotation, and being eligible, have offered himself for re-election at the AGM.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 51 to 55 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors, and the Company considers such Directors continue to be independent.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company. Pursuant to the contract, they agreed to act as executive Directors for an initial term of three years with effect from the date the appointment is approved by the Board or until the third annual general meeting of the Company since the Listing Date (whichever is sooner, subject always to re-election as and when required under the Articles of Association). Either party has the right to give not less than three months' written notice to terminate the contract.

Each of the non-executive Directors has entered into a service contract with the Company. The initial term of for their service contracts shall commence from the date of their appointments and shall continue for three years after or until the third annual general meeting of the Company since the Listing Date (whichever is sooner, subject always to re-election as and when required under the Articles of Association), until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other not less than three months' written notice.

Each of the independent non-executive Directors has entered into an appointment letter with the Company. The initial term of for their appointment letters shall be three years from the date of the Prospectus or until the third annual general meeting of the Company since the Listing Date (whichever is sooner, subject always to re-election as and when required under the Articles of Association), until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' written notice.

None of the Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

A remuneration and appraisal committee has been set up for reviewing the Company's emolument policy and structure for all remuneration of the Directors and senior management of the Company, having regard to the Company's operating results, individual performance of the Directors and senior management and comparable market practices.

Details of the emoluments of the Directors and five highest paid individuals for the year ended December 31, 2019 are set out in note 10 to the consolidated financial statements.

The emoluments of senior management team (which comprises our executive Directors and other senior management members) fell within the following bands:

	Number of senior management	
	2019	2018
HKD0 to HKD1,000,000	**6**	2
HKD10,000,001 to HKD15,000,000	**—**	2
HKD15,000,001 to HKD15,500,000	**—**	—
HKD25,000,001 to HKD25,500,000	**—**	1
HKD32,500,001 to HKD33,000,000	**—**	1
	6	6

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Company to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period.

RIGHTS AND INTERESTS OF DIRECTORS ON COMPETING BUSINESSES

Our executive Director, Mr. Chen Xiangyu, is the founder and the largest Shareholder of our Company holding approximately 19.13% interest in the total issued share capital of our Company as at the date of this annual report. Mr. Chen has held interests as a limited partner in certain venture capital funds and/or angel investment funds which may from time to time invest in technology companies, and his economic interest in such funds was insignificant.

Our non-executive Director, Mr. Ma Xiaoyi, held directorship in certain companies principally or partially engaged in development and/or distribution of online and/or mobile games. On the basis that Mr. Ma is not involved in the daily management and operation of our Company and such companies, the directorship held by Mr. Ma would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

Save as disclosed above, as at December 31, 2019, none of the Directors or their associates has any competing interests in the businesses which compete or are likely to compete, directly or indirectly, with our Group or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended December 31, 2019.

CHANGE IN INFORMATION IN RESPECT OF DIRECTORS

There was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules for the Reporting Period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2019, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interest in Shares and underlying Shares

Name of Directors	Capacity/ Nature of Interest	Number of Shares held[7]	Approximate percentage of interest in the Company[1] [6]
Mr. Chen Xiangyu ("**Mr. Chen**")[2]	Interest of controlled corporation	242,870,430(L)	19.13%
Mr. Guan Song ("**Mr. Guan**")[3]	Interest of controlled corporation	47,078,020(L)	3.71%
Mr. Jeffrey Lyndon Ko ("**Mr. Ko**")[4]	Interest of controlled corporation	13,979,400(L)	1.10%
Mr. Lei Junwen ("**Mr. Lei**")[5]	Interest of controlled corporation	27,423,760(L)	2.16%
	Beneficial owner	198,000(L)	0.02%

Notes:

(1) The percentages are calculated on the basis of 1,269,718,990 Shares in issue as at December 31, 2019.

(2) Brilliant Seed Limited is wholly owned by Mr. Chen, who is therefore deemed to be interested in the Shares held by Brilliant Seed Limited.

(3) Bubble Sky Limited is wholly owned by Mr. Guan, who is therefore deemed to be interested in the Shares held by Bubble Sky Limited.

(4) Shipshape Holdings Limited is wholly owned by Mr. Ko, who is therefore deemed to be interested in the Shares held by Shipshape Holdings Limited.

(5) Instant Sparkle Limited is wholly owned by Mr. Lei, who is therefore deemed to be interested in the Shares held by Instant Sparkle Limited.

(6) The percentage figures have been subject to rounding adjustments. Accordingly, figures shown in total may not be an arithmetic aggregation of the figures preceding them.

(7) The letter "L" denotes the person's long position in such Shares.

(ii) Interest in associated corporations

Name of Directors	Associated corporations	Capacity/ Nature of Interest	Amount of registered capital (RMB)	Percentage of shareholding in the associated corporation
Mr. Chen Xiangyu	Shenzhen Mengyu Technology Co., Ltd.	Beneficial owner	500,000(L)	5.00%

Save as disclosed above, as at December 31, 2019, none of the Directors or the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2019, to the best knowledge of the Directors, the following persons (not being a director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Capacity/ Nature of Interest	Number of Shares held[8]	Approximate percentage of interest in the Company[1] [7]
Brilliant Seed Limited[2]	Beneficial owner	242,870,430(L)	19.13%
Mr. Chen[2] [3]	Interest of controlled corporation	242,870,430(L)	19.13%
Tencent Mobility Limited[4]	Beneficial owner	235,999,300(L)	18.59%
Tencent Holdings Limited[4]	Interest of controlled corporation	235,999,300(L)	18.59%
iDreamSky Technology Limited[5]	Beneficial owner	220,133,666(L)	17.34%
Dream Investment Holdings Limited[5]	Interest of controlled corporation	220,133,666(L)	17.34%
Dream Technology Holdings Limited[5]	Interest of controlled corporation	220,133,666(L)	17.34%
Chen Xiangjiao[6]	Interest of controlled corporation	71,066,209(L)	5.60%
	Beneficial owner	1,594,660(L)	0.13%

Notes:

(1) The percentages are calculated on the basis of 1,269,718,990 Shares in issue as at December 31, 2019.

(2) Brilliant Seed Limited is wholly owned by Mr. Chen. Under the SFO, Mr. Chen is deemed to be interested in the Shares held by Brilliant Seed Limited.

(3) On June 6, 2019, Mr. Chen ceased to be the administrator of the RSU Plan and there after ceased to be deemed interested in the 86,270,450 Shares held by the RSU Holdings Entities, which the companies holding the Shares pursuant to the RSU Plan on trust or on behalf of the grantees of the Company, namely Sky Investment Limited and Sky Technology Limited.

(4) Tencent Mobility Limited is a wholly owned subsidiary of Tencent Holdings Limited. Under the SFO, Tencent Holdings Limited is deemed to be interested in the Shares held by Tencent Mobility Limited.

(5) iDreamSky Technology Limited is wholly owned by Dream Investment Holdings Limited, which is an exempted company incorporated with limited liabilities in Cayman Islands and is in turn wholly owned by Dream Technology Holdings Limited. None of the shareholders of Dream Technology Holdings Limited hold one third or more of the shareholding of Dream Technology Holdings Limited. Under the SFO, Dream Investment Holdings Limited and Dream Technology Holdings Limited are deemed to be interested in the Shares held by iDreamSky Technology Limited.

(6) Ms. Chen Xiangjiao is the administrator of the RSU Plan since June 6, 2019 and is deemed to be interested in the Shares held by the RSU Holdings Entities, namely Sky Investment Limited and Sky Technology Limited. As at June 30, 2019, Ms. Chen is interested in approximately 5.72% of the total issued shares capital of the Company, being 72,660,869 Shares, comprising (i) 71,066,209 Shares, approximately 5.60% of the share capital of the Company held by Sky Investment Limited and Sky Technology Limited under the RSU Plan; and (ii) 1,594,660 Shares, approximately 0.13% of the share capital of the Company.

(7) The percentage figures have been subject to rounding adjustments. Accordingly, figures shown in totals may not be an arithmetic aggregation of the figures preceding them.

(8) The letter "L" denotes the person's long position in such Shares.

Save as disclosed above, as at December 31, 2019, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

SHARE OPTION SCHEME

From the Listing Date to December 31, 2019, no share option scheme was made by the Company, and there is no specific provision under the Articles of Association or the Cayman Islands laws regarding share option scheme.

RSU PLAN

The Board has approved the RSU Plan on May 10, 2018, and the RSU Plan shall be valid and effective for a period of ten years commencing from the adoption date of May 10, 2018. Certain principal terms and details of the RSU Plan are summarized as follows:

Purpose

The purpose of the RSU Plan is to recognize and reward the Participants for their contribution to our Group, to attract best available personnel, and to provide additional incentives to them to remain with and further promote the success of our Group's business.

Eligible Participants

Those eligible to participate in the RSU Plan (the "**Participants**") include (a) full-time employees (including directors, officers and members of senior management) of our Group; and (b) any person who, in the opinion of the Administrator, has contributed or will contribute to any member of our Group (including contractors, advisors or consultants of any member of our Group).

Maximum Number of Shares

Unless otherwise duly approved by our Shareholders, the total number of Shares underlying the RSU Plan (the "**RSU Limit**") shall not exceed the aggregate of 8,627,045 Shares, representing 7.55% of the issued Shares of our Company as of the adoption date of the RSU Scheme (on a fully diluted and as-converted basis assuming all our Shares underlying the RSU Scheme have been issued). For the avoidance of doubt, the RSU Limit excludes Shares underlying the RSUs that have lapsed or have been cancelled in accordance with the RSU Plan. Upon completion of the Global Offering and the Capitalization Issue (as defined in the Prospectus), the number of Shares held by the RSU Holding Entities shall be 86,270,450 Shares.

Administration

The RSU Plan shall be subject to the administration of the administrator, being Ms. Chen Xiangjiao (or other members appointed by the Board) (the "**Administrator**") to administer the RSU Plan. The Administrator may, from time to time, select the Participants to whom a grant of a restricted stock unit (the "**Awards**") may be granted.

The Administrator shall have the sole and absolute right to (a) interpret and construe the provisions of the RSU Plan, (b) determine the persons who will be granted Awards under the RSU Plan, the terms and conditions of the Awards are granted and when the RSUs granted pursuant to the RSU Plan may vest except in the case where the persons who will be granted Awards are the directors and senior management of our Company (the "**Directors and Senior Management**"), the Administrator shall determine the Awards (including the terms and conditions on which Awards are granted and when the RSUs granted pursuant to the RSU Plan may vest) to be granted to the Directors and Senior Management only in accordance with the written resolutions by more than 50% of the members of the remuneration committee of the Board, (c) make such appropriate and equitable adjustments to the terms of the Awards granted under the RSU Plan as it deems necessary, and (d) make such other decisions or determinations as it shall deem appropriate in the administration of the RSU Plan.

Award of RSUs

The Administrator may, from time to time, select the Participants to whom an Award may be granted. The consideration payable by a selected Participant for acceptance of the Award under the RSU Plan shall be determined at the sole and absolute discretion of the Administrator, and in any event shall be no less than the nominal value of our Shares. Subject to the terms of the RSU Plan, the Awards may be granted on such terms and conditions (such as linking the vesting of the RSUs to the attainment or performance of milestones by any member of our Group, the grantee or group of grantees).

No grant of Award shall be made to any selected Participant at a time when the selected Participant would or might be prohibited from dealing in our Shares by the Listing Rules (where applicable) or by any other applicable rules, regulations or laws. In addition, the Administrator may not grant any Award to any Participant if (i) the requisite approvals for the grant of Award from any applicable regulatory authorities have not been obtained; (ii) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of such grant or in respect of the RSU Plan, unless the Administrator determines otherwise; (iii) where the grant of Award would result in a breach of any applicable securities laws, rules or regulations by any member of our Group or any of its directors; or (iv) the grant of Award would result in breach of the RSU Limit or other rules of the RSU Plan.

For so long as our Shares are listed on the Stock Exchange:

(a) a grant of Award must not be made after inside information has come to the knowledge of the Administrator until such inside information has been announced in accordance with the requirements of the Listing Rules, in particular, during the period commencing one month immediately preceding the earlier of: (i) the date of the meeting of the Board for the approval of our Company's results for any year, half-year, quarter or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of its results for any such year, half-year, quarter or interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement;

(b) a grant of Award to a Director shall not be made on any day on which the financial results of our Company are published and during the period of (i) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and (ii) 30 days immediately preceding the publication date of any quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly of half-year period up to the publication date of the results;

(c) a grant of Award to any Director, chief executive or substantial shareholder of our Company, or any of their respective associates (as defined in the Listing Rules), shall be subject to prior approval of the independent non-executive Directors (except the independent non-executive Director who is the proposed grantee in question) and shall otherwise be subject to compliance with the requirements of the Listing Rules. However, if the Award forms part of the relevant Director's remuneration under his service contract, the grant of Award to such Director will be exempted from reporting, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.95 of the Listing Rules.

Awards shall not be assignable or transferable, except for (i) assignment or transfer from a grantee to a company wholly owned by him or between two companies both of which are wholly owned by him; or (ii) following the grantee's death, transfer by will or by the laws of testacy and distribution.

Details of the RSUs granted under the RSU Plan

As at December 31, 2019, the aggregate number of Shares underlying RSUs granted under the RSU Plan was 68,697,896* Shares and the aggregate number of Shares underlying RSUs vested and forfeit under the RSU Plan was 26,498,961* and 461,050* Shares, respectively. Any vested or unvested RSUs or any Share underlying any RSUs shall not be transferred or sold before the Listing and during the period of six months following the Listing Date.

RSUs granted to Participants other than our Directors, senior management and their associates

During the year ended December 31, 2019, RSU Holding Entities granted an aggregate of 16,492,066* Shares to Participants (who are not our Directors, senior management and their associates), among which 2,601,251* Shares are without vesting conditions. Out of the remaining 13,890,815* Shares, the vesting period for 75,362 Shares* is one year and the vesting schedule is 100% after 12 months from original grant date; the vesting period for 6,855,065 Shares is three years, and the vesting schedule is 1/3 after 12 months from original grant date and the remaining 2/3 will vest in two equal installments over the next two years; the vesting period for 6,960,388 Shares is four years, and the vesting schedule is 25% after 12 months from original grant date and remaining 75% will vest in 3 equal installments over the next few years.

During the year ended December 31, 2018, RSUs granted in respect of 28,251,380* Shares to Participants (who are not our Directors, senior management and their associates) have a vesting schedule of 32 months, 25% of which were vested on July 1, 2018, 25% were vested on March 1, 2019, 25% will vest on March 1, 2020, and 25% will vest on March 1, 2021.

During the year ended December 31, 2018, RSUs granted in respect of 6,867,710* Shares to Participants (who are not our Directors, senior management and their associates) have a vesting schedule of 48 months, 25% of which will vest on July 1, 2019, 25% on July 1, 2020, 25% on July 1, 2021, and 25% on July 1, 2022.

During the year ended December 31, 2018, RSUs granted in respect of 4,064,620* shares to Participants (who are not our directors, senior management and their associates) vested on July 1, 2018.

RSUs granted to our Directors, senior management and their associates

As at December 31, 2019, no RSUs were granted to our Directors under the RSU Plan. RSUs in respect of 1,594,650* Shares were granted to an associate of our Directors on July 1, 2018, and all such RSUs were vested on the same date.

On July 1, 2018, RSUs in respect of 11,427,470* Shares were granted to our senior management member, Mr. Fang Hui, which have a vesting period of 48 months, 25% of which were vested on July 1, 2019, 25% will vest on July 1, 2020, 25% on July 1, 2021, and 25% on July 1, 2022.

* Upon the completion of the Global Offering and the Capitalization Issue (each Share subdivided into 10 Shares, as defined in the Prospectus).

EQUITY-LINKED AGREEMENTS

Other than the RSU Plan, during the Reporting Period, no equity-linked agreement was entered into by or subsisted in the Company, and there was no provision to enter into any agreement which will or may result in the Company issuing Shares.

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.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

NON-COMPETITION UNDERTAKING

Mr. Chen Xiangyu has executed a power of attorney (the "**Power of Attorney**") on May 10, 2018 pursuant to the Contractual Arrangements, under which Mr. Chen has undertaken that, without the prior written consent of WFOE, he will not use any information obtained from Shenzhen iDreamSky to engage in any business which competes or potentially competes with Shenzhen iDreamSky or its affiliates. The Company has received an annual confirmation from Mr. Chen Xiangyu that he has complied with the non-competition undertaking from the date of the Power of Attorney to December 31, 2019 for disclosure in this annual report. For details on non-competition undertaking, please refer to the section headed "Relationship with our Single Largest Shareholder" in the Prospectus.

The independent non-executive Directors have reviewed the performance of the non-competition undertaking from the date of the Power of Attorney to December 31, 2019 based on the information provided and/or confirmed by Mr. Chen, and are satisfied that Mr. Chen has complied with the non-competition undertaking.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of our Group constitute the continuing connected transactions of the Company for the year ended December 31, 2019. For further details of these continuing connected transactions, please refer to the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions" in the pages 257 to 280 of the Prospectus.

Advertising Cooperation Framework Agreement

On November 21, 2018, Shenzhen iDreamSky entered into a framework agreement with Tencent Computer, pursuant to which our Group and Tencent Computer agreed to cooperate on, including, but not limited to, advertising of products and services of both parties, and arrangement of advertising services offered by Tencent Group (i.e. advertisement traffic and space) to third parties (the "**Advertising Cooperation Framework Agreement**"). Our Group will conduct collective negotiations with Tencent Group in respect of the advertising services offered by Tencent 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.

The term of the Advertising Cooperation Framework Agreement commenced on the Listing Date and expires on December 31, 2020.

Reasons for the Transactions

For the three financial years ended December 31, 2017, Tencent Group has been engaging us for our advertising services and we expect to continue to cooperate with Tencent on the provision of our advertising service to Tencent Group.

Listing Rules Implications

Tencent Computer is a subsidiary of Tencent Group, a substantial shareholder of the Company, and thus a connected person of the Company. As the highest applicable percentage ratio for each of the proposed annual caps for the three years ending December 31, 2020 is expected to exceed 0.1% but below 5% on an annual basis, the transactions under the Advertising Cooperation Framework Agreement will constitute continuing connected transactions of our Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

Payment Service Framework Agreement

On November 21, 2018, Shenzhen iDreamSky entered into a framework agreement with Tencent Computer, pursuant to which Tencent Computer agreed to provide us with payment services through the payment channels of Tencent Group so as to enable our users to conduct online transactions (the "**Payment Service Framework Agreement**"). We shall, in return, pay a payment service fee to Tencent 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.

The term of the Payment Service Framework Agreement commenced on the Listing Date and expires on December 31, 2020.

Reasons for the Transactions

Our Directors consider that, taking into account the limited choices of online payment channels in the PRC, the leading position of the Tencent Group in the PRC online payment service industry and our users' profile where many of our users are existing users of the Tencent Group's online payment services, the Payment Service Framework Agreement would enable us to provide our users access to payment channels of Tencent Group and thus enhance our users' satisfactions with our services.

Listing Rules Implications

As the highest applicable percentage ratio for each of the three years ending December 31, 2020 in relation to the Payment Service Framework Agreement and the Products and Services Purchasing Framework Agreement (as defined below), in aggregate, is expected to exceed 0.1% but below 5% on an annual basis, the transactions contemplated under the Payment Service Framework Agreement and the Products and Services Purchasing Framework Agreement will constitute continuing connected transactions of our Company subject to the annual reporting requirement under Rules 14A.49 and14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

Products and Services Purchasing Framework Agreement

On November 21, 2018, Shenzhen iDreamSky entered into a framework agreement with Tencent Computer, pursuant to which Tencent Computer (or through its designated company) agreed to provide comprehensive services and products to us (the "**Products and Services Purchasing Framework Agreement**"), including but not limited to the following technical products and services:

- cloud services, cloud storage, cloud service related technical support; and

- SMS channel service, CDN network acceleration service, domain name resolution acceleration service.

Our Group shall pay procurement fees in return for the products and services provided by the Tencent Group.

The precise scope of the products and services provided by the Tencent Group, the procurement fees, method of payment and other details of the products and service arrangement will be agreed between the relevant parties separately.

The term of the Products and Services Purchasing Framework Agreement commenced on the Listing Date and expires on December 31, 2020.

Reasons for the Transactions

Tencent is a leading provider of Internet value added service in the PRC, and offers a wide range of high-quality products and services. We have migrated the majority of our servers and computing infrastructure to Tencent Cloud and we became one of the few game publishers in China fully integrating cloud technology into game infrastructure. The Directors believe that the procurement of high-quality services and products from Tencent, especially technological products and services, will provide us with the necessary technologies to further develop our business, and we can leverage on the wide spectrum of products and services offered by Tencent to reduce unnecessary costs in reconciling and integrating the differences between different systems.

In addition, we also purchase virtual products and peripheral gaming products from the Tencent Group as part of our digital entertainment offering for our users in our marketing events, taking into account the popularity of those virtual and physical gaming products among our users.

Listing Rules Implications

As the highest applicable percentage ratio for each of the three years ending December 31, 2020 in relation to the Payment Service Framework Agreement and the Products and Services Purchasing Framework Agreement, in aggregate, is expected to exceed 0.1% but below 5% on an annual basis, the transactions contemplated under the Payment Service Framework Agreement and Products and Services Purchasing Framework Agreement will constitute continuing connected transactions of our Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

IP Cooperation Framework Agreement

On November 21, 2018, Shenzhen iDreamSky and Tencent Computer entered into a framework agreement (the "**IP Cooperation Framework Agreement**") relating to cooperation in comics. 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.

The cooperation under the IP Cooperation Framework Agreement shall be in the form of (i) resources investment for the development or adaption of comics work ("**Originated Work**"), including but not limited to advertising resources and currencies; and (ii) adaptation and operation of the Originated Work, including but not limited to distribution, adaptation and sales. The parties may further agree on the investment in the operation of the Originated Work separately.

The term of the IP Cooperation Framework Agreement commenced on the Listing Date and expires on December 31, 2020.

Reasons for the Transactions

We expect that cooperation with the Tencent Group relating to the comics will monetize our comics work and strengthen and diversify our product portfolio through the adaptation of comics work.

Listing Rules Implications

As the highest applicable percentage ratio for each of the proposed annual caps for the three years ending December 31, 2020 in relation to the IP Cooperation Framework Agreement and the Game Cooperation Framework Agreement (defined below) (in respect of (a) distribution fees payable by our Group to the Tencent Group (i.e. where our Group shall engage the Tencent Group for distribution of our games) and (c) licensing fee payable by our Group to the Tencent Group (i.e. where our Group shall license, and the Tencent Group shall engage us for publishing and operation of, the games of the Tencent Group)), in aggregate, is expected to exceed 5% on an annual basis, the transactions contemplated under the IP Cooperation Framework Agreement and the Game Cooperation Framework Agreement (in respect of (a) distribution fees payable by our Group to the Tencent Group (i.e. where our Group shall engage the Tencent Group for distribution of our games) and (c) licensing fee payable by our Group to the Tencent Group (i.e. where our Group shall license, and the Tencent Group shall engage us for publishing and operation of, the games of the Tencent Group)) will constitute continuing connected transactions of our Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

Game Cooperation Framework Agreement

On November 21, 2018, Shenzhen iDreamSky entered into a framework agreement with Tencent Computer (the "**Game Cooperation Framework Agreement**"), pursuant to which our Group and the Tencent Computer agreed to (i) license (a) games of our Group and/or (b) games licensed to our Group by third parties, and engage the Tencent Group for distribution or publishing for such games; (ii) license the games of the Tencent Group for the distribution and operations on our platforms; and (iii) cooperate on other gaming-related matters, including but not limited to (a) the Tencent Group engaging us to develop customized games, (b) the Tencent Group licensing its IPs to us for development of games, and (c) joint development of games by our Group and the Tencent Group. The Tencent Group and our Group shall pay distribution and/or licensing fees to each other (as the case may be). The precise scope of service, commission rate, the applicable payment channel and other details of the arrangement shall be agreed between the relevant parties separately.

The term of the Game Cooperation Framework Agreement commenced on the Listing Date and expires on December 31, 2020.

Reasons for the Transactions

The Tencent Group owns a large amount of top-rated game products and game platforms, and our Group has been dedicated to the production and operation of popular games. It is expected that the Tencent Group and our Group could leverage on each other's competitive advantages in products and platforms to improve the popularity of games owned by each other and increase the number of platform users and leverage on each other's game development capabilities. In addition, as a one-stop game publishing solution to game developers, we are able to leverage on the Game Cooperation Framework Agreement and distribute the games licensed to us from global game developers through our cooperation with Tencent.

Listing Rules Implications

As the highest applicable percentage ratio for each of the proposed annual caps for the three years ending December 31, 2020 in relation to the IP Cooperation Framework Agreement and the Game Cooperation Framework Agreement (in respect of (a) distribution fees payable by our Group to the Tencent Group (i.e. where our Group shall engage the Tencent Group for distribution of our games) and (c) licensing fee payable by our Group to the Tencent Group (i.e. where our Group shall license, and the Tencent Group shall engage us for publishing and operation of, the games of the Tencent Group)), in aggregate, is expected to exceed 5% on an annual basis, the transactions contemplated under the IP Cooperation Framework Agreement and the Game Cooperation Framework Agreement (in respect of (a) distribution fees payable and/or revenue to be shared by our Group to the Tencent Group (i.e. where our Group shall engage the Tencent Group for distribution of our games) and (c) licensing fee payable by our Group to the Tencent Group (i.e. where our Group shall license, and the Tencent Group shall engage us for publishing and operation of, the games of the Tencent Group)) will constitute continuing connected transactions of our Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

As the highest applicable percentage ratio for each of the proposed/revised annual caps for the three years ending December 31, 2020 in relation to the Game Cooperation Framework Agreement (in respect of (b) licensing fee payable by the Tencent Group to our Group in the form of revenue sharing (i.e. where our Group shall engage the Tencent Group for publishing of our games and games being licensed to our Group by third parties) and (d) customized development fee payable by the Tencent Group to our Group), in aggregate, is expected to exceed 5% on an annual basis, the transactions contemplated under the Game Cooperation Framework Agreement (in respect of (b) licensing fee payable by the Tencent Group to our Group in the form of revenue sharing (i.e. where our Group shall engage the Tencent Group for publishing of our games and games being licensed to our Group by third parties) and (d) customized development fee payable by the Tencent Group to our Group) will constitute continuing connected transactions of our Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

Review of Annual Caps of the Continuing Connected Transactions

A summary of the proposed annual caps and the actual transaction amounts of the above continuing connected transactions for the year ended December 31, 2019 is set out as follows:

Continuing Connected Transactions	Proposed Annual Cap for 2019 *(RMB)*	Actual Transaction Amount in 2019 *(RMB)*
Advertising Cooperation Framework Agreement (Revenue-based)		
Advertising service fee payable by Tencent Group to our Group	12,000,000	11,366,000
Payment Service Framework Agreement (Expense-based)		
Payment service fee payable by the Group to Tencent Group	2,520,000	1,606,000
Products and Services Purchasing Framework Agreement (Expense-based)		
Products and services procurement fees payable by the Group to Tencent Group	18,780,000	14,944,000
IP Cooperation Framework Agreement[1] (Expense-based)		
Development fee in respect of comics and comics adaption work payable by our Group to Tencent Group	29,640,000	Nil
Licensing fee in respect of adaptation rights of Originated Work payable by our Group to Tencent Group	20,800,000	Nil
Game Cooperation Framework Agreement[2]		
Distribution fee payable by the Group to Tencent Group	30,000,000	17,326,000
Licensing fee payable by Tencent Group to our Group in the form of revenue sharing	345,000,000	41,324,000
Licensing fee payable by our Group to Tencent Group	70,000,000	Nil
Development fee in respect of games development cooperation payable by Tencent Group to our Group	10,000,000	943,000

Notes:

(1) For breakdown in relation to development fees in respect of comics and comics adaptation work and license fees of adaptation rights of the Originated Work, please refer to page 269 of the Prospectus.

(2) The breakdown of annual caps in relation to the licensing fee payable/or revenue to be shared by the Tencent Group to the Group by reference to games to be distributed through the platforms of the Tencent Group and the licensing fees paid by our Group to Tencent Technology, please refer to pages 273 to 274 of the Prospectus.

Annual Review by our Independent Non-Executive Directors and Auditor

For the year ended December 31, 2019, the independent non-executive Directors have reviewed the aforesaid continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) on normal commercial terms or better; and

(iii) in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company has performed certain pre-determined procedures regarding the continuing connected transactions entered into by the Company as set out above for the year ended December 31, 2019, and states that:

(1) the transactions have been approved by the Board;

(2) the transactions were, in all material respects, in accordance with the pricing policies of the Company;

(3) the transactions were entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(4) the aggregate amounts of the transactions have not exceeded the relevant caps as disclosed in the Prospectus.

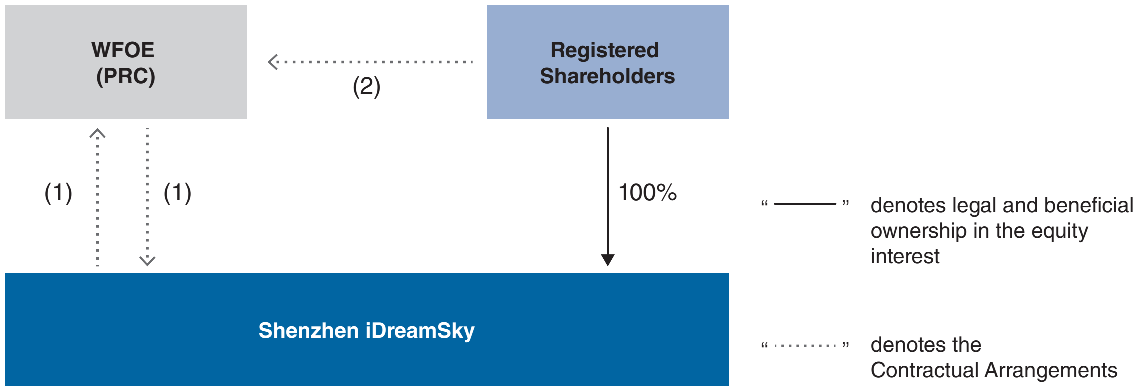
Related Party Transactions

Details of the related party transactions carried out in the normal course of business are set out in note 36 to the consolidated financial statements. Save as disclosed above, none of these related party transactions constitutes a connected transaction or continuing connected transaction as defined under the Listing Rules, and the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

CONTRACTUAL ARRANGEMENTS

Our Company has entered into a series of Contractual Arrangements with the WFOE and our PRC Consolidated Affiliated Entities, pursuant to which our Company would gain effective control over, and receive all the economic benefits generated by, the businesses operated by our PRC Consolidated Affiliated Entities. Accordingly, through the Contractual Arrangements, the results of operations and assets and liabilities of Shenzhen iDreamSky and its subsidiaries are consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group. The total revenue of our PRC Consolidated Affiliated Entities during the year ended December 31, 2019 was approximately RMB2,263.7 million, and the total assets of our PRC Consolidated Affiliated Entities as at December 31, 2019 was approximately RMB3,884.5 million.

The following simplified diagram illustrates the flow of economic benefits from our PRC Consolidated Affiliated Entities to our Group as stipulated under the Contractual Arrangements:



Notes:

(1) WFOE provides business support, technical support, consulting services and other services in exchange for service fees from Shenzhen iDreamSky. Please refer to the paragraph headed "Summary of the Contractual Arrangements" below.

(2) The registered shareholders of Shenzhen iDreamSky, namely Mr. Chen Xiangyu, Mr. Guan Song, Ningbo Meishan Free Trade Zone iDream Tonghui Investment Partnership (Limited Partnership) (寧波梅山保税港區築夢同輝投資管理合夥企業(有限合夥)), Mr. Lei Junwen, Mr. Su Meng, Linzhi Yongjin Information Technology Co., Ltd. (林芝永進信息科技有限公司) and Hengqin Chuangmeng Ruitong Equity Investment (Limited Partnership) (橫琴创梦瑞通股權投資企業(有限合夥)) are collectively referred to as "Registered Shareholders". Mr. Chen Xiangyu, Mr. Guan Song, Mr. Lei Junwen and Mr. Su Meng are referred to as the "Relevant Individual Shareholders".

The Registered Shareholders executed exclusive option agreement, powers of attorney and equity pledge agreements, and the spouse of each of the Relevant Individual Shareholders executed an undertaking, in favour of WFOE. Please refer to the paragraph headed "Summary of the Contractual Arrangements" below.

(3) In addition to the restricted and/or prohibited business of our Company, Shenzhen iDreamSky also holds investments in certain entities in the PRC (the "**Relevant Entities**"), each of which (i) is engaged in business subject to foreign ownership restriction; (ii) is engaged in business subject to foreign ownership prohibition; or (iii) does not currently carry out business operations that are subject to foreign investment restrictions under the Negative List; however, (a) the Relevant Entity intends to invest or engage in potential businesses that are subject to foreign investment restrictions and has expressly rejected our Company's proposed transfer of interest in the Relevant Entity held by our Group to WFOE, (b) the transfer of interest in the Relevant Entity is expressly prohibited pursuant to the relevant requirement under the PRC laws, and/or (c) based on our Company's communication with the other stakeholders in the Relevant Entity, it would be impracticable to obtain the consent and/or assistance from all of the relevant stakeholders required for our Company's proposed transfer of interest in the Relevant Entity held by our Group to WFOE. For further details of these Relevant Entities, please refer to pages 213 to 224 of the Prospectus.

Summary of the Contractual Arrangements

A brief description of each of the specific agreements that comprise the Contractual Arrangement is set out as follows:

(a) Exclusive Business Cooperation Agreement

On May 10, 2018, WFOE and Shenzhen iDreamSky entered into the exclusive business cooperation agreement (the "**Exclusive Business Cooperation Agreement**"), pursuant to which Shenzhen iDreamSky agreed to engage WFOE as its exclusive service provider to provide, including but not limited to, technical support, development, maintenance and update of software, business management consultation, marketing and promotion services, leasing, assignment or disposal of equipment or properties, and other services. In exchange for these services, Shenzhen iDreamSky shall pay a service fee, which shall consist of 100% of the total consolidated profit of Shenzhen iDreamSky, after deducting any accumulated deficit of Shenzhen iDreamSky and its affiliated entities in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions. During the term of the Exclusive Business Cooperation Agreement, WFOE enjoys all the economic benefits in relation to Shenzhen iDreamSky's business operation. The Exclusive Business Cooperation Agreement also provides that WFOE has the exclusive and proprietary ownership, rights and interests in all intellectual properties arising out of or created during the performance of the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreement shall remain effective unless terminated (a) in accordance with the provisions of the Exclusive Business Cooperation Agreement; (b) in writing by WFOE; or (c) renewal of the business operation term of either the WFOE or Shenzhen iDreamSky is not approved or consented by the relevant government authorities, at which time the Exclusive Business Cooperation Agreement will terminate upon expiry of that business operation term.

(b) Exclusive Option Agreement

On May 10, 2018, WFOE, Shenzhen iDreamSky and the Registered Shareholders entered into the exclusive option agreement (the "**Exclusive Option Agreement**"), pursuant to which WFOE has the irrevocable and exclusive right to pursuant, or to designate one or more persons to purchase, from the Registered Shareholders all or any part of their equity interests in Shenzhen iDreamSky at any time and from time to time in WFOE's sole and absolute to the extent permitted by PRC laws.

The Exclusive Option Agreement shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders in Shenzhen iDreamSky have been transferred to WFOE or its appointee(s).

(c) Equity Pledge Agreement

On May 10, 2018, WFOE, Shenzhen iDreamSky and the Registered Shareholders entered into the equity pledge agreement (the "**Equity Pledge Agreement**"), pursuant to which the Registered Shareholders agreed to pledge all of their respective equity interests in Shenzhen iDreamSky to WFOE as collateral security for any and all of the secured indebtedness under the Contractual Arrangements and for securing the performance of their obligations under the Contractual Arrangements. During the pledge period, WFOE is entitled to receive any dividends or other distributable benefits arising from the equity interests in Shenzhen iDreamSky held by the Registered Shareholders.

The pledge in favour of WFOE under the Equity Pledge Agreement shall remain valid until after all the contractual obligations of the Registered Shareholders and Shenzhen iDreamSky under the Contractual Arrangements have been fully performed and all the secured indebtedness of the Registered Shareholders and Shenzhen iDreamSky under the Contractual Arrangements have been fully paid.

(d) Powers of Attorney

On May 10, 2018, the Registered Shareholders have executed powers of attorneys (the "**Powers of Attorney**"), pursuant to which the Registered Shareholders irrevocably appointed WFOE and its appointees (including but not limited to the directors of WFOE and their successors and liquidators replacing the directors but excluding those non-independent directors or who may give rise to conflict of interests) as their exclusive agents and attorneys-in-fact to act on their behalf on all matters concerning Shenzhen iDreamSky and to exercise all of their respective rights as a Registered Shareholder of Shenzhen iDreamSky in accordance with the PRC laws and the articles of association of Shenzhen iDreamSky.

The Powers of Attorney shall be irrevocable and remain effective for so long as each Registered Shareholder holds equity interest in Shenzhen iDreamSky.

Spouse Undertakings and Confirmations from the Relevant Individual Shareholders

The spouse of each of the Relevant Individual Shareholders, where applicable, has signed an undertaking (the "**Spouse Undertakings**") to the effect that (i) the respective Relevant Individual Shareholder's interests in Shenzhen iDreamSky (together with any other interests therein) do not fall within the scope of communal properties; and (ii) the spouse has no right to or control over such interests of the respective Relevant Individual Shareholder and will not have any claim on such interests.

Each of the Relevant Individual Shareholders has also confirmed to the effect that (i) his spouse is aware of the Exclusive Option Agreement, the Equity Interest Pledge Agreement and the respective Power of Attorney; (ii) his shareholding is his personal property and does not constitute joint property; (iii) his spouse agrees that he has the right to claim any interests, handle his shareholding at his sole discretion without consent of his spouse and to enjoy the rights and perform the obligations under the Exclusive Option Agreement, the Equity Interest Pledge Agreement and the respective Power of Attorney by himself. If he and his spouse get divorced, the equity interest in the domestic company held by him is his personal property and does not constitute a joint property of him and his spouse, and he will take measures to ensure the performance of the Exclusive Option Agreement, the Equity Interest Pledge Agreement and the respective Power of Attorney and will not take any actions in violation of the Exclusive Option Agreement, the Equity Interest Pledge Agreement and the respective Power of Attorney; and (iv) in the event of his death, incapacity or any other event which causes his inability to exercise his shareholder's rights in Shenzhen iDreamSky, his successors will inherit all his rights and obligations under the Power of Attorney.

Reasons for adopting the Contractual Arrangements

Our principal businesses involve publication and operation of games through mobile apps and websites and are subject to foreign investment restrictions in accordance with the Guidance Catalog of Industries for Foreign Investment. In view of such PRC regulatory background, after consultation with our PRC legal advisers, we determined that it was not viable for our Company to hold our PRC Consolidated Affiliated Entities directly through equity ownership. For further details of the foreign investment restrictions relating to the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements — PRC Regulatory Background — Overview" and "Contractual Arrangements — Development in the PRC Legislation on Foreign Investment" on pages 211 to 212 and pages 239 to 246 of the Prospectus.

Risks relating to the Contractual Arrangements

There are certain risks that are associated with the Contractual Arrangements, including:

- If the PRC government determines that the Contractual Arrangements do not comply with the applicable regulations, our business could be materially and adversely affected.
- If the PRC government determines that our ownership structure does not comply with restrictions contained in the GAPP Notice, we would be subject to severe penalties.
- Our Contractual Arrangements with Shenzhen iDreamSky and its Registered Shareholders may not be as effective in providing control as direct ownership. Shenzhen iDreamSky and its Registered Shareholders may fail to perform their obligations under these Contractual Arrangements.
- Our ability to enforce the share pledge agreements may be subject to limitations based on PRC laws and regulations.
- The Registered Shareholders of Shenzhen iDreamSky have potential conflicts of interest with us, which may adversely affect our business.
- We may lose the ability to use and enjoy the benefits of the assets held by Shenzhen iDreamSky that are important to the operations of our business if such entity goes bankrupt or becomes subject to dissolution or liquidation proceeding.
- Our Contractual Arrangements with Shenzhen iDreamSky may result in adverse tax consequences.
- Substantial uncertainties exist with respect to enactment timetable, interpretation and implementation of the draft PRC Foreign Investment Law and how it may impact the viability of our current cooperate structure, corporate governance and business operations.

For further details of these risks, please refer to the section headed "Risk Factors — Risks Related to Our Contractual Arrangements" on pages 51 to 58 of the Prospectus.

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

(a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion as and when they arise;

(b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(c) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and

(d) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance with WFOE and our PRC Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions for our Company pursuant to Chapter 14A of the Listing Rules. As such, we have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; and (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, for so long our Shares are listed on the Stock Exchange, subject, however, to the following conditions:

(a) no change to the Contractual Arrangements will be made without independent non-executive Directors' approval;

(b) no change to the Contractual Arrangements will be made without independent Shareholders' approval;

(c) on the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and our PRC Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch companies) engaging in the same business as that of our Group which our Group may wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements; and

(d) we will disclose details relating to the Contractual Arrangements on an ongoing basis.

Annual Review by our Independent Non-Executive Directors and Auditor

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

(a) the transactions carried out during the year ended December 31, 2019 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;

(b) no dividends or other distributions had been made by our PRC Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;

(c) other than the Contractual Arrangements, no new contracts had been entered into, renewed and/or reproduced between our Group and the PRC Consolidated Affiliated Entities during the year ended December 31, 2019; and

(d) the Contractual Arrangements had been entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable so far as our Group is concerned, and in the interest of our Company and its Shareholders as a whole.

Our Auditor has confirmed in a letter to our Board that the transactions under the Contractual Arrangements have been approved by our Board, the transactions carried out during the year ended December 31, 2019 had been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that no dividends or other distributions had been made by our PRC Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

DONATIONS

During the Reporting Period, the Company made no charitable and other donations.

ISSUANCE OF DEBENTURES

During the Reporting Period, no issuance of debentures was made by the Company. However, as at November 26, 2019 (after trading hours), the Company entered into a subscription agreement ("**Subscription Agreement**") with Poly Platinum Enterprises Limited (an independent third party investor), pursuant to which the Company has conditionally agreed to issue to the investor and the investor has conditionally agreed to subscribe for the convertible bonds in the principal amount of US$30,000,000. As at January 3, 2020, all conditions precedent to and contained in the Subscription Agreement have been fulfilled, and the convertible bonds were issued to Poly Platinum Enterprise Limited. Please refer to the announcements of the Company dated November 26, 2019 and January 3, 2020, respectively.

SIGNIFICANT LEGAL PROCEEDINGS

During the Reporting Period, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the directors to be pending or threatening against the Company.

PERMITTED INDEMNITY PROVISION

Under the Articles of Association, every Director or other officers of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified against all actions, costs, charges, losses, damages and expenses which he may incur or sustain in or about the execution of his duties in his office; be indemnified and secured harmless out of the assets of the Company; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty.

The Company has arranged appropriate insurance cover in respect of legal action against its Directors and officers.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 10 to the consolidated financial statements.

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 56 to 74 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times during the Reporting Period and as of the date of this annual report.

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.

AUDITOR

PricewaterhouseCoopers was appointed as the Auditor during the Reporting Period. The accompanying financial statements prepared in accordance with IFRSs have been audited by PricewaterhouseCoopers.

PricewaterhouseCoopers shall retire at the forthcoming annual general meeting and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as Auditor will be proposed at the AGM.

On behalf of the Board
Chen Xiangyu
Chairman

Hong Kong, March 26, 2020

Directors

Executive Directors

Mr. Chen Xiangyu (陳湘宇), aged 37, is an executive Director, Chairman of the Board and Chief Executive Officer of our Company. Mr. Chen has more than ten years of experience in mobile games, telecommunication, technology and management and is primarily responsible for overseeing the overall strategic planning and business direction as well as day-to-day management of our Group. Mr. Chen also serves as the chief executive officer and a director of Shenzhen iDreamSky, a director of Shenzhen Mengyu and a director of Chuangyi Shikong. Mr. Chen has received numerous awards and recognitions for his entrepreneurship and industry expertise, including being listed as one of the "40 Elite Individuals in Business Under the age of 40 in the PRC" (中國40位40歲以下的商界精英) in years 2014 and 2016 by Fortune Magazine (Chinese edition), being listed as one of the "Top 10 PRC Entrepreneurs Born in 1980s" (中國十大八零後創業家) by the Hurun Report (胡潤百富) in 2016, being listed as one of the "100 Most Innovative Individuals in PRC Business of 2016" (2016中國商業最具創意人物100) by the Fast Company Magazine, being awarded the Young Individual in Technology Award (青年科技獎) by the Shenzhen Science and Technology Awards (深圳市科學科技獎) in 2017 and being selected as "Remarkable Young Entrepreneur of the Year in Shenzhen" (深圳青年創業年度風雲人物). In 2016, Mr. Chen was appointed as "Ambassador of Innovative Entrepreneurship of Nanshan District" (南山區創新創業形象大使) by the government of Nanshan District, Shenzhen, the PRC. In July 2017, he was nominated to the position of committee member of the Youth Association of Shenzhen (深圳市青年聯合會委員). Prior to joining our Group, Mr. Chen has held various positions in the telecommunications and technology industries, including serving as project manager at the overseas projects division of Achievo Information Technology (Shenzhen) Co., Ltd. (深圳市大展信息科技有限公司) from October 2008 to November 2009. Mr. Chen received his bachelor's degree in computer science and technology from the Central South University in the PRC in July 2000.

Mr. Guan Song (關嵩), aged 38, is an executive Director and Chief Technology Officer of our Company. Mr. Guan is also a co-founder, the chief technology officer and a director of Shenzhen iDreamSky. Mr. Guan has more than ten years of experience in the telecommunications, technology and Internet, and is primarily responsible for overseeing the overall technological policies, research and development business and the establishment of technological platforms of our Group. Mr. Guan is the joint inventor of a Chinese invention patent and led the development of 10 game software products. Prior to joining our Group, Mr. Guan has held various positions in the telecommunications, technology and Internet industries, including serving as project manager at Achievo Information Technology (Shenzhen) Co., Ltd. (深圳市大展信息科技有限公司) from December 2006 to March 2010. Mr. Guan is certificated for High-Level Professional in Shenzhen by Human and Social Security Administration of Shenzhen Municipality. Mr. Guan received a bachelor's degree in software engineering from Zhejiang University in the PRC in June 2004.

Mr. Jeffrey Lyndon Ko (高煉惇), aged 37, is an executive Director and President of our Company. Mr. Ko is also a co-founder, the president and a director of Shenzhen iDreamSky. Mr. Ko has more than twenty years of experience in the games industry and is primarily responsible for overseeing the import of games and other contents, overseas business development and overseas strategic investments of our Group. Except for holding positions in the Group, Mr. Ko was elected as the president of the Shenzhen ESports Association on November 2018. He also served as the honorary advisor of Hong Kong Esports Club Limited and the honorary president of Macau E-Sports Federation. In 2009, Mr. Ko was awarded a "Developer 30 Under 30 Award" from DEVELOP magazine. He was the first person of Chinese descent to have received such award. In 2018, Mr. Ko was awarded as one of the Top 100 Generation Talents with Most Potential of China.

Mr. Lei Junwen (雷俊文), aged 36, is an executive Director and the Chief Financial Officer of our Company. Mr. Lei has extensive industry experience in the financial management, accountancy and consultancy industries and is primarily responsible for the overall financial management, financing matters and strategic development of our Group. Mr. Lei also serves as the chief financial officer and a director of Shenzhen iDreamSky and a director of Horgos iDreamSky. Mr. Lei has extensive industry experience in the financial management, accountancy and consultancy industries, including experience in KPMG from August 2006 to May 2010, where he was eventually promoted to audit assistant manager, as senior manager of Vermillion Partners Limited (銀硃合夥人有限公司) from June 2010 to November 2013 and as chief financial officer of XDK Communication Equipment (Huizhou) Co., Ltd. (訊達康通訊設備(惠州)有限公司) from December 2010 to November 2013. Mr. Lei obtained his bachelor's degree in accounting from Zhejiang University in the PRC in June 2005.

Non-executive Directors

Mr. Ma Xiaoyi (馬曉軼), aged 45, was appointed as our non-executive Director in May 2018. Mr. Ma has extensive industry experience in the telecommunications and games industries. He joined Tencent in 2007 and is currently the senior vice president of Tencent, where he is responsible for international distribution of Tencent games, establishing and maintaining long-term business partnerships and cooperation for Tencent since November 2008. Before that, Mr. Ma served as general manager of the game business department of Optic Communication Co., Ltd. (廣州光通通信發展有限公司) from January 2003 to April 2007, where he was responsible for online gaming business. Mr. Ma obtained his EMBA degree from Fudan University in the PRC in June 2008.

As of the Latest Practicable Date, our non-executive Director, Mr. Ma Xiaoyi, held directorship in certain companies principally or partially engaged in developments and/or distribution of online and/or mobile games, including Shengyue Internet Technology (Shanghai) Co., Ltd. (盛躍網絡科技(上海)有限公司), Supercell Oy, Seasun Holdings Limited, Miniclip Group S.A.. Mr. Ma was not involved in the daily management and operation of our Company and the aforementioned companies. As such, the directorship held by Mr. Ma would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

Mr. Du Feng (杜鋒), 43, was appointed as our non-executive Director in May 2018. Mr. Du also serves as a director of Shenzhen iDreamSky. In addition to his positions within our Group, Mr. Du has been a founding partner of Beijing Prometheus Capital Co., Ltd. (北京普思投資有限公司) since May 2012. Before that, Mr. Du served as an executive director of Dalian Ruixin Real Estate Development Co., Ltd. (大連瑞鑫房地產開發有限公司) from June 2005 to October 2010. Mr. Du obtained his diploma in Japanese language from the University of Science & Technology Beijing in the PRC in July 2000 and his MBA degree from New York Institute of Technology in 2003.

Independent Non-executive Directors

Ms. Yu Bin (余濱), 49, was appointed as independent non-executive Director in May 2018. Ms. Yu also serves as an independent director of Shenzhen iDreamSky. Ms. Yu has extensive industry experience in financial management. In addition to her positions in our Group, Ms. Yu has been an independent non-executive director of Tian Ge Interactive Holdings Limited (天鴿互動控股有限公司) since July 2014, an independent director of Baozun Inc. since May 2015, an independent director of GDS Holdings Ltd. since November 2016 and the chief financial officer of Lingochamp Inc. since October 2017. Before that, Ms. Yu has served as the chief financial officer of InnoLight Technology Corp. from January 2015 to April 2017, as chief financial officer of Star China Media Limited (星空華文傳媒集團) from May 2013 to January 2015, VP of finance of Tudou Holdings Limited from July 2010 to December 2011, chief financial officer of Tudou Holdings Limited from January 2012 to April 2013 and Senior Vice President of Youku Tudou Inc. from August 2012 to April 2013. Ms. Yu obtained a bachelor's degree in English literature from Xi'an Foreign Language University in the PRC in July 1992, a master's degree in accounting from the University of Toledo in the United States in May 1999 and a Tsinghua–INSEAD Executive MBA degree from Tsinghua University and INSEAD in January 2013. She has been a member of the American Institute of Certified Public Accountants since November 2013 and a member of Chartered Global Management Accountant since December 2013.

Mr. Li Xintian (李新天), aged 54, was appointed as independent non-executive Director in May 2018. Mr. Li also serves as an independent director of Shenzhen iDreamSky. In addition to his positions in our Group, Mr. Li has been an independent director of Guangdong Hec Technology Holding Co., Ltd. (廣東東陽光科技控股股份有限公司) (formerly named as Guangdong Dongyangguang Aluminum Co., Ltd. (廣東東陽光鋁業股份有限公司)) since May 2008, an independent director of Huachangda Intelligent Equipment Group Co., Ltd. (華昌達智能裝備集團股份有限公司) since November 2013 and an independent director of Hubei Century Network Technology Co., Ltd. (湖北盛天網路技術股份有限公司) since May 2012. Mr. Li has been teaching in the Office of Teaching and Research of Civil Commercial Law of the Department of Law of the University of Wuhan (武漢大學法學院民商法教研室) since September 1992, where he has held the position of lecturer and became a deputy professor on June 2000. Mr. Li has been a professor in the University of Wuhan since November 2005. He was admitted by the Ministry of Justice of Hubei (湖北省司法廳) as a lawyer in July 1993. Mr. Li obtained his bachelor's degree in law in July 1989 from the Wuhan University in the PRC and his doctorate degree in law from the Wuhan University in the PRC in June 2002.

Mr. Zhang Weining (張維寧), aged 41, was appointed as independent non-executive Director in May 2018. Mr. Zhang also serves as an independent director of Shenzhen iDreamSky. In addition to his positions in our Group, Mr. Zhang has been serving as an associate professor of Cheung Kong Graduate School of Business (長江商學院) since May 2015. Before that, Mr. Zhang served as assistant professor in Business School of National University of Singapore from August 2010 to December 2011. Mr. Zhang has been a director of Guangzhou Topcomm Media Advertising Co., Ltd. (廣州尚思傳媒廣告股份有限公司) from June 2013 to May 2018, and holds approximately 9% of the share capital therein. Mr. Zhang has been a director of Sichuan Tianyi Science & Technology Co., Ltd. (四川天一科技股份有限公司) from August 2012 to November 2015. He has been a director of Transino Technology Corp., LTD. (北京時代正邦科技股份有限公司) since September 2016. Mr. Zhang obtained his bachelor's degree in accounting in Southwestern University of Finance and Economics in the PRC in July 2001 and his doctorate degree in management in the University of Texas in the United States in August 2010.

Senior Management

Mr. Fang Hui (方輝), aged 37, was appointed as Chief Strategy Officer of our Company on May 2018. Mr. Fang also serves as the chief strategy officer of Shenzhen iDreamSky, where he is responsible for strategic investments, commercial affairs in the PRC and finance and economics related matters. Prior to joining our Group, Mr. Fang served in Tencent Technology (Beijing) Limited (騰訊科技(北京)有限公司) from April 2014 to April 2017. From September 2008 to March 2014, Mr. Fang was vice president in CITIC Securities Co., Ltd. (中信證券股份有限公司), where he worked on investment banking matters. Mr. Fang obtained his bachelor's degree in sociology and economics in July 2005 and his master's degree in sociology in July 2008 in Peking University in the PRC.

Mr. Ho, Mario Yau Kwan (何猷君), aged 24, was appointed as Chief Marketing Officer of our Company since May 2018. Mr. Ho serves as the chief marketing officer of Shenzhen iDreamSky, where he is responsible for marketing and promotions, Esports related business and augmented reality games. Mr. Ho has been the first Chairperson of the Macau E-sports Federation since April 2018. He has been a member of the Guangdong Province Federation of Returned Overseas Chinese Youth Committee (廣東省僑聯青年委員會) and a member of the Youth Committee of the Associação Comercial de Macau (澳門中華總商會青年委員會) since 2018. Mr. Ho obtained his bachelor's degree in management science in June 2016 from the Massachusetts Institute of Technology.

For biographical details of Mr. Chen Xiangyu, Mr. Guan Song, Mr. Jeffrey Lyndon Ko and Mr. Lei Junwen, who form part of our senior management team, please refer to the section above on pages 51 to 52 of this annual report.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining high standards of corporate governance to safeguard the interests of the Shareholders and Stakeholders 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. Save as disclosed in this report, the Company has complied with all applicable code provisions under the CG Code during the Reporting Period. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Company, oversees the Company's strategic decisions and monitors business and performance. To ensure high efficient operation and flexible and fast decision making, the Board has delegated the authority and responsibility for day-to-day management and operation of the Company to the senior management of the Company. The senior management team meets as frequent as necessary to formulate policies and make recommendations to the Board. The senior management team administers, enforces, interprets and supervises compliance with the internal rules and operational procedures of the Company as well as its subsidiaries and conducts regular reviews, recommends and advises on appropriate amendments to such rules and procedures. The senior management team reports to the Board on a regular basis and communicates with the Board whenever required.

To oversee particular aspects of the Company's affairs, and to ensure the Board delegates certain matters requiring particular time, attention and expertise to its committees, the Board has determined that these matters are better dealt with by the Board committees as they require independent oversight and specialist input. As such, the Board has established four Board committees to take charge of these matters and to assist the Board in making appropriate decision. These four Board committees include the Audit Committee (the "**Audit Committee**"), the Remuneration and Appraisal Committee (the "**Remuneration and Appraisal Committee**"), the Nomination Committee (the "**Nomination Committee**") and the Strategy Committee (the "**Strategy Committee**") (together, the "**Board Committees**"). Each of the committees has its written terms of reference which clearly specify its powers and authorities. The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

Board Composition

As at the date of this annual report, the Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors as follows:

Executive Directors:

Mr. Chen Xiangyu *(Chairman of the Board and Chief Executive Officer)*
Mr. Guan Song
Mr. Jeffrey Lyndon Ko
Mr. Lei Junwen

Non-executive Directors:

Mr. Ma Xiaoyi
Mr. Du Feng

Independent Non-executive Directors:

Ms. Yu Bin
Mr. Li Xintian
Mr. Zhang Weining

The biographies of the Directors are set out under the section headed "Directors and Senior Management" on pages 51 to 55 of this annual report. To the knowledge of the Board, save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" in this annual report, none of the Directors have any personal relationship (including financial, business, family or other material or relevant relationship) with any other Directors and chief executive.

For the Reporting Period, the Board has met at all times the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

For the Reporting Period, the Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive directors representing at least one-third of the Board.

BOARD DIVERSITY POLICY

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board Diversity Policy (the "**Board Diversity Policy**") to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, age, gender, cultural and educational background, professional and industry experience, skills and knowledge, insight, and the potential contributions that such candidate could bring to the Board. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires being effective. The structure, size and composition (including, for example, gender, age, and length of service) of the Board will be reviewed from time to time by the Nomination Committee to ensure that the Board has a balance of skills, expertise and diversity of perspective for providing effective leadership to the Company and meeting the needs of the Group.

The Company recognizes and embraces the benefits of having a diverse Board, and considers diversity at Board level as an essential element in maintaining a competitive advantage. The Company also recognizes the importance of being able to attract, retain and motivate employees from the widest pool of available talent, and is committed to diversity at all levels, including gender, age, cultural and educational background, and professional experience. A truly diverse Board will include and make good use of differences in the talents, skills, regional and industry experience, background, gender and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All appointments of the members of the Board are made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective.

The Nomination Committee reviews and assesses the composition of the Board and makes recommendations to the Board on appointment of new directors of the Company. The Nomination Committee also oversees the conduct of the annual review of the effectiveness of the Board.

In reviewing and assessing the composition of the Board, the Nomination Committee considers the benefits of all aspects of diversity, including without limitation, those described above, in order to maintain an appropriate range and balance of talents, skills, experience and diversity of perspectives on the Board. Factors to be taken into account include: gender, age, ethnicity, cultural and educational background, professional skills, experience and knowledge. Due regard is to be given to the business model and specific needs of the Company.

In recommending candidates for appointment to the Board, the Nomination Committee considers candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board. In overseeing the conduct of the annual review of the effectiveness of the Board, the Nomination Committee considers the balance of talents, skills, experience, independence and knowledge on the Board and the diversity representation of the Board.

Measurable objectives of the Board Diversity Policy and the progress on achieving the objectives

The measurable objectives

Objective 1: Considering candidates for appointment as Directors from a wide pool of talents taking into account the culture, educational background, expertise and professional experience, skills, experience, knowledge, perspectives and other contributions that would complement the current needs of the Board.

Objective 2: Reviewing annually whether the composition and structure of the Board is suitable for the overall development strategy of the Group based on its business operation and the

Progress on achieving the objectives

Objective 1: Selection and appointment of the Directors of the Company should be in compliance with the requirements of the Board Diversity Policy and in line with the overall development strategy of the Group. The Nomination Committee will identify the candidates for directorships and recommend to the Board according to the Board Diversity Policy of the Company for any replacement of Director or an addition to the Board. The Board would also appoint suitable candidates for directorship based on the overall development of the Group and the Board Diversity Policy of the Company;

Objective 2: The current arrangement and structure of the Board of the Company is appropriate for the development need of the existing business operation of the Group and is conducive for providing the Company with extensive valuable advice and supervision on decision-making. The Company will continually assess the diversity of the Board and objectively consider the composition and effectiveness of the Board from the 2020 financial year.

As regards the CG Code provision requiring Directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as the identity of the public companies or organizations and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Strategy Committee.

As each of the independent non-executive Directors has confirmed his/her independence pursuant to rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties (Code Provision I(g) of Appendix 14 to the Listing Rules).

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate, and should not be performed by the same individual.

Mr. Chen Xiangyu is concurrently the Chairman of the Board and the Chief Executive Officer of the Company. However, due to Mr. Chen Xiangyu's background, qualifications and experience in the Company, he is considered the most suitable person to take both roles under the current circumstances. The Board is of the view that it is appropriate and in the best interests of the Company that Mr. Chen Xiangyu holds both positions at the current stage, as it helps to maintain the continuity of the policies and the efficiency and stability of the operations of the Company.

Besides, all major decisions of the Board have been made in consultation with members of the Board and appropriate committees, as well as the senior management team. In addition, Directors are encouraged to participate actively in all Board and committee meetings of which they are members of the Board, and the Chairman ensures that all issues raised are properly briefed at the Board meetings, and he works with the senior management team to provide adequate, accurate, clear, complete and reliable information to members of the Board in a timely manner. Further, the Board meets with Mr. Chen Xiangyu regularly to discuss issues relating to the operations of the Company.

The Board is therefore of the view that there is an adequate balance of power and that appropriate safeguards are in place. Mr. Chen Xiangyu both holding the positions of Chairman of the Board and Chief Executive Officer of the Company will not have influence on the balance between power and authority. Nevertheless, the Board will continue to regularly monitor and review the Company's current structure and to make necessary changes when appropriate.

Continuous Professional Development

Each Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each director to discharge their duties. The Directors and senior management team also meet on a regular basis or as necessary to discuss issues such as operation of the Company, corporate governance policies, and regulatory compliance.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The joint company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a Director.

According to the information provided by the Directors, a summary of training received by the Directors for the year ended December 31, 2019 is as follows:

Name of Directors	Nature of Continuous Professional Development Programmes
Executive Directors	
Mr. Chen Xiangyu	A,B,C,D
Mr. Guan Song	A,B,C,D
Mr. Jeffrey Lyndon Ko	A,B,C,D
Mr. Lei Junwen	A,B,C,D
Non-executive Directors	
Mr. Ma Xiaoyi	A,B,D
Mr. Du Feng	A,D
Independent Non-executive Directors	
Ms. Yu Bin	A,D
Mr. Li Xintian	A,B,C,D
Mr. Zhang Weining	A,B,D

Notes:

A. Attending seminars and/or meetings and/or forums and/or briefings

B. Giving talks in the seminars and/or meetings and/or forums

C. Attending relevant law and regulation training and/or training relevant to the Company's business provided by lawyers

D. Reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company. Pursuant to the agreement, they agreed to act as executive Directors for an initial term of three years with effect from the date the appointment is approved by the Board until the third annual general meeting of the Company since the Listing Date (whichever is sooner, subject always to re-election as and when required under the Articles of Association). Either party has the right to give not less than three months' prior notice in writing to terminate the agreement.

Each of the non-executive Directors has entered into an service contract with the Company. The initial term of for their service contract shall commence from the date of their appointments and shall continue for three years after or until the third annual general meeting of the Company since the Listing Date (whichever is sooner, subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other not less than three months' prior notice in writing.

Each of the independent non-executive Directors has entered into an appointment letter with the Company. The initial term of their appointment letters shall be three years from the date of the Prospectus or until the third annual general meeting of the Company since the Listing Date (whichever is sooner, subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing.

None of the Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

In accordance with article 16.19 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to article 16.2 or article 16.3 of the Articles of Association shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

In accordance with article 16.2 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

In accordance with article 16.3 of the Articles of Association, the Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall not be less than two. Subject to the provisions of these Articles and the Companies Law, upon the resolutions proposed by a majority of the Directors, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year for Board meetings, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the joint company secretaries with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

For the year ended December 31, 2019, nine Board meetings and one annual general meeting of the Company were held during the Reporting Period. Six Directors, being Mr. Chen Xiangyu, Mr. Guan Song, Mr. Jeffrey Lyndon Ko, Mr. Lei Junwen, Ms. Yu Bin, Mr. Zhang Weining, attended the annual general meeting held during the Reporting Period. The attendance of each Director at the Board meetings is setting out in the table below:

Directors	Attended/Eligible to attend the Board meeting(s)
Executive Directors:	
Mr. Chen Xiangyu	9/9
Mr. Guan Song	9/9
Mr. Jeffrey Lyndon Ko	9/9
Mr. Lei Junwen	9/9
Non-executive Directors:	
Mr. Ma Xiaoyi	9/9
Mr. Du Feng	9/9
Independent Non-executive Directors:	
Ms. Yu Bin	9/9
Mr. Li Xintian	9/9
Mr. Zhang Weining	9/9

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions since the Listing Date. 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.

During the Reporting Period, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Company are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

(a) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

(d) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board and report to the Board on matters;

(e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report; and

(f) to review and monitor the Company's compliance with the Company's whistleblowing policy.

BOARD COMMITTEES

As described above, the Board has established four committees, each of which has been delegated responsibilities and reports back to the Board: Audit Committee, Nomination Committee, Remuneration and Appraisal Committee, and Strategy Committee. The roles and functions of these committees are set out in their respective terms of reference. The terms of reference of each of these committees will be revised from time to time to ensure that they continue to meet the needs of the Company and to ensure compliance with the CG Code. The terms of reference of the Audit Committee, the Nomination Committee, the Remuneration and Appraisal Committee and the Strategy Committee are available on the Company Website and the Stock Exchange's website.

Audit Committee

The Audit Committee comprises four members, three independent non-executive Directors, namely Mr. Zhang Weining (Chairman), Ms. Yu Bin, Mr. Li Xintian, and one non-executive Director, Mr. Du Feng.

The principal duties of the Audit Committee include the following:

1. Being primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and considering any questions of its resignation or dismissal;

2. Monitoring integrity of the Group's financial statements, annual reports and accounts, half year reports and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them;

3. Reviewing the Group's financial controls, risk management and internal control systems; and

4. Discussing the risk management and internal control systems with the senior management ensuring that the senior management has performed its duties to have effective systems and to review annually the effectiveness, adequacy and appropriateness of those systems. This review should include adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting functions.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

Code provision C3.3(e)(i) of the CG Code provides that the terms of reference of the Audit Committee shall have the terms that the members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet at least twice a year with the Company's Auditor. The Company has included such terms in relevant terms of reference, and thus complied with the Code provision C3.3(e)(i) of the CG Code during the Reporting Period.

The Audit Committee has fully complied with its terms of reference. During the Reporting Period, four Audit Committee meetings were held, the attendance of members of the Audit Committee at the meetings is setting out in the following table:

Directors	Attended/Eligible to attend
Mr. Zhang Weining *(Chairman)*	4/4
Ms. Yu Bin	4/4
Mr. Li Xintian	4/4
Mr. Du Feng	4/4

Nomination Committee

The Nomination Committee currently comprises five members, including two executive Directors, namely Mr. Chen Xiangyu (Chairman) and Mr. Guan Song, and three independent non-executive Directors, namely Ms. Yu Bin, Mr. Li Xintian and Mr. Zhang Weining.

The principal duties of the Nomination Committee include the following:

1. Reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. Making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive. The Nomination Committee shall make recommendations on appointment of Directors with due regard to the diversity policy of the Company and in accordance with the challenges and opportunities faced by the Company;

3. Identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorship;

4. Assessing the independence of independent non-executive Directors; and

5. Before making any appointment recommendations to the Board, evaluating the balance of Directors based on (including but not limited to) gender, age, cultural and educational background, professional and industry experience, and, in the light of such evaluation preparing a description of the roles and capabilities required for a particular appointment.

The Nomination Committee assesses the candidate or incumbent on criteria such as character, integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendation of the Nomination Committee will then be put to the Board for decision. The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Nomination Committee has fully complied with its terms of reference. During the Reporting Period, one Nomination Committee meeting was held, the attendance of members of the Nomination Committee at the meetings is setting out in the following table:

Directors	Attended/Eligible to attend
Mr. Chen Xiangyu *(Chairman)*	1/1
Ms. Yu Bin	1/1
Mr. Li Xintian	1/1
Mr. Zhang Weining	1/1
Mr. Guan Song	1/1

Policy on Director Nomination

In light of article 16.2 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

Subject to the provisions of the Articles of Association and the Companies Law, upon the resolutions proposed by a majority of the Directors, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

The majority of the members of the Board shall consist of citizens of the People's Republic of China (the "**PRC Nationals Requirement**"). The Company may by ordinary resolution at any time remove any Director (including a managing director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director and may by ordinary resolution elect another person in his stead. Any such change shall be subject to the aforementioned PRC Nationals Requirement. Any person so elected shall hold office during such time only as the Director in whose place he is elected would have held the same if he had not been removed. The Nomination Committee is bound to follow the PRC Nationals Requirement.

Nomination Committee's Role and its Selection Process and Criteria

The Nomination Committee shall review the said information and documents provided by the nominated candidate and conduct the following process (in accordance with the following criteria) with a view to assessing and evaluating whether such candidate is suitably qualified to be appointed as a director of the Company before making recommendations to the Board:

1. to assess such candidate's qualifications, skills, knowledge, ability and experience and also potential time commitment and attention to perform director's duties under common law, legislation and applicable rules, regulations and guidance (including without limitation the Listing Rules and the "Guidance for Boards and Directors" published by the Stock Exchange (the "**Guidance for Boards**")), with reference to the corresponding professional knowledge and industry experience which may be relevant to the Company and also the potential contributions that such candidate could bring to the Board (including potential contributions in terms of qualifications, skills, experience, independence and gender diversity);

2. in addition and without prejudice to Paragraph 1 above, to assess such candidate's personal ethics, integrity and reputation (including without limitation to conduct appropriate background checks and other verification processes against such candidate);

3. with reference to the Company's Board diversity policy (as adopted and amended by the Board from time to time), to take into account the then current structure, size and composition (including without limitation the balancing of the age, gender, cultural and educational background, professional and industry experience, skills and knowledge, and diversity of perspectives appropriate to the requirements of the Company's business) of the Board and the Company's strategy, with due regard for the benefits of the appropriate diversity of the Board and also such candidate's potential contributions thereto;

4. to consider board succession planning considerations and the long-term needs of the Company;

5. in case of a candidate for an independent non-executive director of the Company, to assess: (i) the independence of such candidate with reference to, among other things, the independence criteria as set out in Rule 3.13 of the Listing Rules; and (ii) the guidance and requirements relating to independent non-executive directors set out in Code Provision A.5.5 of Appendix 14 to the Listing Rules and in the Guidance for Boards; and

6. to consider any other factors and matters as the Nomination Committee may consider appropriate.

Board's Decision

The Board shall consider the recommendations from the Nomination Committee and make a decision as to whether the nominated candidate shall be eligible to be appointed as a director of the Company.

Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee comprises five members, including three independent non-executive Directors, namely Ms. Yu Bin (Chairman), Mr. Li Xintian and Mr. Zhang Weining, and two executive Directors, namely Mr. Jeffrey Lyndon Ko and Mr. Lei Junwen.

The principal duties of the Remuneration and Appraisal Committee include the following:

1. Making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. Being responsible for determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management (including benefits in kind, pension and compensation payments, including any compensation payable for loss or termination of their office or appointment);

3. Making recommendations to the Board on the remuneration of non-executive Directors;

4. Considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; and

5. Reviewing and approving the senior management's remuneration proposals with reference to the Board's corporate goals and objectives.

The written terms of reference of the Remuneration and Appraisal Committee are available on the websites of the Stock Exchange and the Company.

The Remuneration and Appraisal Committee has fully complied with its terms of reference. During the Reporting Period, one Remuneration and Appraisal Committee meetings was held, the attendance of members of the Remuneration and Appraisal Committee at the meetings is setting out in the following table:

Directors	**Attended/Eligible to attend**
Ms. Yu Bin *(Chairman)*	1/1
Mr. Li Xintian	1/1
Mr. Zhang Weining	1/1
Mr. Jeffrey Lyndon Ko	1/1
Mr. Lei Junwen	1/1

Remuneration of Directors and Senior Management

Details of the remuneration of the senior management (other than Directors) by band for the year ended December 31, 2019 is as follows:

	Number of employee(s)
HK$500,001 to HK$1,000,000	2

Details of the Directors' remuneration are set out in Note 10 to the audited consolidated financial statements.

Strategy Committee

The Strategy Committee currently comprises six members, including four executive Directors, namely Mr. Chen Xiangyu (Chairman), Mr. Guan Song, Mr. Jeffrey Lyndon Ko and Mr. Lei Junwen, one non-executive Director, namely Mr. Ma Xiaoyi, and one independent non-executive Director, namely Mr. Zhang Weining.

The principal duties of the Strategy Committee include the following:

1. Researching and make recommendations to the Board on the long-term development strategies and plans of the Company;

2. Researching and make recommendations to the Board on the major financing plans of the Company and other major strategic issues influencing the development of the Company; and

3. Reviewing the implementation of the above matters.

The Strategy Committee is responsible to the Board and shall submit its proposals to the Board for examination and decision. The written terms of reference of the Strategy Committee are available on the websites of the Stock Exchange and the Company.

No strategic committee meeting was held during the Reporting Period.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for year ended December 31, 2019 which give a true and fair view of the affairs of the Company and of the Company's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. During the Reporting Period, the Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the Auditor regarding their reporting responsibilities on the audited consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 95 to 101 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board, with the assistance of the audit committee, continuously monitors the effectiveness of the Company's risk management and internal control systems to protect the assets of the Company and the interests of shareholders.

To ensure the effectiveness of the risk management and internal control systems, the Company has adopted the "Three Lines of Defense" model of internal monitoring, and established the risk management and internal control systems under the supervision and guidance of the Board to the actual situation of the Company.

The First Line of Defense

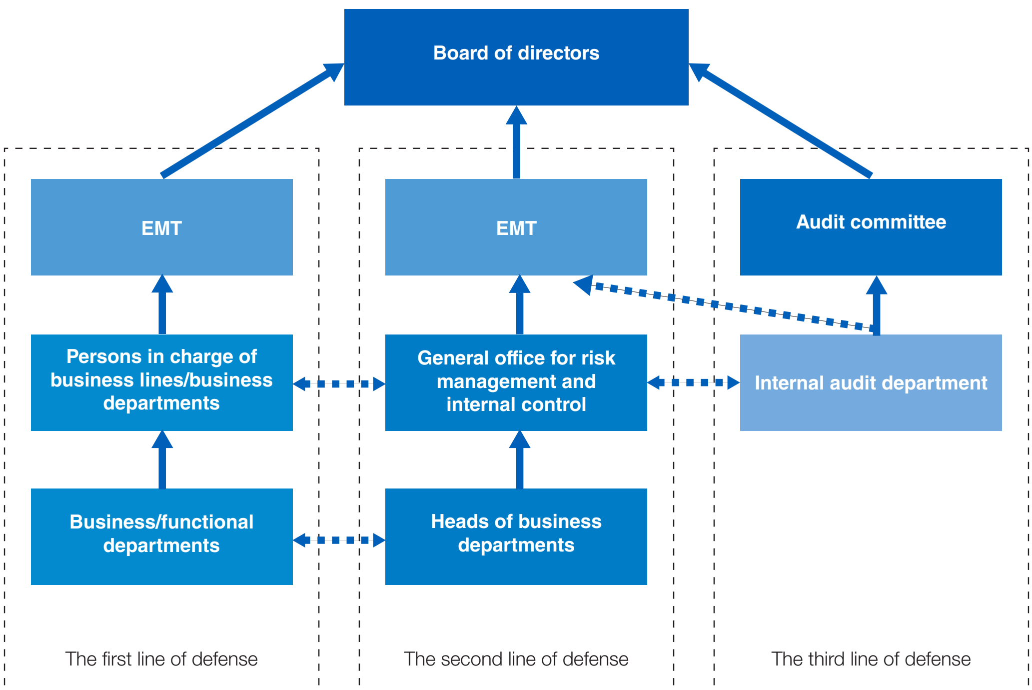
It is composed of various business/functional departments at the grassroots level of the Company, reporting to the senior management through the person in charge, and responsible for the design and implementation of the relevant controls to deal with risks.

The Second Line of Defense

It reports to the general office through the heads of the business units and is ultimately supervised by senior management to ensure the effective implementation of the first line of defense.

The Third Line of Defense

It is mainly composed of the internal audit department, which collects the business process information feedback from the general office and carries out the corresponding audit work on major risks. The internal audit department reports to the Audit Committee and the senior management in a two-way manner, which is highly independent.



Such systems are designed to manage, but not to completely eliminate, the risks that could prevent us from achieving our business strategic objectives, and to provide a reasonable rather than absolute assurance of material misrepresentation or loss.

The Board and the management always attach great importance to the construction of risk management and internal control systems. In 2019, the Company invested more resources in the construction of risk management and internal control systems. Through the implementation of the "Three Lines of Defense" model, the Company has put the internal control work in the forefront and continuously improved the risk management awareness of employees. The internal audit department continuously promotes the development of audit work to provide more effective and timely independent evaluation.

In addition to establishing the above "Three Lines of Defense" model of internal monitoring, the Company has developed risk management and internal control systems to build the basic risk management and internal control environment. In 2019, the Company formulated and released corresponding systems and management measures for the processes that need to be focused on, including the processes for game release and operation, incidents and accountability, information disclosure, compensation management, performance management and branding. It also carried out risk assessment work regularly to ensure the effective operation of risk management and internal control systems.

During the year ended December 31, 2019, the Board has reviewed the health and effectiveness of the Company's risk management and internal control systems. The Board confirmed the internal control systems are effective and adequate. Key controls covered by the review included financial, operational and compliance control and risk management functions. The Board believes that the accounting and financial reporting functions of the Company have been performed by appropriately qualified and experienced staff who have received appropriate and adequate training and development. Based on the Audit Committee's work report, the Board believes that sufficient resources have been obtained for the Company's internal audit function and that its staff qualifications and experience, training programmes and budgets are sufficient.

DIVIDEND POLICY

Subject to the Companies Law and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board.

The dividends, interests and bonuses and any other benefits and advantages in the nature of income receivable in respect of the Company's investments, and any commissions, trusteeship, agency, transfer and other fees and current receipts of the Company shall, subject to the payment thereout of the expenses of management, interest upon borrowed money and other expenses which in the opinion of the Board are of a revenue nature, constitute the profits of the Company available for distribution.

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the Auditor to the Company for the year ended December 31, 2019 was approximately as follows:

Type of Services	**Amount** *(RMB)*
Audit services	5,500,000
Non-audit services	1,451,000
Total	6,951,000

JOINT COMPANY SECRETARIES

Mr. Zhang Heng ("**Mr. Zhang**"), the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Leung Suet Lun ("**Ms. Leung**"), a senior manager of TMF Hong Kong Limited (a company secretarial service provider), as the other joint company secretary to assist Mr. Zhang to discharge his duties as a company secretary of the Company. The primary corporate contact person at the Company is Mr. Zhang, the joint company secretary of the Company.

For the year ended December 31, 2019, Mr. Zhang and Ms. Leung have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Company's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company ("**AGM**") provides opportunity for the Shareholders to communicate directly with the Directors. The Chairman of the Company and the chairmen of the Board Committees of the Company will attend the AGMs to answer Shareholders' questions. The Auditor will also attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

The Company encourages the Shareholders attend to AGMs and other general meeting, which allows the Shareholders to communicate with the Board, and exercise their right to vote.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at http://www.idreamsky.com/, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the joint company secretary of the Company whose contact details are as follows:

16/F, Unit 3A, Kexing Science Park, Nanshan, Shenzhen, PRC, or
31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
(email address: ir@idreamsky.com)

Shareholders should direct their enquiries about their shareholdings to the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

During the Reporting Period, the Company convened the annual general meeting on May 31, 2019.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Convening of extraordinary general meeting and putting forward proposals

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as at date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or any one of the joint company secretary of the Company, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitions(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitions(s) as a result of the failure of the Board shall be reimbursed to the requisitions(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company adopted Articles of Association on November 20, 2018, which has been effective from the Listing Date. During the Reporting Period, no changes has been made to the Articles of Association.

ABOUT THE REPORT

This report is the 2019 Environmental, Social and Governance ("**ESG**") Report (the "**Report**") issued by iDreamSky Technology Holdings Limited (the Group, the Company, or We; Stock code: 01119) to the public. This report is the second ESG Report issued by the Company covering Reporting Period. In accordance with the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Listing Rules, this report complies with the principle of "comply or explain", and discloses or explains our sustainable business activities for the year ended December 31, 2019 in combination with the actual situation of the Company.

ABOUT iDreamSky

- **Business Introduction**

  As a leading digital entertainment platform in China's game distribution market, we operate games as a service, providing rich and diverse digital content including games and animation, as well as online and offline integration of entertainment services such as e-games, and are committed to bringing happiness to users with technology and creativity. We insist on high-quality games. Since its establishment in 2011, we have successfully launched representative mobile games e.g. "Metro Parkour", "Temple Run 2", "Monument Valley", "Saint Seiya-Collection" and "Dream Garden", accumulating a large number of users. In recent years, we have invested heavily in IP original creation and operation to produce high-quality game content; spared no effort to promote the development of independent games, and encouraged developers to produce more creative high-quality games; created an online and offline integrated entertainment life circle, and built a diversified user service system; built a closed-loop layout of electronic sports, promoted the commercialization of electronic sports, built a wide range of electronic sports platforms and laid a solid foundation for closer connections with users.

- **Strategy of Sustainable Development**

  We believe that it is essential to develop effective strategies to balance the economic, environmental and social interests of our business with other business objectives of the Company itself. As a responsible corporate citizen, we take social responsibility and are committed to building a healthy and harmonious online and offline entertainment life circle. We focus on continuously providing users with high-quality game content, meeting user needs and exceeding user expectations; providing employees with a safe and healthy working environment, building a fair and open development path of vocational training, as well as a complete salary and welfare system to protect employees' lawful rights and interests; cooperating with suppliers to build a green and win-win supply chain system; actively listening to the opinions and suggestions of government departments, community organizations and other stakeholders, actively investing in social public welfare activities, paying attention to environmental protection, and establishing a win-win development relationship between the Company and the society. In the future, we will continue to strengthen the business management system, integrate environmental, social and governance considerations into our business operation, so that we can not only provide users with high-quality game products and services, but also promote the positive development of the broader society. We will work closely with all stakeholders to create a better future.

- **Stakeholder Engagement**

  We understand the importance of stakeholder feedback on the Company's environmental, social and governance performance, and we build long-term partnerships with stakeholders and rely on our cooperation. Therefore, we attach great importance to their opinions. Key stakeholders we have identified include employees, customers, suppliers, business partners, shareholders and investors, government and market regulators, as well as the wider community and the public. We have built and continuously improved multiple communication channels for various stakeholders, including official WeChat, official Weibo, official website, e-mail, etc., to help them better understand the performance of the Company's social responsibility. We will continue to actively collect and listen to stakeholders' opinions and suggestions on our environment, society and governance, improve our business performance and sustainability strategy, so as to achieve sustainable growth and success.

ENVIRONMENT

- **Emissions Reduction**

  We are a digital entertainment platform that publishes games through mobile applications and websites. Our business operation basically does not involve the direct emission of exhaust gas and greenhouse gas, the pollutant discharge to water and land, as well as the generation of hazardous waste.

  We use power resources to indirectly emit carbon dioxide. The harmless waste generated by our operation mainly includes office waste and kitchen waste, which are uniformly recycled by the property department where the office is located.

- **Use of Resources**

  We adhere to the concept of green and low-carbon office and advocate that all employees of the Company participate in the action of saving resources, as follows:

  Promote green travel, encourage employees to travel by means of transportation, and reduce the use of private cars;

  Encourage employees to prepare their own tableware and reduce the use of disposable tableware and packaging materials;

  Publicize to employees to save electricity, turn off the lights and air conditioners when they leave work, turn off the computers and display devices, turn off the unused socket powers in time, and power off the charging equipments in time;

  Advocate to employees that the air conditioning temperature shall not be lower than 26 degrees Celsius;

  Encourage employees to save water, control water volume, and turn off the tap after using water;

  Encourage employees to bring their own water cups in meetings to reduce the use of bottled water;

  Put up the slogan of saving tissues in a conspicuous place in washrooms and ask each department to go to the Front Office to collect tissues on demand;

Paperless office is implemented, data is stored in electronic form, e-mail and other online tools are used for communication, so as to reduce the use of printer and printing paper; for necessary document printing, double-sided printing is set by default in the printer;

During the lunch break, all lighting equipments in the office area are forced off. After work, the lighting and air conditioning facilities in the unmanned area are turned off, and the administrative center arranges staff to inspect uniformly to ensure that there is no waste of power, etc..

- **Environmental and Natural Resources**

  We believe that environmental protection and natural resource conservation are important for business operation. As our business has little impact on the environment, our daily operation does not produce industrial waste water, waste gas and hazardous waste, and our use of natural resources is limited, which has no significant impact on the environment. Nevertheless, we still spare no effort to take active and effective measures to protect the natural environment, prevent pollution, save resources and energy, and fulfill social responsibilities. We adhere to the concept of environmental protection as one of the primary tasks, try our best to reduce the impact on the environment caused by energy and resource consumption, and operate environmental protection strategies in daily operation to save resources, energy and water. We fully comply with relevant laws and regulations on environmental protection, emission and waste disposal.

Environmental Performance Data

Emissions

Carbon emissions and carbon emission intensity		**2019**	2018
Total emissions[1]	Tonne	**474.41**[2]	403.20[2]
Total emissions intensity	Tonne/FTE[3]	**0.50**	N/A

Resource usage

Resource usage and resource usage intensity		**2019**	2018
Electricity consumption	kWh	**753,024**	640,000
Gasoline consumption	Litre	**8,840.49**	10,204.4
Water consumption	Tonne	**5,113**	4,465
Paper consumption	kg	**7,077.84**	5,240
Electricity consumption intensity	kWh/FTE	**794.33**	970
Gasoline consumption intensity	Litre/FTE	**9.33**	15.5
Water consumption intensity	Tonne/FTE	**5.39**	6.78
Paper consumption intensity	kg/FTE	**7.47**	7.96

1 Carbon emission: Indirect emissions are generated from the consumption of purchased electricity consumed by the Company as a result of its operations. The source of emission is owned or controlled by other companies.

2 Referring to the greenhouse gas emission reports of several grid enterprises, for the sake of prudence, we use the average emission factor of 2012 in "Average Carbon Dioxide Emission Factors of China's Regional Power Grid in 2011 and 2012" issued by the National Development and Reform Commission for the calculation of indirect carbon emissions generated from electricity consumption of 2019. According to this calculation method, indirect carbon emissions generated from electricity consumption of 2018 is adjusted.

3 "FTE" means full-time employees.

Hazardous and non-hazardous waste

Waste category Hazardous waste and waste intensity		2019	2018
Waste battery, waste lamp, waste bulb, etc.	Tonne	**0**	0
Hazardous waste	Tonne/FTE	**0**	0
Non-hazardous waste and waste intensity			
Office waste, kitchen waste, etc.	Cubic metre	**4,491**	3,840
Non-hazardous waste	Cubic metre/FTE	**4.74**	N/A

SOCIETY

- **Employment and Labour Practices**

The Company pays attention to protecting the personal rights and interests of employees. The recruitment and use standards of our employees strictly follow “Labor Law of the People’s Republic of China”, “Labor Contract Law of the People’s Republic of China”, “Social Insurance Law of the People’s Republic of China” and other relevant national laws and policies, adhere to equal employment, and provide various guarantees and benefits for employees according to law. Meanwhile, the Company has formulated and promulgated “Attendance Management System”, “Regulations on Management of Annual Salary Review”, “Personal Performance Management System”, “Measures for Operation and Management of Internal Talent Market”, etc. to regulate employee employment, attendance, vacation, salary and welfare and so forth. In all aspects of salary and employment, recruitment and dismissal, promotion and employee welfare, we adhere to the principles of fairness, justice and openness, avoid any form of discrimination or injustice in race, color, nationality, ethnicity, religion, region, language, age, gender, marital status, disability, etc., and provide equal opportunities for all employees and job seekers.

We are very concerned about the welfare of female employees. The total maternity leave for female employees of the Company is 178 days, including 98 days of maternity leave and 80 days of bonus leave. Pregnant female employees shall have reasonable and necessary prenatal examination during the working period, and can enjoy the maternity examination leave of no more than 12 days in the whole pregnancy period. Additionally, pregnant female employees can work seven hours a day from the seventh month of pregnancy. Female employees are entitled to one hour of lactation leave every day during the lactation period (from the birth of the infant to the age of one), which can be divided into two times, each time for 30 minutes, and the same day’s lactation leave can be used in combination. Also, the Company has an independent maternal and infant room in the living area for the use of lactating female employees.

We strictly prohibit child labor and forced labor. The Company requires employees to have at least a high school education, and the Company's human resources team will verify the authenticity of their identity information, education background, qualification, work experience and other relevant information provided in the recruitment process before the employees join the Company. The Company implements flexible working system, giving employees full free time and space. If an employee works overtime on a rest day or a legal holiday, the employee applies for overtime online and the overtime hours will be recorded in the Company's punch card system after being approved by the supervisor. For overtime work on rest days, the Company will arrange compensatory rest according to overtime hours; for overtime work on statutory holidays, the Company will pay three times of salary based on monthly basic wage according to overtime hours. During the Reporting Period, the Company did not find any employment of child labor or forced labor, and we fully comply with the relevant rules and regulations on child labor or forced labor.

In addition, the Company regularly reviews the annual salary of employees who have been employed for 6 months and whose latest performance evaluation results are qualified or above, adjusts their salary and other benefits, and ensures that such salary and benefits are still competitive. Following the Company's actual operating conditions, external environment, personal performance, rank and current salary level, we carry out two salary reviews, in March and September each year. March is the review of all employees' salary and September is the review of special salary based on the actual management needs. According to "Employee Interest-Free Loan Management System" formulated and promulgated by the Company, employees with excellent performance can apply for interest-free loan for purchase of houses and cars, so as to help employees live and work in contentment.

To ensure the scientific and standardized flow of talents within the Company, and promote the rational allocation and optimization of internal human resources, the Company has set up an internal talent market to support employees to carry out reasonable job rotation under certain conditions and encourage employees to try their best to apply for internal jobs among related job categories. If the employees meet the entry conditions for internal application and are willing to transfer their posts, they can enter the internal talent market. We are committed to open and transparent operation, fair competition and preferential admission.

Additionally, we uphold open cultural values and attach importance to communication with employees. In addition to the annual EMT (senior management) staff exchange meeting, all departments of the Company will also hold regular department daily management meetings to play the role of bridge and link of "transmit an order from above and transmit information from below" and collect staff opinions at the regular meetings. The Company has a relatively open communication channel and disclose the email address to put forward opinions and suggestions to the Company on system and process.

As of December 31, 2019, the Company's employees are generally younger with an average education level of undergraduate and above. In terms of senior management staffing, the ratio of male and female executives is 7:2, with an average age of 32.

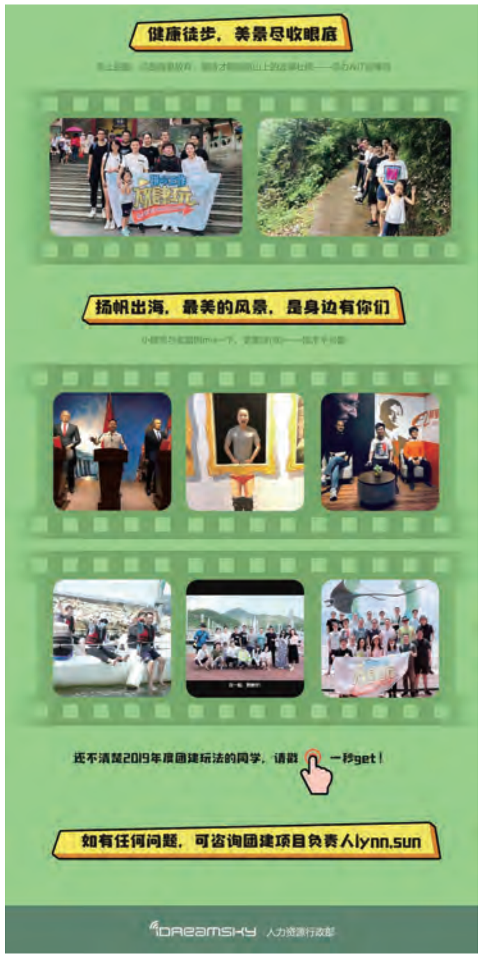
Human resource overview

Human resource overview	2019	2018
Total number of staff	1,022	658
Number of staff — by gender		
Male	633	N/A
Female	389	N/A
Number of staff — by age group		
Under 30 years old	595	N/A
30–39 years old	399	N/A
40–49 years old	23	N/A
50 years old and above	5	N/A
Number of staff — by employee type		
Regular employee	948	658
Temporary employee	74	0
Number of staff — education background		
Postgraduate and above	115	N/A
Undergraduate	650	N/A
Professional training	223	N/A
High school and below	34	N/A

- **Health and Safety**

We are committed to providing a safe, healthy and comfortable working environment for all employees. To ensure the personal safety and property safety of employees, we implement a 24-hour security management system, with monitoring coverage for access control; external visitors are required to be received by specially assigned persons or guided by the Front Office; access control in the senior management area is managed by specially assigned persons, other personnel are required to register for borrowing, and all external personnel entering and leaving the senior management office area are required to report for recordation. The Company strictly abides by "Fire Safety Law of the People's Republic of China", sets clear exit guidelines in the office area and living area, configures complete fire-fighting facilities that meet the fire-fighting standards, conducts fire-fighting inspection on the warehouse regularly, replaces the fire-fighting facilities in time when they are overdue, and conducts fire evacuation drills regularly according to the requirements of the property department where the office building is located to improve the safety and prevention awareness of employees. The Company implements comprehensive smoke-free management in public areas, and publicizes to employees that smoking is not allowed in public places of the Company, including offices, washrooms, pantry, etc., and cigarette butts are not allowed to be thrown randomly. In the mean time, we publicize the importance of safe use of electricity to our employees from time to time, and stipulate that high-power electrical appliances shall not be used illegally in the office area, and electronic equipment shall be powered off in time. The Company cleans and disinfects the water dispensers in the office environment every week, cleans the air conditioners regularly, and conducts disinfection in the office area regularly. The drugs used in the insecticide have been approved by the National Patriotic Health Campaign Committee Office to ensure environmental protection and safety. We put and plant a large number of green plants in the office space and carry out greening maintenance for the plants every week. At the same time, we have installed self-service snack machine and self-service coffee machine in the office area. The Company encourages employees to keep quiet and mute their mobile phones during lunch break, without affecting others' rest. We suggest that the air conditioning temperature in the office building should not be too low, otherwise it may cause dizziness, headache, nasal congestion and other symptoms. The Front Office of the Company also provides the staff with the relevant drugs for common diseases. As of December 31, 2019, the Company has not had any major safety accidents and major fire accidents, nor any employee injury or death attributable to service.

Additionally, we care for the physical and mental health of our employees. In addition to statutory holidays, the Company provides employees with paid holidays e.g. annual leave, sick leave, marriage leave, maternity inspection leave, maternity leave, breastfeeding leave and accompanying leave. In addition to the social medical insurance stipulated by the government, the Company also purchases commercial insurance for employees, including personal insurance and medical health insurance, and provides annual physical examination for employees. We hold a variety of recreational and sports activities to enhance the physical fitness of our employees, such as organizing Basketball Association, Badminton Association, outdoor developments and team building activities. In addition, we hold family members' open day every year to thank the family members for their support. We also hope that through family members' open day, family members can experience the fun of games, feel the atmosphere of the Company, understand the working environment of the Company, and increase their recognition and understanding of our work.



- **Development and Training**

We attach great importance to talent training. Therefore, according to the talent development strategy in different periods and the training needs and characteristics of employees, we formulate the long-term and short-term objectives of talent training and development to ensure the effective support of the Company's talent development strategy for the Company's business objectives. The Company has formulated and promulgated "Training Management System", which regulates and explains the department responsibilities, training types, training plans, training implementation, training effect evaluation, training disciplines and other matters, in order to standardize the training procedures and standards, improve professional ability, management ability and professional quality of employees, establish and improve the talent training system to reserve talents for the long-term development of the Company.

We provide induction training for new employees, which is conducted in a periodic internal teaching way. The training content mainly includes corporate culture, company system and general skills courses to help new employees adapt to the working environment and smoothly enter the working state. At the same time, we provide job guidance of a tutor system for new employees during the probation period, which includes corporate culture, business process, professional knowledge and skills, and the solution and guidance of work difficulties to help new employees to be familiar with business content and work process.

Also, the Company provides learning and development opportunities for employees in various forms, including internal training and external training. According to the "Training Management System", the form of internal training includes internal lectures, sharing meetings, seminars, exchange meetings, etc., and the training content involves the Company's operation, technology, market, management, etc. We encourage our staff to be lecturers, give lectures, and share their personal work experience. The forms of external training include external open courses, exchange seminars, internal trainings by external lecturers, etc. The types of training include professional skills training, leadership training, personal training and examination training, etc.. Additionally, we have established the "iDreamSky College", an enterprise university for all employees of the Company, which aims to cultivate professionals in game research and development, distribution and operation, cultivate managers at all levels in line with the Company's management needs, and actively spread the corporate culture. A professional, open and enterprising organizational atmosphere is created through the construction of a platform for active learning, sharing, exchange and

interaction. The courses of "iDreamSky College" are developed within the Company, which are divided into online courses and offline courses. All online courses can be viewed on the Company's office communication software "Feishu". Through all kinds of sharing, communication and training, we actively cultivate the growth of employees, and will continue to provide various types of training for employees, so that they have sufficient skills and knowledge, and improve their work quality.

Additionally, we have established a result oriented performance evaluation system, which adheres to the principles of fairness and objectivity to evaluate employees. The system establishes a clear link between performance and company strategy, objectives and value distribution, and achieves continuous improvement of the Company's overall performance level by encouraging employees to improve their performance level. The performance management cycle of the Company is carried out in half a year, in which the half-year performance is used for comprehensive evaluation of the half-year performance output of all employees. The annual performance is comprehensively evaluated with reference to the semi-annual assessment results completed in the whole year and the full year performance evaluation results are obtained. The assessment results will be used as the important basis for annual appraisal, salary adjustment, rank promotion, position adjustment, bonus distribution, etc.. If the employee has any objection to the performance evaluation result, he/she can contact the human resources administration department to make a written appeal. The human resources administration department will collect the surrounding opinions, investigate and coordinate the appeal problem, and then deal with it, and feed back the result to the employee to ensure the objective fairness of evaluation result.

- **Supply Chain Management**

The Company is committed to building a green and harmonious supply chain management system to meet the requirements of social, environmental, legal and moral standards, and establish a stable cooperative relationship with suppliers. Therefore, the Company also expects our suppliers to meet the relevant laws and regulations on occupational health and safety, anti-discrimination, environmental protection and anti-corruption.

In order to standardize the management of suppliers and procurement business, the Company has formulated and promulgated the "Procurement Management System", which clearly regulates the supplier management, procurement process, procurement application, procurement implementation, etc. We have also established a standardized supplier evaluation system to evaluate all new and existing suppliers, aiming to strictly select high-quality suppliers and ensure that they meet our expectations. For newly introduced suppliers, before admission, the procurement department of the Company shall, according to the actual needs of procurement, check the supplier questionnaire, qualification documents, supplier profile, past work cases and other relevant materials. If necessary, the procurement department shall organize the personnel of the demand department to conduct on-site inspection at the supplier's. The procurement department reviews the suppliers to be admitted, selects the best suppliers, strictly regulates the admission of suppliers, and regularly updates and maintains the qualified supplier pool of the internal procurement system. For existing suppliers, the Company conducts annual review on suppliers with at least 3 times of annual delivery cooperation each year according to different purchase categories and supplier assessment standards, with assessment aspects including quality, delivery, service, cost, etc., and encourages suppliers to improve product quality, delivery time, service quality and cost control, so as to improve the enterprise competitiveness and make progress together.

- **Product Responsibility**

Prevention of Illegal Content

The Company focuses on creating games of quality content for users and strictly supervises game products. We control from the source of content, actively cooperate with large-scale IP providers and do not accept vulgar games. We organize technicians and testers to try out games, preliminarily evaluate the charging points, playing methods and art design of games, and resolutely resist vulgar content such as erotic, violence and gambling.

Protection of minors

In order to ensure the physical and mental health of online game users and teenagers, the Company has implemented the real name system and anti-addiction system in accordance with the regulatory provisions of China. The Company has taken active and effective measures to protect the physical and mental health of minors, strengthened the promotion of healthy games and anti-addiction information through various channels, and has done a lot of work in the corresponding system and mechanism. We have published the "iDreamSky User Agreement" on the Company's official website. Users can also refer to the latest version of the terms of the agreement on the relevant pages of the Company's games. According to the "User Agreement", the Company applies the user's real name registration information to the anti-addiction system in accordance with the relevant requirements of the country, forbids the minors to access inappropriate games or game functions, limits the minors' game time, and prevents the minors from addicting to the internet. As a part of the rules of the games, the Company issues user guidance and warning instructions at appropriate places, including the introduction of the game content, the methods of correct use of games and the methods of preventing harm, so as to create a healthy game environment.

Meanwhile, we have established a complaint and refund mechanism for minors, joined Tencent's minors guard platform, and connected the real name registration, consumption restriction, online duration, age reminding and other restrictions on minors' gaming to SDK (software development kit) of the Company's games, so as to protect the healthy growth of teenagers. Also, the Company has initiated and implemented the "Online Game Parental Protection of Minors Project", and set up a special monitoring channel for parents in the homepage of the Company's independently operated game products. The parents provide information such as the qualification certificate of the legal guardian, the name and account of games, and the parents' desire for the restriction intensity, etc., to control the game time of minors, e.g. restricting the time interval and length of minors playing games every day, restricting minors to play games only on weekends, or completely prohibited.

In addition, we participated in the "2019 Game Responsibility Forum" hosted by People in June 2019 and jointly launched the "Age Reminding in Games Initiative" with 14 game companies, officially pushing the cause of "protection of minors" to the direction of openness, transparency and normalization. In July 2019, People's "Age Reminding in Games" platform was officially launched, and our three boutique games, "Metro Parkour", "Mechanical Maze" and "Monument Valley", became the first batch of products to participate in age reminding.

At the opening ceremony of GameDaily Connect Global Game Developer Conference held in November 2019, the Company jointly signed the "Healthy Game Content Initiative" with 12 game company representatives, actively brought the Company's initiative into full play, earnestly fulfilled its social responsibility and protected the healthy growth of minors.

In December 2019, we participated in the “Minors Guardian Forum and Minors Guardian Ecological Co-Construction Conference of 2019 China’s Game Industry Annual Conference”, and jointly issued the “Minors Guardian Declaration of China’s Game Industry” with the representatives of nine other game companies to respond to the new regulations of the industry.

Intellectual Property Protection

The Company has formulated and promulgated the “Intellectual Property Management System”, which regulates the management of intellectual rights such as patent, proprietary technology and technical secrets, trademarks and service marks, trade secrets, copyrights, and stipulates the legal department as the intellectual property management department. At the same time, the Company has set up an intellectual property management committee at the group company level. The director of the committee is the chairman of the Company, the deputy director is the senior vice president, and the members are composed of persons chiefly held responsible of business units of R&D department, self-developed product department, user service department, marketing department, IP business department, legal department, business management department, policy development department, human resources department, etc.

In January 2019, we signed an agreement with the New Cultural and Creative Platform of China Cultural Media Group (IP) to jointly establish a linkage mechanism for intellectual property protection. In the future, we will designate IP platform as the third-party accreditation agency, for IP rights confirmation. Relying on the IPCI system, rights protection system and database of IP platform, IP platform and companies will establish a close linkage mechanism in terms of intellectual property protection.

User Data Protection and Privacy Policy

Protecting user information and privacy is a basic principle of our Company. To ensure the standardization and flow of user’s personal information processing, the Company, in accordance with the “Cyber Security Law”, the “Decision of the Standing Committee of National People’s Congress on Strengthening Protection of Network Information”, the “Consumer Protection Law”, the “Provisions on Protection of Personal Information of Telecommunications and Internet Users”, the “Information Security Technology Personal Information Security Specification”, the “Regulations on Network Protection of Children’s Personal Information” and other relevant national laws and regulations and national standards, drafted the “Organizational Structure of Information Security Department”, “Information Security Management System”, “Data Security Operation System”, “Information Security Management Regulations” and “User Personal Information Management Regulations”.

For the encryption of password and data transmission, the “Information Security Management System” stipulates that the Company shall establish a user management system for the access to important business systems, adopt password hierarchical management for different types and levels of management and users, set the validity period of password, and adopt non-plaintext secondary encryption technology for the storage of password to prevent all kinds of password leakage accidents. The "Data Safety Operation System" stipulates that the Company's data must be stored and transmitted by encryption or other means according to the level of data to ensure its storage security. For external hacker attacks, the "Organizational Structure of Information Security Department" stipulates that the Company's network administrator is responsible for monitoring key network equipment, network ports, network physical lines, preventing hacker intrusion, and reporting security incidents to the information security personnel in a timely manner. The "Information Security Management System" stipulates that the Company uses network equipment such as firewalls, routers, intrusion detection to strengthen network security, strictly guard against hacker attacks and illegal intrusions from the Internet. In terms of access to user information, the provisions on the "User Personal Information Management Regulations" stipulates that the Company shall sign a confidentiality agreement with the relevant personnel engaged in the personal information processing posts, and review the background of the personnel who have access to a large number of personal sensitive information when necessary. The Company shall also specify the personal information security requirements to be observed by the external service personnel who may access the user's personal information, sign a confidentiality agreement with them, and supervise them.

Our business model enables us to collect and process a large number of user data, so we are at the risk of cyber attacks and data leaks. The Company has published the "iDreamSky User Agreement" on the Company's official website, which describes the collection, use and protection of user information, including the scope of user information. We also published the "iDreamSky Privacy Policy" on the Company's official website, which includes the corresponding technologies and procedures adopted by the Company to protect the user's personal information, such as enabling SSL protocol to provide encryption protection when exchanging data (e.g. credit card information) between the user's browser or application and the server, adopting encryption technologies e.g. transmission layer security protocol, and providing browsing service by HTTPS.

Complaint Handling

The Company has standardized the process of handling user complaints. The customer service center regularly checks the 3.15 complaint platform every day. When a complaint is found, the customer service center is responsible for collecting relevant information, verifying whether the complaint is true and contacting the corresponding game operation team. The operation team is responsible for providing the solution, and then the customer service center will feed back the solution to the user. If the user is satisfied with the solution, the customer service center will request the user to withdraw the complaint; if the user is not satisfied with the solution, the customer service center will feedback the complaint to the China Consumers Association for communication and coordination.

- **Anti-corruption**

We have been managing all departments of the Company by laws and regulations to prevent bribery, fraud and corruption. The Company has set up a reporting mechanism to provide anonymous reporting channels. Anyone can submit reports of potential violations of internal policies or illegal acts to the internal audit department by phone or email. The recipients of the reporting emails include the internal audit department as well as the CEO of the Company. After receiving the report, the internal audit department will communicate with the informant about the specific situation, carry out further investigation and evidence collection, and determine whether it is necessary to communicate the investigation results with the Company's management and the board of directors according to the actual situation. We shall make reasonable efforts to protect the confidentiality and anonymity of the reporting staff when investigating the reports submitted. Meanwhile, the Company standardizes internal audit supervision procedures e.g. internal financial audit, internal control audit, project audit, contract audit, responsibility audit and special audit to prevent errors and fraud. Also, we have stipulated the code of conduct for employees, publicized the Company's corporate values of integrity to employees, emphasized the importance of abiding by national laws and regulations and the Company's rules and regulations, and advocated integrity and professional ethics. We also explain to our employees that it is prohibited to use the Company's property, information or status for personal gain, to falsely report accounts, to misappropriate the Company's financial funds, to accept commercial bribes, and for employees themselves or their relatives and other third parties to accept valuable gifts from suppliers/partners.

In addition, to avoid possible violations in the procurement process, the Company has formulated and issued the "Procurement Management System", which stipulates that the internal audit department has the right to supervise and check all procurement records of the Company, attend the procurement bidding meeting to raise reasonable doubts; the internal audit department reviews all violations in the procurement process. Additionally, the internal audit department also reviews the implementation of the procurement system and bidding execution, as well as the signing and execution of purchase contract orders.

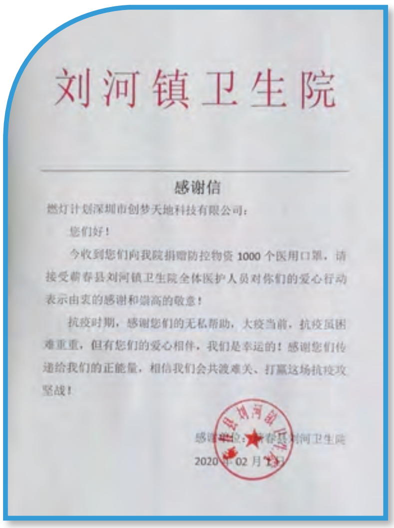
During the reporting period, there were no cases of corruption brought against the Group, its subsidiaries or its employees, and we were not aware of any violations of laws and regulations related to bribery, extortion, fraud and money laundering.

- **Community Investment**

The sustainable development of the Company is inseparable from the support of all parties in the society. While we strive to provide users with high-quality game products and services, we always integrate business development and social responsibility, actively participate in social public welfare activities and give back to the society.

Since the outbreak of novel coronavirus pneumonia in 2020, we have paid close attention to the latest developments related to the epidemic in real time, set up an inter departmental "Corporate Social Responsibility Team" and mobilized all resources to find urgently needed materials that meet the needs of the first-line medical care. We donated 300 thousand medical aid to Hubei Province in January 2020, which was used for the forefront of fighting novel coronavirus pneumonia. The first batch of 6,000 specialized medical masks have been sent to areas in short supply e.g. Wuhan City, Jingmen City, Xishui County and Huangmei County, totaling more than ten hospitals. The donated medical materials have been implemented. In the mean time, through multiple contacts, the second batch of 50,000 professional medical masks have also been sent to more than 10 first-line medical institutions in Macheng City, Badong County and Luotian County of Hubei Province to fight against the epidemic and put into the epidemic prevention and control of hospitals in the epidemic area.

In February 2020, the epidemic situation of novel coronavirus pneumonia is still grim. In addition to professional medical masks, our new batch of donated materials includes 200 cases (100 thousand pairs) of professional medical gloves and 190 cases (19 thousand pieces) of professional medical isolation gowns, which has been sent to over 50 county hospitals in short supply in Guangshui City, Suizhou City, Xiantao City, Jingzhou City, Gongan County, Honghu City and other places in Hubei province. The medical materials donated by the Company are delivered to hospitals all over Hubei Province with the help of volunteer teams of public welfare information matching community platform "Lighting Plan".



刘河镇卫生院

感谢信

燃灯计划深圳市创梦天地科技有限公司：

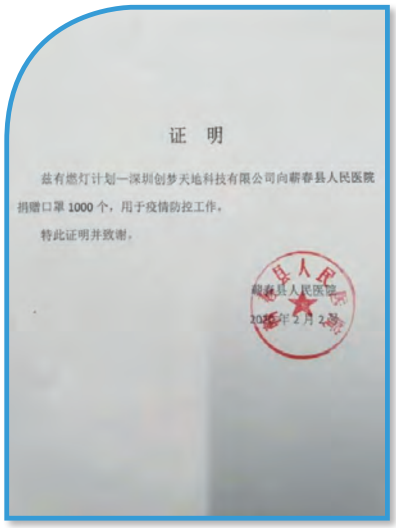
您们好！

今收到您们向我院捐赠防控物资 1000 个医用口罩，请接受蕲春县刘河镇卫生院全体医护人员对你们的爱心行动表示由衷的感谢和崇高的敬意！

抗疫时期，感谢您们的无私帮助，大疫当前，抗疫虽困难重重，但有您们的爱心相伴，我们是幸运的！感谢您们传递给我们的正能量，相信我们会共渡难关、打赢这场抗疫攻坚战！

感谢单位：蕲春县刘河卫生院

2020 年 02 月 1[illegible] 日



证　明

兹有燃灯计划一深圳创梦天地科技有限公司向蕲春县人民医院捐赠口罩 1000 个，用于疫情防控工作。

特此证明并致谢。

蕲春县人民医院

2020 年 2 月 2[illegible]

The Company will continue to interpret the concept of public welfare with actions, practice corporate social responsibility, continue to focus on the development of the epidemic, and ensure the further implementation and distribution of funds and various professional medical materials.

- **HKEX ESG GUIDE CONTENT INDEX**

Aspect	HKEx KPI	Description	Page Number/ Remarks
A. Environmental			
A1 Emissions	A1	General Disclosure	Page 76
	A1.1	The type of emissions and respective emissions data	Pages 76 and 78
	A1.2	Greenhouse gas emissions in total and intensity	Page 76
	A1.3	Total hazardous waste produced and intensity	Page 79
	A1.4	Total non-hazardous waste produced and intensity	Page 79
	A1.5	Description of measures to mitigate emissions and results achieved	Page 76
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Page 76
A2 Use of Resources	A2	General Disclosure	Pages 76 to 77
	A2.1	Direct and/or indirect energy consumption by type in total and intensity	Page 78
	A2.2	Water consumption in total and intensity	Page 78
	A2.3	Description of energy use efficiency initiatives and results achieved	Pages 76 to 77
	A2.4	Description of issue in sourcing water, water efficiency initiatives	Page 76
	A2.5	Total packaging material used for finished products	Due to the business nature of the Group, this KPI is considered not material.
A3 The Environment and Natural Resources	A3	General Disclosure	The business of the Group does not have significant impacts on the summoning.
	A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	

Aspect	HKEx KPI	Description	Page Number/ Remarks
B Social			
B1 Employment	B1	General Disclosure	Pages 79 to 80
	B1.1	Total workforce by gender, employment type, age group and geographical region	Page 81
	B1.2	Employee turnover rate by gender, age group and geographical region	N/A
B2 Health and Safety	B2	General Disclosure	Pages 81 to 83
	B2.1	Number and rate of work-related fatalities	NIL
	B2.2	Lost days due to work injury	NIL
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Pages 81 to 83
B3 Development and Training	B3	General Disclosure	Pages 84 to 85
	B3.1	Percentage of employees trained by gender and employee category	N/A
	B3.2	Average training hours completed per employee by gender and employee category	N/A
B4 Labour Standards	B4	General Disclosure	Pages 79 to 80
	B4.1	Description of measures to review employment practices to avoid child and forced labour	Page 80
	B4.2	Description of steps taken to eliminate such practices when discovered	Page 80
B5 Supply Chain Management	B5	General Disclosure	Page 86
B6 Product Responsibility	B6	General Disclosure	Pages 86 to 90

Aspect	HKEx KPI	Description	Page Number/ Remarks
B7 Anti-Corruption	B7	General Disclosure	Pages 89 to 90
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases	NIL
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Pages 89 to 90
B8 Community Investment	B8	General Disclosure	Pages 90 to 91
	B8.1	Focus areas of contribution	Pages 90 to 91
	B8.2	Resources contributed to the focus area	Pages 90 to 91

To the Shareholders of iDreamSky Technology Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of iDreamSky Technology Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 102 to 213, which comprise:

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition — estimation of lifespan of in-game virtual items
- Impairment assessment of goodwill

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition — estimation of lifespan of in-game virtual items Refer to notes 2.25 and 4(a) to the consolidated financial statements. During the year ended December 31, 2019, the Group's revenue from game publishing services ("**Game Business**") amounted to RMB2,446,876,000, representing 87.61% of the Group's total revenue. It was mainly derived from the sales of in-game virtual items. The Group recognizes the revenue from sales of in-game virtual items ratably over the lifespan of in-game virtual items determined by management with reference to the expected playing period of paying players ("**Player Relationship Period**") for mid- and hardcore mobile games and certain casual mobile games. We focus on this area due to the fact that management applied significant judgements in determining the Player Relationship Period. These judgements included (i) the determination of key assumptions applied in the Player Relationship Period, including historical users' consumption patterns, churn rates, reactivity on marketing activities and game life-cycle; (ii) the identification of events that may trigger changes in the expected Player Relationship Period.	Our procedures performed in relation to the estimation of lifespan of in-game virtual items included: — We understood and evaluated management's judgements to determine the lifespans of in-game virtual items based on the expected Player Relationship Period taking into consideration of the nature of games, market practice and our industry knowledge; — We understood, evaluated and tested, on a sample basis, key controls in respect of the estimation of lifespan of in-game virtual items, including management's review and approval of (i) determination of the estimated lifespan of new virtual items prior to their launches; and (ii) changes in the estimated lifespan of existing virtual items based on periodic reassessment on any indications triggering such changes. We also assessed the data generated from the Group's information system supporting the management's review, including testing the information system logic for generation of reports, and checking, on a sample basis, the monthly computation of revenue recognised on selected games based on reports generated from the Group's information system.

Key Audit Matter	How our audit addressed the Key Audit Matter
	— We assessed, with the involvement of our IT specialist, the reasonableness of the expected Player Relationship Period adopted by management by testing, on a sample basis, the reliability of the data generated from the information systems regarding the historical users' consumption patterns and checking the calculation of the churn rates. We also evaluated the consideration made by management in determining the reactivity of marketing activities and game life-cycle for expected Player Relationship Period with reference to historical operating and marketing data of the relevant games. We also assessed, on a sample basis, the historical accuracy of the management's estimation by comparing the actual Player Relationship Period for the mobile games for the current year against the original estimation of Player Relationship Period of those games in the prior years. — We understood the process for which management identified events that might trigger changes in the expected Player Relationship Period, and assessed if those changes have been reflected in management's Player Relationship Period estimation in the current year. We found that the results of our procedures performed to be materially consistent with management's supporting documentation.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to note 4(b) and 18 to the consolidated financial statements. The Group had goodwill amounting to RMB989,233,000 which was arisen from the acquisition of Shanghai Huohun Internet Technology Co., Ltd ("**Shanghai Huohun**") in 2018. Management engaged an independent valuer to assist them in carrying out the goodwill impairment assessment. For the purpose of assessing impairment, management considered that Shanghai Huohun is a separate group of cash-generated-units (the "**Shanghai Huohun CGU**") and the goodwill is allocated to the Shanghai Huohun CGU. Management determined the recoverable amounts of Shanghai Huohun CGU based on value in use ("**VIU**"), which is the present value of the future cash flows expected to be derived from the Group's CGU. Based on the assessments, management recognised goodwill impairment of RMB422,331,000 during the year ended December 31, 2019. We focused on this area due to the magnitude of the carrying amounts of goodwill and the fact that significant judgements were required by management as the VIU of the Shanghai Huohun CGU is determined based on assumptions used in the cash flow forecast. The key assumptions adopted by management including the revenue growth rate and earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") margin during the forecast period, terminal growth rate and pre-tax discount rate.	Our procedures in relation to management's impairment assessment of goodwill included: — We assessed the appropriateness of management's identification of cash-generated-units and allocation of goodwill based on Group's accounting policy and our understanding of the Group's business; — We assessed the competency, capabilities and objectivity of the external valuer engaged by management; — We obtained the valuation report of goodwill impairment and engaged our internal valuation expert to assess the appropriateness of valuation method adopted by management and the reasonableness of pre-tax discount rate used by management; — We challenged and evaluated the reasonableness of key assumptions used in the in the cash flow forecast, such as revenue growth rates, EBITDA margin, terminal growth rate and pre-tax discount rate taking into account industry forecasts and market developments, the Group's management approved budget, plan and historical performance; — We evaluated the reasonableness of sensitivity analysis performed by the management on the key assumptions to understand the impact of reasonable changes in assumptions on the estimated recoverable amount; We found management's judgements and assumptions adopted in the goodwill impairment assessment to be supported by the available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tong Yu Keung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 26, 2020

Consolidated Statement of Comprehensive Income

	Notes	Year ended December 31, 2019 RMB'000	2018 RMB'000
Revenues	6	**2,792,970**	2,364,641
Cost of revenues	7	**(1,567,232)**	(1,325,818)
Gross profit		**1,225,738**	1,038,823
Selling and marketing expenses	7	**(293,343)**	(303,373)
General and administrative expenses	7	**(250,275)**	(284,655)
Research and development expenses	7	**(191,077)**	(99,102)
Net impairment losses on financial assets and contract assets	7	**(70,016)**	(30,189)
Other income	8	**28,337**	15,249
Other (losses)/gains, net	9	**(95,802)**	3,244
Fair value gains/(losses) on financial assets at fair value through profit or loss	21	**74,672**	(10,631)
Operating profit		**428,234**	329,366
Finance income	11	**11,239**	16,358
Finance costs	11	**(46,889)**	(51,023)
Finance cost, net	11	**(35,650)**	(34,665)
Share of results of investments accounted for using the equity method	20	**(1,999)**	2,346
Profit before income tax		**390,585**	297,047
Income tax expense	12	**(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

	Notes	Year ended December 31, 2019 RMB'000	2018 RMB'000
Profit for the year attributable to:			
—Equity holders of the Company		**352,233**	246,384
—Non-controlling interests		**8,164**	21,449
		360,397	267,833
Total comprehensive income attributable to:			
— Equity holders of the Company		**352,522**	285,916
— Non-controlling interests		**8,164**	21,449
		360,686	307,365
Earning per share			
— Basic earnings per share *(in RMB)*	13	**0.29**	0.23
— Diluted earnings per share *(in RMB)*	13	**0.28**	0.23

The Notes on pages 110 to 213 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Notes	As at December 31, 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**31,712**	26,893
Intangible assets	17	**1,419,264**	682,702
Investment properties	16	**26,012**	—
Right-of-use assets	15	**46,177**	—
Investments accounted for using the equity method	20	**406,708**	284,896
Financial assets at fair value through profit or loss	21	**354,320**	267,506
Prepayments and other receivables	24	**79,014**	41,480
Goodwill	18	**566,902**	989,233
Contract asset	23	**4,131**	21,653
Deferred tax assets	33	**51,483**	36,496
		2,985,723	2,350,859
Current assets			
Trade receivables	22	**1,005,256**	820,894
Amounts due from related parties	36	**8,523**	39,032
Prepayments and other receivables	24	**1,285,881**	1,031,745
Contract asset	23	**2,122**	26,440
Contingent consideration assets		**—**	20,089
Contract costs	32	**151,967**	119,824
Financial assets at fair value through profit or loss	21	**114,544**	87,547
Cash and cash equivalents	25	**532,746**	1,121,641
		3,101,039	3,267,212
Total assets		**6,086,762**	5,618,071
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	26	**75**	75
Share premium	26	**2,542,476**	2,542,476
Reserves	27	**379,654**	254,552
Retained earnings		**635,353**	329,898
		3,557,558	3,127,001
Non-controlling interests		**388,035**	51,105
Total equity		**3,945,593**	3,178,106

	Notes	2019 RMB'000	2018 RMB'000
		As at December 31,	
LIABILITIES			
Non-current liabilities			
Borrowings	29	**254,148**	129,805
Lease liabilities	15	**26,559**	—
Deferred government grants	8	**2,417**	5,429
		283,124	135,234
Current liabilities			
Borrowings	29	**1,016,291**	984,357
Lease liabilities	15	**22,366**	—
Trade payables	30	**160,793**	153,001
Amounts due to related parties	36	**21,159**	21,159
Other payables and accruals	31	**317,045**	885,046
Income tax liabilities		**45,480**	40,766
Deferred government grants	8	**9,452**	11,626
Contract liabilities	32	**265,459**	208,776
		1,858,045	2,304,731
Total liabilities		**2,141,169**	2,439,965
Total equity and liabilities		**6,086,762**	5,618,071

The notes on pages 110 to 213 are an integral part of these consolidated financial statements.

The financial statements on pages 102 to 213 were approved by the Board of Directors on March 26, 2020 and were signed on its behalf:

Chen Xiangyu
Director

Lei Junwen
Director

Consolidated Statement of Changes in Equity

		Attributable to equity holders of the Company										
	Notes	Share Capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Merger reserves *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, 2018		—	—	360,900	228,130	9,482	(6,296)	632,375	106,781	1,331,372	5,322	1,336,694
Profit for the year		—	—	—	—	—	—	—	246,384	246,384	21,449	267,833
Other comprehensive income												
— Currency translation differences	27	—	—	—	—	—	39,532	—	—	39,532	—	39,532
Total comprehensive income for the year		—	—	—	—	—	39,532	—	246,384	285,916	21,449	307,365
Transactions with owners												
Capital reduction from equity holders of the Company's subsidiary	27	—	—	(2,250)	(47,750)	—	—	—	—	(50,000)	—	(50,000)
Effect of Reorganization of the Group	27	61	1,084,848	(358,650)	(180,380)	—	—	(545,818)	—	61	—	61
Capital injection from equity holders of the Company	26	5	753,766	—	—	—	—	—	—	753,771	—	753,771
Proceeds from initial public offering ("**IPO**"), net of transaction costs	26	9	703,862	—	—	—	—	—	—	703,871	—	703,871
Profit appropriation to statutory reserves	27	—	—	—	—	23,267	—	—	(23,267)	—	—	—
Share-based compensation expenses	28	—	—	—	—	—	—	85,910	—	85,910	—	85,910
Acquisition of a subsidiary		—	—	—	—	—	—	—	—	—	17,434	17,434
Contributions from non-controlling shareholder of Shanghai Huohun Internet Technology Co., Ltd. ("**Shanghai Huohun**")		—	—	16,100	—	—	—	—	—	16,100	6,900	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	24,334	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	51,105	3,178,106

The Notes on pages 110 to 213 are an integral part of these consolidated financial statements.

	Notes	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
		Attributable to equity holders of the Company									
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	27	—	—	—	—	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	27	—	—	—	46,778	—	—	(46,778)	—	—	—
Share-based compensation expenses	28	—	—	—	—	—	100,301	—	100,301	—	100,301
Capital injection from non-controlling interests		—	—	—	—	—	—	—	—	107,000	107,000
Transaction with non-controlling interests	27	—	—	—	—	—	(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

The Notes on pages 110 to 213 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

	Notes	Year ended December 31, 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	34(a)	**391,257**	240,895
Income taxes paid		**(40,461)**	(34,495)
Net cash inflow from operating activities		**350,796**	206,400
Cash flows from investing activities			
Interest received from wealth management products	8	**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	34(a)	**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	36	**(402)**	(34,094)
Repayment of loans due from related parties	36	**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		**(1,148,532)**	(1,171,478)

	Notes	Year ended December 31, 2019 RMB'000	2018 RMB'000
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	36	**—**	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
Net cash inflow from financing activities		**197,885**	1,473,846
Net (decrease)/increase in cash and cash equivalents		**(599,851)**	508,768
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
Cash and cash equivalents at the end of the year		**532,746**	1,121,641

The Notes on pages 110 to 213 are an integral part of these consolidated financial statements

1 General information

iDreamSky Technology Holdings Limited (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 (collectively, the "**Group**") are principally engaged in the licensing and operating of single player mobile games and mobile online games (the "**Listing Business**") in the People's Republic of China (the "**PRC**" or "**China**").

The Company has its primary listing on the Stock Exchange of Hong Kong Limited ("**the HKEX**") on December 6, 2018.

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

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

The preparation of the consolidated financial statements in conformity with International Financial Reporting Standards ("**IFRSs**") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 below.

2.1 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 1 January 2019:

- IFRS 16 Leases;
- Prepayment features with negative compensation — amendments to IFRS 9;

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

- 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 1 January 2019. This is disclosed in Note 2.2. 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.

(b) 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

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) New standards and interpretations not yet adopted (Continued)

The above new standards, amendments and interpretations to existing standards are effective for annual periods beginning after 1 January 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.

2.2 Changes in accounting policies

This note explains the impact of adoption of IFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 Leases retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on January 1, 2019. The new accounting policies are disclosed in Note 2.28.

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%.

The Group did not enter into any leases arrangement which previously classified as finance leases.

(a) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at January 1, 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2 Summary of significant accounting policies (Continued)

2.2 Changes in accounting policies (Continued)

(a) *Practical expedients applied* (Continued)

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(b) *Measurement of lease liabilities*

	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)
Lease liability recognised as at January 1, 2019	45,737
Of which are:	
Current lease liabilities	15,453
Non-current lease liabilities	30,284
	45,737

(c) *Measurement of right-of-use assets*

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.

(d) *Adjustments recognised in the statement of financial position on January 1, 2019*

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.

2 Summary of significant accounting policies (Continued)

2.2 Changes in accounting policies (Continued)

(e) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

2.3 Principles of consolidation and equity accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

(b) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (d) below), after initially being recognised at cost.

(c) Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Interests in joint ventures are accounted for using the equity method (see (d) below), after initially being recognised at cost in the consolidated statement of financial position.

2 Summary of significant accounting policies (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(d) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.12.

(e) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2 Summary of significant accounting policies (Continued)

2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

2 Summary of significant accounting policies (Continued)

2.4 Business combinations (Continued)

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.6 Segment reporting

Operating segments are defined as components of an enterprise engaging in business activities for which separate financial information is available that is regularly evaluated by the Group's Chief Operating Decision Makers ("**CODM**") in deciding how to allocate resources and assess performance. The Group's CODM has been identified as the Chief Executive Officer ("**CEO**"), who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group has internal reporting of cost and expenses that does not distinguish between segments, and reports costs and expenses by nature as a whole. The Group does not distinguish between markets or segments for the purpose of internal reporting. Hence, the Group has only one operating segment. As the Group's long-lived assets and revenues are substantially located in and derived from the PRC, no geographical segments are presented.

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("**the functional currency**"). The functional currency of the Company is Hong Kong dollar ("**HKD**"). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

2 Summary of significant accounting policies (Continued)

2.7 Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as financial assets at fair value through other comprehensive income are recognized in other comprehensive income.

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- All resulting exchange differences are recognized in other comprehensive income.

On combination, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2 Summary of significant accounting policies (Continued)

2.7 Foreign currency translation (Continued)

(c) Group companies (Continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income or loss.

2.8 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

— Land and buildings	20 years
— Furniture and office equipment	3 years
— Servers and other equipment	3 years
— Motor vehicles	5 years
— Leasehold improvements	Shorter of estimated useful lives or remaining lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in 'Other losses, net' in the consolidated statement of comprehensive income.

2 Summary of significant accounting policies (Continued)

2.9 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.

2.10 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.4. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(b) Computer software

Acquired computer software stated at historical cost less amortization. Acquired computer software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software, and are amortized on a straight-line basis over their useful lives, from 1 to 3 years.

(c) Game intellectual properties and licenses

Under certain exclusive games arrangements entered between the Group and the game developers, the Group pays upfront license fees to the game developers as the Group obtained the games developed by those game developers. The Group recognizes the upfront license fees as an intangible asset. This intangible assets are amortized on a straight-line basis over the expected economic life, from 3 to 5 years. These amortization are recorded in cost of revenues (where the games are commercially launched) or general and administrative expenses (where the games are not yet commercially launched).

2 Summary of significant accounting policies (Continued)

2.10 Intangible assets (Continued)

(c) *Game intellectual properties and licenses* (Continued)

In some other circumstance, the Group prepaid the upfront license fees to game developers as the Group is entitled a right to operate third party developed games for certain period of time in certain countries. The Group recognize the prepaid license fees as intangible assets upon the related games passed the external testing. The Group amortize these intangible assets on a straight-line basis over the remaining license period from commercial launch of the related games. These amortization are recorded in cost of revenue to game player.

(d) *Research and development expenditures*

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the software product so that it will be available for use; (2) management intends to complete the software product and use or sell it; (3) there is an ability to use or sell the software product; (4) it can be demonstrated how the software product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (6) the expenditure attributable to the software product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred.

The Group capitalizes costs relating to certain activities of developing and obtaining internally generated software that occur during the application development stage, such as external direct costs of materials and services consumed in developing or obtaining the software and costs for employees who are directly associated with and who devote time to the software project (to the extent of the time spent directly on the project). Maintenance costs related to the software are expensed as incurred. The Group does not license its internally generated software to any third parties.

Development costs previously recognized as expenses are not recognized as assets in subsequent periods. Capitalized development costs are amortized from the point at which the assets are ready for use on a straight-line basis over their useful lives, from 1 to 2 years.

2 Summary of significant accounting policies (Continued)

2.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.12 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and

- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("**FVOCI**").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 Summary of significant accounting policies (Continued)

2.12 Investments and other financial assets (Continued)

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVPL**"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

2 Summary of significant accounting policies (Continued)

2.12 Investments and other financial assets (Continued)

(c) ***Measurement*** (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) ***Impairment***

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 22 for further details.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2 Summary of significant accounting policies (Continued)

2.15 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less.

2.16 Share capital and shares held for employee share scheme

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's share capital (treasury shares), for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's owners until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

Shares held by RSU Holdings Entities(the companies holdings shares pursuant to the RSU Plan on trust or on behalf of the grantees of the Company, namely Sky Investment Limited and Sky Technology Limited) are disclosed as treasury shares and deducted from contributed equity.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Trade and other payables are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2 Summary of significant accounting policies (Continued)

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Contract liabilities and contract costs

For game publishing service revenues, contract liabilities primarily consists of the unamortized revenue from sales of game tokens and virtual items for mobile games, where there is still an implied obligation to be provided by the Group and will be recognized as revenue when all of the revenue recognition criteria are met.

Contract costs primarily consist of the unamortized commission charges by distribution and payments channels.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity. In this case, the tax is also recognized in other comprehensive income or loss or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of significant accounting policies (Continued)

2.21 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of significant accounting policies (Continued)

2.22 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognized until the time of leave.

(b) Pension obligations

The Group's companies incorporated in the People's Republic of China ("**PRC**") contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and other defined contribution social security plans organized by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable and other social security payables to all existing and future retired employees under these plans and the Group has no further obligation beyond the contributions made. Contributions to these plans are expenses as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(c) Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates several equity-settled, share-based compensation plans (including share option scheme and share award scheme), under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of equity instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

2 Summary of significant accounting policies (Continued)

2.23 Share-based payments (Continued)

(a) *Equity-settled share-based payment transactions* (Continued)

Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement date and grant date.

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period. Furthermore, if the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancelation of some or all the equity instruments granted).

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

2.24 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition

Revenues are recognized when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

Game distribution revenue

The Group is a publisher of mobile games developed by third party game developers or its own. The Group licenses mobile games from game developers and earns game publishing service revenue by making a localized version of the licensed games and publishing them to the game players through distribution channels, including various mobile application stores and software websites, as well as other game publishers with cooperation relationship with the Group (collectively referred to as "**Distribution Channels**"), including the Group's websites. Through the Distribution Channels, game players can download the mobile games to their mobile devices. The mobile games published by the Group which are operated under a free-to-play model whereby game players can download the games free of charge and are charged for the purchase of in-game virtual items via payment channels, such as various mobile carriers and third-party internet payment systems (collectively referred to as "**Payment Channels**", Distribution Channels and Payment Channels collectively referred to as "**Platforms**").

(a) Casual mobile games

For casual mobile games, game players play the games on their own. The majority of casual mobile games are matching puzzle games, endless running games and casual competition games that the game players play on their own. Upon the completion of download and installation of the games to the game players' mobile devices, all functionalities of the games have been fully delivered to the devices. Players can then play the games on their device without real time connection to the internet. At game players' discretion, in-game virtual items may be purchased to enhance game players' game experience. The fulfillment of in-game purchase requires connection to the mobile carriers' network or internet connection to the servers of Payment Channels at the time of purchase. Once the game players confirm their purchase requests, the Payment Channels send an 'unlock code' to the device of the game players and then the purchased virtual items are automatically unlocked in the downloaded game. Therefore, future play and use of the purchased features do not require ongoing online connectivity or involvement of the Group and game servers are not necessary for game players to play the game or utilize the purchased in-game features or items. The Group does not have a practice or history of replacing lost games or data of offline mobile games for game players. However, starting from 2017, the Group also encourages the game player to register a game account for same casual games, and for those registered game players, the Group provides the additional services to store the in-game user information (including game playing contents and player's in-game purchase data) in the severs and will replace lost game and user data for those game players in certain circumstance.

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition (Continued)

(b) Mid- and hardcore mobile games

For mid- and hardcore mobile games, game players interact with other online players to collaborate or to compete among themselves to complete certain tasks of the games within a virtual social environment. The majority of our mid- and hardcore mobile games are role-playing games that the game players play with other online players. Playing of the online mobile games requires real time internet connection to game servers, where all in-game user information is stored, including game playing contents and player's in-game purchase data. The game application downloaded on game players' device is similar to a portal to access the online game servers which are hosted by the game developers. Game players may purchase in-game virtual items or features via the payment channels to enhance their game-playing experience similar to offline mobile games.

(c) Principal Agent Consideration

(i) Third party licensed mobile games

Proceeds earned from selling in-game virtual items, in both of the licensed casual and mid- and hardcore mobile games, are shared between the Group and the game developers, with the amount paid to the developers generally calculated based on amounts paid by players, after deducting the fees paid to the Payment Channels and the Distribution Channels including the credit allowable for deduction for games that were downloaded through the Group's owned platforms, multiplied by a predetermined percentage for each game.

The Group evaluates agreements with the game developers, Distribution Channels and Payment Channels in order to determine whether or not the Group acts as the principal or as an agent in the arrangement with each party respectively, which it considers in determining if relevant revenues should be reported gross or net of the predetermined amount of the proceeds shared with the other parties. The determination of whether to record the revenues gross or net is based on an assessment of various factors, including but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has general inventory risk; (iii) changes the product or performs part of the services; (iv) has latitude in establishing the selling price; (v) has involvement in the determination of product and service specifications. The assessment is performed for all of the Group's licensed mobile games.

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition (Continued)

(c) ***Principal Agent Consideration*** (Continued)

(i) *Third party licensed mobile games* (Continued)

The Group acts as Agent

With respect to certain of the Group's game license arrangements entered during the reporting period, the Group considered that the (i) game developers are responsible for providing the game products desired by the game players; (ii) the costs incurred by the developers to develop the games are more than the licensing costs and game localizations costs incurred by the Group; (iii) the hosting and maintenance of game servers for running the online mobile games is the responsibility of the developers, (iv and v) the developers have the right to review and approve the pricing of in-game virtual items and the specification, modification or update of the game made by the Group. The Group's responsibilities are publishing, providing payment solution and market promotion service, and thus the Group views the game developers to be its customers and considers itself as the agent of the game developers in the arrangements with game players. Accordingly, the Group records the game publishing service revenue from these licensed games, net of amounts paid to the game developers.

As the Group is responsible for identifying, contracting with and maintaining the relationships of the distribution and payment channels, commission fees paid to the Distribution Channels and Payment Channels are included in cost of revenues and presented on a gross basis. The Group considers it is the primary obligor to the game developers for the reasons identified above as it has The Group acts as Agent been given latitude by the game developers in selecting distribution and payment channels for its service to the game developers.

The Group acts as Principal

With respect to certain of the Group's game license arrangements entered during the reporting period, there are same game license arrangements under which the Group takes primary responsibilities of game operation, including determining distribution and payment channels, providing customer services, hosting game servers, if needed, and controlling game and services specifications and pricing. Under this type of game license arrangement, the Group considered itself as a principal in these arrangements. Accordingly, the Group records the mobile games revenues from these third party licensed games on a gross basis. Commission fees paid to Distribution Channels and Payment Channels and content fees paid to third party game developers are recorded as cost of revenues.

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition (Continued)

(c) Principal Agent Consideration (Continued)

(ii) Self-developed and acquired mobile games

During the reporting period, the Group has been self-developing mobile games and acquiring mobile games from game developers. Game revenues derived from self-developed and acquired mobile games are recorded on a gross basis as the Group acts as a principal to fulfill most obligations related to the mobile game operation. Commission fees paid to Distribution Channels and Payment Channels are recorded as cost of revenues.

(d) Timing of revenue recognition

(i) Casual mobile games

For the casual mobile games, the Group doesn't provide the restore and replacement services, the Group has determined that all revenue recognition criteria are met upon players' confirmation of the purchase request and the unlocking of the purchased virtual items. This is because the service fee earned by the Group from the developers is fixed or determinable, the fee is considered collectible and the performance by the Group has occurred once the game players purchase virtual items. The Group has no additional performance obligations to the game developers or game players in order to earn the service fee upon the completion of the corresponding in-game purchases. Therefore, the Group recognizes revenue from providing services to casual mobile game developers upon the purchase of in-game virtual items by the game players for this type of arrangements.

For the casual mobile games the Group provides the restore, replacement, and other similar services to mid- and hardcore mobile games and the Group recognized the revenue ratably over the estimated average playing period of the game players (see below).

(ii) Mid- and hardcore mobile games

As the Group is acting as an agent in selling the mid- and hardcore mobile games to game players, the Group has determined that all revenue recognition criteria are met upon players' confirmation of the purchase request although the utilization of the purchased virtual items require connection to the game servers. The fact that the operation of these mobile games requires hosting and maintenance of online game servers would not affect the timing of revenue recognition by the Group because those obligations are the responsibilities of the game developers as the primary obligor. Therefore, the Group recognizes revenues from providing services to mid- and hardcore mobile game developers upon the purchase of in-game virtual items by the game players as the Group has no further obligations to the game developers in order to earn the service fee upon the completion of the corresponding in-game purchases.

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition (Continued)

(d) Timing of revenue recognition (Continued)

(ii) Mid- and hardcore mobile games (Continued)

For mid- and hard-core mobile games where the Group is acting as a principal, the Group has determined that it is obligated to provide on-going services to the game players who purchased virtual items to gain an enhanced game-playing experience over an average playing period of the paying players, and accordingly, the Group recognizes the revenues ratably over the estimated average playing period of these paying players, starting from the point in time when virtual items are delivered to the players' accounts, and all other revenues recognition criteria are met.

As the mid- and hardcore games are under a free-to-play model and revenue is generated from game paying players when they purchase game points for in-game virtual items, the Group focuses on the playing period of paying players when estimating the period over which revenue is being recognized. The Group tracks each of the paying players' purchases and log in history for each significant game to estimate the average playing period of the paying players ("**Player Relationship Period**"), which is the average playing period of all paying players between the first time the players charge game points into their accounts and the last log in. If a new game is launched and only a limited period of paying player data is available, then the Group considers other qualitative factors, such as the playing patterns for paying users for other games with similar characteristics.

For the years ended December 31, 2018 and 2019, the Player Relationship Period is based on seventeen and twenty one games that have sufficient historical operating data, respectively. The same Player Relationship Period was applied to the other games due to the lack of sufficient historical operating data, as well as the similarity in game characteristics and playing patterns of paying players, such as targeted players and purchasing frequency. While the Group believes its estimates to be reasonable based on available game player information, it may revise such estimates in the future as the games' operation periods change, sufficient individual game data become available, or there is indication that the similarities in characteristics and playing patterns of paying players of the games change. Any adjustments arising from changes in Player Relationship Period would be applied prospectively on the basis that such changes are caused by new information indicating a change in game player behavior patterns. Any changes in the Group's Player Relationship Period may result in revenues being recognized on a basis different from prior periods' and may cause its operating results to fluctuate.

The Company also hosted and maintained certain servers to collect and analyze data relating to user location, type and number of games downloaded, playing frequency and time and purchasing habits of the users of our casual and mid- and hardcore games. However, the hosting and maintaining of these servers for internal data analysis does not affect the timing of revenue recognition by the Group.

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition (Continued)

Game development and co-operation revenue

Revenues are recognized when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

The Group engaged in provision of mobile games development service ("**Game Development**") and game co-operation services including on-going updates of new contents and maintenance services under fixed price contracts and variable price contracts. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual costs spent relative to the total expected costs. If the consideration is variable, the Group estimates the amount of consideration to which it will be entitled in exchange for the promised goods or services. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Some contracts include multiple deliverables, such as Game Development service and game co-operation services. Therefore they are separated and accounted for as separate performance obligations. In this case, the transaction price will be allocated to each performance obligation based on their stand-alone fair value. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

If the services rendered by the Group exceed the customers' payment, a contract asset is recognized. If the customers' payments exceed the services rendered, a contract liability is recognized.

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition (Continued)

Game licensing revenue

The Group generates game licensing revenues from licensing to online platforms. The revenue from licensing agreements is recognized when all the following criteria are met: persuasive evidence of an arrangement exists; the content has been delivered or is available for immediate and unconditional delivery and the Group has no further obligations; the price to the customer is fixed or determinable; and collectability is probable. Depending on the terms of the respective agreements, game licensing revenue is recognized either at a point in time that upfront upon the beginning of the licensing agreement to the extent of the fixed and non-refundable amount received upfront or ratably over the license period under which the Group need to provide consistent services. Normally the Group does not have any substantive post-sale services to the licensee. The revenue from licensing agreements is recognized at the point in time when the license has been transferred to the licensee given that it is considered to be a right to use arrangement.

Information service revenue

Information service revenue mainly represents revenue generated from information services, primarily revenue for advertising business, which mainly comprise revenues derived from performance based and display based advertisement.

Revenue from performance based advertisements is recognized based on actual performance measurement. The Group recognizes the revenue from the delivery of pay-for click, pay-for download or pay-for instant display advertisements for advertisers to users of the Group based on the relevant performance measures.

Revenue from displaying advertisements is recognized ratably over the respective contract periods with the advertisers and their advertising agencies, when the related advertisements are displayed.

2 Summary of significant accounting policies (Continued)

2.26 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.27 Dividend income

Dividends are received from financial assets measured at FVPL and at FVOCI. Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

2.28 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 35). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

2 Summary of significant accounting policies (Continued)

2.28 Leases (Continued)

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on performance, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

2 Summary of significant accounting policies (Continued)

2.28 Leases (Continued)

The Group is exposed to potential future increases in variable lease payments based on performance, which are not included in the lease liability until they take effect. When adjustments to lease payments based on performance take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of offices are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 16). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2 Summary of significant accounting policies (Continued)

2.29 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see Note 21 below.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 11 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.30 Government grants/subsidies

Grants/subsidies from government are recognized at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment, and other non-current assets are included in non-current liabilities as deferred income and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.31 Dividend distribution

Dividends distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The functional currency of the Company is HKD whereas functional currency of the subsidiaries operate in the PRC is RMB and the subsidiaries operate in oversea is United States dollar ("**USD**"). The Group manages its foreign exchange risk by performing regular reviews of the 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.

The Group's PRC subsidiaries are exposed to foreign exchange risk arising from recognized assets in foreign currencies, primarily with respect USD in transactions with certain oversea platforms. For the years ended December 31, 2018 and 2019, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, post-tax profit for the year ended December 2018 and 2019 would have been RMB12,015,000 and RMB7,001,000 higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of USD-denominated receivables and cash and cash equivalents.

The Group's oversea subsidiaries are exposed to foreign exchange risk arising from the borrowings denominated in Euro ("**EUR**") whereas their functional currency is USD. For the years ended December 31, 2018 and 2019, if EUR had strengthened/weakened by 5% against USD with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2019 would have been RMB21,470,000 and RMB21,992,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated borrowings.

The Group does not hedge against any fluctuation in foreign currencies during the years ended December 31, 2018 and 2019.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) ***Market risk*** (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents, details of which have been disclosed in Note 25.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 29. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk. However, the Group will consider hedging significant interest rate exposure should the need arise.

As at December 31, 2018 and 2019, borrowings of the Group which were bearing at floating rates amounted to approximately RMB535,206,000 and RMB828,570,000, respectively. As at December 31, 2018 and 2019, if the interest rates had been 50 basis point higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended December 31, 2018 and 2019 would has been approximately RMB2,233,000 and RMB3,482,000 lower/higher.

(b) ***Credit risk***

The Group is exposed to credit risk primarily in relation to its cash and cash equivalents (including restricted cash) placed with banks, trade receivables, amounts due from related parties and other receivables. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

(i) Credit risk of cash and cash equivalents

To manage this risk arising from cash and cash equivalents placed with banks, cash and cash equivalents are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) ***Credit risk*** (Continued)

(ii) Credit risk of contract assets and trade receivables

Contract assets and trade receivables at the end of each reporting period were due from the third party payment channels and mobile carriers, third party distribution channels partners, online advertising customers and agencies in cooperation with the Group, as well as due from related parties. If the strategic relationship with the third party payment channels and mobile carriers, third party distribution channels partners, online advertising customers and agencies are terminated or scaled-back; or if the third party payment channels and mobile carriers, third party distribution channels partners, online advertising customers and agencies alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with the third party payment channels and mobile carriers, third party distribution channels partners, online advertising customers and agencies to ensure the effective credit control. In view of the history of cooperation with the third party payment channels and mobile carriers, third party distribution channels partners, online advertising customers and agencies and the sound collection history of receivables due from them, the directors of the Company believe that the credit risk inherent in the Group's outstanding trade receivable balances due from the third party payment channels and mobile carriers, third party distribution channels partners, online advertising customers and agencies is low.

(iii) Credit risk of amount due from related parties

During the year ended December 31, 2018 and 2019, the Group continued to apply the expected credit loss rate at 5% to estimate the impairment provision for the amount due from related parties. Movements in the provision for impairment of amount due from related parties as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year	**2,054**	2,004
Provision for impairment	**21**	1,202
Reversal	**(1,626)**	—
Written off during the year	**—**	(1,152)
At the end of the year	**449**	2,054

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) ***Credit risk*** (Continued)

(iv) Credit risk of other receivables

Other receivables at the end of each reporting period were mainly loans to employees, loans to third parties and rental and other deposits. The directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party borrower's ability to meet its obligations;

- actual or expected significant changes in the operating results of the third party borrower;

- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrower;

- the employment relationship with the employee borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/ repayable demanded within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categories a loan or receivable for write off when a debtor fails to make contractual payments/repayable demanded greater than 120 days past due. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

Since the loans to third parties were all repayable on demand and based on historical experience, majority of them were settled within 12 months, and the loans to employees had no historical default, at each reporting period end, the loans to third parties and loans to employees were categorized in stage 1.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) ***Credit risk*** (Continued)

(iv) Credit risk of other receivables (Continued)

However, certain counterparty failed to make demanded repayment within 60 days of when they fall due, the Group made 100% provision for these receivables ("**Underperforming Receivables**").

Over the terms of the loans, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rate, the Group considers the historical loss rates for third party and employees, and adjusts for forward looking macroeconomic data. The Group provided for credit losses against other receivables as follows:

Other receivables	Expected credit loss rate	Basis for recognition of expected credit loss provision	Estimated gross amount at default		Carrying amount (net of impairment provision)	
			As at December 31,		As at December 31,	
			2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Loan to third parties	5%	12 months expected losses	104,630	64,319	99,399	61,103
Current portion of loan to employees	1%	12 months expected losses	4,989	4,141	4,939	4,100
Non-current portion of loan to employees	1%	12 months expected losses	3,207	5,655	3,175	5,598
Underperforming receivables	100%	Life time expected losses	—	3,098	—	—
Others	5%	12 months expected losses	53,259	67,616	50,596	64,235
			166,085	144,829	158,109	135,036

No significant changes to estimation techniques or assumptions were made.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) ***Credit risk*** (Continued)

(iv) *Credit risk of other receivables* (Continued)

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

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year	**9,793**	2,736
Acquisition of a subsidiary	**—**	78
Provision for impairment	**5,962**	7,944
Reversal	**(1,123)**	—
Written off during the year	**(6,656)**	(965)
At the end of the year	**7,976**	9,793

The directors of the Company believe that there was no material credit risk inherent in the Group's outstanding balance of other receivables.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalent. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyzes the Group's financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Above 5 years RMB'000	Total RMB'000
As at December 31, 2019					
Borrowings	**1,048,326**	**115,833**	**152,039**	**—**	**1,316,198**
Trade payables	**160,793**	**—**	**—**	**—**	**160,793**
Other payables and accruals (excluding advance, accrued payroll and other taxes payables)	**243,657**	**—**	**—**	**—**	**243,657**
Total	**1,452,776**	**115,833**	**152,039**	**—**	**1,720,648**
As at December 31, 2018					
Borrowings	1,021,017	81,669	55,460	—	1,158,146
Trade payables	153,001	—	—	—	153,001
Other payables and accruals (excluding advance, accrued payroll and other taxes payables)	806,450	—	—	—	806,450
Total	1,980,468	81,669	55,460	—	2,117,597

3 Financial risk management (Continued)

3.2 Capital managements

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance equity holders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on basis of the gearing ratio. This 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 and restricted cash. Total capital is calculated as 'equity' as shown in the consolidated statements of financial position. As at December 31, 2018 and 2019, the gearing ratio of the Group is 0.43% and 20.47% respectively.

3.3 Fair value estimation

(a) Fair value hierarchy

The table below analyzes the Group's financial instruments carried at fair value as at December 31, 2018 and 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

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

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

(a) *Fair value hierarchy* (Continued)

The following table presents the Group's assets that are measured at fair value as of December 31, 2018 and 2019.

As at December 31, 2019	***Notes***	**Level 1** ***RMB'000***	**Level 2** ***RMB'000***	**Level 3** ***RMB'000***	**Total** ***RMB'000***
Assets:					
Financial assets at fair value through profit or loss	21	**161,841**	**—**	**307,023**	**468,864**

As at December 31, 2018	*Notes*	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets:					
Financial assets at fair value through profit or loss	21	87,547	—	267,506	355,053

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the end of the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

(b) *Valuation techniques to determine fair value*

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments

- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

(c) *Fair value measurements using significant unobservable inputs (level 3)*

The following table presents the changes in level 3 items for the periods ended December 31, 2019 and 2018:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year	**267,506**	214,841
Additions	**75,398**	80,159
Disposals	**(39,329)**	(17,396)
Gains/(losses) recognised in profit or loss	**2,673**	(12,410)
Currency translation differences	**775**	2,312
At the end of the year	**307,023**	267,506
Changes in unrealised gains for the year included in profit or loss at the end of the year	**2,673**	(12,410)

There were no transfers between levels 1, 2 and 3 during the year ended December 31, 2018 and 2019.

(d) *Valuation processes of the Group (Level 3)*

The Group has a team that manages the valuation exercise of level 3 instruments for financial reporting purposes. The team performs valuation, or necessary updates, at least once every six months. On an annual basis, the team adopts various techniques to determine the fair value of the Group's level 3 instruments. External valuation experts may also be involved and consulted when it is necessary.

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

(d) Valuation processes of the Group (Level 3) (Continued)

The components of the level 3 instruments mainly include investments in private investment funds and unlisted companies, convertible bonds, etc. As these instruments are not traded in an active market, their fair values have been determined using various applicable valuation techniques, including discounted cash flows approach, comparable transactions approach, and other option pricing models, etc. Major assumptions used in the valuation include historical financial results, assumptions about terminal growth rate, estimates of weighted average cost of capital (WACC) and price-to-sale ratio, etc.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

			Fair value change	
Key unobservable inputs	**Range of inputs**	**Change**	**For the year ended at December 31, 2019** *RMB'000*	For the year ended at December 31, 2018 *RMB'000*
WACC	19%-23.9%	+5%	**(3,046)**	(4,913)
	19%-23.9%	–5%	**3,443**	5,558
Terminal Growth Rate	2%-3%	+5%	**233**	408
	2%-3%	–5%	**(231)**	(412)
Price-to-sale ratio	1.21–9.7	+5%	**228**	337
	1.21–9.7	–5%	**(228)**	(337)

4 Critical accounting estimates and judgements

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4 Critical accounting estimates and judgements (Continued)

(a) Estimates of Player Relationship Period in the Group's game development and game publishing services

As described in Note 2.25, the Group recognizes the revenues ratably over the estimated average Player Relationship Period for mid- and hardcore mobile games and certain casual mobile games whereas the Group acts as Principal. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

(b) Estimation of goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. For the year ended December 31, 2019, the recoverable amount of cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in Note 18. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 18.

(c) Fair value measurement of financial assets at fair value through profit or loss

The fair value assessment of financial assets at fair value through profit or loss that are measured at level 3 fair value hierarchy requires significant estimates, which include estimating the future cash flows, determining appropriate discount rates and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. The Group monitors its investments for their fair value assessment by considering factors including, but not limited to, current economic and market conditions, recent fund raising transactions undertaken by the investees, the operating performance of the investees including current earnings trends and other company-specific information.

(d) Revenue recognition

Pursuant to game publishing and operation arrangements signed between the Group and the third party game developers or Platforms, the Group's responsibilities in publishing and operating the licensed or commissioned-developed games vary for each game. The determination of whether to record these revenues using gross or net basis is based on an assessment of various factors, including but not limited to whether the Group (i) is the primary obligor to the game developers and game players in the arrangements; (ii) has latitude in establishing the selling price of virtual items; (iii) changes the products or performs part of the services; (iv) has involvement in the determination of product and service specifications; and (v) has the rights to determine secondary Platforms.

4 Critical accounting estimates and judgements (Continued)

(e) Recoverability of game intellectual properties and licenses

The Group tests whether game intellectual properties and licenses suffered any impairment every six months and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Judgement is required to identify any impairment indicators existing for any of the Group's game intellectual properties and licenses, i.e. the remaining period of licensed games, the performance of those launched games and etc. If there is a significant adverse change in the games' performance, it may be necessary to take additional impairment charge to the consolidated statements of comprehensive income.

(f) Recoverability of prepaid revenue sharing to content providers

Under game licensing contracts with content providers, the Group generally prepaid revenue sharing to content providers for the services to be rendered by the content providers when the Group operates the third party developed games for certain period of time in certain countries/regions. Those prepaid revenue sharing are prepaid to exchange services to be rendered by the content providers to the Group during the contractual period, which is recorded in prepayment when the Group made cash payment to the content providers. Such prepayment are recognized as "cost of revenue" at the same pattern of game revenue recognized during the contractual period when the Group received related service. If the unearned prepaid revenue sharing to content providers can not be fully recovered by the game revenue to be generated in the remaining contractual period, the Group will recognize impairment loss against the carrying amount of such prepayment.

(g) Income taxes

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(h) Expected credit loss for receivables

The impairment provisions for trade receivables and other receivables are based on assumptions about the expected loss rates. The group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 3.1(b) and Note 22. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statements of comprehensive income.

5 Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM. The Group's CODM has been identified as the CEO, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. As a result of this evaluation, the CEO of the Group consider that the Group's operations are operated and managed as a single segment; accordingly no segment information is presented.

The Company is domiciled in Cayman Island while the Group's non-current assets and revenues are substantially located in and derived from the PRC, therefore, no geographical segments are presented.

6 Revenues

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

The timings of revenues recognition by category is as follows:

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

7 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 are analyzed below:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Channel costs	**1,006,632**	975,182
Employee benefits expenses *(Note 10)*	**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 *(Note 17)*	**117,438**	86,143
Impairment provisions for intangible assets *(Note 17)*	**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 *(Note 24)*	**105,176**	7,967
Depreciation of property, plant and equipment *(Note 14)*	**9,295**	7,693
Depreciation of right-of-use assets *(Note 15)*	**23,430**	—
Depreciation of investment property *(Note 16)*	**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	**2,371,943**	2,043,137

8 Other Income

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Government grants *(Note a)*	**15,876**	14,381
Additional deduction of input value-added tax *(Note b)*	**11,288**	—
Rental income *(Note 16(a))*	**785**	—
Interest income from wealth management products	**388**	868
	28,337	15,249

(a) Government grants

	As at January 1, 2019	**Receipt of grants**	**Credited to consolidated statement of comprehensive income during the year**	**As at December 31, 2019**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Government grants related to assets	**8,431**	**—**	**(3,417)**	**5,014**
Government grants related to costs	**8,624**	**10,690**	**(12,459)**	**6,855**
	17,055	**10,690**	**(15,876)**	**11,869**

	As at January 1, 2018	Receipt of grants	Credited to consolidated statement of comprehensive income during the year	As at December 31, 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Government grants related to assets	10,647	1,200	(3,416)	8,431
Government grants related to costs	9,288	10,301	(10,965)	8,624
	19,935	11,501	(14,381)	17,055

8 Other Income (Continued)

(a) Government grants (Continued)

Government grants represented various subsidies granted by and received from local government authorities in the PRC. Government grants related to assets are mainly subsidies for funding of internet/game platform development. Government grants related to costs are subsidies for funding the Group's internet related research expenditures.

Government grants relating to assets are initially included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

(b) Pursuant to the 'Announcement on Relevant Policies for Deepening the Value-added Tax Reform' (Cai Shui Haiguan [2019] 39) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs in March 2019, certain subsidiaries of the Group are qualified for additional 10% deduction of input value-added tax ("**VAT**") from output VAT from April 1, 2019 to December 31, 2021.

9 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 *(Note b)*	**(24,567)**	(2,509)
Losses on disposal of financial assets	**1,429**	—
Goodwill impairment *(Note 18)*	**422,331**	—
Gain from the reversal of the unpaid consideration payables from the acquisition of Shanghai Huohun *(Note a)*	**(294,911)**	—
Others	**(8,705)**	366
	95,802	(3,244)

9 Other losses/(gains), net (Continued)

(a) According to the agreement for acquisition of Shanghai Huohun ("**Shanghai Huohun SPA**"), if the pre-determined profit target amount of RMB300,000,000 is not achieved by Shanghai Huohun from June 1, 2018 to May 31, 2019 ("**Performance Appraisal Period**"), the sellers should compensate the Group according to the pre-determined mechanism/formula. The net profit of Shanghai Huohun during the Performance Appraisal Period was RMB210,000,000. Under the compensation mechanism pursuant to the Shanghai Huohun SPA, the Group has the right to acquire the remaining 30% equity interest of Shanghai Huohun at the consideration of RMB1. One May 3, 2019, the Group and the sellers entered into a supplemental agreement to receive a cash compensation from the sellers instead of acquisition of 30% equity interest, which can offset the unpaid consideration to sellers. Pursuant to the supplemental agreement, the compensation is RMB315,000,000. The difference of RMB294,911,000 between RMB315,000,000 and amount of contingent consideration assets of RMB20,089,000 recognized at the acquisition date and as at December 31, 2018 was recognized as other gain for the year ended December 31, 2019.

(b) It mainly represented the disposal gain of RMB17,841,000 from the deemed disposal of the Group's interests in Spray (BVI) Limited ("**Spray**") as disclosed in the Note 20(a)(ii).

10 Employee benefit expenses

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**196,630**	132,570
Pension costs — defined contribution plans	**28,333**	12,293
Other social security costs, housing benefits and other employee benefits	**12,305**	5,369
Share-based compensation expenses *(Note 28)*	**100,301**	85,910
	337,569	236,142

(a) Pension costs — defined contribution plans

Employees of the Group companies in the PRC are required to participate in defined contribution retirement schemes administered and operated by the local municipal government. The Group contributes funds which are calculated on fixed percentage of the employee's salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

10 Employee benefit expenses (Continued)

(b) Directors' and Chief Executives' emoluments

The remuneration of every director and chief executive for the year ended December 31, 2019 is set out below:

Name	Fees *RMB'000*	Salaries *RMB'000*	Share-based compensation *RMB'000*	Pension costs-defined contribution plan, other social security costs, housing benefits, and other employee benefits *RMB'000*	Other employee benefits *RMB'000*	Total *RMB'000*
Executive Directors						
Mr. Chen Xiangyu (CEO)	—	720	—	35	—	755
Mr. Jeffrey Lyndon Ko	—	600	—	29	—	629
Mr. Guan Song	—	720	—	35	—	755
Mr. Lei Junwen	—	600	—	35	—	635
	—	2,640	—	134	—	2,774
Independent non-executive Directors						
Ms. Yu Bin	100	—	—	—	—	100
Mr. Zhang Weining	100	—	—	—	—	100
Mr. Li Xintian	100	—	—	—	—	100
	300	—	—	—	—	300
	300	2,640	—	134	—	3,074

10 Employee benefit expenses (Continued)

(b) Directors' and Chief Executives' emoluments (Continued)

The remuneration of every director and chief executive for the year ended December 31, 2018 is set out below:

Name	Fees	Salaries	Share-based compensation	Pension costs-defined contribution plan, other social security costs, housing benefits, and other employee benefits	Other employee benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors						
Mr. Chen Xiangyu (CEO)	—	870	—	40	8	918
Mr. Jeffrey Lyndon Ko	—	750	27,959	30	8	28,747
Mr. Guan Song	—	870	—	39	8	917
Mr. Lei Junwen	—	750	—	40	8	798
	—	3,240	27,959	149	32	31,380
Independent non-executive Directors						
Ms. Yu Bin	100	—	—	—	—	100
Mr. Zhang Weining	100	—	—	—	—	100
Mr. Li Xintian	100	—	—	—	—	100
	300	—	—	—	—	300
	300	3,240	27,959	149	32	31,680

10 Employee benefit expenses (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2018 and 2019 include three and zero directors whose emoluments are reflected in the analysis presented above, respectively. The aggregate amounts of emoluments for the remaining five individuals for each of the years ended December 31, 2019 (2018: two) are set out below:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**4,466**	1,661
Pension costs — defined contribution plan, other social security costs, housing benefits, and other employee benefits	**320**	68
Share-based compensation expenses	**9,557**	21,365
	14,343	23,094

The emoluments of those individuals fell within the following bands:

	Number of individuals	
	Year ended December 31,	
	2019	2018
HKD1,000,001 to HKD1,500,000	**—**	1
HKD1,500,001 to HKD2,000,000	**2**	—
HKD2,500,000 to HKD3,000,000	**2**	—
HKD6,500,000 to HKD7,000,000	**1**	—
HKD26,000,001 to HKD26,500,000	**—**	1
	5	2

11 Finance costs, net

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Finance costs:		
— Interest expense	**43,278**	51,023
— Interest expense on lease liabilities	**3,611**	—
	46,889	51,023
Finance income:		
— Interest income on bank deposits	**(2,217)**	(5,870)
— Exchange gain	**(9,022)**	(10,488)
	(11,239)	(16,358)
Finance costs, net	**35,650**	34,665

12 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	**30,188**	29,214

12 Income tax expense (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in the PRC as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**390,585**	297,047
Tax calculated at 25%	**97,646**	74,262
Tax effects of:		
— Preferential income tax rates applicable to subsidiaries	**(85,523)**	(48,554)
— Income not subject to tax	**(91,727)**	—
— Tax losses for which no deferred income tax asset was recognized	**17,584**	3,365
— Expenses not deductible for income tax purposes	**120,063**	17,809
— Super deduction for research and development expenses *(Note c)*	**(27,855)**	(17,668)
Income tax expense	**30,188**	29,214

(a) Cayman Islands corporate income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) Hong Kong profits tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5%. No Hong Kong profits tax has been provided for as the Group has no assessable profit arising in Hong Kong.

12 Income tax expense (Continued)

(c) PRC Enterprise Income Tax ("EIT")

The income tax provision of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits, based on the existing legislation, interpretations and practices in respect thereof.

Shenzhen iDreamSky was approved as a newly established "Software Enterprise" in June 2013. Therefore, Shenzhen iDreamSky is exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years. Shenzhen iDreamSky has already obtained the relevant approval from relevant tax bureau in 2014 and its first profit making year was 2013, thus the tax exemption period for Shenzhen iDreamSky had commenced from the year of 2013. In addition, Shenzhen iDreamSky has renewed its qualification as a "High and New Technology Enterprise" ("**HNTE**") in November 2016, and it is subject to a reduced preferential EIT rate of 15% for 3-year period from 2016 to 2018 according to the applicable tax preference applicable to the HNTE. In 2019, Shenzhen iDreamSky renewed its qualification as a HNTE, and it is subject to a reduced preferential EIT rate of 15% for 3-year period from 2019 to 2021 according to the applicable tax preference applicable to the HNTE.

Qianhai Chuangyi Shikong Technology (Shenzhen) Co., Ltd. and Shenzhen Qianhai iDream Technology Co., Ltd (Qianhai iDream) were established in Qianhai, Bonded Zone of Shenzhen in October 2014 and April 2018, which were subject to an applicable tax rate of 15%, as they met the requirements set out by local authorities for the preferential tax rate.

Horgos iDreamSky Information Technology Co., Ltd. ("**Horgos iDreamsky**") was established in Horgos Development Zone of Xinjiang in June 2016, which was exempt from EIT from the first year of operation for a 5-year period according to the regulations set out by the local authorities. Since Horgos iDreamSky operated in 2016, the tax exemption period commenced from the year of 2016.

Shanghai Huohun acquired the qualification of HNTE in 2019 and subject to a reduced preferential EIT rate of 15% for 3-year period from 2019 to 2021 according to the applicable tax preference applicable to the HNTE. Shanghai Huohun also acquired the qualification of Software Enterprise in 2019 and is entitled to an exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation.

Shanghai Shengting Information Technology Co., Ltd ("**Shanghai Shengting**") acquired the qualification of Software Enterprise in 2018, and is tax exempted in 2018 and 2019. From 2020 to 2022, Shanghai Shengting is subject to 50% reduction of applicable tax rates.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 50% of their research and development expenses incurred before 2018 and 75% of their research and development expenses incurred from 2018 to 2020 as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits.

12 Income tax expense (Continued)

(d) PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

The Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period.

13 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)	**1,205,430**	1,060,334
Basic earnings per share *(in RMB)*	**0.29**	0.23

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/period.

13 Earnings per share and dividends (Continued)

(a) Earnings per share (Continued)

(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)	**39,598**	19,796
Weighted average number of shares for calculating diluted earnings per share (thousands)	**1,245,028**	1,080,130
Diluted earnings per share *(in RMB)*	**0.28**	0.23

(b) Dividends

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

14 Property, plant and equipment

	Land and buildings RMB'000	Furniture and office equipment RMB'000	Server and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
Year ended December 31, 2018						
Opening net book amount	9,144	3,742	7,181	2,947	4,561	27,575
Additions	—	964	3,796	—	199	4,959
Acquisition of a subsidiary	—	301	—	—	2,539	2,840
Disposals	—	(122)	(625)	(41)	—	(788)
Depreciation charge	(439)	(1,166)	(3,226)	(641)	(2,221)	(7,693)
Closing net book amount	8,705	3,719	7,126	2,265	5,078	26,893
At December 31, 2018						
Cost	9,767	12,856	17,904	3,295	13,347	57,169
Accumulated depreciation	(1,062)	(9,137)	(10,778)	(1,030)	(8,269)	(30,276)
Net book amount	8,705	3,719	7,126	2,265	5,078	26,893
Year ended December 31, 2019						
Opening net book amount	**8,705**	**3,719**	**7,126**	**2,265**	**5,078**	**26,893**
Additions	**—**	**2,216**	**3,274**	**—**	**8,954**	**14,444**
Disposals	**—**	**(190)**	**(140)**	**—**	**—**	**(330)**
Depreciation charge	**(439)**	**(1,469)**	**(3,519)**	**(593)**	**(3,275)**	**(9,295)**
Closing net book amount	**8,266**	**4,276**	**6,741**	**1,672**	**10,757**	**31,712**
At December 31, 2019						
Cost	**9,767**	**14,882**	**21,038**	**3,295**	**22,301**	**71,283**
Accumulated depreciation	**(1,501)**	**(10,606)**	**(14,297)**	**(1,623)**	**(11,544)**	**(39,571)**
Net book amount	**8,266**	**4,276**	**6,741**	**1,672**	**10,757**	**31,712**

14 Property, plant and equipment (Continued)

Depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Cost of revenues	**1,565**	1,384
General and administrative expenses	**3,191**	3,433
Research and development expenses	**3,296**	2,524
Selling and marketing expenses	**1,243**	352
	9,295	7,693

As at December 31, 2018 and 2019, the Group's properties with net book amounts of RMB8,705,000 and RMB8,266,000 respectively were pledged to a bank to secure certain banking borrowings of the Group (Note 29).

15 Leases

This Note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2019	1 January 2019
	RMB'000	*RMB'000*
Right-of-use assets		
Buildings	**46,177**	45,737
Lease liabilities		
Current	**22,366**	15,453
Non-current	**26,559**	30,284
	48,925	45,737

Additions to the right-of-use assets during the 2019 financial year were RMB23,830,000.

15 Leases (Continued)

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019 RMB'000
Depreciation charge of right-of-use assets	
Buildings	23,430

	2019 RMB'000
Interest expense (included in finance cost)	3,611
Expense relating to short-term leases (included in cost of revenues and general and administrative expenses)	45
	3,656

The total cash outflow for leases in 2019 was RMB24,315,000.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods of 9 months to 5 years and a half, but may have extension options as described in (e) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

(d) Variable lease payments

Some lease contracts contain agreements that monthly payment is determined by the higher of fixed payments or variable payments. Fixed payments are stable in one or two years and increase in next years, while variable payments are calculated by percentage of gross revenue, usually 10% to 20%. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

(e) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

16 Investment property

	Investment property *RMB'000*
Year ended December 31, 2019	
Opening net book amount	—
Additions	26,657
Depreciation charge	(645)
Closing net book amount	26,012

The investment property is a building located in Hainan Ecology Software Park for offices, held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties through sales and rental.

(a) Amounts recognised in profit or loss for investment properties

	Year ended December 31, 2019 ***RMB'000***
Rental income from operating leases	**785**
Direct operating expenses from property that generates rental income	**(164)**
	621

(b) Leasing arrangements

The investment properties are leased to tenants under operating leases with rentals payable annually. To reduce credit risk, the Group sets agreements of rental deposit and liquidated damages in contract in case of tenants' delay in payments or no payments. The Group also sets increasing rental price during term of lease to against the increasing CPI.

For minimum lease payments receivable on leases of investment properties, refer to Note 35.

17 Intangible assets

	Game intellectual properties and licenses RMB'000	Computer software RMB'000	Capitalized development costs for internal use software RMB'000	Total RMB'000
Year ended December 31, 2018				
Opening net book amount	287,515	12,159	5,845	305,519
Additions	457,967	1,569	17,862	477,398
Amortization charge	(72,256)	(5,502)	(8,385)	(86,143)
Impairment	(14,072)	—	—	(14,072)
Closing net book amount	659,154	8,226	15,322	682,702
At December 31, 2018				
Cost	946,003	19,497	43,213	1,008,713
Accumulated amortization	(272,777)	(11,271)	(27,891)	(311,939)
Accumulated impairment provision	(14,072)	—	—	(14,072)
Net book amount	659,154	8,226	15,322	682,702
Year ended December 31, 2019				
Opening net book amount	**659,154**	**8,226**	**15,322**	**682,702**
Additions	**848,420**	**10,575**	**18,338**	**877,333**
Amortization charge	**(91,173)**	**(8,968)**	**(17,297)**	**(117,438)**
Impairment	**(20,117)**	**—**	**—**	**(20,117)**
Disposal	**(5,025)**	**—**	**—**	**(5,025)**
Currency translation differences	**1,809**	**—**	**—**	**1,809**
Closing net book amount	**1,393,068**	**9,833**	**16,363**	**1,419,264**
At December 31, 2019				
Cost	**1,730,628**	**30,072**	**61,551**	**1,822,251**
Accumulated amortization	**(325,846)**	**(20,239)**	**(45,188)**	**(391,273)**
Accumulated impairment provision	**(11,714)**	**—**	**—**	**(11,714)**
Net book amount	**1,393,068**	**9,833**	**16,363**	**1,419,264**

17 Intangible assets (Continued)

(a) Amortization charges for intangible assets

Amortization charges were expensed in the following categories in the consolidated statement of comprehensive income:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Cost of revenues	**80,391**	53,058
General and administrative expenses	**26,113**	29,632
Research and development expenses	**7,373**	3,453
Selling and marketing expenses	**3,561**	—
	117,438	86,143

(b) Impairment for intangible assets

Impairment provision has been charged in the following categories in the consolidated statement of comprehensive income:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Cost of revenues	**15,095**	10,770
General and administrative expenses	**5,022**	3,302
	20,117	14,072

The Group wrote off RMB111,096,000 and RMB22,475,000 game intellectual properties and licenses, together with the relevant impairment provision, during the year ended at December 31, 2018 and 2019, respectively.

18 Goodwill

	Goodwill *RMB'000*
Year ended December 31, 2018	
Opening net book amount	—
Additions	989,233
Closing net book amount	989,233
At December 31, 2018	
Cost	989,233
Net book amount	989,233
Year ended December 31, 2019	
Opening net book amount	**989,233**
Impairment	**(422,331)**
Closing net book amount	**566,902**
At December 31, 2019	
Cost	**989,233**
Accumulated impairment provision	**(422,331)**
Net book amount	**566,902**

On August 7, 2018, the Group acquired 70% of the issued share capital of Shanghai Huohun, an internet technology company mainly engaged in developing mobile games in mainland China. The goodwill amounting to RMB989,233,000 arising from the acquisition of 70% equity interests in Shanghai Huohun.

The Directors consider Shanghai Huohun as a separate CGU (the "**Shanghai Huohun CGU**") and the goodwill is allocated to the Shanghai Huohun CGU. The Recoverable amount of the Shanghai Huohun CGU is determined based on value in use calculations as at December 31, 2019 as the value in use calculations resulted in a higher amount than the fair value less cost of disposal. These calculations use pre-tax cash flow projections based on financial budgets prepared by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates stated below.

18 Goodwill (Continued)

The key parameters used for value-in-use calculations are as follows:

As at December 31, 2019

Average revenue growth rate during the forecast period	12.74%
Earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") margin during the forecast period	72.3% — 74.1%
Terminal growth rate	3.0%
Pre-tax discount rate	29.6%

The following table shows the sensitive analysis prepared by the Directors of the Company as at December 31, 2019:

Assumptions	**Changes in assumptions**	**Goodwill impairment amount will reverse/ (increase)** *RMB'000*
Revenue growth rate	Increase by 10%	36,035
	Decrease by 10%	(35,170)
EBITDA margin	Increase by 10%	67,782
	Decrease by 10%	(67,782)
Terminal growth rate	Increase by 10%	2,808
	Decrease by 10%	(2,745)
Pre-tax discount rate	Increase by 10%	(62,717)
	Decrease by 10%	78,199

As at December 31, 2018, the recoverable amount of the Shanghai Huohun CGU was determined based on fair value less costs of disposal. Fair value arrived from the Market Approach reflected the market expectations over corresponding industry as the price-to-earnings ratios ("**PE ratios**") of the comparable companies were arrived from market consensus. The key parameters used as at December 31, 2018 including average P/E ratio of the comparable companies of 5.7, the lack of marketability discount ("**LoMD**") of 16.1%, the control premium of 8%, and Shanghai Huohun's estimated net income for the first operating year of RMB300,000,000.

Based on management's assessment on the recoverable amounts of the Shanghai Huohun CGU, the impairment loss of RMB422,331,000 on goodwill were charged to consolidated statement of comprehensive income under "Other losses" (for the year ended December 31, 2018: nil) (Note 9).

19 Financial instruments by category

	As of December 31, 2019 RMB'000	As of December 31, 2018 RMB'000
Assets as per consolidated statements of financial position		
Financial assets at fair value through profit or loss *(Note 21)*	**468,864**	355,053
Loans and receivables:		
— Trade receivables *(Note 22)*	**1,005,256**	820,894
— Other receivables (excluding prepayments) *(Note 3.1(b))*	**158,109**	135,036
— Contract assets *(Note 23)*	**6,253**	48,093
— Amounts due from related parties *(Note 36)*	**8,523**	39,032
— Cash and cash equivalents *(Note 25)*	**532,746**	1,121,641
	2,179,751	2,519,749
Liabilities as per consolidated statements of financial position		
Financial liabilities at amortized cost:		
— Borrowings *(Note 29)*	**1,270,439**	1,114,162
— Trade payables *(Note 30)*	**160,793**	153,001
— Other payables and accruals (excluding payroll and welfare payables and other tax payables) *(Note 31)*	**243,657**	806,450
— Amounts due to related parties *(Note 36)*	**21,159**	21,159
	1,696,048	2,094,772

20 Investments accounted for using the equity method

	As of December 31, 2019 RMB'000	As of December 31, 2018 RMB'000
Associates (a)	**316,888**	207,836
Joint ventures (b)	**89,820**	77,060
	406,708	284,896

20 Investments accounted for using the equity method (Continued)

(a) Investments in associates

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year	**207,836**	164,585
Additions (i)	**92,300**	60,850
Disposal	**(270)**	(21,661)
Conversion from a subsidiary to an associate (ii)	**16,010**	—
Share of results of the associates	**476**	2,550
Currency translation differences	**536**	1,512
At the end of the year	**316,888**	207,836

The Group directly hold solely ordinary shares of the associates. As at December 31, 2018 and 2019, the Group invested in 20 and 18 associates respectively. The share of profits of the associates was not material to the Group. Therefore, in the opinion of the directors, none of the associates is material to the Group.

(i) The Group acquired certain associates and made additional investments in existing associates, with an aggregate amount of RMB60,850,000 and RMB92,300,000 during the year ended December 31, 2018 and 2019, respectively. These associates are principally engaged in online game business and other internet-related businesses.

Set out below are the top 5 associates of the Group as at December 31, 2018 and 2019.

			Percentage of ownership interest attributable to the Group		
	Place of	Registered	December 31,		
Name	**incorporation**	**Capital**	2018	**2019**	**Principal activities**
Beijing Weibo Technology Development Co., Ltd.	Beijing	204,000	10.72%	**10.72%**	Software business
Nanjing Chuangyi Qiaokang Equity Investment Partnership Enterprise (Limited Partnership)	Nanjing	200,000,000	NA	**49.50%**	Financing
Anhui Sichuang Sports Development Co. Ltd	Anhui	6,250,000	22.00%	**22.00%**	Culture, sports and entertainment
Zhejiang Yiyou Internet Technology Co., Ltd	Zhejiang	13,952,000	NA	**10.00%**	Software business
JTEA, INC.	Delaware	4,724	30.00%	**30.00%**	Software business

20 Investments accounted for using the equity method (Continued)

(a) Investments in associates (Continued)

(ii) Conversion from a subsidiary to an associate

In October 2019, Spray, a then subsidiary of the Group, received USD3,000,000 (equivalent to RMB20,928,600) of capital injection from an independent third party and as a result, the Group's interests in Spray diluted from 51% to 29.07%, resulting in a dilution gain of RMB6,455,000; in addition, the Group lost control over Spray upon dilution and the investment has been accounted for as an associate since then. The Group's interests in Spray after the dilution was remeasured to fair value upon losing of control and a revaluation gain of RMB11,386,000 was recognized accordingly.

(b) Investments in joint ventures

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year	**77,060**	9,900
New additions	**—**	67,000
Addition in existing joint ventures	**15,000**	—
Share of results of the joint ventures	**(2,475)**	(204)
Currency translation differences	**235**	364
At the end of the year	**89,820**	77,060

Set out below are the joint ventures of the Group as at December 31, 2018 and 2019. The joint ventures as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the Group's proportion of ownership interest is the same as the proportion of voting rights held by the Group. The share of profits of the joint ventures was not material to the Group. Therefore, in the opinion of the directors, none of the joint ventures is material to the Group.

20 Investments accounted for using the equity method (Continued)

(b) Investments in joint ventures (Continued)

Name	Place of incorporation	Registered Capital	Percentage of ownership interest attributable to the Group December 31, 2018	2019	Principal activities
Tianjin Lewei Shidai Culture Development Co. Ltd.	Tianjin	10,000,000	49%	**49%**	Film and television program planning
Tianjin Wenmeng Interactive Entertainment Co. Ltd.	Tianjin	200,000,000	50%	**50%**	Performance brokerage agency
Shenzhen iDreamSky Venture Investment Partnership (Limited Partnership)	Shenzhen	6,250,000	50%	**50%**	Venture capital business
Dreamwalk Technologies Limited	Hong Kong	13,952,000	30%	**30%**	Software business

There were no contingent liabilities related to the Group's interest in the joint ventures as at December 31, 2018 and 2019.

21 Financial assets at fair value through profit or loss

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Included in non-current assets		
At the beginning of the year	**267,506**	214,841
Additions	**75,398**	80,159
Changes in fair value	**2,673**	(12,410)
Transfer from current *(Note a)*	**47,297**	—
Disposal	**(39,329)**	(17,396)
Currency translation differences	**775**	2,312
At the end of the year	**354,320**	267,506
Included in current assets		
At the beginning of the year	**87,547**	—
Additions	**—**	85,707
Changes in fair value	**71,999**	1,779
Transfer to non-current *(Note a)*	**(47,297)**	—
Currency translation differences	**2,295**	61
At the end of the year	**114,544**	87,547

21 Financial assets at fair value through profit or loss (Continued)

The Group's financial assets at FVPL comprised debt securities hold by the Group, shares traded on the HKEX (included in current assets) and some investments in unlisted entities mainly operated in the PRC, UK and Korea.

The debt securities were the investments which were made in the investees in form of convertible redeemable preferred shares. The preferred shares are convertible into ordinary shares anytime at the option of the holder, or automatically in the event of an IPO of the investees. The preferred shares are redeemable at the option of the Group if there is no IPO of investees after several years from the dates of investment. Based on the status of investees, the Group considers the redemption clause is substantive, and therefore has accounted for the investment in those investees as financial assets at fair value through profit or loss.

The investments in unlisted entities represented the Group's certain minority interests in private companies. The Group elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair value are reflected in the consolidated statement of comprehensive income. These companies are engaged in technology, game developing and other internet-related services.

(a) As at December 31, 2019, the Group's investment in shares traded on the HKEX amount to RMB47,297,000 were pledged to a financial institution to secure certain borrowings of the Group (Note 29).

22 Trade receivables

	As of 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 *(Note 36)*	**51,124**	57,151
	1,062,450	859,649
Less: provision for impairment	**(57,194)**	(38,755)
	1,005,256	820,894

22 Trade receivables (Continued)

(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 of 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%

22 Trade receivables (Continued)

(b) (Continued)

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

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
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	**57,194**	38,755

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 of December 31,	
	2019	2018
	RMB'000	*RMB'000*
RMB	**899,565**	857,373
USD	**162,885**	2,276
	1,062,450	859,649

(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 (Note 29).

23 Contract assets

When the services rendered by the Group exceed the customers' payment, a contract asset is recognized. The Group has recognized the following revenue-related contract assets in connection with its performance obligation to develop and provide operation services a mobile game:

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Included in non-current assets		
Contract assets relating to game development	**11,158**	22,323
Less: provision for impairment	**(7,027)**	(670)
	4,131	21,653
Included in current assets		
Contract assets relating to game development	**36,347**	27,257
Less: provision for impairment	**(34,225)**	(817)
	2,122	26,440

Movements of provision in contract assets as follows:

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year	**1,487**	—
Acquisition of a subsidiary	**—**	1,632
Provision for impairment (a)	**39,765**	—
Reversal	**—**	(145)
At the end of the year	**41,252**	1,487

(a) In 2019, the actual gross revenue of a game is extremely less than previously predicted, the Group's management has repredicted the gross revenue of the following years and recognized contract assets impairment according to actual and predicted loss.

24 Prepayments and other receivables

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Included in non-current assets		
Non-current portion of loan to employees *(Note a)*	**3,207**	5,655
Prepayment for property *(Note f)*	**41,824**	25,882
Prepayment for investments *(Note e)*	**—**	10,000
Prepayment for intangible assets	**34,015**	—
Less: provision for impairment *(Note g)*	**(32)**	(57)
	79,014	41,480
Included in current assets		
Recoverable value-added tax	**40,136**	11,578
Rental and other deposits	**5,797**	7,941
Prepaid advertising expenses *(Note b)*	**276,838**	317,666
Prepaid revenue sharing to content providers *(Note c)*	**806,489**	564,016
Current portion of loan to employees *(Note a)*	**4,989**	4,141
Loan to third parties *(Note d)*	**104,630**	67,417
Withholding tax	**14,181**	22,755
Other receivable from disposal of investments accounted for using the equity method	**—**	10,080
Prepayment to related parties *(Note 36)*	**981**	14,109
Others	**54,154**	29,745
Less: provision for impairment *(Note g)*	**(22,314)**	(17,703)
	1,285,881	1,031,745

As at December 31, 2018 and 2019, there were no significant balances that are past due.

(a) Loans to employees mainly represent advances to employees for various expenses to be incurred in the ordinary course of business and housing loans to certain employees. These loans are unsecured, interest-free and to be repaid in 1 to 5 years from the grant dates.

(b) The Group engaged various online advertising suppliers and made prepayments in exchange for better advertising opportunities and resources in some arrangements. Such amounts are recognized as 'selling and marketing expenses' when the advertising services are rendered.

(c) The prepaid revenue sharing to game developers is for the services to be rendered by game developers when the Group operates the third party developed games for certain period of time in certain countries. Such amounts are recognized as 'cost of revenues' when relevant revenue is recognized.

24 Prepayments and other receivables (Continued)

(d) Loans to third parties represents the loans provided to a number of third parties, which were unsecured, interest free and repayable on demand. In the opinion of the directors, none of the loans to any single third parties is material to the Group during the year ended December 31, 2018 and 2019.

(e) The prepayment for investments represents the investment amount prepaid pursuant to the payment term in related investment agreements in 2018. The investment was terminated in 2019 and the prepayment was fully repaid accordingly.

(f) The prepayment for property as at December 31, 2019 represents the prepayment for land use right. The prepayment for property as at December 31, 2018 represents the prepayment for building, which was transferred to investment property during the year ended December 31, 2019.

(g) The provision for impairment comprises the impairment for prepayments and other receivables. The movements in the provision for impairment for other receivables are disclosed in Note 3.1(b). Movements in the provision for impairment of prepayments as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year	**7,967**	47,397
Provision for impairment	**105,176**	8,016
Written off during the year	**(98,773)**	(47,397)
Reversal	**—**	(49)
At the end of the year	**14,370**	7,967

The impairment provision mainly represents impairment of prepaid revenue sharing to game developers, which is primarily related to certain games licensed by the Group but did not operate well in 2019. The provision is the excess amount of the carrying amount of the unearned pre-paid revenue sharing to game developers over the expected game revenue to be generated in the remaining contractual period. The directors estimate the expected revenue sharing with reference to those games' gross billings trend, the monthly active users and paying ratio over the past period.

During the year ended December 31, 2019, the Group made an impairment provision of RMB69,707,000 against one game due to the significant decrease of gross billings during the year and the contract of this game is expired in January 31, 2020. The remaining RMB35,469,000 impairment provision was related to around 20 games of the Group, none of them was considered individually material to the Group.

24 Prepayments and other receivables (Continued)

(h) The carrying amount of the Group's prepayments and other receivables is denominated in the following currencies:

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
RMB	**1,172,660**	802,787
USD	**210,694**	284,374
EUR	**3,887**	3,824
	1,387,241	1,090,985

25 Cash and bank balances

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Cash at bank and on hand	**531,858**	1,120,741
Due from other financial institutions	**888**	900
	532,746	1,121,641

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
RMB	**225,735**	256,989
USD	**298,226**	427,671
HKD	**8,690**	436,882
Others	**95**	99
	532,746	1,121,641

26 Share capital and share premium and treasury shares

	Number of shares	Nominal value of shares USD'000	Equivalent nominal value of shares RMB'000	Share premium RMB'000
Authorised:				
Ordinary shares of USD1.0 each; January 3, 2018 (date of incorporation)	50,000	50	—	—
Share split on March 27, 2018 *(Note a)*	499,950,000	—	—	—
Share split on December 6, 2018 *(Note d)*	4,500,000,000	—	—	—
As of December 31, 2018 and 2019	5,000,000,000	50	—	—
Issued and fully paid:				
Issuance of ordinary shares in relation to the reorganisation of the Group, including share split effect *(Note b)*	99,308,912	10	61	1,084,848
Issuance of ordinary shares to the new investors	6,338,742	1	5	753,766
Shares allotted for share incentive scheme *(Note c)*	8,627,045	—	—	—
Treasury shares *(Note c)*	(7,354,833)	—	—	—
Share split on December 6, 2018 *(Note d)*	962,278,794	—	—	—
Issue of ordinary shares upon IPO *(Note e)*	126,972,000	1	9	703,862
As of December 31, 2018	1,196,170,660	12	75	2,542,476
Shares vested for share incentive scheme *(Note c)*	13,776,841	—	—	—
As of December 31, 2019	1,209,947,501	12	75	2,542,476

(a) On March 27, 2018, each issued and unissued share of a par value of USD1.00 each in the capital of our Company was subdivided into 10,000 shares of a par value of USD0.0001 each, such that following the subdivision, the authorized share capital of our Company became USD50,000 divided into 500,000,000 shares of a par value of USD0.0001 each.

(b) During the year ended December 31, 2018, as part of the Reorganization, the Company issued and allotted and issued an aggregate of 99,308,912 shares of USD0.00001 each share at par value to offshore holding companies which are beneficially owned by the equity owners of Shenzhen iDreamSky as at that date. Upon the completion of the Reorganization, the amount of RMB358,650,000 capital reserves, RMB180,380,000 merger reserves and RMB545,818,000 other reserves have been transferred to share premium accordingly.

26 Share capital and share premium and treasury shares (Continued)

(c) On May 18, 2018, the Company allotted and issued an aggregate of 8,627,045 shares (86,270,450 shares after share split on December 6, 2018) to the RSU Holding Entities for employee incentive plan purpose. Of which, 1,272,212 shares (12,722,120 shares after share split on December 6, 2018) were granted to certain equity owners of Shenzhen iDreamSky without vesting conditions as part of the Reorganization, and thus, the remaining 7,354,833 shares (73,548,330 shares after share split on December 6, 2018) represented the treasury shares of the Group as of December 31, 2018. There are 13,776,841 shares vested during the year ended December 31, 2019, the remaining treasury shares of the Group is 59,771,489 as of December 31, 2019.

(d) On December 6, 2018, each issued and unissued share of a par value of USD0.0001 each in the capital of our Company was subdivided into 10 shares of a par value of USD0.00001 each, such that following the subdivision, the authorized share capital of our Company became USD50,000 divided into 5,000,000,000 shares of a par value of USD0.00001 each.

(e) On 6 December 2018, upon its listing on the Main Board of HKEX, the Company issued 126,972,000 new ordinary shares at HKD6.60 per share, and raised gross proceeds of approximately HKD838,015,000 (equivalent to RMB743,571,000). The net proceeds was approximately HKD793,273,000 (equivalent to RMB703,871,000) after deducting listing expenses directly relating to the share issuance.

27 Reserves

	Notes	Capital reserve *RMB'000*	Merger reserves *RMB'000*	Statutory reserves *RMB'000*	Translation differences *RMB'000*	Other reserves *RMB'000*	Total reserves *RMB'000*
As at December 31, 2017		360,900	228,130	9,482	(6,296)	632,375	1,224,591
Capital reduction from to equity holders of the Company's subsidiary		(2,250)	(47,750)	—	—	—	(50,000)
Effect of reorganisation of the Group	26(b)	(358,650)	(180,380)	—	—	(545,818)	(1,084,848)
Share-based compensation expenses	28	—	—	—	—	85,910	85,910
Profit appropriation to statutory reserves	(a)	—	—	23,267	—	—	23,267
Contributions from non-controlling shareholder of Shanghai Huohun		16,100	—	—	—	—	16,100
Currency translation differences		—	—	—	39,532	—	39,532
As at December 31, 2018		16,100	—	32,749	33,236	172,467	254,552
Share-based compensation expenses	28	—	—	—	—	100,301	100,301
Profit appropriation to statutory reserves		—	—	46,778	—	—	46,778
Transaction with non-controlling interests	(b)	—	—	—	—	(22,266)	(22,266)
Currency translation differences		—	—	—	289	—	289
As at December 31, 2019		16,100	—	79,527	33,525	250,502	379,654

(a) Statutory reserve

In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalized as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered paid in capital.

27 Reserves (Continued)

(a) Statutory reserve (Continued)

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made. With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) Transaction with non-controlling interests

On June 3, 2019, the Group disposed 19% equity interests in Shanghai Huohun with a cash consideration of RMB199,500,000. After the transaction, the Group's equity interest in Shanghai Huohun decreased from 70% to 51% and the Group continues to retain control over Shanghai Huohun as the Group still has more than 50% of its voting rights. The effect of changes in the ownership interest of Shanghai Huohun on the equity attributable to owners of the Company during the year ended December 31, 2019 is summarised as follows:

	Year ended December 31, 2019 *RMB'000*
Consideration received for 19% equity interest	199,500
Carrying amount of non-controlling interests being disposed of	(221,766)
Losses on disposal recognized within equity	(22,266)

28 Share-based payments

(a) 2014 Share Incentive Plan

iDreamSky Technology Limited, the original overseas holding company of Shenzhen iDreamsky, adopted a share incentive plan in June 2014 ("**2014 Share Incentive Plan**") to grant restricted shares and share options to the Group's employees for the purpose of attracting and retaining the best available personnel, to provide additional incentives to employees and directors to promote the success of business.

The initial maximum number of ordinary shares that may be issued under the 2014 Share Incentive Plan is 15,169,920 shares which accounted for 12% of iDreamSky Technology Limited's ordinary shares.

28 Share-based payments (Continued)

(a) 2014 Share Incentive Plan (Continued)

(i) Restricted shares

As of January 1, 2015, 13,026,080 restricted shares have been granted to certain directors and employees of the Shenzhen iDreamsky. On April 1, 2015, additional 4,833,450 restricted shares have been granted to certain directors and employees of Shenzhen iDreamsky. The weighted-average grant-date fair value on April 1, 2015 is USD1.72 per share, which is the closing share price of iDreamSky Technology Limited.

Forfeitures are estimated at the time of grant. If necessary, forfeitures are revised in subsequent periods if actual forfeitures differ from those estimates.

The vesting period of the restricted shares and share options granted is 4 years and the vesting schedules is 25% after 12 months from original grant date, and the remaining 75% will vest in 3 equal installments over the next 3 years.

As part of privatization of the original overseas holdings Company of Shenzhen iDreamSky, iDreamSky Technology Limited, and the restructuring made by Shenzhen iDreamSky, the unvested restricted shares and share options under 2014 Share Incentive Plan has been canceled. As a return, the relevant grantees' interests were transferred to the new share incentive plan as disclosed in below Note (b).

(b) 2017 Restricted Shares Scheme

On April 30, 2017, as a return of the cancellation of aforesaid unvested restricted shares and share options under 2014 Share Incentive Plan, the relevant grantees became the limited partners of two new established limited liability partnerships, namely Ningbo Meishan Bonded Port Ziheng Investment Management Partnership Enterprise (Limited Partnership) (寧波梅山保税港區資恒投資管理合夥企業(有限合夥)) and Ningbo Meishan Bonded Port Mengweixing Investment Management Partnership Enterprise (Limited Partnership) (寧波梅山保税港區夢維興投資管理合夥企業(有限合夥)) ("**2017 Restricted Shares Scheme**"), and which also became the shareholders of Shenzhen iDreamSky.

Such arrangement was accounted for as the continuance of the original 2014 Share Incentive Plan. Since the relevant vesting conditions attached to original granted restricted shares and share options were removed during aforesaid arrangement, the remaining share-based compensation expenses related to those restricted shares and share options were recognized into the statement of comprehensive income immediately in 2017.

Furthermore, certain employees obtained the partnership units, as limited partners, of aforesaid two partnership at a price lower than their fair value, such transaction was considered as equity-settled share-based payment to employees. The fair value of the partnership units granted to employees on grant date, April 30, 2017, as determined with reference to the financing from independent third parties which occurred on the same day. The Group recognize this share-based compensation expenses immediately as no vesting conditions attached.

28 Share-based payments (Continued)

(b) 2017 Restricted Shares Scheme (Continued)

As part of the Reorganization, the Ningbo Meishan Bonded Port Ziheng Investment Management Partnership Enterprise (Limited Partnership) (寧波梅山保税港區資恒投資管理合夥企業(有限合夥)) and Ningbo Meishan Bonded Port Mengweixing Investment Management Partnership Enterprise (Limited Partnership) (寧波梅山保税港區夢維興投資管理合夥企業(有限合夥)) need to reduce its equity interests in Shenzhen iDreamSky. As a return, the relevant limited partners' interests of the aforesaid two partnerships were transferred to the new share incentive plan as disclosed in below Note (c).

(c) 2018 Share Incentive Plan

On May 18, 2018, the Company issued and allotted an aggregate of 8,627,045 shares (86,270,450 shares after share split on December 6, 2018) to the RSU Holding Entities for employee incentive plan purpose. On July 1, 2018, RSU Holding Entities granted aggregate of 5,220,583 shares (52,205,830 shares after share split on December 6, 2018) to senior management and employees, among which aggregate of 2,913,310 shares (29,133,100 shares after share split on December 6, 2018) were granted to the relevant limited partners of the aforesaid two partnerships mentioned in Note (b) as a return for their reduction of the equity interests in Shenzhen iDreamSky. Out of 2,913,310 shares (29,133,100 shares after share split on December 6, 2018), 1,272,212 shares (12,722,120 shares after share split on December 6, 2018) are without vesting conditions and the remaining 1,641,098 shares (16,410,980 shares after share split on December 6, 2018) are attached some vesting conditions.

Out of the remaining 2,307,273 shares (23,072,730 shares after share split on December 6, 2018), the vesting schedule for 2,118,854 shares (21,188,540 shares after share split on December 6, 2018) is 1/3 after 8 months from original grant date, and the remaining 2/3 will be vest in 2 equal installments over the next 2 years; and the vesting schedule for 188,419 shares (1,884,190 shares after share split on December 6, 2018) is 48 months and the vesting schedule is 25% after 12 months from original grant date, and the remaining 75% will vest in 3 equal installments over the next 3 years. The Group recorded RMB57,951,000 share-based compensation expense accordingly during the year ended December 31, 2018.

During the year ended December 31, 2019, RSU Holding Entities granted aggregate of 16,492,066 shares to employees, among which 2,601,251 shares are without vesting conditions. Out of the remaining 13,890,815 shares, the vesting period for 75,362 shares is 1 year and the vesting schedule is 100% after 12 months from original grant date; the vesting period for 6,855,065 shares is 3 years, and the vesting schedule is 1/3 after 12 months from original grant date and the remaining 2/3 will vest in 2 in equal installments over the next 2 years; the vesting period for 6,960,388 shares is 4 years, and the vesting schedule is 25% after 12 months from original grant date and remaining 75% will vest in 3 equal installments over the next years. The Group recorded RMB100,301,000 share-based compensation expense accordingly during the year ended December 31, 2019.

28 Share-based payments (Continued)

(c) 2018 Share Incentive Plan (Continued)

Movement in the number of awarded shares for the year ended December 31, 2019 and 2018 is as follows:

	Year ended December 31,	
	2019	2018
At the beginning of the year	**39,483,710**	—
Granted	**16,492,066**	52,205,830
Vested	**(13,776,841)**	(12,722,120)
Forfeit	**(461,050)**	—
At the end of the year	**41,737,885**	39,483,710

29 Borrowings

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Non-current		
Secured bank borrowings *(Note a)*	**162,451**	1,805
Unsecured bank borrowings	**60,000**	128,000
Secured other borrowings *(Note b)*	**31,697**	—
	254,148	129,805
Current		
Current portion of long-term borrowing, secured *(Note a)*	**19,354**	1,354
Current portion of long-term borrowing, unsecured	**100,000**	68,000
Bank borrowing, secured *(Note a)*	**280,000**	—
Secured long-term borrowings reclassified to current borrowings *(Note a)*	**616,937**	915,003
	1,016,291	984,357
	1,270,439	1,114,162

The Group's long-term bank borrowings bear average interest rate of 3.86% (2018: 4.51%) per annum, and the short-term bank borrowings bear average interest rate of 5.05% (2018: no short-term borrowing) per annum.

29 Borrowings (Continued)

(a) The pledge related to borrowings is as follows:

	Borrowing as of December 31, 2019 RMB'000	2018 RMB'000
Secured by		
Secured by the pledge of Changsha Mengju Information Technology Co., Ltd.'s land and buildings and guaranteed by Shenzhen iDreamSky and another independent third party	**1,805**	3,159
Secured by the shares of Qianhai Chuangyishikong Technology (Shenzhen) Co., Ltd.	**90,173**	382,956
Secured by the deposit of USD40,000,000	**526,764**	532,047
Secured by the pledge of trade receivables of Horgos iDreamSky and guaranteed by Qianhai iDream	**180,000**	—
Guaranteed by Qianhai iDream	**200,000**	—
Secured by the pledge of certain game intellectual properties of the Group	**70,000**	—
Secured by the pledge of certain trade receivables from Shenzhen iDreamsky	**10,000**	—
	1,078,742	918,162

The Group reclassified RMB616,937,000 long-term borrowings to current liabilities as the Group breached certain financial ratio requirements in the loan agreements as at December 31, 2019 (December 31, 2018: RMB915,003,000).

(b) In October 2019, iDreamSky Technology (HK) Limited entered into a two-year loan facility agreement with a financial institution, where a loan facility up to USD4,544,000 (equivalent to RMB31,697,000) was made available to iDreamSky Technology (HK) Limited. As at December 31, 2019, the loan balance of RMB31,697,000 was borrowed from aforesaid loan facility agreement. The loan bore a fixed rate of 3.85% per annum, and was secured by the pledge of certain financial assets as disclosed in Note 21(a).

29 Borrowings (Continued)

(c) The maturity of borrowing is as follows:

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Within 1 year	**1,016,291**	984,357
Between 1 and 2 years	**110,148**	77,354
Between 2 and 5 years	**144,000**	52,451
	1,270,439	1,114,162

(d) The carrying amount of the Group's borrowings is denominated in the following currencies:

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
RMB	**711,977**	1,036,640
EUR	**526,765**	77,522
USD	**31,697**	—
	1,270,439	1,114,162

30 Trade payables

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Third parties	**143,451**	121,192
Related parties *(Note 36)*	**17,342**	31,809
	160,793	153,001

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 cooperated game developers according to respective cooperation agreements. The credit terms of trade payables granted to the Group are usually 3 months.

30 Trade payables (Continued)

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

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
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
	160,793	153,001

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

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
RMB	**153,031**	145,656
USD	**7,762**	7,345
	160,793	153,001

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

31 Other payables and accruals

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Payroll and welfare payables	**45,436**	34,581
Professional service fee payable	**16,912**	69,221
Other tax payables	**27,952**	44,015
Other payables to related parties *(Note 36)*	**207,400**	733,275
Advance from business partner	**12,543**	—
Others	**6,802**	3,954
	317,045	885,046

31 Other payables and accruals (Continued)

As at December 31, 2018 and 2019, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

32 Contract costs and liabilities

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Contract costs:		
Costs to obtain contracts for game publishing	**151,967**	119,824
Contract liabilities:		
Game publishing	**265,459**	208,776

(a) Significant changes in contract costs and liabilities

Contract costs are mainly related to contract acquisition costs, which primarily consists of unamortized commissions charged by the Platforms and game developers.

In adopting IFRS 15, the Group recognizes contract costs in relation to commissions charged by the Platforms and game developers, which meet contract acquisition cost criteria when the Group views the game players as its customer and that is incremental cost of acquiring a customer contract. They are capitalized as contract acquisition costs and amortized over the Player Relationship Period, which is consistent with the pattern of recognition of the associated revenue. The Group had no impairment losses recognized on any contract costs.

Contract liabilities primarily consist of the unamortized revenue from sales of virtual items for mobile games, where there is still an implied obligation to be provided by the Group over time.

(b) Revenue recognized in relation to contract liabilities

The following table shows the amount of revenue recognized in the consolidated statement of comprehensive income for the respective years relating to contract liabilities brought forward:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Revenue recognized that was included in the contract liabilities balance at the beginning of the year		
Game publishing	**208,776**	154,810

33 Deferred income tax

(a) Deferred tax assets

The analysis of deferred income tax assets are as follows:

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
The balance comprises temporary differences attributable to:		
Deferred government grants	**155**	288
Contract liabilities	**39,819**	31,316
Intangible assets amortization	**8,612**	6,078
Impairment provisions	**9,591**	8,236
Fair value losses on financial assets at fair value through profit or loss	**3,762**	2,237
Accrued expenses	**1,622**	1,480
Tax losses	**10,717**	4,883
Total deferred tax assets	**74,278**	54,518
Set-off of deferred tax liabilities	**(22,795)**	(18,022)
Deferred tax assets-net	**51,483**	36,496

The movements in deferred income tax assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Deferred government grants	Contract liabilities	Intangible assets amortization	Impairment provisions	Fair value losses on financial assets at fair value through profit or loss	Accrued expenses	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2018	712	20,471	4,768	4,942	1,317	2,317	—	34,527
Acquisition of a subsidiary	—	—	—	1,627	—	—	—	1,627
Recognized in profit or loss	(424)	10,845	1,310	1,667	920	(837)	4,883	18,364
At December 31, 2018	288	31,316	6,078	8,236	2,237	1,480	4,883	54,518
Recognized in profit or loss	(133)	8,503	2,534	1,355	1,525	142	5,834	19,760
At December 31, 2019	155	39,819	8,612	9,591	3,762	1,622	10,717	74,278

33 Deferred income tax (Continued)

(b) Deferred tax liabilities

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
The balance comprises temporary differences attributable to:		
Contract costs	22,795	18,022
Set-off of deferred tax assets	(22,795)	(18,022)
Deferred tax liabilities-net	—	—

The movements in deferred income tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Contract costs
	RMB'000
At January 1, 2018	12,782
Recognized in profit or loss	5,240
At December 31, 2018	18,022
Recognized in profit or loss	4,773
At December 31, 2019	22,795

(c) Deferred income tax assets are recognized for tax losses carrying forwards and deductible temporary differences to the extent that realization of the related tax benefits through the future taxable profits is probable. As at December 31, 2018 and 2019, the Group did not recognize deferred income tax assets in respect of losses of approximately RMB22,281,000 and RMB102,048,000 respectively. These tax losses will expire from year 2020 to 2024.

34 Cash generated from operations

(a) Reconciliation of net profit to cash inflow from operating activities:

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Profit for the year	360,397	267,833
Adjustments for:		
— Depreciation of property, plant and equipment *(Note 14)*	9,295	7,693
— Depreciation of investment property *(Note 16)*	645	—
— Depreciation of right-of-use assets *(Note 15)*	23,430	—
— Amortization of intangible assets *(Note 17)*	117,438	86,143
— Loss on disposals of property, plant and equipment *(Note 9)*	225	588
— Impairment provisions for financial assets, contract assets and prepayments *(Note 7)*	175,192	38,156
— Impairment provisions for intangible assets *(Note 17)*	20,117	14,072
— Share-based compensations *(Note 28)*	100,301	85,910
— Share of losses/(profits) of investments accounted for using the equity method *(Note 20)*	1,999	(2,346)
— Gains on disposal of subsidiaries *(Note 9)*	(24,567)	(2,509)
— Losses on disposal of financial assets *(Note 9)*	1,429	—
— Goodwill impairment *(Note 9)*	422,331	—
— Gain from the reversal of the unpaid consideration payables from the acquisition of Shanghai Huohun *(Note 9)*	(294,911)	—
— Interest income on wealth management products *(Note 8)*	(388)	(868)
— Finance costs	46,889	51,023
— Changes in fair value of financial assets at fair value through profit or loss *(Note 21)*	(74,672)	10,631
— Income tax expense *(Note 12)*	30,188	29,214
Changes in working capital:		
— Increase in receivables	(529,138)	(407,091)
— Increase/(decrease) in payables	(19,483)	42,189
— Change in contract costs	(32,143)	(25,909)
— Change in contract liabilities	56,683	53,966
— Decrease in restricted cash	—	(7,800)
Cash generated from operations	391,257	240,895

34 Cash generated from operations (Continued)

(a) (Continued)

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Net book amount *(Note 14)*	**330**	788
Losses on disposal of property, plant and equipment *(Note 9)*	**(225)**	(588)
Proceeds from disposal of property, plant and equipment	**105**	200

(b) Major non-cash transactions

Other than the effect on acquisition of right-of-use assets as disclosed in Note 15 and transaction with non-controlling interests as disclosed in Note 27, there was no material non-cash investing and financing transaction during the year ended December 31, 2019.

(c) Net debt reconciliation

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Cash and cash equivalents	**532,746**	1,121,641
Amount due to related parties	**(21,159)**	(21,159)
Borrowings-repayable within 1 year	**(1,016,291)**	(984,357)
Borrowings-repayable after 1 year	**(254,148)**	(129,805)
Lease liabilities	**(48,925)**	—
Net debt	**(807,777)**	(13,680)

34 Cash generated from operations (Continued)

(c) Net debt reconciliation (Continued)

	Cash and cash equivalents RMB'000	Restricted Cash RMB'000	Amount due to related parties RMB'000	Borrowings-repayable within 1 year RMB'000	Borrowings-repayable after 1 year RMB'000	Lease liabilities RMB'000	Total RMB'000
Net debt as at January 1, 2018	605,075	7,800	—	(996,929)	(3,159)	—	(387,213)
Cash flows	508,768	(7,800)	(21,159)	(300,000)	188,986	—	368,795
Exchange impacts	7,798	—	—	—	(3,060)	—	4,738
Reclassification	—	—	—	312,572	(312,572)	—	—
Net debt as at December 31, 2018	1,121,641	—	(21,159)	(984,357)	(129,805)	—	(13,680)
Net debt as at Juanary1, 2019	1,121,641	—	(21,159)	(984,357)	(129,805)	(45,737)	(59,417)
Cash flows	(599,851)	—	—	(491,696)	333,264	20,659	(737,624)
Acquisition — leases	—	—	—	—	—	(23,847)	(23,847)
Exchange impacts	10,956	—	—	—	2,155	—	13,111
Reclassification	—	—	—	459,762	(459,762)	—	—
Net debt as at December 31, 2019	532,746	—	(21,159)	(1,016,291)	(254,148)	(48,925)	(807,777)

35 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Intangible assets	**318,867**	200,202

(b) Non-cancellable operating lease

The investment properties are leased to tenants under operating leases with rentals payable annually. For details of the leasing arrangements, refer to Note 16.

	2019	2018
	RMB'000	*RMB'000*
Minimum lease payments receivable on leases of investment properties are as follows:		
Within 1 year	**987**	—
Later than 1 year and no later than 5 years	**3,287**	—
	4,274	—

35 Commitments (Continued)

(b) Non-cancellable operating lease (Continued)

The Group leases various offices under non-cancellable operating leases expiring within 9 months to 5 years and a half. The leases have varying terms, escalation clauses and renewal rights. Upon renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Group has recognised right-of-use assets for the operating leases where the Group is a lessee, except for short-term leases, see Note 15 for further information.

	2019	2018
	RMB'000	*RMB'000*
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within 1 year	—	12,648
Later than 1 year but not later than 5 years	—	39,789
	—	52,437

36 Significant related party transactions

(a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group.

Names of major related parties	Nature of relationship
Guangzhou Topcomm Media Advertising Co., Ltd.	Entity invested by a director of the Group
Shenzhen Tencent Computer Systems Company Ltd.	A related party of a shareholder
Tencent Technology (Shenzhen) Company Ltd.	A related party of a shareholder
Tencent Cloud Computing (Beijing) Company Ltd.	A related party of a shareholder
iDreamSky Technology Limited	The shareholder of the Company
Tenpay Payment Technology Co., Ltd.	A related party of a shareholder
Tianjin Wenmeng Interactive Entertainment Co., Ltd.	Joint venture of the Group
Tianjin Lewei Shidai Culture Development Co., Ltd.	Joint venture of the Group
Hengqin Chuangmeng Qida Equity Investment Enterprise (Limited Partnership)	Associate of the Group
Chengdu Tianle Interactive Technology Co., Ltd	Associate of the Group
Shenzhen Qianhai Mengyou Technology Co., Ltd.	Associate of the Group
Zhuhai Shahe Internet Technology Co., Ltd.	Associate of the Group
Beijing Shiyongshi Internet Technology Co., Ltd. (disposal in 2019)	Associate of the Group
Hangzhou Crossingstar Culture Creativity Co., Ltd.	Associate of the Group
Zhejiang Yiyou Internet Technology Co., Ltd	Associate of the Group
Shanghai Shengxi Network Technology Co., Ltd	Associate of the Group
Wuxi Zengzhiqi Game Studio	Non-controlling shareholder of a subsidiary

(b) Significant transactions with related parties

In addition to those disclosed elsewhere in these consolidated financial statements, the following transactions were carried out with related parties.

In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective parties.

36 Significant related party transactions (Continued)

(b) Significant transactions with related parties (Continued)

(i) Provide services

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Guangzhou Topcomm Media Advertising Co., Ltd	**35,683**	31,486
Shenzhen Tencent Computer Systems Company Ltd.	**52,690**	40,613
	88,373	72,099

(ii) Purchases of services

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Tencent Cloud Computing (Beijing) Company Ltd.	**14,887**	14,235
Shenzhen Tencent Computer Systems Company Ltd.	**17,326**	23,189
Tencent Technology (Shenzhen) Company Ltd.	**1,000**	62
Tenpay Payment Technology Co., Ltd	**1,606**	1,367
Zhejiang Yiyou Internet Technology Co., Ltd	**2,319**	—
	37,138	38,853

(iii) Revenue share to content providers

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Zhejiang Yiyou Internet Technology Co., Ltd	**67,342**	—

The transactions of revenue share to content provider charged by Zhejiang Yiyou Internet Technology Co., Ltd amounting to RMB67,342,000 was deducted from revenue according to revenue recognition policy for the year ended December 31, 2019.

36 Significant related party transactions (Continued)

(b) Significant transactions with related parties (Continued)

(iv) Loan provided to related parties

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Loans to related parties:		
— iDreamSky Technology Limited	—	20,424
— Shenzhen Qianhai Mengyou Technology Co., Ltd.	—	5,000
— Wuxi Zengzhiqi Game Studio	—	8,000
— Others	402	670
	402	34,094
Repayment received from related parties:		
— iDreamSky Technology Limited	32,516	4,952
— Shenzhen Qianhai Mengyou Technology Co., Ltd.	—	5,000
— Others	—	100
	32,516	10,052

(v) Loan from a related party

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Loan from a related party:		
— Hengqin Chuangmeng Qida Equity Investment Enterprise (Limited Partnership)	—	21,159

36 Significant related party transactions (Continued)

(c) Year end balances with related parties

(i) Amounts due from related parties

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
iDreamSky Technology Limited	**—**	32,516
Wuxi Zengzhiqi Game Studio	**8,000**	8,000
Others	**972**	570
	8,972	41,086
Less: provision for impairment *(Note 3.1)*	**(449)**	(2,054)
	8,523	39,032

The above amount due from related parties were unsecured, interest-free and repayable on demand.

(ii) Trade receivables due from related parties

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Shenzhen Tencent Computer Systems Company Ltd.	**19,888**	41,165
Guangzhou Topcomm Media Advertising Co., Ltd.	**—**	14,869
Tenpay Payment Technology Co., Ltd.	**3,767**	1,098
Zhejiang Yiyou Internet Technology Co., Ltd	**27,370**	—
Others	**99**	19
	51,124	57,151

36 Significant related party transactions (Continued)

(c) Year end balances with related parties (Continued)

(iii) Amounts due to related parties

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Hengqin Chuangmeng Qida Equity Investment Enterprise (Limited Partnership)	**21,159**	21,159

The above amount due to related parties were unsecured, interest-free and repayable on demand.

(iv) Trade payables due to related parties

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Tencent Cloud Computing (Beijing) Company Ltd.	**3,192**	3,498
Tencent Technology (Shenzhen) Company Ltd.	**16**	28,311
Zhejiang Yiyou Internet Technology Co., Ltd	**14,088**	—
Others	**46**	—
	17,342	31,809

(v) Prepayments to related parties

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Tencent Technology (Shenzhen) Company Ltd.	**—**	14,109
Tencent cloud computing (Beijing) Co., Ltd	**38**	—
Shanghai Shengxi Network Technology Co., Ltd	**943**	—
	981	14,109

36 Significant related party transactions (Continued)

(c) Year end balances with related parties (Continued)

(vi) Other payables due to related parties

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Tianjin Lewei Shidai culture development Co., Ltd.	**4,900**	4,900
Hengqin Chuangmeng Qida equity investment enterprise (Limited Partnership)	**5,000**	5,000
Zhuhai Shahe Internet Technology Co., Ltd.	**—**	4,875
Beijing Shiyongshi Internet Technology Co., Ltd. (disposal in 2019)	**—**	7,500
Hangzhou Crossingstar Culture Creativity Co., Ltd.	**1,000**	—
Non-controlling shareholders of a subsidiary*	**196,500**	711,000
	207,400	733,275

* *These balances are the unpaid consideration to the sellers for the acquisition of Shanghai Huohun.*

(d) Key management personnel compensations

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Fees	**—**	300
Wages, salaries and bonuses	**3,942**	4,609
Share-based compensation	**—**	49,324
Pension costs-defined contribution plan, other social security costs, housing benefits, and other employee benefits	**214**	186
Other employee benefits	**—**	41
	4,156	54,460

37 Contingencies

The Group did not have any material contingent liabilities as at December 31, 2018 and 2019.

38 Benefits and interests of directors

(a) Directors' and chief executive's emoluments

Director's and chief executive's emoluments are disclosed in Note 10.

(b) Directors' retirement benefits

No retirement benefits were paid to or payable in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking during the years ended December 31, 2018 and 2019.

(c) Directors' termination benefits

During the reporting period, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

(d) Consideration provided to third parties for making available directors' services

No consideration was provided to or receivable by third parties for making available directors' services subsisted at the end of or at any time during the years ended December 31, 2018 and 2019.

(e) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of or at any time during the years ended December 31, 2018 and 2019.

(f) Directors' material interests in transactions, arrangements or contracts

No other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the years ended December 31, 2018 and 2019, except for the transactions disclosed in Note 36.

39 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. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

40 Financial position and reserve movement of the Company

(a) Financial position of the Company

	Note	As at December 31, 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Investments in subsidiaries		**1,279,856**	1,279,856
Investments accounted for using the equity method		**4,930**	—
Intangible assets		**77,952**	45,805
		1,362,738	1,325,661
Current assets			
Amount due from subsidiaries		**888,614**	533,143
Prepayments and other receivables		**26,085**	—
Cash and cash equivalents		**292,684**	730,122
		1,207,383	1,263,265
Total assets		**2,570,121**	2,588,926
Equity and liabilities			
Equity attributable to owners of the company			
Share capital		**75**	75
Shares premium		**2,542,476**	2,542,476
Other reserves	(b)	**64,555**	43,425
Accumulated losses	(b)	**(48,746)**	(22,780)
Total equity		**2,558,360**	2,563,196
Liabilities			
Current liabilities			
Other payables and accruals		**11,761**	25,730
Total liabilities		**11,761**	25,730
Total equity and liabilities		**2,570,121**	2,588,926

The financial position of the Company was approved by the Board of Directors on March 26, 2020 and was signed on its behalf:

Chen Xiangyu
Director

Lei Junwen
Director

40 Financial position and reserve movement of the Company (Continued)

(b) Other reserves and accumulated losses movement of the Company

	Other reserves RMB'000	Accumulated losses RMB'000
At January 1, 2019	43,425	(22,780)
Losses for the year	—	(25,966)
Translation difference	21,130	—
At December 31, 2019	64,555	(48,746)

41 Subsidiaries and controlled structured entities

The following is a list of principal subsidiaries of the Company as at December 31, 2019:

Company Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Directly owned				
iDreamSky Holdings (HK)	Hong Kong	HKD1	100%	Investment holding/Hong Kong
Dreambeyond Holdings Limited	Cayman	USD50,000	100%	Investment holding/Cayman
Indirectly owned				
Qianhai iDream	The PRC, Limited liability Company	USD91,000,000	100%	Internet and software technology development and service/The PRC
Shenzhen Chuangmeng Zhitao Technology Co., Ltd. (cancellation in 2019)	The PRC, Limited liability Company	USD1,000,000	100%	Internet and software technology development and service/The PRC
Qianhai Chuangyi Shikong Technology (Shenzhen) Co., Ltd.	The PRC, Limited liability Company	RMB187,473,000	100%	Internet and software technology development and service/The PRC
Shenzhen Baixingsheng Investment Management Co., Ltd.	The PRC, Limited liability Company	RMB3,000,000	100%	Financing/The PRC
Changsha Mengju Information Technology Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	100%	Internet and software technology development and service/The PRC

41 Subsidiaries and controlled structured entities (Continued)

Company Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Shenzhen Ledou Gaming Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	100%	Internet and software technology development and service/The PRC
Hengqin Hunmeng Equity Investment Fund., LLP	The PRC, Limited liability Company	RMB100,000,000	100%	Financing/The PRC
Shanghai Huohun Internet Technology Co., Ltd	The PRC, Limited liability Company	RMB10,000,000	51%	Internet and software technology development and service/The PRC
Shanghai Shengting Information Technology Co., Ltd	The PRC, Limited liability Company	RMB10,000,000	51%	Internet and software technology development and service/The PRC
Shenzhen iDream Legu Technology Co., Ltd	The PRC, Limited liability Company	RMB50,000,000	90%	Internet and software technology development and service/The PRC
Dreammaker (HK) Technology Limited	Hong Kong	HKD1,000,000	100%	Internet Information Service/Hong Kong
iDreamSky Technology (HK) Limited	Hong Kong	HKD1	100%	Internet Information Service/Hong Kong
IDS 01 Holdings Limited	Cayman	USD1	100%	Investment holding/Cayman
IDS 02 Holdings Limited	Cayman	USD1	100%	Investment holding/Cayman
IDS 05 Holdings Limited	Cayman	USD1	100%	Investment holding/Cayman
IDS 06 Holdings Limited	Cayman	USD1	100%	Investment holding/Cayman
IDS 08 Holdings Limited	Cayman	USD5,000,000	100%	Investment holding/Cayman
IDS 11 Holdings Limited	Cayman	USD1	100%	Investment holding/Cayman
IDS 12 Holdings Limited	Cayman	USD1	100%	Investment holding/Cayman
IDS 13 Holdings Limited	Cayman	USD1	100%	Investment holding/Cayman
iDreamSky Game Co., Ltd.	Korea	WON1,000,000,000	100%	Investment holding/Korea
iDreamSky Creative Limited	Hong Kong	HKD1	100%	Investment holding/Hong Kong
Near Technology Limited	Hong Kong	HKD1	100%	Investment holding/Hong Kong
DSKY Venture (Korea)	Korea	WON5,373,040,000	100%	Investment holding/Korea

41 Subsidiaries and controlled structured entities (Continued)

Company Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Controlled by the Company pursuant to the Contractual Arrangements				
Shenzhen iDreamSky	The PRC, Limited liability Company	RMB215,001,755	100%	Internet and software technology development and service/The PRC
Horgos iDreamSky Information Technology Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	95%	Internet and software technology development and service/The PRC
Shenzhen Chenhai Star Technology Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	100%	Internet and software technology development and service/The PRC
Shenzhen Qianhai Juzheng Investment Management Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	51%	Financing/The PRC
Hainan iDreamSky Technology Co., Ltd.	The PRC, Limited liability Company	RMB1,000,000	100%	Internet and software technology development and service/The PRC
Shenzhen Mengyu Technology Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	95%	Internet and software technology development and service/The PRC
Beijing iDreamSky Wuxian Technology Co., Ltd (cancellation in 2019)	The PRC, Limited liability Company	RMB1,000,000	100%	Technology promotion and application services/The PRC
Shenzhen iDreamSky Land Entertainment Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	62%	Culture, sports and entertainment/ The PRC
Langshan iDreamSky Cultural Communication Co., Ltd	The PRC, Limited liability Company	RMB2,000,000	100%	Culture, sports and entertainment/ The PRC
Shenzhen Weiwan Daixu Technology Co., Ltd	The PRC, Limited liability Company	RMB750,000	75%	Culture, sports and entertainment/ The PRC
Guangzhou Chuangying Entertainment Enterprise Management Co., Ltd	The PRC, Limited liability Company	RMB5,000,000	100%	Culture, sports and entertainment/ The PRC

The directors of the Company considered that the non-controlling interests in respect of the subsidiaries are not material to the Group, and therefore, no summarized financial information of the relevant subsidiaries is presented separately.

Definitions

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

"AGM"	the annual general meeting of the Company
"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
"Articles of Association"	the amended and restated articles of association of our Company adopted on November 20, 2018 with effect from December 6, 2018, as amended and supplemented from time to time
"Audit Committee"	the audit committee of the Company
"Auditor"	PricewaterhouseCoopers, the independent auditor of the Company
"Board"	the board of Directors
"CG Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"Company" or "our Company"	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
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961), as consolidated and revised of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, our Company, the WFOE, Shenzhen iDreamSky and the Relevant Shareholders
"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
"indie game(s)"	game(s) created without significant financial support of game publisher(s)
"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 Date"	December 6, 2018, being the date on which the shares of the Company became listed and commenced trading on the Stock Exchange
"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
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"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 report only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"PRC Consolidated Affiliated Entities"	the entities we control through the Contractual Arrangements, namely Shenzhen iDreamSky and its subsidiaries
"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
"RSU Plan"	the restricted share unit plan of our Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
"Shanghai Huohun"	Shanghai Huohun Internet Technology Co., Ltd. (上海火魂網絡科技有限公司), a non-wholly owned subsidiary of the Company incorporated in the PRC.
"Share(s)"	ordinary share(s) of the Company with nominal value of US$0.0001 each in the share capital of the Company
"Shenzhen iDreamSky"	Shenzhen iDreamSky Technology Co., Ltd. (深圳市创梦天地科技有限公司), a company established in the PRC and a PRC Consolidated Affiliated Entity of our Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Tencent"	Tencent Holdings Limited, one of the Company's substantial shareholders, a limited liability company incorporated under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange under stock code 700
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC and a consolidated affiliated entity of Tencent
"Tencent Group"	Tencent and its subsidiaries
"U.S. dollars" or "US$" or "USD"	U.S. dollars, the lawful currency of the United States of America
"WFOE"	Shenzhen Qianhai iDream Technology Co., Ltd. (深圳市前海创梦科技有限公司), a wholly-owned foreign enterprise established in the PRC and a subsidiary of our Company