iDreamSky

iDreamSky Technology Holdings Limited

创梦天地科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1119

ANNUAL REPORT 2020

Contents

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 (resigned on August 25, 2020)

Non-executive Directors

Mr. Ma Xiaoyi
Mr. Du Feng (resigned on April 24, 2020)
Mr. Zhang Han (appointed on April 24, 2020)
Mr. Yao Xiaoguang (appointed on August 25, 2020)
Mr. Chen Yu (appointed on August 25, 2020)

Independent Non-executive Directors

Ms. Yu Bin
Mr. Li Xintian
Mr. Zhang Weining
Mr. Mao Rui (appointed on August 25, 2020)

Audit Committee

Mr. Zhang Weining *(Chairman)*
Mr. Du Feng (resigned on April 24, 2020)
Mr. Zhang Han (appointed on April 24, 2020)
Ms. Yu Bin
Mr. Li Xintian

Nomination Committee

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

Remuneration and Appraisal Committee

Ms. Yu Bin *(Chairman)*
Mr. Jeffrey Lyndon Ko
Mr. Lei Junwen (resigned on August 25, 2020)
Mr. Li Xintian
Mr. Zhang Weining

Strategy Committee

Mr. Chen Xiangyu *(Chairman)*
Mr. Guan Song
Mr. Jeffrey Lyndon Ko
Mr. Lei Junwen (resigned on August 25, 2020)
Mr. Ma Xiaoyi
Mr. Zhang Weining
Mr. Yao Xiaoguang (appointed on August 25, 2020)
Mr. Chen Yu (appointed on August 25, 2020)
Mr. Mao Rui (appointed on August 25, 2020)

Authorized Representatives

Mr. Lei Junwen (resigned on August 25, 2020)
Mr. Guan Song (appointed on August 25, 2020)
Ms. Leung Suet Lun

Joint Company Secretaries

Mr. Zhang Heng (resigned on November 30, 2020)
Ms. Tang Xu (appointed on November 30, 2020)
Ms. Leung Suet Lun

Legal Advisor

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

Auditor

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

Registered Office

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

Headquarters

16/F, Unit 3, Block A
Kexing Science Park
15 Ke Yuan Road
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Shenzhen
Guangdong Province
PRC

Principal Share Registrar

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

Hong Kong Share Registrar

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

Principal Bankers

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

Bank of China
Zhongxing Sub-branch
West Side, 1/F, ZTE R&D Building
No. 13 Gaoxin South Road Four
Nanshan District
Shenzhen
PRC

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

Company's Website

http://www.idreamsky.com/

Stock Code

1119

Date of Listing

December 6, 2018

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended December 31,				
	2016	2017	2018	2019	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenues	1,480,792	1,763,548	2,364,641	2,792,970	**3,212,118**
Gross profit	544,131	709,428	1,038,823	1,225,738	**1,335,764**
Profit/(loss) before income tax	16,801	173,692	297,047	390,585	**(574,478)**
Profit/(loss) for the year	5,121	151,904	267,833	360,397	**(564,996)**
Adjusted net profit*	176,038	238,347	443,640	553,211	**149,013**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at December 31,				
	2016	2017	2018	2019	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	2,019,209	2,772,325	5,618,071	6,086,762	**6,752,841**
Total liabilities	1,494,045	1,435,631	2,439,965	2,141,169	**3,037,000**
Total equity	525,164	1,336,694	3,178,106	3,945,593	**3,715,841**

* 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/loss for the year excluding share-based compensation expenses, fair value gains or losses on financial assets, impairment provision of contract assets, impairment provision of investments in associates, fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss, impairment provision of goodwill resulting from a business combination and gain from the reversal of the unpaid consideration payables from a business combination, if any.

Mr. Chen Xiangyu
Chairman

I am pleased to present our annual report for the year ended December 31, 2020 to the shareholders.

OVERVIEW

Dear shareholders and all investors of the Company and friends who care about iDreamSky:

2020 is an extraordinary year. The sudden outbreak of COVID-19 shattered the atmosphere of joy at the beginning of the New Year. It not only forced us in most parts of the world to change the way we live and work, but also reminded us of how precious and fragile life is. Holding fast to its love and responsibility, the Company set up a special medical aid fund to deliver urgently needed medical supplies to the forefront of the fight against the pandemic in Hubei Province. In addition, the Company actively delivered positive value orientation to players through a series of initiatives of our games.

The Internet industry was also affected unprecedentedly, in particular the gaming industry where disruptive changes occurred. The competition among the industry giants in the field of exquisite AAA hardcore games heated them over. The shortage of industry talents pulled up the cost to establish R&D team. The high premium of M&A quickly drove the industry into the window period of developing mid-and hardcore games. A traditional way to acquire user through buying traffic was impacted by the constantly increasing cost. The risk of strategy implementation rose sharply. All these factors impelled us to rethink, adjust and optimize our development strategy.

iDreamSky has always kept in mind our mission and original aspiration: bring joy to users through technology and creativity, and build an "24/7 online & offline entertainment life circle". We are acutely aware that China's gaming industry is about to enter a new stage of development which is full of challenges and opportunities for each enterprise. Therefore, while strengthening our core capabilities along with consolidating and deepening our moat of superior products, our team is also plotting a new business growth curves, and looking for opportunities for sustainable development, committing to create more value for shareholders.

Our core capabilities are the fundamental of the Company's strategy support, including local launch of overseas exquisite games, independent R&D and operation of gaming products with long lifecycle, such as match-3 puzzle games and competitive games, and the product lifecycle SaaS tools. On that basis, we have successfully built three different business growth curves, including games, developer friendly SaaS system, and "WePlay" offline stores operated by the dual brands of "Tencent Video Great Moment Voyage" and "QQ Family", to bring better entertainment experience for users in "real time" and "daily".

These three curves constitute our value incremental strategy: building a long lifecycle user ecology around our core capabilities and advantages; forming a multi-dimensional repeated, multi-frequency and long-time interaction model between quality contents and users; thus in the closed loop of traffic monetization, our single-user lifetime value will continue to increase in an upward spiral pattern.

RESULTS

In 2020, in order to enhance internal game development capability and incubate SaaS products with standardized mid-platform technology, the Company increased significantly investment in R&D; meanwhile, the Company impaired the goodwill of Shanghai Huohun Internet Technology Co., Ltd. ("**Shanghai Huohun**"), and the optimization of non-core strategic products also brought us a partial loss of intangible assets. Although the above facts will have an impact on our financial performance in the short term, the Company has seized new opportunities through adjustment. We are convinced that in 2021 the Company has entered a new development model and value creation system.

The year 2020 is a key year for the Group's business transformation and upgrading. We expanded our core business to a more diverse range of services, namely game and information services, SaaS and other related services and offline entertainment business. The revenue increased 15.0% on a year-on-year basis, which was mainly driven by the game and information services. The Group recorded a net loss of RMB565.0 million for the year ended December 31, 2020 as compared to a net profit of RMB360.4 million for the year ended December 31, 2019. The Group's adjusted net profit for the year ended December 31, 2020 was RMB149.0 million, representing a decrease of 73.1%.

In addition, our average MAUs increased from 131.3 million in 2019 to 138.0 million in 2020. 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) increased from 5.7 million in 2019 to 5.9 million in 2020, and the IAP monthly average revenue per paying user (ARPPU) increased from RMB31.9 in 2019 to RMB38.0 in 2020.

Throughout 2020, we have obtained pre-approvals for 9 games which cover a variety of high quality casual and mid-and hardcore games.

BUSINESS REVIEW

Our Three Business Segments

Ledou Gaming — Gaming Business

In 2020, we have completed the business combing and strategic focus, determining to take match-3 puzzle games and competitive games as the independent R&D directions, and releasing the mobile version of mid- and hardcore games by introducing overseas exquisite console and PC games or investing and customizing products. Based on our existing user base advantage, and combining strong interactive social nature of competitive games, we form the first echelon of user value enhancement.

- ***"iDreamSky Brand" — self-developed match-3 puzzle games, targeting overseas markets, featuring global orientation***

  According to the data from APP Annie, the global market size of the match-3 puzzle games was approximately RMB48.1 billion in 2020, with a CAGR of 7.1%. Although the match-3 puzzle games is not exclusive, the market size of the pure match-3 puzzle games continued to shrink. In contrast, the generation II match-3 puzzle games represented by our Gardenscapes and Homescapes had outstanding performance with continuous increase in the total revenue in Chinese market in 2020. The reason is that the generation II match-3 puzzle games resonate with players by simulation and storyline, exceed the expectations of core users of this gaming genre, and increase their stickiness and willingness to pay. In addition, we also maintained the long lifecycle and activity of the games by conducting effective operating activities. For instance, in July 2020, we integrated the Palace Museum Culture to create Gardenscapes — Imperial Garden of the Forbidden City, which attracted more than 15% new users and 80% previous users to play.

  The Witch Diaries, the first generation II match-3 puzzle game independently developed by the Company, has completed several rounds of tests overseas, with excellent data performance, and is expected to be launched globally in 2022.

- ***E-sports ecosystem — Competitive games are the core***

  As one of the strategic partners of Tencent Cloud, we are deeply involved in the design of cloud gaming solutions. We believe that a new era is coming, and the future implementation of mature cloud technology will change the way of game distribution and thus overturn the pattern of the gaming industry once again. Meanwhile, we thought about and explored the contents of cloud games in advance, and realized competitive games would be one of the main categories that is compatible to the cloud gaming era.

  In July 2020, Tencent launched the Art of War III, which is the first RTS game independently developed by the Company. This game reached TOP 1 on the App Store free game list on the first day of distribution, and ranked TOP 5 for several times. During the Reporting Period, we held the Art of War III championship jointly with Jingdong Campus, with more than 100 college teams across the country participating in, which received superb responses.

In addition, the Company's next generation self-developed cross-platform 2D competitive mobile game Super Animal Royale obtained pre-approval on January 27, 2021, and completed three tests by the day of February 28, 2021. With outstanding data performance, the game received incredible comments from players and praises from industry. The expected date of its launch will be in the second quarter of 2021.

We are dedicated to constructing a comprehensive E-sports system for our competitive games, ensuring long-term game operation, player vitality and adhesives. At the same time, we will generate E-sports ecology by conducting matches, which consolidate the synergies of online and offline businesses.

- ***Mid-and hardcore games***

  Recently, the market of AAA gaming in China is still a Blue Sea, thus we take the mid-and hardcore games as one of the crucial Strategic direction of iDreamSky. We will mainly compete the market by game publishing, and prepare for the boom of China's console game market. Firstly, we are going to combine global excellent gaming producers with the local publishing capability that accumulated for decades at the source code level, in order to introduce the mobile version of exquisite console games/PC games from overseas to China. Secondly, we seek excellent products by investing in developers and product customization in an attempt to enrich our product line.

SaaS Business Segment — Reusable enterprise-class applications

The Company has incubated a series of interactive product lifecycle SaaS tools with its mid-platform technical support capabilities accumulated over the years to provide full-system support services for content developers from early development stage to product launch and operation in policy compliance, AI big data calculation and analysis, traffic acquisition and monetization. With the information and technology, we can lower the initial barrier to entry, help them improve the efficiency of team and product operations, and achieve the purpose of reducing costs and increasing revenue.

"WePlay" — Offline stores with new experience to Generation Z

"WePlay", theming "Tencent Video Great Moment Voyage" and collaborating with Tencent, Nintendo and Sony and other world-renowned gaming companies, is the first experimental entertainment retail block in China. As a holy land to offer players console experiencing, console and game retail, gatherings, designer toys and peripheral products, it is the latest scene for the "Generation Z" players merging online entertainment and offline socializing. In March 2021, the Company acquired another IP license from the QQ Family, therefore, "WePlay" now holds two thematic brands: "Tencent Video Great Moment Voyage" and "QQ Family".

Within the Year, the Company optimized the business model of "WePlay" by adjusting the in-store profit model, charging console game experiencing and consoles and AAA game products retail. Also, we conducted a comprehensive digital transformation for "WePlay". Throughout the R&D process on mini programs and backstage data analysis, we began to gradually build a database of Chinese console game players, and integrated business at front-end with data at back-end, which turns out to be the fundamental of bridging online and offline traffics in future. In 2020, the upgraded "WePlay" broke through the adverse situation with significant increase in traffic and single-store profitability.

The Company continued to optimize the store establishing process. Currently, the core shopping malls in urban administrative areas are priority locations to set up offline stores, including Guangzhou and Shenzhen regions and the surroundings. With the brand premium generated by the business model and the content attraction, the concept of "WePlay" has become the latest pan-entertainment business that is demanded by shopping malls to drive the circulation of passenger flow and prolong their stay time. This circumstance provides us with rental bargaining power and resource acquisition advantages.

With the expansion of the coverage of "WePlay" and the launch of the offline tournaments of our competitive games, offline business will be essential for us to shape a "24/7 online & offline entertainment life circle". In addition, with the establishment of digital membership system and the expansion of stores, our user value will be amplified at the secondary echelon.

BUSINESS OUTLOOK

We will continue to focus on independently developing match-3 puzzle games and competitive games, leverage the existing strengths in the industry to develop and launch the mobile version of exquisite mid-and hardcore console games/computer games from a global perspective, and continue to seek suitable investment opportunities. It is expected that in 2021 we will launch Super Animal Royale, Glory All Star, Garden Restaurant (overseas version), and Code Name "Eternal" (tentative name), etc.

At the meantime, competitive products matrix will serve as contents of offline E-sports games, and the Company will act vigorously on the layout of E-sports ecology. The matrix threads user platforms together and constructs "24/7 online & offline entertainment life cycle", so that the users and contents are able to achieve "higher-frequency, longer-duration, and stronger-adhesiveness" interactions, which can mitigate the traffic cost and reinforce the user value of our platform.

With regard to the developer-friendly SaaS system, while serving premium content developers, we are also building a premium content developer partnership matrix, which will be better shaped in the second half of 2021.

The Company is going to develop "WePlay" offline stores constantly and opening up 30 directly-managed stores in 2021, along with the first QQ Family flagship store scheduled to launch in the third quarter of 2021. In addition, we strive to incorporate more business modalities into original basis, such as designer toys. For the next three years, iDreamSky plans to open up 150 QQ Family themed offline stores in popular commercial districts of the first and second-tier Chinese cities. With the fast expansion of stores across the country, "WePlay" offline stores will absolutely become content experience-oriented vanguard in the console game market in China.

Self-development and distribution of games, and building a diversified and cross-platform game matrix are the basic business goal of the Company; we will maneuver the E-sports ecology and the mid-platform technical capability as bridges between online and offline gaming business, and build up a three-dimension traffic pool to connect online and offline traffic flows. Further, we will use the integrated SaaS system tools nurtured by the Company's mid-platform to deeply empower the Company and more content developers.

STRATEGIC COOPERATION AND CAPITAL MARKET ACTIVITIES

— **Further strengthen cooperation with strategic investors**

In August 2020, we appointed Mr. Yao Xiaoguang and Mr. Chen Yu as non-executive directors of the Company and members of the Strategy Committee of the Board of Directors. Mr. Yao Xiaoguang is the Vice President of Tencent and President of the TiMi Studio Group, and Mr. Chen Yu is the Vice President of Tencent and President of the Lightspeed & Quantum Studios Group. In July, Tencent A.C.E. Program released our first self-developed RTS competitive game, Art of War 3. In October, Art of War 3 and JD campus jointly launched a national campus league. In March 2021, we obtained the IP authorization of QQ Family for the opening of themed offline stores.

In addition, we continue to work closely with strategic investors such as Sony.

— **Strategic financing**

In October 2020, we issued the HKD775 million secured convertible bonds due 2025. The net proceeds from this issuance of bonds are used to fund the development of our own games and products and to fund future strategic opportunities.

APPRECIATION

In 2021, we will keep our mission of providing joy to our users and creating value for our shareholders in mind, and strive to deliver satisfactory results to shareholders and investors with continuous delivery of business progress.

Chen Xiangyu
Chairman
Hong Kong, March 25, 2021

The following table sets forth the comparative figures for the years ended December 31, 2020 and 2019:

	For the year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Revenues	**3,212,118**	2,792,970
Cost of revenues	**(1,876,354)**	(1,567,232)
Gross profit	**1,335,764**	1,225,738
Selling and marketing expenses	**(339,580)**	(293,343)
General and administrative expenses	**(369,574)**	(250,275)
Research and development expenses	**(325,222)**	(191,077)
Net impairment losses on financial assets and contract assets	**(101,804)**	(70,016)
Other income	**24,005**	28,337
Other losses, net	**(610,481)**	(95,802)
Fair value (losses)/gains on financial assets at fair value through profit or loss	**(14,998)**	74,672
Operating (loss)/profit	**(401,890)**	428,234
Finance income	**6,691**	11,239
Finance costs	**(147,430)**	(46,889)
Finance costs, net	**(140,739)**	(35,650)
Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss	**(20,879)**	—
Share of results of investments accounted for using the equity method	**(10,970)**	(1,999)
(Loss)/profit before income tax	**(574,478)**	390,585
Income tax credit/(expense)	**9,482**	(30,188)
(Loss)/profit for the year	**(564,996)**	360,397
Adjusted profit for the year	**149,013**	553,211

REVENUES

In 2020, the Group expand its core businesses to more variety of services and started to disclose three reportable segments which are game and information services, SaaS and other related services and offline entertainment. For further details of the segment information, please refer to note 5 to the consolidated financial statements.

Revenues increased by 15.0% to approximately RMB3,212.1 million for the year ended December 31, 2020 on a year-on-year basis (2019: RMB2,793.0 million). Revenue from the game and information services, SaaS and other related services and offline entertainment represented 98.6%, 1.2% and 0.2%, respectively, of the Group's total revenue for the year ended December 31, 2020.

Revenue from the game and information services

The following table sets forth our revenues from the game and information services for the years ended December 31, 2020 and 2019:

	For the year ended December 31,			
	2020		2019	
	RMB'000	**%**	*RMB'000*	*%*
Game revenue	**2,805,562**	**88.6**	2,446,876	88.3
Information service revenue	**347,529**	**11.0**	315,561	11.4
Other revenue	**14,390**	**0.4**	8,882	0.3
	3,167,481	**100**	2,771,319	100

- **Game revenue**. The largest portion of revenues from the game and information services is derived from our game revenue, which contributed 88.6% and 88.3% of our revenues from the game and information services for the years ended December 31, 2020 and 2019, respectively. The increase in game revenue from RMB2,446.9 million for the year ended December 31, 2019 to RMB2,805.6 million for the year ended December 31, 2020 was primarily due to the solid performance of our high-grossing games, including Art of War III (全球行動), Gardenscapes (夢幻花園), Homescapes (夢幻家園), FIFPro World Players' Union (全民冠軍足球) and Decisive Battle against Marfa (決戰瑪法).

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

	For the year ended December 31,	
	2020	2019
Average MAUs *(millions)*	**138.0**	131.3
Average MPUs *(millions)*	**5.9**	5.7
Average ARPPU *(RMB)*	**38.0**	31.9

* Our key operating metrics included data from all games published and operated by us. During the year ended December 31, 2020, Cross Gate (Mobile version) (魔力寶貝(手機版)) and FIFPro World Players' Union (全民冠軍足球) and Art of War III (全球行動) were the only three games not published or operated by us, which were published and operated by Tencent.

- **MAUs.** Our average MAUs increased from 131.3 million in 2019 to 138.0 million in 2020, which was primarily contributed by the popularity of mobile games we offered.

- **MPUs.** Our average MPUs increased from 5.7 million in 2019 to 5.9 million in 2020, which was in line with the increase of MAUs.

- **Monthly ARPPU.** Our monthly ARPPU increased from RMB31.9 in 2019 to RMB38.0 in 2020, primarily due to the launch of more games which require more time commitment and offer higher-priced virtual items.

- **Information service revenue.** Our information service revenue is primarily derived from our advertising services. The increase in information service revenue from RMB315.6 million for the year ended December 31, 2019 to RMB347.5 million for the year ended December 31, 2020 was primarily the result of (i) our increased in-game advertisement slots; and (ii) the higher rates charged to advertisers or advertising agents.

SaaS and other related services and offline entertainment

Due to the Group's strategic deployment and enhanced investment in the SaaS and other related services and offline entertainment business, revenue from the SaaS and other related services for the year ended December 31, 2020 increased by 130.1% year-on-year to RMB38.1 million (2019: RMB16.6 million) and revenue from the offline entertainment for the year ended December 31, 2020 increased by 27.9% year-on-year to RMB6.5 million (2019: RMB5.1 million).

COST OF REVENUES

The Group recorded a total cost of revenues of RMB1,876.4 million for the year ended December 31, 2020, with a year-on-year increase of 19.7% (2019: RMB1,567.2 million). The year-on-year increase was primarily due to greater channel costs and revenue sharing to content developers.

As a percentage of revenues, our cost of revenues increased from 56.1% for the year ended December 31, 2019 to 58.4% for the year ended December 31, 2020. The increase was primarily due to less game revenues being recognized on a net basis and with higher gross margin.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 15.8% from RMB293.3 million for the year ended December 31, 2019 to RMB339.6 million for the year ended December 31, 2020. As a percentage of revenue, our selling and marketing expenses increased slightly from 10.5% for the year ended December 31, 2019 to 10.6% for the year ended December 31, 2020. The increase was mainly due to an increase in promotional and advertising expenditure, which was mainly attributable to our efforts to strengthen the promotion of branded games such as Gardenscapes (夢幻花園), Art of War III (全球行動) and Decisive Battle against Marfa (決戰瑪法).

General and administrative expenses

Our general and administrative expenses increased by 47.7% from RMB250.3 million for the year ended December 31, 2019 to RMB369.6 million for the year ended December 31, 2020. As a percentage of revenue, our general and administrative expenses increased from 9.0% for year ended December 31, 2019 to 11.5% for year ended December 31, 2020. The increase was mainly due to an impairment provision of RMB126.3 million made against certain game license fees and prepaid revenue sharing to content developers, primarily because certain games no longer align with the Group's future core strategy in the gaming business given that the Group will focus more on the operation of match-3 puzzle game and competitive game as well as launch of the mobile version of exquisite mid-and hardcore console games/computer games in the future. In addition, most of the aforesaid games would be expired before May 31, 2021 while the Group is yet to reach extension agreements with the relevant game developers due to aforesaid reasons.

Research and development expenses

Our research and development expenses increased by 70.2% from RMB191.1 million for the year ended December 31, 2019 to RMB325.2 million for the year ended December 31, 2020. As a percentage of revenues, our research and development expenses increased from 6.8% for the year ended December 31, 2019 to 10.1% for the year ended December 31, 2020. The increase was primarily driven by our core strategy to enhance game development capabilities and incubate SaaS products with standardized mid-platform technology.

Net impairment losses on financial assets and contract assets

Our net impairment losses on financial assets and contract assets increased by 45.4% from RMB70.0 million for the year ended December 31, 2019 to RMB101.8 million for the year ended December 31, 2020, mainly due to the increase in the Group's provision for impairment of trade receivables in 2020. Given the negative impact of COVID-19 in 2020, we have carefully assessed the expected credit losses on financial assets and contract assets and, where necessary, made impairment provisions to reflect the adverse impact.

Other losses, net

We incurred other losses, net of RMB610.5 million for the year ended December 31, 2020, compared with other losses, net of RMB95.8 million for the year ended December 31, 2019. The increase of other losses, net for the year ended December 31, 2020 primarily derived from (1) impairment provision of goodwill of RMB493.7 million arising from our acquisition of Shanghai Huohun, mainly resulted from the fact that some new games of Shanghai Huohun were unable to be released as planned, while the performance of certain existing games was below expectation; (2) our recognition of an impairment loss of RMB91.9 million arising from the Group's investments accounted for using the equity method, which was mainly derived from revisions of long-term financial outlook, the changes in the market environment and serious deterioration of operation of some investee companies.

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 should be allocated to the Shanghai Huohun CGU. Based on our assessment on the recoverable amounts of the Shanghai Huohun CGU, the impairment loss of RMB493.7 million on goodwill were charged to "Other losses, net" under consolidated statement of comprehensive income for the year ended December 31, 2020 (2019: made impairment loss of RMB422.3 million and recognized gain of RMB294.9 million due to the reversal of the unpaid consideration payables from the acquisition of Shanghai Huohun).

Finance costs, net

Our finance costs, net increased from RMB35.7 million for the year ended December 31, 2019 to RMB140.7 million for the year ended December 31, 2020, which was mainly attributable to: (1) the increase in our interest expense from RMB46.9 million in 2019 to RMB97.9 million in 2020 resulting from our newly acquired bank borrowings and issued convertible bonds in 2020; (2) our recognition of a foreign exchange loss of RMB49.5 million in 2020 mainly as result of our translation of EUR-denominated borrowings whereas the exchange rate fluctuated significantly during the year.

Income tax credit/expense

We recorded income tax credit of RMB9.5 million for the year ended December 31, 2020, compared with income tax expense of RMB30.2 million for the year ended December 31, 2019. This was primarily due to: (i) the decrease in profit before tax resulted in a decrease in the amount of current income tax expense in 2020; and (ii) the increase in the balance of deferred income tax assets in 2020, which has generated a large amount of credits from deferred tax arising from more impairment provision in 2020.

Loss/profit for the year

We recorded a net loss of RMB565.0 million for the year ended December 31, 2020, compared with a net profit of RMB360.4 million for the year ended December 31, 2019. Our adjusted profit (as defined below) for the year ended December 31, 2020 was RMB149.0 million as compared to the adjusted profit of RMB553.2 million for the year ended December 31, 2019.

OTHER FINANCIAL INFORMATION

	For the year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Adjusted profit for the year (1)	**149,013**	553,211
EBITDA (2)	**(225,668)**	588,282
Adjusted EBITDA (3)	**488,341**	781,096

Notes:

(1) Adjusted profit for the year was derived from our profit/loss for the year excluding share-based compensation expenses, fair value gains or losses on financial assets, impairment provision of contract assets, impairment provision of investments in associates, fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss, impairment provision for 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 expenses, income tax expenses, depreciation and amortization.

(3) Adjusted EBITDA is calculated using adjusted profit for the year, adding back depreciation of property, plant and equipment, investment properties 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 the 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's 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, 2020 and 2019 to the nearest measures prepared in accordance with IFRS:

	For the year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Reconciliation of (loss)/profit for the year to adjusted profit for the year:		
(Loss)/profit for the year	**(564,996)**	360,397
Add: Fair value losses/(gains) on financial assets at fair value through profit or loss	**14,998**	(74,672)
Add: Share-based compensation expenses	**89,460**	100,301
Add: Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss	**20,879**	—
Add: Impairment losses on contract assets	**3,095**	39,765
Add: Impairment provision of goodwill resulting from a business combination	**493,680**	422,331
Add: Impairment provision of investments in associates	**91,897**	—
Less: Gain from the reversal of unpaid consideration payables from a business combination	**—**	(294,911)
Adjusted profit for the year	**149,013**	553,211
Reconciliation of (loss)/profit for the year to EBITDA and adjusted EBITDA:		
(Loss)/profit for the year	**(564,996)**	360,397
Add: Depreciation of property, plant and equipment, investment properties and right-of-use assets	**32,945**	33,370
Add: Amortization of intangible assets	**217,947**	117,438
Add: Income tax (credit)/expense	**(9,482)**	30,188
Add: Interest expense	**97,918**	46,889
EBITDA	**(225,668)**	588,282
Add: Fair value losses/(gains) on financial assets at fair value through profit or loss	**14,998**	(74,672)
Add: Share-based compensation expenses	**89,460**	100,301
Add: Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss	**20,879**	—
Add: Impairment losses on contract assets	**3,095**	39,765
Add: Impairment provision of goodwill resulting from a business combination	**493,680**	422,331
Add: Impairment provision of investments in associates	**91,897**	—
Less: Gain from the reversal of unpaid consideration payables from a business combination	**—**	(294,911)
Adjusted EBITDA	**488,341**	781,096

LIQUIDITY AND FINANCIAL RESOURCES

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

As of December 31, 2020, the Group's total cash and cash equivalents increased by 38.1% to approximately RMB735.6 million from approximately RMB532.7 million as of December 31, 2019. The increase in total cash and cash equivalents during the period under review was primarily resulted from cash inflow from operating activities, acquisition of new bank borrowings and issuance of convertible bonds. Our cash and cash equivalents were primarily denominated in RMB, HKD and USD.

As of December 31, 2020, the Group's total borrowings amounted to approximately RMB1,553.7 million (2019: approximately RMB1,270.4 million). The nature of the Group's borrowings is summarised as follows:

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Secured bank borrowings	**1,509,633**	1,078,742
Secured other borrowings	**44,026**	31,697
Unsecured bank borrowings	**—**	160,000
	1,553,659	1,270,439

The carrying amount of the Group's borrowings is denominated in the following currencies:

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
RMB	**828,177**	711,977
EUR	**725,482**	526,765
USD	**—**	31,697
	1,553,659	1,270,439

As of December 31, 2020, the current assets of the Group amounted to approximately RMB3,746.7 million, and the current liabilities of the Group amounted to approximately RMB2,445.2 million. As of December 31, 2020, the current ratio (being the current assets to current liabilities ratio) of the Group was 1.53 as compared with 1.67 as of December 31, 2019.

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 of December 31, 2020, the debt ratio of the Group was 45.0% as compared with 35.2% as of December 31, 2019.

Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, convertible bonds, convertible bonds classified as financial liabilities at fair value through profit or loss, amount due to related parties, interest payable, 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 of December 31, 2020 and 2019, the gearing ratio of the Group is 37.2% and 20.5% respectively.

PLEDGE OF ASSETS

Among the total borrowings of the Group as of December 31, 2020, approximately RMB987.9 million (2019: approximately RMB1,110.4 million) were secured by the Group's land and buildings, certain trade receivables, certain game intellectual properties and deposits, which accounted for approximately 63.6% (2019: approximately 87.4%) of the Group's total borrowings.

CONTINGENT LIABILITIES

As of December 31, 2020, the Group did not have any unrecorded significant contingent liabilities or guarantees against us (2019: nil).

CAPITAL EXPENDITURE

For the year ended December 31, 2020, our total capital expenditure was approximately RMB765.5 million, compared to approximately RMB889.5 million for the year ended December 31, 2019. Our capital expenditure primarily included expenditures for royalty fees paid to game developers, land use right, purchase of investment properties and purchase of property, plant and equipment. We plan to fund our capital expenditures through a combination of operating cash flows and debt financing. 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, 2020.

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, EUR 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 exchange during the years ended December 31, 2020 and 2019.

EMPLOYEE AND REMUNERATION POLICY

We had 1,022 and 737 full-time employees as of December 31, 2019 and 2020, 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 IPO 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, 2020, the utilized amount of IPO Proceeds in accordance with the intended purposes set out in Prospectus was approximately HKD263.2 million. The IPO Proceeds were used up on December 31, 2020. Details are set out in the following table:

	Unutilized amount as of January 1, 2020 *HKD million*	**Actual net amount utilized during the year ended December 31, 2020** *HKD million*
Expansion of our game portfolio and enriching our contents offerings	49.8	49.8
Strategic acquisition	131.6	131.6
Strengthening our in-house development and research capabilities	35.2	35.2
Expansion of our offline entertainment services	46.6	46.6
Total	263.2	263.2

USE OF PROCEEDS FROM THE ISSUANCE OF CONVERTIBLE BONDS

(1) Convertible bonds of USD30 million

On November 26, 2019, the Company and Poly Platinum Enterprises Limited entered into a subscription agreement, pursuant to which the Company agreed to issue to Poly Platinum Enterprises Limited the convertible bonds in the principal amount of US$30 million. The convertible bonds are convertible into shares of the Company, and the initial conversion price was set at HK$4.69 per share. The issue of the convertible bonds was completed on January 3, 2020.

Poly Platinum Enterprises Limited is an investment holding company incorporated in British Virgin Islands with limited liability on November 9, 2018. It is a wholly-owned subsidiary of Greater Bay Area Homeland Development Fund LP, whose key focus industries include biotechnology, artificial intelligence, cloud computing and big data sectors in the Greater Bay Area. Greater Bay Area Homeland Development Fund LP is controlled by Greater Bay Area Homeland Development Fund (GP) Limited as general partner, managed by Greater Bay Area Development Fund Management Limited.

For further details of the issue of the convertible bonds, please refer to the Company's announcements dated on November 26, 2019 and January 3, 2020. The net proceeds from the issue of convertible bonds by the Company to Poly Platinum Enterprises Limited ("**2019 CB Proceeds**") were approximately RMB204.6 million. The Company has fully utilized the 2019 CB Proceeds to further expand its game portfolio and enrich its contents offerings, conduct strategic acquisition and supplement its working capital for the year ended December 31, 2020.

(2) Convertible bonds of HKD775 million

On October 6, 2020, Dreambeyond Holdings Limited ("**DHL**", a wholly-owned subsidiary of the Company) and Merrill Lynch (Asia Pacific) Limited (as the manager) entered into a subscription agreement, pursuant to which the manager has agreed to subscribe and pay for, or to procure subscriber to subscribe and pay for, the bonds issued by DHL in the principal amount of HKD775 million. The bond will be due on October 16, 2025, with interest paid at an annual rate of 3.125%, and payable semi-annually on April 16 and October 16 in each year, commencing on April 16, 2021. The convertible bonds are convertible into shares of the Company at any time during the conversion period, with an initial conversion price at HKD4.99 per share. The issuance of convertible bonds was completed on October 16, 2020. For further details, please refer to the Company's announcements dated October 7, 2020 and October 16, 2020.

The net proceeds from the issue of convertible bonds ("**2020 CB Proceeds**") by the Company were approximately RMB638.5 million. The Company intends to use the 2020 CB Proceeds for the Group's research and development of its own games and products and supplementing its capital for strategic opportunities in the future.

For the year ended December 31, 2020, the actual net amount of 2020 CB Proceeds utilized in accordance with the intended purposes was approximately RMB310.4 million. The unutilized amount was RMB328.1 million as of December 31, 2020, which is expected to be utilized in 2021 pursuant to the intend purposes. The balance of 2020 CB Proceeds will continue to be used for the purposes intended. Details of the actual amount utilized are shown in the table below:

	Actual net amount utilized for the year ended December 31, 2020 *RMB'000*
Expansion of our game portfolio and enriching our contents offerings	190,273
Supplement working capital	120,164
Total	310,437

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 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, 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 Shanghai Huohun's 100% 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

However, the financial performance of Shanghai Huohun was not as good as the estimation, the revenue and net profit generated during the year ended December 31, 2020 was RMB126.9 million and RMB29.2 million respectively, in contrast to the forecasted amount of RMB284.5 million and RMB183.9 million, respectively. The shortfall was mainly because the gross billing amount generated by the game *Cross Gate (Mobile) (魔力寶貝(手機版))* has decreased significantly as compared to that in 2019, due to the fact that *Cross Gate (Mobile) (魔力寶貝(手機版))* which was launched in June 2018 has come into the decline stage of its lifecycle during the year ended December 31, 2020. On the other hand, Shanghai Huohun has been dedicated to developing new games based on *Cross Gate (Mobile) (魔力寶貝(手機版))*.

Nevertheless, due to the shift in the Group's future core strategy in the second half of 2020, the Group will primarily focus on the local launch of mobile version of exquisite mid-and hardcore console games/computer games, independent R&D and operation of gaming products with long lifecycle, such as match-3 puzzle games and competitive games, and the product lifecycle SaaS tools, as well as the "WePlay" offline stores operated by the dual brands of "Tencent Video Great Moment Voyage" and "QQ Family" as disclosed in the 2020 Annual Results, the core products of Shanghai Huohun may no longer be in line with the Group's overall strategy. As such, Shanghai Huohun decided to put on hold the R&D of certain games in the second half of 2020.

Due to the aforesaid circumstances, Shanghai Huohun has witnessed a significant loss in talents (including key R&D members of Shanghai Huohun) since September 2020. As of December 31, 2020, there were only ten R&D members in Shanghai Huohun as compared to the team of 84 members in September 2020.

In light of the above goodwill impairment indicators and pursuant to paragraph 10 of IAS36, "goodwill acquired in a business combination to be tested for impairment annually", the management therefore engaged an independent valuer, Avista Business Consulting (Shanghai) Co., Ltd. ("**AVISTA**") to carry out impairment assessment on the goodwill and recorded the goodwill impairment amount of RMB493.7 million in the consolidated statement of comprehensive income for the year ended December 31, 2020.

Market approach

Regarding the market approach adopted as of December 31, 2019 and 2020, the valuation methodology remains the same. The key assumptions adopted in market approach for the years ended December 31, 2019 and 2020 are as follows:

	As of December 31,	
	2020	2019
Low-end price-to-earnings ("**P/E**") ratio among the comparable companies (on a liquid and non-controlling basis)	**7.2**	5.4
LoMD	**20.6%**	20.6%
Control premium	**8%**	8%
Adjusted net profit of Shanghai Huohun *(RMB'000)*	**29,153**	147,170

The comparable companies (including Boyaa Interactive International Limited, Fire Rock Holdings Limited, G-bits Network Technology (Xiamen) Co., Ltd. and Changyou.com Limited ("**Changyou**") etc.) selected in 2019 are mainly engaged in mobile game development business. The major differences between 2019 and 2020 in the valuation inputs and assumptions include (1) removal of Changyou as a comparable company because Changyou was delisted from Nasdaq Stock Market in 2020; and (2) revised valuation multiple adopted from latest-12-months ("**LTM**") P/E multiple to forecast FY2021 P/E multiple as of the valuation date because Shanghai Huohun is expected to experience significant deterioration in terms of revenue and net profit in FY2021 due to aforesaid reasons. Valuation input based on the Shanghai Huohun's LTM historical performance may not fairly indicate the value of the Shanghai Huohun. There is no change in LoMD and control premium applied.

Income approach (value in use)

Regarding the income approach adopted as of December 31, 2019 and 2020, the key assumptions adopted for the years ended December 31, 2019 and 2020 are as follows:

	As of December 31,	
	2020	2019
Average revenue growth rate during the forecast period	**-5.34%**	12.74%
EBITDA margin	**41.30%–59.47%**	72.30%–74.10%
Terminal growth rate	**3.00%**	3.00%
Pre-tax discount rate	**30.15%**	29.60%

The decrease in the average revenue growth rate during the forecast period and EBITDA margin in 2020 when comparing to the last year (in particular, year-over-year change in FY2021 total revenue decreased from 10.4% as in previous December 31, 2019 valuation to -46.6% as in the current December 31, 2020 valuation) was mainly because some new games of Shanghai Huohun are not able to be released as planned. It is expected that these relevant new games would not be launched in the foreseeable future because of the change of game business strategy and focus, while the performance of certain existing games including *Cross Gate (Mobile) (魔力寶貝(手機版))* was below expectation. Besides, as a large number of staff has left Shanghai Huohun since September 2020, game development schedule has been postponed.

According to IAS 36, "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", therefore, the Company and the valuer have determined the value in use of Shanghai Huohun, and adopted market approach, specifically the comparable company method to derive the fair value of Shanghai Huohun, as at the end of both 2019 and 2020.

As at December 31, 2020, the recoverable amount of Shanghai Huohun CGU was determined based on income approach (i.e. value in use) which resulted in a higher recoverable amount. The key assumptions adopted in income approach have been disclosed in note 18 to the Group's audited 2020 consolidated financial statements. Based on the 2020 impairment assessment, the Group recognised an impairment loss of RMB493,680,000 for Shanghai Huohun's goodwill.

In the review of valuation methods and assumptions adopted by AVISTA for the 2020 impairment of Shanghai Huohun's goodwill, the Group has taken into account the following factors:

Market Approach

The Group noted that, the same criteria, after careful consideration, were adopted by AVISTA in selecting comparable public companies in valuation as those used in the valuation as of December 31, 2019, which consisted of the following:

- The companies are engaged in mobile games development related business;

- The companies are listed in major stock exchange markets in Hong Kong, China and the U.S.; and

- The financial information of the companies is available to the public.

As such, the same set of comparable companies was chosen for conducting the market approach valuation as compared to FY2019 except for Changyou as it was delisted from Nasdaq Stock Market in 2020.

Further, in relation to the key assumptions used by AVISTA for market approach, the Group discussed with AVISTA and understand that:

- LoMD reflects the fact that there is no ready market for shares in a closely held company. While there is no available empirical study on marketability discount for companies specifically engaged in mobile games development businesses, AVISTA has assessed the LoMD by making reference to "Stout Restricted Stock Study Companion Guide, 2020 Edition" published by Stout Risius Ross, LLC. (the "**Study**"). The overall average discount for lack of marketability as observed in the Study based on data from July 1980 to December 2019 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 revised valuation multiple adopted from LTM P/E multiple to forecast FY2021 P/E multiple as of the valuation date due to the change in business plan as discussed above.

The Group considered that the selection basis and criteria, as well as the key assumptions, adopted by AVISTA were fair and reasonable.

Income Approach (value in use)

The Group 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 FY2021 and FY2025; (2) EBITDA margin between FY2021 and FY2025, (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 adopted by the Company in formulating and reviewing the financial budgets and forecast prepared by Shanghai Huohun, which includes the following:

(a) the product team of Shanghai Huohun (A) assessed and estimated certain key performance assumptions including MAU, paying ratio, ARPPU, and an expected revenue return based on the current performance and expected lifecycle of the games launched; and (B) 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 management of the Company reviewed and assessed the reasonableness of the assumptions and comparable data adopted and submitted the same to CEO of the Company for final review and approval.

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

Impairment of investment in associates

Investment in Beijing Weibo Technology Development Co., Ltd. ("Beijing Weibo", formally known as "WeCasting Inc.")

WeCasting Inc. was incorporated in June 2014 and mainly engaged in the intellectual properties' incubation, provision of talent agencies for live streaming platforms and multi-channel network operation. The Group invested RMB20 million in WeCasting Inc. in the form of preferred shares with redemption option in November 2014, representing 10% equity interests of the WeCasting Inc. on a fully diluted basis. The investment was accounted for as financial assets at fair value through profit or loss initially.

In May 2015, the Group invested additional US$2 million in the form of convertible redeemable bonds of WeCasting Inc.

In June 2016, as a result of a restructuring of WeCasting Inc. for its future IPO purpose, the Group converted its investment in the preferred shares and convertible bonds of WeCasting Inc. into ordinary shares of Beijing Weibo. As part of the restructuring, Beijing Weibo also received additional investment from a China Internet giant listed in Hong Kong Main Board, and the fair value of the Group's investment in Beijing Weibo was remeasured by making reference to the valuation of Beijing Weibo in this round of financing. Upon completion of the restructuring, the Group held an aggregate of 10.722% equity interests in Beijing Weibo and was able to appoint a director in Beijing Weibo. Therefore, the Group can exercise significant influence on Beijing Weibo's operating and financing decisions and this investment was transferred from financial assets at fair value through profit or loss to investment in associate at the amount of RMB68,279,000, which was the fair value of the Group's investment in Beijing Weibo as at the transfer date.

Since Beijing Weibo became the Group's associate, the Group has been maintaining regular communication with Beijing Weibo with respect to its business developments and financial performance until October 2020, when the key contact in Beijing Weibo became unreachable. In December 2020, Beijing Weibo was included in the abnormal operation list (經營異常名錄) issued by Beijing Tongzhou Administration of Market Supervision (北京市通州區市場監督管理局) as the representative of Beijing Weibo became unreachable at the registered office or principal place of business. The Group later became aware that Beijing Weibo has experienced financial difficulties due to the outbreak of COVID-19 pandemic and change in market environment and it was unable to get additional financing from the market to sustain its business operation.

Investment in JTEA Inc. ("JTEA")

JTEA was incorporated in March 2014 in Delaware and mainly engaged in the distribution of mobile games in the U.S. The Group invested US$3 million to acquire 30% equity interests of JTEA in July 2014. The investment was accounted for as investment in associate as the Group can exercise significant influence on JTEA's operating and financing decisions through appointment of a director in JTEA.

Since JTEA became the Group's associate, the Group has been maintaining regular communication with the management of JTEA until August 2020, when the key contact in JTEA became unreachable. The Group later became aware, after further investigation and enquiries through independent third parties, that the operation and cash flow of JTEA has been deteriorating due to the increasing competition from global game market and also the outbreak of COVID-19 pandemic in the overseas market in particular the U.S. market.

In light of the above, management carried out an impairment assessment on the recoverable amount of these two investments based on the latest information available and made full impairment for these two associates:

		As of December 31, 2020	
	Note	**Carrying amount** ***RMB'000***	**Impairment provision** ***RMB'000***
Beijing Weibo	(a)	**69,957**	**(69,957)**
JTEA		**21,940**	**(21,940)**
Total		**91,897**	**(91,897)**

Note (a): Included in the carrying amount as of December 31, 2020, approximately RMB35.7 million was the fair value change being recognised when this investment was transferred from financial assets at fair value through profit or loss to investments accounted for using the equity method.

The Board is pleased to present its report together with the audited consolidated financial statements of the Company for the year ended December 31, 2020.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Analysis of the principal activities of the Group is set out in 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 11 to 29 of this annual report.

Post Balance Sheet Events

The material post balance sheet events are disclosed in note 41 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 page 54 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 88 to 91 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, 2020 are set out in the consolidated statement of comprehensive income on pages 115 to 116 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, 2020 (2019: Nil).

FINANCIAL SUMMARY

A summary of the Company's results, assets and liabilities for the last five 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, 2020, revenue generated from the Group's five largest customers accounted for 8.4% (2019: 19.2%) of the Group's total revenue and our single largest customer accounted for 3.8% (2019: 9.6%) of the Group's total revenue.

Major Suppliers

For the year ended December 31, 2020, the Group's five largest suppliers accounted for 12.9% (2019: 12.0%) of the Group's total purchases and our single largest supplier accounted for 3.3% (2019: 3.5%) of the Group's total purchases.

During the year ended December 31, 2020, 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, 2020 are set out in note 30 to the consolidated financial statements.

HUMAN RESOURCES

As at December 31, 2020, the Group had 737 employees (2019: 1,022). The total remuneration expenses, excluding share-based compensation expense, for the year ended December 31, 2020 were RMB258.2 million, representing an increase of 8.8% as compared to the year ended December 31, 2019. 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, 2020 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, 2020 are set out in note 27 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group for the year ended December 31, 2020 are set out in note 28 to the consolidated financial statement.

DISTRIBUTABLE RESERVES

As at December 31, 2020, we did not have any distributable reserves (2019: nil).

TAXATION

Tax position of the Group for the year ended December 31, 2020 is set forth in note 12 to the consolidated financial statements.

DIRECTORS

The Directors as at December 31, 2020 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 (resigned on August 25, 2020)

Non-executive Directors:

Mr. Ma Xiaoyi
Mr. Du Feng (resigned on April 24, 2020)
Mr. Zhang Han (appointed on April 24, 2020)
Mr. Yao Xiaoguang (appointed on August 25, 2020)
Mr. Chen Yu (appointed on August 25, 2020)

Independent non-executive Directors:

Ms. Yu Bin
Mr. Li Xintian
Mr. Zhang Weining
Mr. Mao Rui (appointed on August 25, 2020)

In accordance with article 16.2 of the articles of association of the Company (the "**Articles of Association**"), any Director appointed 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. Therefore, Mr. Yao Xiaoguang, Mr. Chen Yu and Mr. Mao Rui shall hold office until the 2021 general meeting and shall then be eligible for reelection.

In accordance with article 16.19 of the Articles of Association, Mr. Chen Xiangyu, Mr. Ma Xiaoyi and Mr. Li Xintian 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 59 to 64 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 earlier, 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 an appointment letter 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 earlier, 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 one month's 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 earlier, subject always to reelection 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, 2020 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	
	2020	2019
HKD0 to HKD10,000,000	**5**	6
HKD10,000,001 to HKD15,000,000	**—**	—
	5	6

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

None of 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 19.31% 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, 2020, 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, 2020.

CHANGE IN INFORMATION IN RESPECT OF DIRECTORS

Ms. Yu Bin, as independent non-executive Director of our Company, was appointed as an independent non-executive director of ZERO2IPO Holdings Inc. (清科創業控股有限公司) since December 2020, and was appointed as an independent director of Kuke Music Holding Limited since January 2021. Moreover, Ms. Yu has resigned her position as the chief financial officer of Lingochamp Inc. since January 2020, and the independent non-executive director of Tian Ge Interactive Holdings Limited (天鴿互動控股有限公司) since January 2021.

According to the resolution of the Board meeting of the Company dated August 25, 2020, the Board agreed to adopt the recommendation of the Remuneration and Appraisal Committee to adjust the remuneration of the independent non-executive directors of the Company to RMB200,000 per year. The adjustment will take effect retroactively from July 1, 2020.

Save as disclosed above, 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, 2020, 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[6]	Approximate percentage of interest in the Company[1] [5]
Mr. Chen Xiangyu ("**Mr. Chen**")[2]	Beneficial owner	1,562,400(L)	0.12%
	Interest of controlled corporation	243,560,830(L)	19.18%
Mr. Guan Song ("**Mr. Guan**")[3]	Interest of controlled corporation	47,337,220(L)	3.73%
Mr. Jeffrey Lyndon Ko ("**Mr. Ko**")[4]	Interest of controlled corporation	13,965,000(L)	1.10%

Notes:

(1) The percentages are calculated on the basis of 1,269,718,990 Shares in issue as at December 31, 2020.

(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) 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.

(6) 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, 2020, 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, 2020, 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[7] [8]	Approximate percentage of interest in the Company[1] [6]
Brilliant Seed Limited[2]	Beneficial owner	243,560,830(L)	19.18%
Mr. Chen[2]	Beneficial owner	1,562,400(L)	0.12%
	Interest of controlled corporation	243,560,830(L)	19.18%
Tencent Mobility Limited[3]	Beneficial owner	235,999,300(L)	18.59%
Tencent Holdings Limited[3]	Interest of controlled corporation	235,999,300(L)	18.59%
iDreamSky Technology Limited[4]	Beneficial owner	190,489,375(L)	15.00%
Dream Investment Holdings Limited[4]	Interest of controlled corporation	190,489,375(L)	15.00%
Dream Technology Holdings Limited[4]	Interest of controlled corporation	190,489,375(L)	15.00%
Bank of America Corporation	Interest of controlled corporation	177,790,454(L)	14.00%
	Interest of controlled corporation	174,904,848(S)	13.70%
Poly Platinum Enterprises Limited[5]	Beneficial owner	89,050,352(L)	7.01%
Greater Bay Area Homeland Development Fund (GP) Limited[5]	Interest of controlled corporation	89,050,352(L)	7.01%
Greater Bay Area Homeland Investments Limited[5]	Interest of controlled corporation	89,050,352(L)	7.01%

Notes:

(1) The percentages are calculated on the basis of 1,269,718,990 Shares in issue as at December 31, 2020.

(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) 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.

(4) 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.

(5) Poly Platinum Enterprises Limited is wholly owned by Greater Bay Area Homeland Development Fund LP, which is managed by Greater Bay Area Development Fund Management Limited. Greater Bay Area Homeland Development Fund (GP) Limited is the general partner of Greater Bay Area Homeland Development Fund LP. Greater Bay Area Homeland Development Fund (GP) Limited is in turn wholly owned by GBA Homeland Limited which is wholly owned by Greater Bay Area Homeland Investments Limited. Under the SFO, Greater Bay Area Homeland Development Fund (GP) Limited and Greater Bay Area Homeland Investments Limited are deemed to be interested in the Shares held by Poly Platinum Enterprises Limited.

(6) 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.

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

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

Save as disclosed above, as at December 31, 2020, 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, 2020, 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, 2020, the aggregate number of Shares underlying RSUs granted under the RSU Plan was 87,264,843* Shares and the aggregate number of Shares underlying RSUs vested and forfeit under the RSU Plan was 46,940,267* and 21,574,788* 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, 2020, RSUs Holding Entities granted aggregate of 18,566,947* Shares to Participants (who are not our Directors, senior management and their associates), among which 3,647,147* Shares are without vesting conditions. Out of the remaining 14,919,800* Shares, the vesting period for 112,779* Shares is one year and the vesting schedule is 100% after 12 months from original grant date; the vesting period for 24,000* Shares is two years, and the vesting schedule is 50% after 12 months from original grant date and the remaining 50% will vest after 24 months from original grant date; the vesting period for 8,373,322* Shares is three years, and the vesting schedule is 1/3 after 12 months from original grant date and remaining 2/3 will vest in two equal installments over the next two years; the vesting period for 6,409,699* Shares is four years, and the vesting schedule is 25% after 12 months from original grant date and remaining 75% will vest in three equal installments over the next years.

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 three 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 were vested on July 1, 2019, 25% were vested on July 1, 2020, 25% will vest on July 1, 2021, and 25% will vest 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) were vested on July 1, 2018.

RSUs granted to our Directors, senior management and their associates

As at December 31, 2020 and 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.

* 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, as the Board considered that the price of the Company's shares did not reflect their intrinsic value, the share repurchase program could reflect the Board's confidence in the Company's development prospects, the total number of Shares repurchased by the Company on the Stock Exchange was 2,600,000 at a total consideration (before deduction of expenses) of HK$10,200,849.92. These 2,600,000 Shares have not been cancelled as at the date of this report.

The details of repurchase are set out as below:

Month	**Number of Shares repurchased**	**Highest purchase price per Share**	**Lowest purchase price per Share**	**Total consideration (before expenses)**
		HK$	*HK$*	*HK$*
December 2020	2,600,000	4.04	3.83	10,200,849.92

Save as disclosed above, the Group had not purchased, sold or redeemed any of the Company's listed securities for the year ended December 31, 2020.

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, 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, 2020 for disclosure in this annual report. For details on noncompetition 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, 2020 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, 2020. 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.

Shenzhen iDreamSky and Tencent Computer renewed the Advertising Cooperation Framework Agreement on December 29, 2020 and proposed the annual transaction amount caps for 2021, 2022 and 2023. The validity period is three years from January 1, 2021. For details, please refer to our announcement dated December 29, 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.

On December 29, 2020, Shenzhen iDreamSky renewed the Payment Service Framework Agreement with Tencent Computer, and drafted the annual transaction caps for 2021, 2022 and 2023. The validity period is three years starting from January 1, 2021. For further details, please refer to the Company's announcement on December 29, 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, in aggregate, is expected to exceed 0.1% but below 5% on an annual basis, the transactions contemplated under the Payment Service 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.

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.

On December 29, 2020, Shenzhen iDreamSky renewed the Products and Services Purchasing Framework Agreement with Tencent Computer, and drafted the annual transaction caps for 2021, 2022 and 2023. The validity period is three years starting from January 1, 2021. For further details, please refer to the Company's announcement on December 29, 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 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 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.

On December 29, 2020, Shenzhen iDreamSky renewed the IP Cooperation Framework Agreement with Tencent Computer, and drafted the annual transaction caps for 2021. The validity period is one year starting from January 1, 2021. For further details, please refer to the Company's announcement on December 29, 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.

On December 29, 2020, Shenzhen iDreamSky renewed the Game Cooperation Framework Agreement with Tencent Computer, and drafted the annual transaction caps for 2021, 2022 and 2023. The validity period is three years starting from January 1, 2021. For further details, please refer to the Company's announcement on December 29, 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, 2020 is set out as follows:

Continuing Connected Transactions	**Proposed Annual Cap for 2020** *(RMB)*	**Actual Transaction Amount in 2020** *(RMB)*
Advertising Cooperation Framework Agreement (Revenue-based)		
Advertising service fee payable by Tencent Group to our Group	39,000,000	23,669,000
Payment Service Framework Agreement (Expense-based)		
Payment service fee payable by the Group to Tencent Group	3,024,000	1,790,000
Products and Services Purchasing Framework Agreement (Expense-based)		
Products and services procurement fees payable by the Group to Tencent Group	22,536,000	15,993,000
IP Cooperation Framework Agreement[1] (Expense-based)		
Development fee in respect of comics and comics adaption work payable by our Group to Tencent Group	42,180,000	7,282,000
Licensing fee in respect of adaptation rights of Originated Work payable by our Group to Tencent Group	27,280,000	Nil
Game Cooperation Framework Agreement[2]		
Distribution fee payable by the Group to Tencent Group	39,000,000	8,332,000
Licensing fee payable by Tencent Group to our Group in the form of revenue sharing	349,000,000	35,610,000
Licensing fee payable by our Group to Tencent Group	90,000,000	Nil
Development fee in respect of games development cooperation payable by Tencent Group to our Group	10,000,000	Nil

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, 2020, 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, 2020, 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.

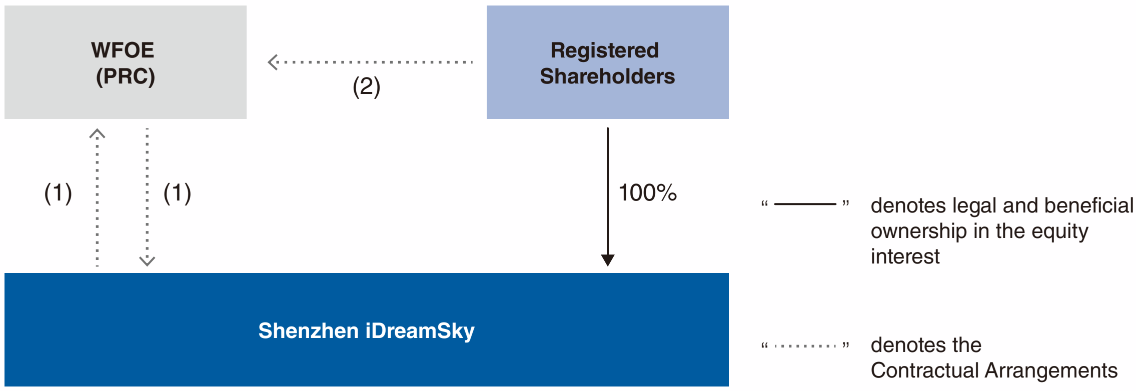
Related Party Transactions

Details of the related party transactions carried out in the normal course of business are set out in note 38 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, 2020 was approximately RMB2,997.7 million, and the total assets of our PRC Consolidated Affiliated Entities as at December 31, 2020 was approximately RMB4,931.9 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 purchase, 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 at WFOE's sole and absolute discretion 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 was 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 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 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/her 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/her spouse agrees that he has the right to claim any interests, handle his shareholding at his sole discretion without consent of his/her 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/she and his/her spouse get divorced, the equity interest in the domestic company held by him/her is his/her personal property and does not constitute a joint property of him/her and his/her spouse, and he/she 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/her death, incapacity or any other event which causes his/her inability to exercise his/her shareholder's rights in Shenzhen iDreamSky, his/her successors will inherit all his/her 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, 2020 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, 2020; 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, 2020 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, iDreamSky kept love and responsibility in mind and set up a special medical assistance fund, which was used to assist Hubei Province at the forefront of the fight against COVID-19. The donated materials include 6,000 specialized medical masks, 200 boxes (100,000 pairs) of specialized medical gloves, and 190 boxes (19,000 pieces) of specialized medical isolation clothing.

ISSUANCE OF DEBENTURES

During the Reporting Period, no issuance of debentures was made by the Company. However, on 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. On 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.

In addition, on October 6, 2020, Dreambeyond Holdings Limited ("**DHL**") and Merrill Lynch (Asia Pacific) Limited (the "**Manager**") entered into a subscription agreement, pursuant to which the Manager agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the bonds to be issued by DHL in an aggregate principal amount of HKD775 million. The issue of the convertible bonds was completed on October 16, 2020. For further details of the issue of the convertible bonds, please refer to the Company's announcements dated October 7, 2020 and October 16, 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 65 to 86 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, were 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, 2020. 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 25, 2021

Directors

Executive Directors

Mr. Chen Xiangyu (陳湘宇), aged 38, is an executive Director, Chairman of the Board and Chief Executive Officer of our Company. Mr. Chen has more than fifteen years of experience in mobile games, telecommunication, technology and management and is fully responsible for overseeing the Company's strategy, business and management, as well as the Company's offline business segments. Mr. Chen is a co-founder and 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 Association (深圳市科學技術協會) 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 39, is an executive Director and Chief Technology Officer of our Company. Mr. Guan is also a co-founder and the chief technology officer of Shenzhen iDreamSky. Mr. Guan has more than fifteen years of experience in the telecommunications, technology and Internet, and is fully responsible for supervising the Company's business core technology deposition, international cutting-edge technology application research. Mr. Guan is the joint inventor of a Chinese invention patent and led the development of more than 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 (深圳市人力資源和社會保障局). 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 38, is an executive Director and President of our Company. Mr. Ko is also a co-founder and the president of Shenzhen iDreamSky. Mr. Ko has more than twenty years of experience in the games industry and is fully responsible for overseeing the Company's game business segment, as well as overseas strategy, overseas pipeline connection and overseas investment. 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.

Non-executive Directors

Mr. Ma Xiaoyi (馬曉軼), aged 46, 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 two companies principally or partially engaged in developments and/or distribution of online and/or mobile games, which are Supercell Oy and Seasun Holdings Limited. 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. Zhang Han (張涵), aged 40, was appointed as a non-executive Director of our Company in April 2020. He currently serves as a partner of Redpoint China Ventures (紅點中國創業投資基金) since January 2017. Prior to that, Mr. Zhang served as a partner of Redpoint Ventures (紅點創業投資基金) from January 2010 to December 2016 and a market engineer at Infineon Technologies (China) Co., Ltd. (英飛凌科技(中國)有限公司), a global leading semiconductor company, from July 2006 to December 2009. Mr. Zhang was selected as one of the top 40U40 investors in CY Zone in 2018. He was also selected as one of the top 50 China Mid-Generation Investors in 36Kr, one of the F40 China Young Investors in Investment World and one of the of 70 Youth Leader GP30 of the generation born in the 70s in FOF Weekly in 2019. Mr. Zhang obtained his bachelor's degree in automation and master's degree in vehicle engineering in Tsinghua University in July 2002 and July 2005, respectively.

Mr. Yao Xiaoguang (姚曉光), aged 41, was appointed as a non-executive Director of our Company in August 2020. He currently serves as vice president of Tencent Holdings Limited and president of TiMi Studios Group. Since Mr. Yao jointed Tencent in 2006, he has continued to launch games successfully in various genres including role-playing games (RPG), shooting, battle arena, strategy and car-racing. Before joining Tencent, Mr. Yao served as deputy managing director of Shengjin Game Company (盛錦遊戲公司) of Shanda Network. Mr. Yao holds a bachelor's degree, and also completed management courses with China Europe International Business School in 2013.

Mr. Chen Yu (陳宇), aged 41, was appointed as a non-executive Director of our Company in August 2020. He currently serves as vice president of Tencent and president of Lightspeed & Quantum Studios Group. Since Mr. Chen joined Tencent in 2003, he has taken lead in R&D, operation and introduction of a number of games, focusing on development of hardware and software on virtual reality and next-generation computer platform and cloud service technology. Mr. Chen obtained a bachelor's degree in property planning and real estate from Sichuan Normal University in July 2001, and an EMBA degree from China Europe International Business School in July 2011.

Independent Non-executive Directors

Ms. Yu Bin (余濱), aged 50, was appointed as independent non-executive Director of our Company in May 2018. Ms. Yu has extensive industry experience in financial management. In addition to her position in our Group, Ms. Yu has been an independent director of Kuke Music Holding Limited since January 2021, an independent non-executive director of ZERO2IPO Holdings Inc. (清科創業控股有限公司) since December 2020, an independent director of Baozun Inc. since May 2015, and an independent director of GDS Holdings Ltd. since November 2016. Before that, Ms. Yu has served as an independent non-executive director of Tian Ge Interactive Holdings Limited (天鴿互動控股有限公司) from July 2014 to January 2021, as the chief financial officer of Lingochamp Inc. from October 2017 to January 2020, as the chief financial officer of InnoLight Technology Corp. from January 2015 to April 2017, as the chief financial officer of Star China Media Limited (星空華文傳媒集團) from May 2013 to January 2015, as a senior vice president of Youku Tudou Inc. from August 2012 to April 2013, as the chief financial officer of Tudou Holdings Limited from January 2012 to April 2013, and as the vice president of finance of Tudou Holdings Limited from July 2010 to December 2011.

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 55, was appointed as independent non-executive Director in May 2018. In addition to his position in our Group, Mr. Li has been 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) from November 2013 to February 2015, an independent director of Hubei Century Network Technology Co., Ltd. (湖北盛天網路技術股份有限公司) from May 2012 to November 2015 and 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) from May 2008 to May 2014. 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 associate 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 42, was appointed as independent non-executive Director in May 2018. In addition to his position 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 serving as an independent non-executive director of Grandshores Technology Group Limited (雄岸科技集團有限公司) since June 2018. 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, and holds approximately 0.15% of the share capital therein. 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 4.32% 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. 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.

Mr. Mao Rui (毛睿), aged 45, was appointed as independent non-executive Director of our Company in August 2020. In addition to his position in our Group, Mr. Mao has joined Shenzhen University as an associate professor of College of Computer Science and Software Engineering in 2010, and currently serves as a professor and associate dean of College of Computer Science and Software Engineering, primarily responsible for research and foreign affairs. His research primarily focuses on big data management and high-performance computing. Mr. Mao also serves as an executive director of Shenzhen Institute of Computing Sciences, associate director of National Engineering Laboratory for Big Data System Computing Technology, and the director of Guangdong Province Engineering Center of China-made High Performance Data Computing System. He is also a distinguished member of China Computer Federation (CCF), and is on expert panel of Big Data, Database and Theoretical Computer Science and was Shenzhen President of CCF Young Computer Scientists & Engineers Forum for 2016–2017. Mr. Mao took lead in various research projects including six national research projects. His works were awarded with 2016 Army Scientific Advancement Award (2nd Class), Best Paper of the 3rd International Conference on Similarity Search And Applications (SISAP2010) and the 3rd IEEE International Symposium on BioInformatics and BioEngineering (BIBE 2003). Mr. Mao was also recognised as High-level Professional in Shenzhen and Shenzhen Peacock Plan Class C Overseas High-level Talent. Mr. Mao obtained a bachelor's degree and a master's degree in Computer Science from University of Science and Technology of China in 1997 and 2000, respectively. He further obtained a master's degree in Statistics and a Ph.D. in Computer Science from the University of Texas at Austin in 2006 and 2007, respectively.

Senior Management

Mr. Lei Junwen (雷俊文), aged 37, is the Chief Financial Officer of our Company 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 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.

Mr. Ho, Mario Yau Kwan (何猷君), aged 26, was appointed as Chief Marketing Officer of our Company since May 2018 and is primarily responsible for marketing and promitions, Esports related business and augmented reality games. Mr. Ho also serves as the chief marketing officer of Shenzhen iDreamSky. 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 and Mr. Jeffrey Lyndon Ko, who form part of our senior management team, please refer to the section above on pages 59 to 60 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 three executive Directors, four non-executive Directors and four 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 (resigned on August 25, 2020)

Non-executive Directors:

Mr. Ma Xiaoyi
Mr. Du Feng (resigned on April 24, 2020)
Mr. Zhang Han (appointed on April 24, 2020)
Mr. Yao Xiaoguang (appointed on August 25, 2020)
Mr. Chen Yu (appointed on August 25, 2020)

Independent Non-executive Directors:

Ms. Yu Bin
Mr. Li Xintian
Mr. Zhang Weining
Mr. Mao Rui (appointed on August 25, 2020)

The biographies of the Directors are set out under the section headed "Directors and Senior Management" on pages 59 to 64 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 candidates 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

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 are suitable for the overall development strategy of the Group based on its business operation and development needs, and proposing adjustment plans.

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 Directors 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 are appropriate for the development need of the existing business operation of the Group and are 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 2021 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.

For the year ended December 31, 2020, all Directors had participated in the continuous professional development relating to relevant directors' duties and responsibilities and the latest regulatory information and business of the Group in the following ways:

Name of Directors	Participation in continuous professional development Yes/No
Executive Directors[1]	
Mr. Chen Xiangyu	Yes
Mr. Guan Song	Yes
Mr. Jeffrey Lyndon Ko	Yes
Non-executive Directors[2]	
Mr. Ma Xiaoyi	Yes
Mr. Zhang Han (appointed on April 24, 2020)	Yes
Mr. Yao Xiaoguang (appointed on August 25, 2020)	Yes
Mr. Chen Yu (appointed on August 25, 2020)	Yes
Independent Non-executive Directors	
Ms. Yu Bin	Yes
Mr. Li Xintian	Yes
Mr. Zhang Weining	Yes
Mr. Mao Rui (appointed on August 25, 2020)	Yes

Participation in continuous professional development includes attending the trainings/seminars and/meetings arranged by the Company or other external parties, or reading materials relevant to corporate governance, listing rules, latest regulatory information and other regulatory requirements, and the Group's businesses.

Notes:

1. Mr. Lei Junwen resigned as an executive Director on August 25, 2020.

2. Mr. Du Feng resigned as a non-executive Director on April 24, 2020.

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 have 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 appointment letter 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 appointment letter or by either party giving to the other not less than one month's 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 reelection 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 14 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, 2020, ten Board meetings and one annual general meeting of the Company were held during the Reporting Period. Nine Directors, being Mr. Chen Xiangyu, Mr. Guan Song, Mr. Jeffrey Lyndon Ko, Mr. Lei Junwen, Mr. Ma Xiaoyi, Mr. Zhang Han, Ms. Yu Bin, Mr. Li Xintian, and Mr. Zhang Weining, attended the annual general meeting held during the Reporting Period. The attendance of each Director at the Board meetings is set out in the table below:

Directors	**Attended/Eligible to attend the Board meeting(s)**
Executive Directors:	
Mr. Chen Xiangyu	10/10
Mr. Guan Song	10/10
Mr. Jeffrey Lyndon Ko	10/10
Mr. Lei Junwen (resigned on August 25, 2020)	5/5
Non-executive Directors:	
Mr. Ma Xiaoyi	9/9
Mr. Du Feng (resigned on April 24, 2020)	2/2
Mr. Zhang Han (appointed on April 24, 2020)	6/6
Mr. Yao Xiaoguang (appointed on August 25, 2020)	4/4
Mr. Chen Yu (appointed on August 25, 2020)	4/4
Independent Non-executive Directors:	
Ms. Yu Bin	10/10
Mr. Li Xintian	10/10
Mr. Zhang Weining	10/10
Mr. Mao Rui (appointed on August 25, 2020)	4/4

Model Code for Securities Transactions

For the year ended December 31, 2020, 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's 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. Zhang Han (appointed on April 24, 2020).

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 the 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 budgets 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, three Audit Committee meetings were held, the attendance of members of the Audit Committee at the meetings is set out in the following table:

Directors	Attended/Eligible to attend
Mr. Zhang Weining *(Chairman)*	3/3
Ms. Yu Bin	3/3
Mr. Li Xintian	3/3
Mr. Du Feng (resigned on April 24, 2020)	1/1
Mr. Zhang Han (appointed on April 24, 2020)	2/2

During the Reporting Period, three meetings of the Audit Committee were held to discuss and consider the following matters:

- reviewed with the management and auditor of the Company the accounting principles and practices adopted by the Group, to discuss the unaudited interim financial statements for the six months ended June 30, 2020;

- planning meeting covering the engagement with external auditor, and the nature and scope of the audit and reporting obligations before the annual audit commences;

- reviewed annual results of the Company and its subsidiaries for the year ended December 31, 2019 as well as the audit report prepared by the Company's auditor relating to accounting issues and major findings in course of audit;

- reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function), risk management systems and processes; and

- discussed the re-appointment arrangement of the Company's auditor.

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, three Nomination Committee meetings were held, the attendance of members of the Nomination Committee at the meetings is set out in the following table:

Directors	Attended/Eligible to attend
Mr. Chen Xiangyu *(Chairman)*	3/3
Ms. Yu Bin	3/3
Mr. Li Xintian	3/3
Mr. Zhang Weining	3/3
Mr. Guan Song	3/3

The following is a summary of the work performed by the Nomination Committee for the Reporting Period:

- considered the qualification of the newly appointed Directors and made recommendations to the Board;
- reviewed size, structure and composition of the Board and made recommendations to the Board on re-election of Directors;
- reviewed the Board diversity policy;
- reviewed the independence of the independent non-executive Directors; and
- discussed and reviewed the nomination policy.

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 four members, including three independent non-executive Directors, namely Ms. Yu Bin (Chairman), Mr. Li Xintian and Mr. Zhang Weining, and one executive Director, namely Mr. Jeffrey Lyndon Ko.

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, three Remuneration and Appraisal Committee meetings were held, the attendance of members of the Remuneration and Appraisal Committee at the meetings is set out in the following table:

Directors	**Attended/Eligible to attend**
Ms. Yu Bin *(Chairman)*	3/3
Mr. Li Xintian	3/3
Mr. Zhang Weining	3/3
Mr. Jeffrey Lyndon Ko	3/3
Mr. Lei Junwen (resigned on August 25, 2020)	2/2

The following is a summary of the work performed by the Remuneration and Appraisal Committee for the Reporting Period:

- reviewed the remuneration arrangement of the newly appointment Directors and made recommendations to the Board;

- reviewed the remuneration of Directors and senior management; and

- made recommendations to the Board on the remuneration packages of individual Directors and senior management.

Strategy Committee

The Strategy Committee currently comprises eight members, including three executive Directors, namely Mr. Chen Xiangyu (Chairman), Mr. Guan Song and Mr. Jeffrey Lyndon Ko, three non-executive Directors, namely Mr. Ma Xiaoyi, Mr. Yao Xiaoguang (appointed on August 25, 2020) and Mr. Chen Yu (appointed on August 25, 2020), and two independent non-executive Directors, namely Mr. Zhang Weining and Mr. Mao Rui (appointed on August 25, 2020).

The principal duties of the Strategy Committee include the following:

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

2. Researching and making 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 the year ended December 31, 2020 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 108 to 114 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" for internal control, and established organization structure of risk management and internal control based on the actual facts of the Company and under the supervision and guidance of the Board.

The First Line of Defense

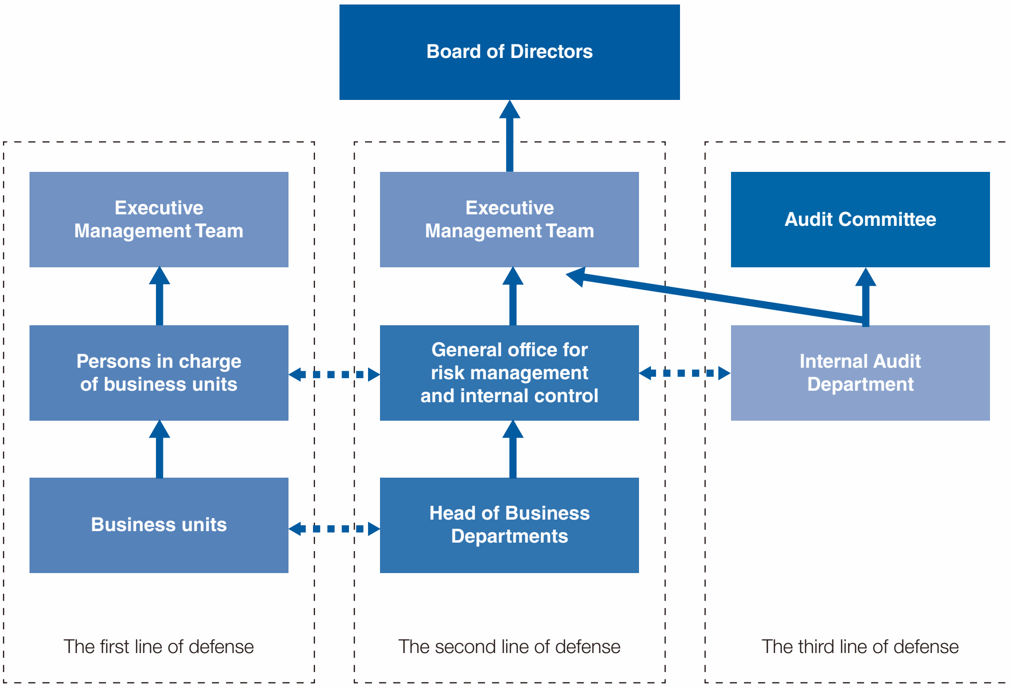
It is composed of various business/functional departments at the grassroots level of the Company, reporting to the EMT (executive management team) through the person in charge. The first line of defense is responsible for the design and implementation of the relevant controls to mitigate all identified risks.

The Second Line of Defense

It comprises of heads of the business units reporting to the Company's risk management and compliance functions, which is ultimately supervised by EMT to ensure the effective implementation of the risk management controls by first line of defense.

The Third Line of Defense

It comprises of the internal audit department, which collects the business process information feedback from the general office and carries out the corresponding audit work using a risk-based approach to evaluate the effectiveness of the Company's risk management and internal control system. The internal audit department is independent from the first and second line of defenses and reports to the Audit Committee and the CEO directly.



The "Three Lines of Defense" model is 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.

Through the implementation of the "Three Lines of Defense" model, the Company instills a risk management mindset in all employees by incorporating risk management and internal control elements in their daily duties to promote their risk management awareness.

The Board and the management attach great importance to the Company's risk management and internal control systems. In addition to adopting the aforementioned "Three Lines of Defense" model, in 2020, the Company enhanced its risk management and internal control systems through the introduction of various new and revised policies and procedures, strengthening controls over numerous business units and segments, including but not limited to game development, offline experience store management, procurement, and talent management.

During the year ended December 31, 2020, the Board has reviewed the health and effectiveness of the Company's risk management and internal control systems at least once annually. 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 the Company's internal audit function is staffed with employees' whose qualifications and professional experience are sufficient enough to support the proper discharge of their duties, and that adequate training and other resources have been allocated to the internal audit function.

Internal Control of Inside Information

The Company has in place a framework to ensure proper disclosure of inside information in a manner that is compliance with the SFO. As set out by the framework, the Capital Markets Department is responsible for identifying and assessing whether a significant matter constitutes inside information, and escalates the potential inside information to the Board with recommendation on the manner in which it should be disclosed to the public pursuant to the SFO and the Listing Rules. Appropriate actions will also be taken to keep the inside information confidential until its proper disclosure.

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, 2020 is approximately as follows:

Type of Services	**Amount** *(RMB)*
Audit services	6,080,000
Non-audit services	2,956,000
Total	9,036,000

JOINT COMPANY SECRETARIES

Mr. Zhang Heng ("**Mr. Zhang**") has resigned as the joint company secretary of the Company ("**Joint Company Secretary**") with effect from November 30, 2020 due to a change of position within the Group. Following the resignation of Mr. Zhang as the Joint Company Secretary, Ms. Tang Xu ("**Ms. Tang**") has been appointed as the Joint Company Secretary with effect from November 30, 2020. For details, please refer to the Company's announcement dated November 30, 2020.

Ms. Tang, 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 another Joint Company Secretary to assist Ms. Tang to discharge her duties as a company secretary of the Company. The primary corporate contact person at the Company is Ms. Tang, the Joint Company Secretary of the Company.

For the year ended December 31, 2020, Ms. Tang 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 an 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 to attend AGMs and other general meetings, which allow 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 Secretaries of the Company whose contact details are as follows:

16/F, Unit 3, Block A, Kexing Science Park, Ke Yuan North Road, Nanshan, Shenzhen, PRC
(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, Wanchai, Hong Kong.

During the Reporting Period, the Company convened the annual general meeting on June 24, 2020.

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 Secretaries 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 2020 Environmental, Social and Governance ("**ESG**") Report (the "**Report**") issued by iDreamSky Technology Holdings Limited (the "**Group**", the "**Company**", or "**We**"; Stock code: 1119) to the public. This report is the third ESG Report issued by the Company covering the period from January 1, 2020 to December 31, 2020 (the "**Reporting Period**"). In accordance with the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), this report complies with the principle of "comply or explain", and discloses or explains our sustainable business activities for the year ended December 31, 2020 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 or harmless waste. We use power resources to indirectly emit carbon dioxide.

- **Energy Efficiency Target**

  We are actively responding to China's carbon neutral plan target. We will combine China's carbon neutral plan, international experience and actual situation of our Company to formulate a corporate carbon neutral strategy. We will reduce greenhouse gases and offset or remove residual greenhouse gas emissions through various methods such as energy saving and emission reduction, tree planting and afforestation in a bid to achieve "net zero carbon emissions."

- **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.

- **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 Activations**

  We have been proud member of the Playing for the Planet Alliance. It consists of 21 video game companies who committed to taking actions against the climate changes by leveraging their influence on each platform, since its launch in September 2019 at the UN Climate Summit by the Secretary-General of the United Nations. By joining the Playing for the Planet Alliance, we pledge to support the video gaming industry to educate players about climate change and to empower them to create positive change to the word in this regard. To showcase our commitment to the initiative, we have incorporated green nudges into our games to raise the awareness about pressing environmental issues among players.

Environmental Performance Data

Emissions

Carbon emissions and carbon emission intensity		2020	2019
Total emissions[1]	Tonne	**318.16[2]**	474.41[2]
Total emissions intensity	Tonne/FTE[3]	**0.43**	0.50

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 2020.

3 "FTE" means full-time employees.

Resource usage

Resource usage and resource usage intensity		2020	2019
Electricity consumption	kWh	**603,603**	753,024
Gasoline consumption	Litre	**8,477.00**	8,840.49
Water consumption	Tonne	**4,281**	5,113
Paper consumption	kg	**4,709.71**	7,077.84
Electricity consumption intensity	kWh/FTE	**819.00**	794.33
Gasoline consumption intensity	Litre/FTE	**11.50**	9.33
Water consumption intensity	Tonne/FTE	**5.81**	5.39
Paper consumption intensity	kg/FTE	**6.39**	7.47

Hazardous and non-hazardous waste

Waste category		2020	2019
Waste battery, waste lamp, waste bulb, etc.	Tonne	**0**[4]	0
Hazardous waste	Tonne/FTE	**0**	0
Office waste, kitchen waste, etc.	Cubic metre	**0**[4]	4,491
Non-hazardous waste intensity	Cubic metre/FTE	**0**	4.74

SOCIETY

- **Employment and Labour Practices**

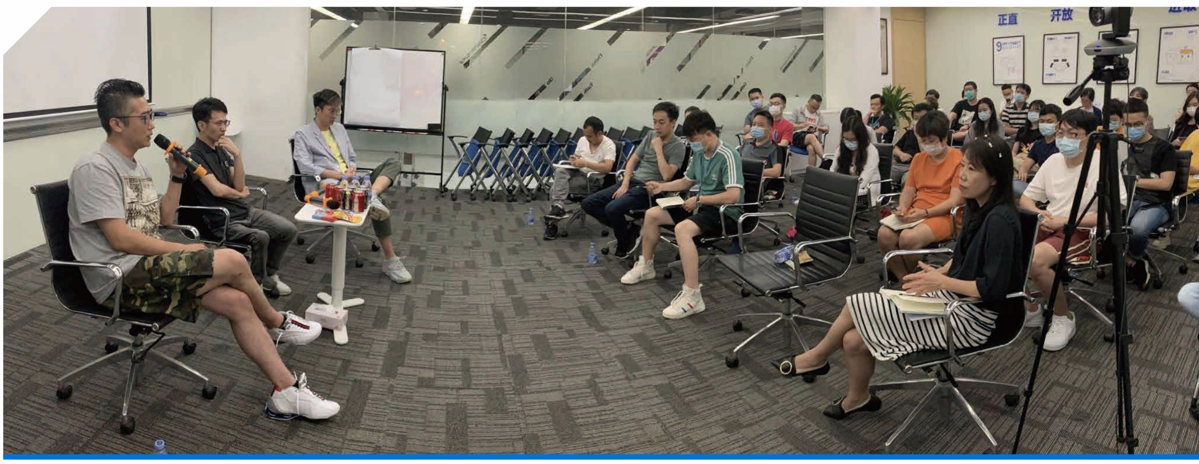
The Company pays attention to protecting the personal rights and interests of employees. The recruitment and use standards of our employees strictly follow "Labor Law of the People's Republic of China", "Labor Contract Law of the People's Republic of China", "Social Insurance Law of the People's Republic 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 7 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.

4 Hazardous and non-hazardous waste are directly recycled by the property management in the Company. The property management team collects and transports the waste to garbage disposal station on a daily basis. Therefore, no relevant data is retained in the Company.

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 complied 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. In March , we review all employees' salary and in September , we review the 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. EMT (Executive Management Team) staff organized "Open Day" every two weeks, which provides a platform for information exchange between the management and employees. Through individual interviews and survey with employees, we collect feedback and resolve enquiries to improve the business operation of the Company in all aspects. The Company has a relatively open communication channel to put forward opinions and suggestions to the Company on system and process.

As of December 31, 2020, the average education level of the Company's employees is undergraduate degree. In terms of senior management staffing, the ratio of male and female executives is 5:1, with an average age of 37.6.

Human resource overview

Human resource overview	**2020**	2019
Total number of staff	**809**	1,022
Number of staff — by gender		
Male	**507**	633
Female	**302**	389
Number of staff — by age group		
Under 30 years old	**428**	595
30–39 years old	**336**	399
40–49 years old	**39**	23
50 years old and above	**6**	5
Number of staff — by employee type		
Regular employee	**737**	948
Temporary employee	**72**	74
Number of staff — by education background		
Postgraduate and above	**84**	115
Undergraduate	**497**	650
Professional training	**164**	223
High school and below	**64**	34

Human resource overview	2020	2019
Turnover rate of staff — by gender		
Male	33.7%	No statistics
Female	17.4%	No statistics
Turnover rate of staff — by age group		
Under 30 years old	33.1%	No statistics
30–39 years old	16.8%	No statistics
40–49 years old	0.9%	No statistics
50 years old and above	0.4%	No statistics
Turnover rate of staff — by location		
Mainland China	41.2%	No statistics

- **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 meantime, 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 insecticide use the drugs 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, 2020, 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 team building events such as treasure hunt and adventure activities to enhance the physical fitness of employees and improve the team morale. We also organise company trip and New Year Party to show gratitude towards our employees for their great efforts throughout the year. In the meantime, we take this as an opportunity to relax and develop bonding outside of work.

- **Development and Training**

We attach great importance to talent training. And 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 develop a tutor system providing job guidance to 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. As of 31 December, 2020, there were 12 training events held in total with 347 employees participated.

Development and Training

		2020	2019
Training Coverage			
Middle level employees		59%	N/A
High level employees		83%	N/A
Average Training Hours			
Middle level employees	Hours	1.8	N/A
High level employees	Hours	219[5]	N/A

5 The Company enrolled high level employees in the course of Cheung Kong Graduate School of Business and Lakeside University. The average training hours were 219 hours.

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 semiannually, 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 feedback 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. In August 2020, the Company has revised "Guidelines for Daily Operation with Suppliers" and "Guidelines for Acceptance of Materials" to align the employee performance with the expectation of the Company. In order to set and maintain a standard for acceptable behaviour in procurement department, employees are required to sign a Code of Conduct. The manual approval workflow has been moved to online BPM (Business Process Management) System with several amendments such as budget automation, approval of Financial Controller and lowering the amount of purchase order which required the approval of CFO (Chief Financial Officer). 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. The suppliers are required to sign "Statement of Anti-bribery" as a new policy in 2020 to reinforce a zero-tolerance stance of the Company towards bribery and corruption. 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 three 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.

As of 31 December, 2020, there were 204 qualified suppliers and 237 backup suppliers in the supply chain system of the Company across China.

- **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 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.

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.

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 (Chief Executive Officer) 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 requires suppliers to sign "Statement of Anti-bribery" to ensure all conflicts of interests between suppliers and employees are properly declared and reported to the Company and prohibits any forms of transfer of benefits in commercial trading. The Company has also 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.

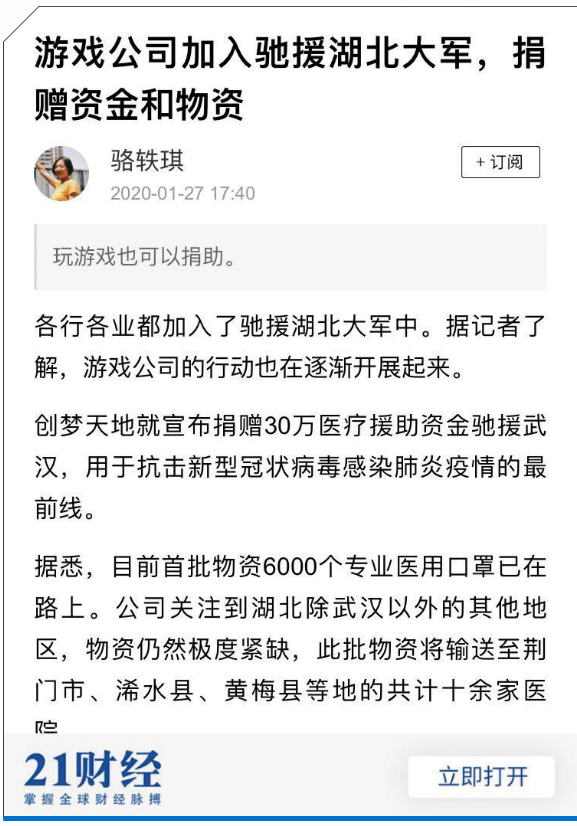
- **Community Investment**

Social Contribution

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 RMB300 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 meantime, 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".



游戏公司加入驰援湖北大军，捐赠资金和物资

骆轶琪
2020-01-27 17:40

+订阅

玩游戏也可以捐助。

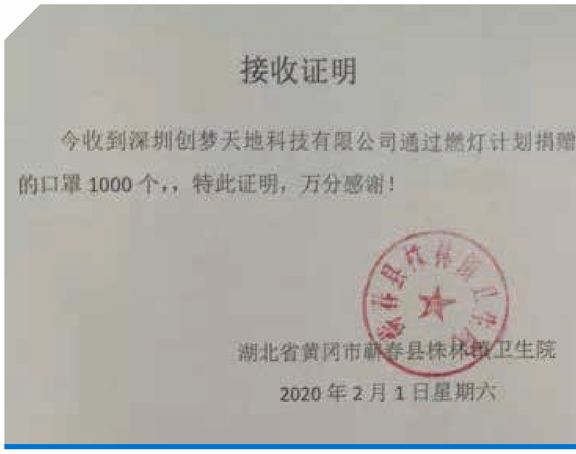
各行各业都加入了驰援湖北大军中。据记者了解，游戏公司的行动也在逐渐开展起来。

创梦天地就宣布捐赠30万医疗援助资金驰援武汉，用于抗击新型冠状病毒感染肺炎疫情的最前线。

据悉，目前首批物资6000个专业医用口罩已在路上。公司关注到湖北除武汉以外的其他地区，物资仍然极度紧缺，此批物资将输送至荆门市、浠水县、黄梅县等地的共计十余家医院

21财经
掌握全球财经脉搏

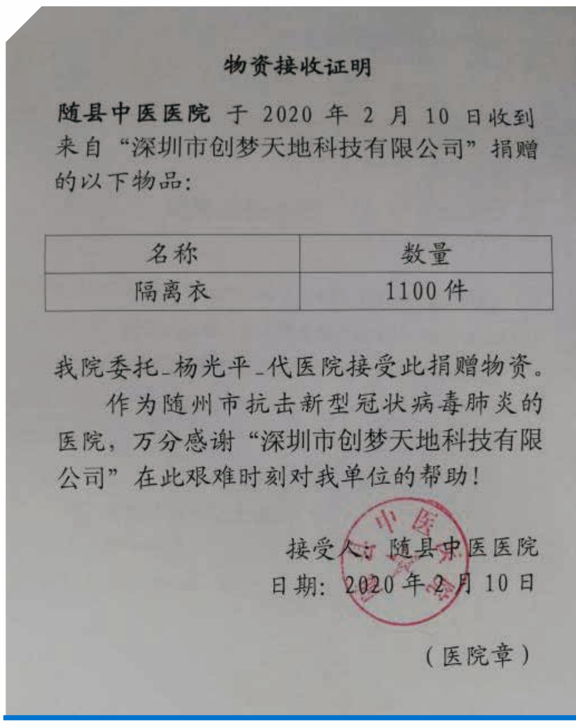
立即打开



接收证明

今收到深圳创梦天地科技有限公司通过燃灯计划捐赠的口罩1000个，，特此证明，万分感谢！

湖北省黄冈市蕲春县株林镇卫生院
2020年2月1日星期六



物资接收证明

随县中医医院 于 2020 年 2 月 10 日收到来自"深圳市创梦天地科技有限公司"捐赠的以下物品：

名称	数量
隔离衣	1100件

我院委托_杨光平_代医院接受此捐赠物资。

作为随州市抗击新型冠状病毒肺炎的医院，万分感谢"深圳市创梦天地科技有限公司"在此艰难时刻对我单位的帮助！

接受人：随县中医医院
日期：2020年2月10日

（医院章）

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.

Education & Culture

As a leading innovative game development and publishing company, we strive our best to develop a new entertainment ecosystem featuring online games, physical entertainment and internet services to enable users to enjoy exceptional entertaining experience anytime and anywhere. We embrace innovation and creativity as core values in the Company, as well as we deeply understand that education is the underlying fundament which develops and shapes a better society.

In order to build a better society, we have been actively giving back to the children in China, who are the future of our nation. During December 2020, we have donated different types of books, learning materials, stationery and equipment to Fangcao Primary School in Luyang Town and Jing'an Township Jiuzhuang Primary School, respectively. We are also looking forward to organizing more charitable activities in terms of education and cultural development and serving the community in the future.

景泰县芦阳镇芳草小学捐赠物资接收函

今收到深圳市创梦天地科技有限公司捐赠物资：【海绵画刷 50 套、木质雪糕棒彩色 500 根、木质雪糕棒原色 500 根、手工纽扣 500 颗、热熔胶枪 6 把、黏土工具套装 5 套、手工毛线 48 团、泥工垫板 50 个、手工工具收纳盒 8 个、水粉颜料 24 罐、描边笔 50 支、宝宝小手涂色本 50 套、油画棒 50 盒、水彩笔 50 罐、得力固体胶 50 个、画纸、宣纸 500 本、水粉颜料 500 罐、A3、A4 打印机 1 台、田格磁性黑板贴 6 条、四线三格教具磁性黑板 16 条】，捐赠物资已经清点完毕，可以正常使用。

特此感谢深圳市创梦天地科技有限公司及《梦幻家园》项目组！

靖远县靖安乡旧庄小学捐赠物资接收函

今收到深圳市创梦天地科技有限公司捐赠物资：【图书，学生用品和奖品等】，捐赠物资已经清点完毕，可以正常使用。

特此感谢深圳市创梦天地科技有限公司及《梦幻家园》项目组！

- **HKEX ESG GUIDE CONTENT INDEX**

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	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 environment.
	A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	
A4 Climate Change	A4	General disclosure	There had been no significant climate-related issues which have impacted the Company.
	A4.1	Description of the significant climate-related issues which have impacted the Company, and actions taken to manage them	

Aspect	HKEx KPI	Description	Page Number/ Remarks
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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 115 to 243, which comprise:

- the consolidated statement of financial position as at December 31, 2020;
- 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, 2020, 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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 2.26, 4(a) and 6 to the consolidated financial statements. During the year ended December 31, 2020, the Group's revenue from game business amounted to RMB2,805,562,000, representing 87% of the Group's total revenues. It was mainly derived from the sales of in-game virtual items. The Group recognises 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 average 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 obtained an understanding of management's internal control and assessment process of the estimation of the lifespan 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, and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty, complexity and subjectivity. — We 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 of goodwill

Refer to notes 4(b) and 18 to the consolidated financial statements.

The Group had goodwill amounting to RMB566,902,000 as of December 31, 2019, which was arisen from the acquisition of Shanghai Huohun Internet Technology Co., Ltd. ("**Shanghai Huohun**") in 2018. During the year ended December 31, 2020, base on the impairment assessment of the goodwill, the Group recognised goodwill impairment of RMB493,680,000.

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 Shanghai Huohun CGU.

We focused on this area due to that a significant goodwill impairment was made during the year ended December 31, 2020 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 obtained an understanding of management's internal control and process of the estimation of goodwill impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty, complexity and subjectivity.

— 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 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, actions taken to eliminate threats or safeguards applied.

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 25, 2021

Consolidated Statement of Comprehensive Income

	Notes	Year ended December 31, 2020 RMB'000	2019 RMB'000
Revenues	6	**3,212,118**	2,792,970
Cost of revenues	7	**(1,876,354)**	(1,567,232)
Gross profit		**1,335,764**	1,225,738
Selling and marketing expenses	7	**(339,580)**	(293,343)
General and administrative expenses	7	**(369,574)**	(250,275)
Research and development expenses	7	**(325,222)**	(191,077)
Net impairment losses on financial assets and contract assets	7	**(101,804)**	(70,016)
Other income	8	**24,005**	28,337
Other losses, net	9	**(610,481)**	(95,802)
Fair value (losses)/gains on financial assets at fair value through profit or loss	21	**(14,998)**	74,672
Operating (loss)/profit		**(401,890)**	428,234
Finance income	11	**6,691**	11,239
Finance costs	11	**(147,430)**	(46,889)
Finance cost, net	11	**(140,739)**	(35,650)
Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss	31	**(20,879)**	—
Share of results of investments accounted for using the equity method	20	**(10,970)**	(1,999)
(Loss)/profit before income tax		**(574,478)**	390,585
Income tax credit/(expense)	12	**9,482**	(30,188)
(Loss)/profit for the year		**(564,996)**	360,397
Other comprehensive (loss)/income			
Items that will not be reclassified to profit or loss			
— Currency translation differences		**(79,123)**	21,419
Items that may be reclassified to profit or loss			
— Currency translation differences		**67,911**	(21,130)
Total comprehensive (loss)/income for the year		**(576,208)**	360,686

	Notes	Year ended December 31, 2020 RMB'000	2019 RMB'000
(Loss)/profit for the year attributable to:			
— Equity holders of the Company		**(441,570)**	352,233
— Non-controlling interests		**(123,426)**	8,164
		(564,996)	360,397
Total comprehensive (loss)/income attributable to:			
— Equity holders of the Company		**(452,782)**	352,522
— Non-controlling interests		**(123,426)**	8,164
		(576,208)	360,686
(Losses)/earnings per share			
— Basic (losses)/earnings per share *(in RMB)*	13	**(0.36)**	0.29
— Diluted (losses)/earnings per share *(in RMB)*	13	**(0.36)**	0.28

The notes on pages 123 to 243 are an integral part of these consolidated financial statements.

	Notes	As of December 31, 2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	29,880	31,712
Intangible assets	17	1,823,150	1,419,264
Investment properties	16	33,074	26,012
Right-of-use assets	15	106,015	46,177
Investments accounted for using the equity method	20	367,574	406,708
Financial assets at fair value through profit or loss	21	374,769	354,320
Prepayments and other receivables	24	118,662	79,014
Goodwill	18	73,222	566,902
Contract assets	23	1,192	4,131
Deferred tax assets	35	78,571	51,483
		3,006,109	2,985,723
Current assets			
Trade receivables	22	1,149,331	1,005,256
Amounts due from related parties	38(c)(i)	1,657	8,523
Prepayments and other receivables	24	1,506,821	1,285,881
Contract assets	23	980	2,122
Contract costs	34	194,462	151,967
Financial assets at fair value through profit or loss	21	105,872	114,544
Restricted cash	26	52,042	—
Cash and cash equivalents	25	735,567	532,746
		3,746,732	3,101,039
Total assets		6,752,841	6,086,762
EQUITY			
Equity attributable to equity holders of the Company			
Share capital and share premium and treasury shares	27	2,533,966	2,542,551
Reserves	28	731,683	379,654
Retained earnings		182,622	635,353
		3,448,271	3,557,558
Non-controlling interests		267,570	388,035
Total equity		3,715,841	3,945,593

	Notes	As of December 31, 2020 RMB'000	2019 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	30	—	254,148
Lease liabilities	15	15,782	26,559
Convertible bonds classified as financial liabilities at fair value through profit or loss	31	206,308	—
Convertible bonds	31	367,874	—
Deferred government grants	8	1,847	2,417
		591,811	283,124
Current liabilities			
Borrowings	30	1,553,659	1,016,291
Lease liabilities	15	11,250	22,366
Trade payables	32	227,341	160,793
Amounts due to related parties	38(c)(iii)	14,734	21,159
Other payables and accruals	33	281,447	317,045
Income tax liabilities		30,523	45,480
Deferred government grants	8	4,483	9,452
Contract liabilities	34	321,752	265,459
		2,445,189	1,858,045
Total liabilities		3,037,000	2,141,169
Total equity and liabilities		6,752,841	6,086,762

The notes on pages 123 to 243 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 115 to 243 were approved by the Board of Directors on March 25, 2021 and were signed on its behalf.

Chen Xiangyu	Guan Song
Director	*Director*

	Notes	Attributable to equity holders of the Company								
		Share capital and share premium and treasury shares	Capital reserves	Statutory reserves	Translation differences	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at January 1, 2019		2,542,551	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	28	—	—	—	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	28	—	—	46,778	—	—	(46,778)	—	—	—
Share-based compensation expenses	29	—	—	—	—	100,301	—	100,301	—	100,301
Capital injection from non-controlling interests		—	—	—	—	—	—	—	107,000	107,000
Transaction with non-controlling interests	28	—	—	—	—	(22,266)	—	(22,266)	221,766	199,500
Total transactions with owners recognised directly in equity for the year		—	—	46,778	—	78,035	(46,778)	78,035	328,766	406,801
Balance at December 31, 2019		2,542,551	16,100	79,527	33,525	250,502	635,353	3,557,558	388,035	3,945,593

	Notes	Attributable to equity holders of the Company								
		Share capital and share premium and treasury shares RMB'000	Capital 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, 2020		2,542,551	16,100	79,527	33,525	250,502	635,353	3,557,558	388,035	3,945,593
Loss for the year		—	—	—	—	—	(441,570)	(441,570)	(123,426)	(564,996)
Other comprehensive loss										
— Currency translation differences	28	—	—	—	(11,212)	—	—	(11,212)	—	(11,212)
Total comprehensive loss for the year		—	—	—	(11,212)	—	(441,570)	(452,782)	(123,426)	(576,208)
Transactions with owners										
Profit appropriation to statutory reserves	28	—	—	11,161	—	—	(11,161)	—	—	—
Share-based compensation expenses	29	—	—	—	—	89,460	—	89,460	—	89,460
Equity component of convertible bonds issued	31	—	—	—	—	262,620	—	262,620	—	262,620
Acquisition of treasury shares	27	(8,585)	—	—	—	—	—	(8,585)	—	(8,585)
Capital injection from non-controlling interests		—	—	—	—	—	—	—	2,961	2,961
Total transactions with owners recognised directly in equity for the year		(8,585)	—	11,161	—	352,080	(11,161)	343,495	2,961	346,456
Balance at December 31, 2020		2,533,966	16,100	90,688	22,313	602,582	182,622	3,448,271	267,570	3,715,841

The notes on pages 123 to 243 are an integral part of these consolidated financial statements.

	Notes	Year ended December 31, 2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	36(a)	**417,303**	391,257
Income taxes paid		**(32,563)**	(40,461)
Net cash inflow from operating activities		**384,740**	350,796
Cash flows from investing activities			
Interest received from wealth management products	8	**22**	388
Placement of wealth management products		**(10,000)**	(159,120)
Receipt from maturity of wealth management products		**10,000**	159,120
Proceeds from disposals of property, plant and equipment	36(a)	**550**	105
Proceeds from disposals of intangible assets	36(a)	**5,660**	—
Purchase of property, plant and equipment		**(6,008)**	(14,444)
Payment for construction in progress		**(9,963)**	—
Purchase/prepayment of intangible assets		**(731,857)**	(940,985)
Loans to related parties	38(b)(v)	**(10,762)**	(402)
Repayment of loans due from related parties	38(b)(v)	**10,000**	32,516
Loans to third parties		**(122,895)**	(137,171)
Repayment of loans due from third parties		**47,301**	111,436
Repayment of deposit for investments		**—**	10,000
Investments in associates and joint ventures		**(67,000)**	(111,175)
Investments in financial assets at fair value through profit or loss		**(102,964)**	(66,976)
Proceeds from disposal of financial assets at fair value through profit or loss		**23,993**	10,000
Proceeds from disposal of investments in associates		**667**	—
Payment/prepayment for land use rights		**(41,824)**	(41,824)
Payment for acquisition of a subsidiary		**(60,650)**	—
Net cash outflow from investing activities		**(1,065,730)**	(1,148,532)

	Notes	Year ended December 31, 2020 RMB'000	2019 RMB'000
Cash flows from financing activities			
Proceeds from capital injection from non-controlling shareholders of the Company's subsidiaries		**2,961**	107,000
Proceeds from borrowings		**1,381,712**	491,696
Repayment of borrowings		**(1,137,180)**	(333,264)
Net proceeds from issuance of convertible bonds	31	**638,528**	—
Net proceeds from the issuance of convertible bonds classified as financial liabilities at fair value through profit or loss	31	**204,552**	—
Payments for share repurchase	27	**(8,585)**	—
Changes in restricted cash		**(52,042)**	—
Repayment of loan due to a related party	38(b)(vi)	**(6,425)**	—
Principal elements of lease payment		**(22,043)**	(20,659)
Interest paid		**(89,579)**	(46,888)
Net cash inflow from financing activities		**911,899**	197,885
Net increase/(decrease) in cash and cash equivalents		**230,909**	(599,851)
Cash and cash equivalents at the beginning of the financial year		**532,746**	1,121,641
Effects of exchange rate changes on cash and cash equivalents		**(28,088)**	10,956
Cash and cash equivalents at the end of the year		**735,567**	532,746

The notes on pages 123 to 243 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 in the People's Republic of China (the "**PRC**" or "**China**").

The shares of the Company has been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**HKEX**") since December 6, 2018.

This consolidated financial statements for the year ended December 31, 2020 are presented in Renminbi ("**RMB**"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on March 25, 2021.

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.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") and the disclosure requirement of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with 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.

(a) New and amended standards adopted by the Group

The Group has applied new and amended standards effective for the financial period beginning on January 1, 2020. The adoption of these new and revised standards does not have any significant impact on the consolidated financial statements of the Group.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) New standards and interpretations not yet adopted

The following new standards and interpretations have not come into effect for the year beginning January 1, 2020, and have not been early adopted by the Group in preparing the consolidated financial statements. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	January 1, 2022
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract	January 1, 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	January 1, 2022
IFRS (amendment)	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
IFRS 17	Insurance contract	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

2.2 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 2.3).

2 Summary of significant accounting policies (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(a) Subsidiaries (Continued)

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.

The operations of the Group were mainly carried out by Shenzhen iDreamSky Technology Co., Ltd. ("**Shenzhen iDreamSky**"), a limited liability company incorporated in Shenzhen, the PRC, and its subsidiaries (the "**PRC Consolidated Affiliated Entities**").

The PRC regulations restrict foreign ownership of companies that provide the operations of games through mobile apps and websites, which include activities and services operated by Shenzhen iDreamSky. In order to enable certain foreign companies to make investments into the business of the Group, Qianhai iDream Technology Co., Ltd. ("**Qianhai iDream**") was established by iDreamSky Holdings (HK) Limited ("**iDreamSky Holdings (HK)**") as a wholly-owned foreign enterprise (the "**WFOE**").

The WFOE has entered into various agreements ("**Contractual Arrangements**") with Shenzhen iDreamSky and its registered equity holders, which enables the WFOE and the Group to:

- Exercise effective control over the PRC Consolidated Affiliated Entities;
- Exercise equity holders' voting rights of the PRC Consolidated Affiliated Entities;
- Receive substantially all of the economic interests and returns generated by the PRC Consolidated Affiliated Entities in consideration for the business support, technical and consulting services provided by the WFOE, at the WFOE's discretion;

2 Summary of significant accounting policies (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(a) Subsidiaries (Continued)

- Obtain an irrevocable and exclusive right to purchase all equity interests in Shenzhen iDreamSky from its registered equity holders at a nominal consideration unless the relevant government authorities request that another amount be used as the purchase consideration and in which case the purchase consideration shall be such amount. Where the purchase consideration is required by the relevant government authorities to be an amount other than a nominal amount, the registered equity holders of Shenzhen iDreamSky shall return the amount of purchase consideration they have received to the WFOE. At the WFOE's request, the registered equity holders of Shenzhen iDreamSky will promptly and unconditionally transfer their respective equity interests in Shenzhen iDreamSky to WFOE (or its designee within the Group) after the WFOE exercises its purchase right;

- Obtain pledges over the entire equity interests in Shenzhen iDreamSky from its registered equity holders to secure, among others, performance of their obligations under the Contractual Arrangements.

The Group does not have any equity interest in the PRC Consolidated Affiliated Entities. However, as a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with the PRC Consolidated Affiliated Entities and has the ability to affect those returns through its power over the PRC Consolidated Affiliated Entities and is considered to control the PRC Consolidated Affiliated Entities. Consequently, the Company regards the PRC Consolidated Affiliated Entities as indirect subsidiaries under IFRSs.

(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)

2.2 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 2.11.

(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 Company.

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.

2 Summary of significant accounting policies (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(e) Changes in ownership interests (Continued)

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.

2.3 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.

2 Summary of significant accounting policies (Continued)

2.3 Business combinations (Continued)

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.

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.

2.4 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.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer ("**CEO**") who reviews consolidated results, makes strategic decisions and assesses performance of the Group.

2.6 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)

2.6 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 recognised 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 recognised 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 recognised 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 recognised in other comprehensive income.

2 Summary of significant accounting policies (Continued)

2.6 Foreign currency translation (Continued)

(c) Group companies (Continued)

On consolidation, 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 recognised 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.

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.

2.7 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 recognised 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 derecognised 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
— Server 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.

Construction in progress represents the direct costs of construction incurred for property, plant and equipment less any impairment losses. No provision for depreciation is made on construction in progress until such time the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2 Summary of significant accounting policies (Continued)

2.7 Property, plant and equipment (Continued)

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 2.10).

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

2.8 Investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are 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 20 or 31 years.

2.9 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.3. 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 amortisation. Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are amortised on a straight-line basis over their useful lives, from 1 to 3 years.

2 Summary of significant accounting policies (Continued)

2.9 Intangible assets (Continued)

(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 recognises the upfront license fees as intangible assets. These intangible assets are amortised on a straight-line basis over the expected economic life, from 3 to 5 years. These amortisation 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).

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 recognises the prepaid license fees as intangible assets upon the related games passed the external testing. The Group amortises these intangible assets on a straight-line basis over the remaining license period from commercial launch of the related games. These amortisation are recorded in cost of revenues to game player.

(d) Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised 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 recognised as expenses as incurred.

The Group capitalises 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 recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised 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)

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation 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 recognised 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.

2.11 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 amortised 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)

2.11 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)

2.11 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 has types of financial assets subject to IFRS 9's new expected credit loss model:

- Trade receivables
- Amounts due from related parties
- Other receivables (excluding prepayments)
- Restricted cash
- Cash and cash equivalents

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.

2.12 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 Summary of significant accounting policies (Continued)

2.13 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 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. Bank deposits which are restricted to use are included in "restricted cash" of the consolidated statement of financial position.

2.15 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 (also referred to as "**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 restricted stock units ("**RSUs**") Holdings Entities (the companies holdings shares pursuant to the RSUs 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.

2.16 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 recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies (Continued)

2.17 Borrowings

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

Fees paid on the establishment of loan facilities are recognised 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 capitalised as a prepayment for liquidity services and amortised 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.

2.18 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.

2.19 Convertible bonds

The fair value of the liability portion of a convertible bond is determined using a market interest rate for a non-convertible bond with similar terms. This amount is recorded as a liability on an amortised cost basis until conversion or maturity of the bonds. The remaining of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity or derivative liability according to the conversion feature embedded. Any directly attributable transaction costs are allocated to the liability and equity or derivative liability component in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a convertible bond is measured at amortised cost using the effective interest method. The equity component of a convertible bond is not re-measured subsequent to initial recognition except on conversion or expiry. The derivative liability component of a convertible bond is measured at fair value with changes in fair value recognised in profit or loss.

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

2 Summary of significant accounting policies (Continued)

2.20 Convertible bonds classified as financial liabilities at fair value through profit or loss

For the convertible bond accounted for in their entirety as financial liabilities through profit and loss, the fair value changes are reflected in FVPL within the consolidated statements of comprehensive income, except for the portion attributable to credit risk change that should be charged to other comprehensive income. The embedded conversion features do not require future evaluation, bifurcation, and separate accounting as the change in fair value of embedded features is reflected in the change in fair value in the compound instrument under such “whole instrument” approach. Issue costs that are directly attributable to the issue of the instruments, designated as financial liabilities at fair value through profit or loss, are recognised immediately in the consolidated statements of comprehensive income.

The instrument are classified as non-current liabilities unless the Group has an obligation to settle the liability within 12 months after the end of the reporting period.

2.21 Contract liabilities and contract costs

For game publishing service revenues, contract liabilities primarily consists of the unamortised 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 recognised as revenue when all of the revenue recognition criteria are met.

Contract costs primarily consist of the unamortised commission charges by distribution and payments channels and will be recognised as cost of revenues through amortisation over the average expected playing period of the paying players (“**Player Relationship Period**”), which is consistent with the pattern of recognition of the associated revenue.

2.22 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(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 and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

2 Summary of significant accounting policies (Continued)

2.22 Current and deferred income tax (Continued)

(b) Deferred income tax

Deferred income tax is provided in full, 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 recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 recognised only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 Summary of significant accounting policies (Continued)

2.23 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised 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 recognised until the time of leave.

(b) Pension obligations

The Group's companies incorporated in the 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 recognised 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 Summary of significant accounting policies (Continued)

2.24 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates several equity-settled share-based compensation plans, 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 recognised 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.

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 recognised 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 recognising 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 recognised 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 recognised 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 recognised 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 recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2 Summary of significant accounting policies (Continued)

2.25 Provisions

Provisions are recognised 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 recognised 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 recognised 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 recognised as interest expense.

2.26 Revenue recognition

Revenues are recognised 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**").

2 Summary of significant accounting policies (Continued)

2.26 Revenue recognition (Continued)

Game distribution revenue (Continued)

(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 fulfilment 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.

(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.

2 Summary of significant accounting policies (Continued)

2.26 Revenue recognition (Continued)

Game distribution revenue (Continued)

(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.

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.

2 Summary of significant accounting policies (Continued)

2.26 Revenue recognition (Continued)

Game distribution revenue (Continued)

(c) Principal Agent Consideration (Continued)

(i) Third party licensed mobile games (Continued)

The Group acts as Agent (Continued)

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 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.

(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.

2 Summary of significant accounting policies (Continued)

2.26 Revenue recognition (Continued)

Game distribution revenue (Continued)

(d) Timing of revenue recognition

(i) Casual mobile games

For the casual mobile games, the Group does not 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 recognises 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 recognised the revenue ratably over the Player Relationship Period (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 recognises 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.

For mid- and hardcore 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 the Player Relationship Period, and accordingly, the Group recognises the revenues ratably over the Player Relationship 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.

2 Summary of significant accounting policies (Continued)

2.26 Revenue recognition (Continued)

Game distribution revenue (Continued)

(d) Timing of revenue recognition (Continued)

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

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 Player Relationship Period when estimating the period over which revenue is being recognised. The Group tracks each of the paying players' purchases and log in history for each significant game to estimate the Player Relationship Period, which is the Player Relationship 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, 2019 and 2020, the Player Relationship Period is based on twenty one and twenty five 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 recognised 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 analyse 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)

2.26 Revenue recognition (Continued)

Game development and co-operation revenue

Revenues are recognised 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 services 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 recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised 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 recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Some contracts include multiple deliverables, such as game development services 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 recognised. If the customers' payments exceed the services rendered, a contract liability is recognised.

2 Summary of significant accounting policies (Continued)

2.26 Revenue recognition (Continued)

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 recognised based on actual performance measurement. The Group recognises 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 recognised ratably over the respective contract periods with the advertisers and their advertising agencies, when the related advertisements are displayed.

Other revenues

The Group's other revenues are primarily derived from software as a service ("**SaaS**") and other related business and offline entertainment business. Revenues from the SaaS and other related business are primarily derived from the service fees from customers or users. Revenues from the offline entertainment business are primarily derived from (a) service fee for offline game events; (b) sales of game console; (c) provision of leisure and entertainment services etc. The Group recognises these revenues when the respective services are rendered or the goods and services are enjoyed by the users, or when the control of the products are transferred to customers.

2.27 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.

2 Summary of significant accounting policies (Continued)

2.27 Earnings per share (Continued)

(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.

2.28 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.

2.29 Leases

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.

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;

2 Summary of significant accounting policies (Continued)

2.29 Leases (Continued)

- 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.

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.

2 Summary of significant accounting policies (Continued)

2.29 Leases (Continued)

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. 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.

2.30 Interest income

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

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. 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 Summary of significant accounting policies (Continued)

2.31 Government grants/subsidies

Grants/subsidies from government are recognised 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 recognised 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.

2.32 Dividend distribution

Dividends distribution to the Company's shareholders is recognised 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 recognised 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.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

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

(i) *Foreign exchange risk* (Continued)

The Group's PRC subsidiaries are exposed to foreign exchange risk arising from recognised assets in foreign currencies, primarily with respect USD in transactions with certain oversea platforms. For the years ended December 31, 2019 and 2020, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, post-tax profit for the years ended December 2019 and 2020 would have been RMB7,001,000 and RMB8,264,000 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 certain oversea subsidiaries are exposed to foreign exchange risk from the convertible bonds denominated in HKD whereas their functional currency is USD. For the year ended December 31, 2020, if HKD had strengthened/weakened by 1% against USD with all other variables held constant, post-tax profit for the year ended December 31, 2020 would have been RMB6,312,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated convertible bonds.

The Company 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, 2020, if EUR had strengthened/weakened by 10% (2019: 5%) against USD with all other variables held constant, post-tax profit for the years ended December 31, 2020 would have been RMB72,548,000 (2019: 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, 2019 and 2020.

(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, restricted cash and loans to third parties, details of which have been disclosed in Note 25, 26 and 24 respectively.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 30. 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.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

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 of December 31, 2019 and 2020, borrowings of the Group which were bearing at floating rates amounted to approximately RMB828,570,000 and RMB454,151,000, respectively. As of December 31, 2019 and 2020, 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, 2019 and 2020 would has been approximately RMB3,482,000 and RMB1,925,000 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 and restricted cash

To manage this risk, the Group only makes transactions with state-owned banks and financial institutions in the PRC and reputable international banks and financial institutions outside of the PRC. There has been no recent history of default in relation to these banks and financial institutions. The expected credit loss is close to zero.

(ii) Credit risk of trade receivables

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 (collectively "**Customers**"). If the strategic relationship with the Customers are terminated or scaled-back; or if the Customers alter the co-operative arrangements; or if the Customers 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 Customers to ensure the effective credit control. In view of the history of cooperation with the Customers 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 receivables balances due from the Customers is low.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

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

(iii) Credit risk of amounts due from related parties

The amounts due from related parties is non-trade in nature. As of December 31, 2020, the Group applied the expected credit loss rate at 0.61% 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,	
	2020	2019
	RMB'000	*RMB'000*
At the beginning of the year	**449**	2,054
Reversal for impairment	**(428)**	(1,605)
At the end of the year	**21**	449

(iv) Credit risk of other receivables

Other receivables at the end of each reporting period were mainly loans to employees, loan 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.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

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

(iv) Credit risk of other receivables (Continued)

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.

Other receivables 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 recognised in profit or loss.

Management makes periodic collective assessments on the recoverability of other receivables based on historical settlement records and past experience. At each reporting period end, the loans to third parties and employees were categorized in stage 1.

However, certain counterparty failed to make demanded repayment within 60 days of when they fall due, the Group made 100% provision for these 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 rates, the Group considers the historical loss rates for third parties and employees, and adjusts for forward-looking macroeconomic data. The Group provided for credit losses against other receivables as follows:

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

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

(iv) Credit risk of other receivables (Continued)

Other receivables	Expected credit loss rate	Basis for recognition of expected credit loss provision	As of December 31, 2020	
			Estimated gross amount at default *RMB'000*	Carrying amount (net of impairment provision) *RMB'000*
Loans to third parties — performing	1.35%	12 months expected losses	271,563	267,897
Rental and other deposits	0.63%	12 months expected losses	6,995	6,951
Current portion of loans to employees	0.48%	12 months expected losses	5,562	5,535
Non-current portion of loans to employees	0.48%	12 months expected losses	2,687	2,674
Loans to third parties — underperforming	100.00%	Life time expected losses	2,500	—
Others	1.10%	12 months expected losses	26,396	26,106
			315,703	309,163

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

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

Other receivables	Expected credit loss rate	Basis for recognition of expected credit loss provision	As of December 31, 2019	
			Estimated gross amount at default	Carrying amount (net of impairment provision)
			RMB'000	*RMB'000*
Loans to third parties — performing	5.00%	12 months expected losses	104,630	99,399
Rental and other deposits	5.00%	12 months expected losses	5,797	5,507
Current portion of loans to employees	1.00%	12 months expected losses	4,989	4,939
Non-current portion of loans to employees	1.00%	12 months expected losses	3,207	3,175
Others	5.00%	12 months expected losses	47,462	45,089
			166,085	158,109

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

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
At the beginning of the year	**7,976**	9,793
(Reversal)/provision for impairment	**(748)**	4,839
Written off during the year	**(688)**	(6,656)
At the end of the year	**6,540**	7,976

The impairment provision for other receivables would have been RMB10,541,000 for the year ended December 31, 2020 if the expected credit loss rates had adjusted to be the same as last year.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) *Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents. 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 analyses 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	Total RMB'000	Carrying amount RMB'000
As of December 31, 2020					
Borrowings	1,643,125	—	—	1,643,125	1,553,659
Trade payables	227,341	—	—	227,341	227,341
Convertible bonds classified as financial liabilities at fair value through profit or loss	4,894	4,894	195,747	205,535	206,308
Convertible bonds	20,383	20,383	713,421	754,187	367,874
Lease liabilities	12,433	5,931	11,452	29,816	27,032
Amounts due to related parties	14,734	—	—	14,734	14,734
Other payables and accruals (excluding payroll and welfare payables and other tax payables)	203,472	—	—	203,472	203,472
Total	2,126,382	31,208	920,620	3,078,210	2,600,420

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	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*	Carrying amount *RMB'000*
As of December 31, 2019						
Borrowings	1,048,326	115,833	152,039	—	1,316,198	1,270,439
Trade payables	160,793	—	—	—	160,793	160,793
Lease liabilities	25,108	16,406	10,950	1,429	53,893	48,925
Amounts due to related parties	21,159	—	—	—	21,159	21,159
Other payables and accruals (excluding payroll and welfare payables and other tax payables)	243,657	—	—	—	243,657	243,657
Total	1,499,043	132,239	162,989	1,429	1,795,700	1,744,973

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, lease liabilities, amount due to related parties, interest payable, convertible bonds and convertible bonds classified as financial liabilities at fair value through profit or loss less cash and cash equivalents and restricted cash. Total capital is calculated as "equity" as shown in the consolidated statements of financial position. As of December 31, 2019 and 2020, the gearing ratio of the Group is 20.47% and 37.20% respectively.

3 Financial risk management (Continued)

3.3 Fair value estimation

(a) Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair value as of December 31, 2019 and 2020 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).

The following table presents the Group's assets that are measured at fair value as of December 31, 2019 and 2020.

As of December 31, 2020	**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	**105,872**	**—**	**374,769**	**480,641**
Liabilities:					
Convertible bonds classified as financial liabilities at fair value through profit or loss	31	**—**	**—**	**206,308**	**206,308**

As of 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

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.

3 Financial risk management (Continued)

3.3 Fair value estimation

(a) *Fair value hierarchy* (Continued)

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.

(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.

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

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

The following table presents the changes in level 3 financial instruments for the years ended December 31, 2019 and 2020:

	Financial assets		Financial liabilities
	2020	2019	**2020**
	RMB'000	*RMB'000*	***RMB'000***
At the beginning of the year	307,023	267,506	—
Additions	107,003	75,398	204,552
Disposals	(10,484)	(39,329)	—
Changes in fair value recognised in profit or loss	(25,704)	2,673	20,879
Coupon interests paid	—	—	(4,894)
Currency translation differences	(3,069)	775	(14,229)
At the end of the year	374,769	307,023	206,308
Changes in unrealised (losses)/gains for the year included in profit or loss at the end of the year	(25,704)	2,673	20,879

There were no transfers between levels 1, 2 and 3 during the years ended December 31, 2019 and 2020.

(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 classified as financial liabilities at fair value through profit or loss. 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**"), price-to-sale ratio and other exposure, etc.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements of financial assets at fair value through profit or loss.

Key unobservable inputs	**Range of inputs at December 31, 2020**	**Change**	**Fair value change as of December 31, 2020**
			RMB'000
WACC	**18.40%–24.40%**	**+5.00%**	**(3,935)**
	18.40%–24.40%	**-5.00%**	**3,653**
Terminal growth rate	**3.00%**	**+5.00%**	**276**
	3.00%	**-5.00%**	**(266)**
Price-to-sale ratio	**1.73–6.55**	**+5.00%**	**368**
	1.73–6.55	**-5.00%**	**(367)**

Key unobservable inputs	Range of inputs at December 31, 2019	Change	Fair value change as of December 31, 2019
			RMB'000
WACC	19.00%–23.90%	+5.00%	(3,046)
	19.00%–23.90%	-5.00%	3,443
Terminal growth rate	2.00%–3.00%	+5.00%	233
	2.00%–3.00%	-5.00%	(231)
Price-to-sale ratio	1.21–9.70	+5.00%	228
	1.21–9.70	-5.00%	(228)

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

(d) *Valuation processes of the Group (level 3)* (Continued)

Convertible bonds classified as financial liabilities at fair value through profit or loss issued by the Group are not traded in active market, and its fair value is determined by using valuation techniques. The Group determines the fair value of convertible bonds by using binomial model and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements of convertible bonds classified as financial liabilities at fair value through profit or loss.

Key unobservable inputs	Range of inputs at December 31, 2020	Change	Fair value change as of December 31, 2020 *RMB'000*
Dividend yield	0.00%	+5.00%	(5,243)
Volatility	40.24%	+5.00%	908
	40.24%	-5.00%	(1,863)
Risk-free rate	0.11%	+5.00%	3
	0.11%	-5.00%	(3)
Bond yield	17.60%	+5.00%	(1,733)
	17.60%	-5.00%	1,850

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.

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

As described in Note 2.26, the Group recognises the revenues ratably over the estimated average Player Relationship Period for mid- and hardcore mobile games and certain casual mobile games where 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 years ended December 31, 2019 and 2020, 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 prepared by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated terminal 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 reasonably 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.

4 Critical accounting estimates and judgements (Continued)

(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 Platform.

(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 recognised as "cost of revenues" at the same pattern of game revenue recognised 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 recognise impairment loss against the carrying amount of such prepayment.

4 Critical accounting estimates and judgements (Continued)

(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 recognised 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, amounts due from related parties, 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/loss.

(i) Fair value measurement of convertible bonds classified as financial liabilities at fair value through profit or loss

Convertible bonds classified as financial liabilities at fair value through profit or loss issued by the Group are not traded in active market, and its fair value is determined by using valuation techniques. The Group determines the fair value of convertible bonds by using binomial model and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see Note 3.3(d). Changes in these assumptions and estimates could materially affect the respective fair value of the convertible bonds classified as financial liabilities at fair value through profit or loss.

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.

In 2019, the CEO of the Group considered that the Group's operations were operated and managed as a single segment, accordingly, no segment information was presented. During the year ended December 31, 2020, the Group expanded its core business from game and information services to more variety of services and the CEO started to review and assess the performance and operation of the Group based on 3 reportable segments:

Game and information services

The segment of game and information services mainly includes (a) game distribution; (b) game development and co-operation; (c) in-game information services.

SaaS and other related services

The SaaS and other related services was primarily related to the Group's provision of a series of SaaS tools and the related services to the content developers.

Offline entertainment

The offline entertainment segment offers gaming device experiencing and sales, game and designer toys sales, integrated movie and video experiencing.

The CODM assesses the performance of the operating segments mainly based on segment revenues, cost of revenues, gross profit and segment results. The segment results are calculated as segment gross profit minus operating expenses (including selling and marketing expenses, general and administrative expenses and research and development expenses but excluding some unallocated portions) of each operating segment. Thus, segment result would present revenues, cost of revenues and gross profit for each segment, which is in line with CODM's performance review.

There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

The revenue is mainly generated in the PRC.

5 Segment information (Continued)

The segment information and the reconciliation with loss before income tax provided to the Group's CODM for the reportable segments for the year ended December 31, 2020 is as follows:

	Year ended December 31, 2020			
	Game and information services RMB'000	SaaS and other related services RMB'000	Offline entertainment RMB'000	Total RMB'000
Revenues	3,167,481	38,151	6,486	3,212,118
Cost of revenues	(1,865,287)	(8,665)	(2,402)	(1,876,354)
Gross profit	1,302,194	29,486	4,084	1,335,764
Gross margin	41.1%	77.3%	63.0%	41.6%
Segment results	523,036	(28,275)	(18,758)	476,003
Reconciliation:				
Unallocated operating expenses				(174,615)
Net impairment losses on financial assets and contract assets				(101,804)
Other income				24,005
Other losses, net				(610,481)
Fair value losses on financial assets at fair value through profit or loss				(14,998)
Finance income				6,691
Finance costs				(147,430)
Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss				(20,879)
Share of results of investments accounted for using the equity method				(10,970)
Loss before income tax				(574,478)

The directors of the Company did not prepare the comparative figure for the segment information as the financial information of operating expenses for SaaS and other related services and offline entertainment for the year ended December 31, 2019 was not available and the cost to prepare such information was considered excessive.

The Company is domiciled in Cayman Islands 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,	
	2020	2019
	RMB'000	*RMB'000*
Game and information services revenues		
Game revenue	**2,805,562**	2,446,876
Information service revenue	**347,529**	315,561
Others	**14,390**	8,882
SaaS and other related services revenues	**38,151**	16,580
Offline entertainment revenues	**6,486**	5,071
	3,212,118	2,792,970

The timings of revenues recognition by category is as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
At a point in time	**1,070,482**	1,175,952
Over time	**2,141,636**	1,617,018
	3,212,118	2,792,970

There are two kinds of unsatisfied performance obligations as of December 31, 2019 and 2020.

One is the sales of game tokens and virtual items where there is still an implied obligation to be provided by the Group. The Group has determined that it is obligated to provide on-going services to the game players over the Player Relationship Period of the paying players. The amount of such unsatisfied performance obligations had been reflected in contract liabilities as at the end of the year.

The other one is the mobile game development services and game cooperation services including on-going updates of new contents and maintenance service under variable price contracts, such as based on the pre-agreed percentage of the net billing of the game. The amount can not be estimated under such variable price contracts.

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 and contract assets are analysed below:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Channel costs	**1,278,021**	1,006,632
Employee benefit expenses *(Note 10)*	**347,636**	337,569
Revenue share to content providers	**323,263**	276,652
Promotion and advertising expenses	**312,837**	279,913
Amortisation of intangible assets *(Note 17)*	**217,947**	117,438
Technical and development services fee in relation to game development and others	**135,097**	41,405
Impairment provisions for financial assets and contract assets	**101,804**	70,016
Impairment provisions for prepayments *(Note 24)*	**70,102**	105,176
Impairment provisions for intangible assets *(Note 17)*	**69,843**	20,117
Professional service fees	**43,793**	10,473
Cloud computing, bandwidth and server custody fees	**29,168**	20,805
Depreciation of right-of-use assets *(Note 15)*	**21,067**	23,430
Travelling and entertainment expenses	**13,782**	22,019
Depreciation of property, plant and equipment *(Note 14)*	**11,105**	9,295
Auditor's remuneration		
— Audit services	**6,080**	5,500
— Non-audit services	**2,956**	1,451
Other tax expenses	**4,917**	3,424
Rental expenses	**3,078**	3,595
Depreciation of investment properties *(Note 16)*	**773**	645
Others	**19,265**	16,388
Total cost of revenues, selling and marketing expenses, administrative expenses, research and development expenses and net impairment losses on financial assets and contract assets	**3,012,534**	2,371,943

8 Other income

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Government grants *(a)*	**13,820**	15,876
Additional deduction of input value-added tax *(b)*	**9,916**	11,288
Rental income *(Note 16(a))*	**247**	785
Interest income from wealth management products	**22**	388
	24,005	28,337

(a) Government grants

	As of January 1, 2020	**Receipt of grants**	**Credited to consolidated statement of comprehensive income during the year**	**As of December 31, 2020**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Government grants related to assets	**5,014**	**—**	**(1,838)**	**3,176**
Government grants related to costs	**6,855**	**8,281**	**(11,982)**	**3,154**
	11,869	**8,281**	**(13,820)**	**6,330**

	As of January 1, 2019	Receipt of grants	Credited to consolidated statement of comprehensive income during the year	As of 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

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.

(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, net

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Goodwill impairment *(Note 18)*	**493,680**	422,331
Impairment of investments in associates *(Note 20)*	**91,897**	—
Losses on disposal of financial assets at fair value through profit or loss	**20,933**	1,429
Net losses on disposal of intangible assets	**2,358**	—
Net losses on disposal of property, plant and equipment	**488**	225
Gains on disposal of investments in an associate	**(138)**	—
Gains on disposal of subsidiaries *(a)*	**—**	(24,567)
Gain from the reversal of the unpaid consideration payables from the acquisition of Shanghai Huohun Internet Technology Co., Ltd. ("**Shanghai Huohun**") *(b)*	**—**	(294,911)
Others	**1,263**	(8,705)
	610,481	95,802

9 Other losses, net (Continued)

(a) The amount of the year ended December 31, 2019 was 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).

(b) 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. On 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 recognised at the acquisition date and as of December 31, 2018 was recognised as other gain for the year ended December 31, 2019.

10 Employee benefit expenses

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**216,935**	196,630
Pension costs — defined contribution plans *(a)*	**25,263**	28,333
Other social security costs, housing benefits and other employee benefits	**15,978**	12,305
Share-based compensation expenses *(Note 29)*	**89,460**	100,301
	347,636	337,569

(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 Executive's emoluments

The remuneration of every director and chief executive for the year ended December 31, 2020 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	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors					
Mr. Chen Xiangyu (CEO)	—	970	—	26	996
Mr. Jeffrey Lyndon Ko	—	1,182	—	21	1,203
Mr. Guan Song	—	950	—	26	976
	—	3,102	—	73	3,175
Independent non-executive Directors					
Ms. Yu Bin	150	—	—	—	150
Mr. Zhang Weining	150	—	—	—	150
Mr. Li Xintian	150	—	—	—	150
Mr. Mao Rui *(i)*	100	—	—	—	100
	550	—	—	—	550
	550	3,102	—	73	3,725

10 Employee benefit expenses (Continued)

(b) Directors' and Chief Executive's emoluments (Continued)

The remuneration of every director and chief executive for the year ended December 31, 2019 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	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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 (ii)	—	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

(i) Mr. Mao Rui was appointed on August 25, 2020.

(ii) Mr. Lei Junwen resigned from the board of directors on August 25, 2020, but remained CFO of the Company.

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, 2019 and 2020 include nil and one director whose emoluments are reflected in the analysis presented above, respectively. The aggregate amounts of emoluments for the remaining four individuals (2019: five) during the year are set out below:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**3,996**	4,466
Pension costs — defined contribution plan, other social security costs, housing benefits, and other employee benefits	**161**	320
Share-based compensation expenses	**6,914**	9,557
	11,071	14,343

The emoluments of those individuals fell within the following bands:

	Number of individuals	
	Year ended December 31,	
	2020	2019
HKD1,000,001 to HKD1,500,000	**2**	—
HKD1,500,001 to HKD2,000,000	**—**	2
HKD2,500,000 to HKD3,000,000	**—**	2
HKD4,000,000 to HKD4,500,000	**1**	—
HKD6,000,000 to HKD6,500,000	**1**	—
HKD6,500,000 to HKD7,000,000	**—**	1
	4	5

11 Finance costs, net

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Finance costs:		
— Interest expense on bank borrowings	**82,855**	43,278
— Exchange losses, net	**49,512**	—
— Interest expense on convertible bonds	**13,240**	—
— Interest expense on lease liabilities	**2,185**	3,611
— Interest capitalised	**(362)**	—
	147,430	46,889
Finance income:		
— Interest income on bank deposits	**(6,691)**	(2,217)
— Exchange gains, net	**—**	(9,022)
	(6,691)	(11,239)
Finance costs, net	**140,739**	35,650

12 Income tax (credit)/expense

The income tax (credit)/expense of the Group for the years ended December 31, 2019 and 2020 is analysed as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Current income tax:		
— PRC corporate income tax	**17,606**	45,175
Deferred income tax	**(27,088)**	(14,987)
Income tax (credit)/expense	**(9,482)**	30,188

12 Income tax (credit)/expense (Continued)

The tax on the Group's (loss)/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,	
	2020	2019
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(574,478)**	390,585
Tax calculated at 25%	**(143,620)**	97,646
Tax effects of:		
— Preferential income tax rates applicable to subsidiaries on PRC	**(30,635)**	(85,523)
— Effects of different tax rate	**51,541**	—
— Loss not subject to tax	**(1,213)**	(91,727)
— Tax losses for which no deferred income tax asset was recognised	**23,524**	17,584
— Expenses not deductible for income tax purposes	**122,144**	120,063
— Super deduction for research and development expenses *(c)*	**(31,223)**	(27,855)
Income tax (credit)/expense	**(9,482)**	30,188

(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 (credit)/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. In 2019, Shenzhen iDreamSky renewed its qualification as a "High and New Technology Enterprise" ("**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. ("**Chuangyi Shikong**") and Qianhai iDream were established in Qianhai, Bonded Zone of Shenzhen in October 2014 and April 2018, respectively, 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 (credit)/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 (Losses)/earnings per share and dividends

(a) (Losses)/earnings per share

(i) Basic

	Year ended December 31,	
	2020	2019
(Loss)/profit attributable to equity holders of the Company *(RMB'000)*	**(441,570)**	352,233
Weighted average number of shares in issue (thousands)	**1,223,066**	1,205,430
Basic (losses)/earnings per share *(in RMB)*	**(0.36)**	0.29

Basic (losses)/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 year, excluding ordinary shares purchased by the Group and held as treasury shares (Note 27).

13 (Losses)/earnings per share and dividends (Continued)

(a) (Losses)/earnings per share (Continued)

(ii) Diluted

Diluted (losses)/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,	
	2020	2019
(Loss)/profit attributable to equity holders of the Company *(RMB'000)*	**(441,570)**	352,233
Weighted average number of shares in issue (thousands)	**1,223,066**	1,205,430
Adjustments for employee incentive plan and convertible bonds (thousands)	**—**	39,598
Weighted average number of shares for calculating diluted (losses)/earnings per share (thousands)	**1,223,066**	1,245,028
Diluted (losses)/earnings per share *(in RMB)*	**(0.36)**	0.28

As the Group incurred losses for the year ended December 31, 2020, the impact of employee incentive plan, convertible bonds and convertible bonds classified as financial liabilities at fair value through profit or loss was not included in the calculation of the diluted losses per share as their inclusion would be anti-dilutive. Accordingly, diluted losses per share for the year ended December 31, 2020 are the same as basic losses per share.

(b) Dividends

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2020 (2019: Nil).

14 Property, plant and equipment

	Land and buildings	Furniture and office equipment	Server and other equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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
Year ended December 31, 2020							
Opening net book amount	8,266	4,276	6,741	1,672	10,757	—	31,712
Additions	12	1,153	534	—	4,309	12,138	18,146
Disposals	—	(857)	(181)	—	—	—	(1,038)
Transfer to investment properties	(7,835)	—	—	—	—	—	(7,835)
Depreciation charge	(443)	(1,314)	(2,691)	(593)	(6,064)	—	(11,105)
Closing net book amount	—	3,258	4,403	1,079	9,002	12,138	29,880
At December 31, 2020							
Cost	—	19,156	22,329	3,295	26,610	12,138	83,528
Accumulated depreciation	—	(15,898)	(17,926)	(2,216)	(17,608)	—	(53,648)
Net book amount	—	3,258	4,403	1,079	9,002	12,138	29,880

14 Property, plant and equipment (Continued)

Depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

	Year ended December 31, 2020 RMB'000	2019 RMB'000
Cost of revenues	2,184	1,565
General and administrative expenses	4,263	3,191
Research and development expenses	2,651	3,296
Selling and marketing expenses	2,007	1,243
	11,105	9,295

As of December 31, 2019, the Group's property with net book amounts of RMB8,266,000 were pledged to a bank to secure certain bank borrowings of the Group (Note 30). During the year ended December 31, 2020, the aforesaid pledged property was transferred to investment properties (Note 16).

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:

	As of December 31, 2020 RMB'000	2019 RMB'000
Right-of-use assets		
Buildings	24,544	46,177
Land use rights	81,471	—
	106,015	46,177
Lease liabilities		
Current	11,250	22,366
Non-current	15,782	26,559
	27,032	48,925

Additions to the right-of-use assets during the year ended December 31, 2020 were RMB90,323,000 (2019: RMB23,830,000).

15 Leases (Continued)

(b) Amounts recognised in the consolidated statement of comprehensive income or capitalised in the construction in progress

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Depreciation charge of right-of-use assets		
Buildings	**21,067**	23,430
Land use rights	**2,176**	—
	23,243	23,430

During the year ended December 31, 2020, the depreciation of RMB21,067,000 (2019: RMB23,430,000) from buildings was charged as profit or loss and RMB2,176,000 from land use rights was recognised in construction in progress.

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Interest expense (included in finance cost)	**2,185**	3,611
Expense relating to short-term leases (included in cost of revenues and general and administrative expenses)	**198**	45
	2,383	3,656

(c) Amounts recognised in the consolidated statement of cash flows relating to leases

During the year ended December 31, 2020, the cash outflow about the principal element of lease payments was RMB24,228,000 (2019: RMB24,270,000), the cash outflow about payment for short-term and low-value lease was RMB198,000 (2019: RMB45,000).

(d) 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 1 to 7 years but may have extension options as described in (f) below.

15 Leases (Continued)

(e) 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 4% to 20%. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores, or only paying variable lease payments in the several years at the beginning. 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.

(f) 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 by the Group.

16 Investment properties

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Opening net book amount at January 1	**26,012**	—
Additions	**—**	26,657
Transfer from property, plant and equipment	**7,835**	—
Depreciation charge	**(773)**	(645)
Closing net book amount at December 31	**33,074**	26,012

The fair value of the investment properties as of December 31, 2020 was RMB42,100,000.

As of December 31, 2020, the Group's investment properties with net book amounts of RMB7,835,000 were pledged to a bank to secure certain bank borrowings of the Group (Note 30).

16 Investment properties (Continued)

(a) Amounts recognised in profit or loss for investment properties

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Rental income from operating leases	**247**	785
Direct operating expenses from properties that generates rental income	**(8)**	(164)
	239	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 37.

17 Intangible assets

	Game intellectual properties and licenses *RMB'000*	Computer software *RMB'000*	Capitalised development costs for internal use software *RMB'000*	Total *RMB'000*
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
Amortisation 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 amortisation	(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)

	Game intellectual properties and licenses *RMB'000*	Computer software *RMB'000*	Capitalised development costs for internal use software *RMB'000*	Total *RMB'000*
Year ended December 31, 2020				
Opening net book amount	1,393,068	9,833	16,363	1,419,264
Additions	693,735	8,142	16,051	717,928
Amortisation charge	(186,267)	(10,562)	(21,118)	(217,947)
Impairment	(69,843)	—	—	(69,843)
Disposal	(12,146)	—	—	(12,146)
Currency translation differences	(14,106)	—	—	(14,106)
Closing net book amount	1,804,441	7,413	11,296	1,823,150
At December 31, 2020				
Cost	2,316,387	38,214	77,602	2,432,203
Accumulated amortisation	(511,946)	(30,801)	(66,306)	(609,053)
Net book amount	1,804,441	7,413	11,296	1,823,150

17 Intangible assets (Continued)

(a) Amortisation charges for intangible assets

Amortisation charges were expensed in the following categories in the consolidated statement of comprehensive income:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Cost of revenues	**174,623**	80,391
General and administrative expenses	**28,359**	26,113
Research and development expenses	**9,311**	7,373
Selling and marketing expenses	**5,654**	3,561
	217,947	117,438

(b) Impairment for intangible assets

The impairment for intangible assets mainly represents impairment of game intellectual properties and licenses and is the excess amount of the carrying amount of the game intellectual properties and licenses fees to the game developers over the expected game revenue to be generated in the remaining contractual period. The management estimated the expected game revenue 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, 2020, certain game intellectual properties and licenses which belong to the segment of game and information services were fully impaired and impairment losses of RMB69,843,000 (2019: RMB20,117,000) was charged to the consolidated statement of comprehensive income, as management estimated that the game revenue to be generated in the remaining contractual period for certain games would be lower than the carrying amount of upfront license fees to respective game developers.

(c) As of December 31, 2019 and 2020, the Group's certain game intellectual properties and licenses with net book amounts of RMB7,494,000 and RMB8,923,000 respectively were pledged to a bank to secure certain bank borrowings of the Group (Note 30).

18 Goodwill

	Goodwill *RMB'000*
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
Year ended December 31, 2020	
Opening net book amount	**566,902**
Impairment	**(493,680)**
Closing net book amount	**73,222**
At December 31, 2020	
Cost	**989,233**
Accumulated impairment provision	**(916,011)**
Net book amount	**73,222**

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.

Management considers 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 of December 31, 2020 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 of December 31,	
	2020	2019
Average revenue growth rate during the forecast period	**-5.34%**	12.74%
Earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") margin during the forecast period	**41.30%–59.47%**	72.30%–74.10%
Terminal growth rate	**3.00%**	3.00%
Pre-tax discount rate	**30.15%**	29.60%

i) Average revenue growth rate

The average revenue growth rate is estimated with reference to the industry growth forecast for the market in which Shanghai Huohun operates. When estimating the revenue growth rate during the forecast period, the management of the Company is of the view that the revenue growth would decrease substantially as compared to that as of December 31, 2019, which was mainly due to the fact that some new games of Shanghai Huohun are not able to be released as planned while the performance of certain existing games was below expectation.

ii) EBITDA margin

The EBITDA margin of the five years ranged between 41.30% and 59.47% (2019: 72.30%–74.10%) was determined by the management based on past performance, the current market conditions and its expectation for market development.

iii) Terminal growth rate

Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates of 3.00% as of December 31, 2019 and 2020.

iv) Pre-tax discount rate

The pre-tax discount rate reflects market assessments of the time value and the risks specific to the goodwill for which the future cash flow estimates have not been adjusted. With the assistance of a third-party independent valuer, management assessed that the pre-tax discount rate for the impairment assessment as of December 31, 2020 would be 30.15% which was slightly higher than 29.60% used as of December 31, 2019 because of the increase in company specific risk as a result of worse than expected performance against last year forecast, which impose additional uncertainty on the achievement of financial projection, net off by the impact from the drop in other market factors.

18 Goodwill (Continued)

The following table shows the sensitive analysis prepared by the management of the Company. Had the estimated key assumptions during the forecast period been changed, the goodwill impairment amount will reverse/(increase) as below:

Assumptions	Changes in assumptions	As of December 31, 2020 RMB'000	As of December 31, 2019 RMB'000
Revenue growth rate	Increase by 10%	**(11,904)**	36,035
	Decrease by 10%	**11,202**	(35,170)
EBITDA margin	Increase by 10%	**13,153**	67,782
	Decrease by 10%	**(13,154)**	(67,782)
Terminal growth rate	Increase by 10%	**503**	2,808
	Decrease by 10%	**(493)**	(2,745)
Pre-tax discount rate	Increase by 10%	**(14,424)**	(62,717)
	Decrease by 10%	**17,758**	78,199

Based on management's assessment on the recoverable amounts of the Shanghai Huohun CGU, the impairment loss of RMB493,680,000 on goodwill was charged to consolidated statement of comprehensive income under "Other losses, net" for the year ended December 31, 2020 (2019: RMB422,331,000) (Note 9).

19 Financial instruments by category

	As of December 31, 2020 RMB'000	As of December 31, 2019 RMB'000
Assets as per consolidated statements of financial position		
Financial assets at fair value through profit or loss *(Note 21)*	480,641	468,864
Loans and receivables at amortised cost		
— Trade receivables *(Note 22)*	1,149,331	1,005,256
— Cash and cash equivalents *(Note 25)*	735,567	532,746
— Other receivables (excluding prepayments)	309,163	158,109
— Restricted cash *(Note 26)*	52,042	—
— Amounts due from related parties *(Note 38(c)(i))*	1,657	8,523
	2,728,401	2,173,498

	As of December 31, 2020 RMB'000	As of December 31, 2019 RMB'000
Liabilities as per consolidated statements of financial position		
Convertible bonds classified as financial liabilities at fair value through profit or loss *(Note 31)*	206,308	—
Financial liabilities at amortised cost:		
— Borrowings *(Note 30)*	1,553,659	1,270,439
— Convertible bonds *(Note 31)*	367,874	—
— Trade payables *(Note 32)*	227,341	160,793
— Other payables and accruals (excluding payroll and welfare payables and other tax payables) *(Note 33)*	203,472	243,657
— Amounts due to related parties *(Note 38(c)(iii))*	14,734	21,159
	2,573,388	1,696,048

20 Investments accounted for using the equity method

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Associates *(a)*	**274,498**	316,888
Joint ventures *(b)*	**93,076**	89,820
	367,574	406,708

(a) Investments in associates

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
At the beginning of the year	**316,888**	207,836
Additions *(i)*	**61,000**	92,300
Disposal	**(229)**	(270)
Conversion from a subsidiary to an associate *(ii)*	**—**	16,010
Impairment *(iii)*	**(91,897)**	—
Share of results of the associates	**(10,133)**	476
Currency translation differences	**(1,131)**	536
At the end of the year	**274,498**	316,888

The Group directly hold solely ordinary shares of the associates. As of December 31, 2019 and 2020, the Group invested in 18 associates. The share of results 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.

20 Investments accounted for using the equity method (Continued)

(a) Investments in associates (Continued)

(i) The Group acquired certain associates and made additional investments in existing associates, with an aggregate amount of RMB92,300,000 and RMB61,000,000 during the years ended December 31, 2019 and 2020, 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 of December 31, 2019 and 2020.

Name	Place of incorporation	Registered capital	Percentage of ownership interest attributable to the Group December 31, 2019	2020	Principal activities	Carrying amount RMB'000 December 31, 2019	2020
Zhejiang Yiyou Internet Technology Co., Ltd.	Zhejiang	RMB15,502,377	10.00%	**19.00%**	Software business	34,357	**84,192**
Beijing Weibo Technology Development Co., Ltd.	Beijing	RMB204,000	10.72%	**10.72%**	Software business	69,957	**–**
Nanjing Chuangyi Qiaokang Equity Investment Partnership Enterprise (Limited Partnership)	Nanjing	RMB200,000,000	49.50%	**49.50%**	Financing	48,566	**57,825**
Anhui Sichuang Sports Development Co., Ltd.	Anhui	RMB6,250,000	22.00%	**22.00%**	Culture, sports and entertainment	40,248	**40,102**
JTEA INC.	Delaware	USD4,724	30.00%	**30.00%**	Software business	21,940	**–**

(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 recognised accordingly.

20 Investments accounted for using the equity method (Continued)

(a) Investments in associates (Continued)

(iii) Impairment

During the year ended December 31, 2020, the Group made an aggregate impairment provision of RMB91,897,000 against the carrying amounts of two associates, based on the results of impairment assessment performed on the carrying amount against its respective recoverable amount. The impairment loss mainly resulted from revisions of long-term financial outlook, the changes in the market environment of the affected associates and serious deterioration of operation arising from the negative impact of COVID-19 pandemic.

(b) Investments in joint ventures

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
At the beginning of the year	**89,820**	77,060
Additions	**5,000**	15,000
Share of results of the joint ventures	**(837)**	(2,475)
Currency translation differences	**(907)**	235
At the end of the year	**93,076**	89,820

Set out below are the joint ventures of the Group as of December 31, 2019 and 2020. 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, 2019	2020	Principal activities	Carrying amount RMB'000 December 31, 2019	2020
Dreamwalk Technologies Limited	Hong Kong	HKD13,952,000	30.00%	**30.00%**	Software business	14,077	**13,110**
Shenzhen iDreamSky Venture Investment Partnership (Limited Partnership)	Shenzhen	RMB104,000,000	50.00%	**50.00%**	Venture capital business	65,829	**64,593**
Shenzhen Mengzuofang Technology Co., Ltd.	Shenzhen	RMB1,000,000	—	**37.50%**	Software business	—	**5,445**
Tianjin Wenmeng Interactive Entertainment Co., Ltd.	Tianjin	RMB10,000,000	50.00%	**50.00%**	Performance brokerage agency	5,014	**5,028**
Tianjin Lewei Shidai Culture Development Co., Ltd.	Tianjin	RMB10,000,000	49.00%	**49.00%**	Film and television program planning	4,900	**4,900**

There were no contingent liabilities related to the Group's interest in the joint ventures as of December 31, 2019 and 2020.

21 Financial assets at fair value through profit or loss

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Included in non-current assets		
At the beginning of the year	**354,320**	267,506
Additions	**107,003**	75,398
Changes in fair value	**(21,935)**	2,673
Transfer from current *(a)*	**—**	47,297
Disposal *(a)*	**(58,489)**	(39,329)
Currency translation differences	**(6,130)**	775
At the end of the year	**374,769**	354,320
Included in current assets		
At the beginning of the year	**114,544**	87,547
Changes in fair value	**6,937**	71,999
Transfer to non-current *(a)*	**—**	(47,297)
Disposal	**(7,626)**	—
Currency translation differences	**(7,983)**	2,295
At the end of the year	**105,872**	114,544

The Group's financial assets at fair value through profit or loss 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, USA 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.

21 Financial assets at fair value through profit or loss (Continued)

(a) In October 2019, iDreamSky Technology (HK) Limited ("**iDreamSky Technology (HK)**") 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). As of December 31, 2019, the loan balance of RMB31,697,000 was borrowed from the aforesaid loan facility agreement, which was secured/pledged by the Group's investment in shares traded on the HKEX amount to RMB47,297,000.

In April 6, 2020, the pledged investment was liquidated by the financial institution due to an default event, the difference of i) the fair value of the pledged investment amounted to RMB51,973,000, and ii) the borrowings together with unpaid interests amounted to RMB32,685,000, i.e. RMB19,288,000 was recognised in "Other losses, net".

22 Trade receivables

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Third parties	**1,193,377**	1,011,326
Related parties *(Note 38)*	**53,923**	51,124
	1,247,300	1,062,450
Less: provision for impairment	**(97,969)**	(57,194)
	1,149,331	1,005,256

(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 is as follows:

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**461,593**	401,271
3 months to 1 year	**542,880**	505,947
1 to 2 years	**222,792**	119,011
2 to 3 years	**12,559**	11,153
Over 3 years	**7,476**	25,068
	1,247,300	1,062,450

22 Trade receivables (Continued)

(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, 2019 and 2020, the expected losses rate for trade receivables are determined according to provision matrix as follows:

	Year ended December 31, 2020			
	Third party distribution channels	**Advertising customers**	**Third-party payment channels and mobile carriers**	**Related parties**
Within 3 months	**1.71%**	**0.37%**	**1.17%**	**1.20%**
3 months to 1 year	**7.71%**	**1.87%**	**5.44%**	**1.69%**
1 to 2 years	**26.31%**	**8.33%**	**30.88%**	**N/A**
2 to 3 years	**63.75%**	**21.38%**	**67.32%**	**N/A**
Over 3 years	**100.00%**	**100.00%**	**100.00%**	**N/A**

	Year ended December 31, 2019			
	Third party distribution channels	Advertising customers	Third-party payment channels and mobile carriers	Related parties
Within 3 months	3.00%	1.00%	0.00%	0.00%
3 months to 1 year	5.00%	2.00%	0.00%	0.00%
1 to 2 years	8.00%	5.00%	0.00%	0.00%
2 to 3 years	50.00%	50.00%	0.00%	0.00%
Over 3 years	100.00%	100.00%	0.00%	0.00%

22 Trade receivables (Continued)

(b) (Continued)

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

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
At the beginning of the year	**57,194**	38,755
Provision for impairment	**99,885**	27,017
Written off during the year as uncollectible	**(59,110)**	(8,578)
At the end of the year	**97,969**	57,194

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,	
	2020	2019
	RMB'000	*RMB'000*
RMB	**1,080,171**	899,565
USD	**167,129**	162,885
	1,247,300	1,062,450

(d) As of December 31, 2019 and 2020, 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 of December 31, 2019 and 2020, trade receivables of RMB13,703,000 and RMB257,102,000 respectively were pledged to secure certain bank facilities granted to the Group (Note 30).

23 Contract assets

When the services rendered by the Group exceed the customers' payment, a contract asset is recognised. The Group has recognised the following revenue-related contract assets in connection with its performance obligation to develop a mobile game and provide respective operation services:

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Included in non-current assets		
Contract assets relating to a game development	**4,622**	11,158
Less: provision for impairment	**(3,430)**	(7,027)
	1,192	4,131
Included in current assets		
Contract assets relating to a game development	**41,897**	36,347
Less: provision for impairment	**(40,917)**	(34,225)
	980	2,122

Movements of provision in contract assets as follows:

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
At the beginning of the year	**41,252**	1,487
Provision for impairment *(a)*	**3,095**	39,765
At the end of the year	**44,347**	41,252

(a) In 2019 and 2020, the actual gross revenue of the game is extremely less than previously predicted, the Group's management has re-predicted the gross revenue of the following years and recognised contract assets impairment according to actual and predicted loss.

24 Prepayments and other receivables

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Included in non-current assets		
Non-current portion of loans to third parties *(d)*	**117,575**	—
Non-current portion of loans to employees *(a)*	**2,687**	3,207
Prepayment for property *(e)*	**—**	41,824
Prepayment for intangible assets	**—**	34,015
Less: provision for impairment *(f)*	**(1,600)**	(32)
	118,662	79,014
Included in current assets		
Prepaid revenue sharing to content providers *(c)*	**1,119,504**	806,489
Current portion of loans to third parties *(d)*	**156,488**	104,630
Prepaid advertising expenses *(b)*	**129,595**	276,838
Recoverable value-added tax	**41,035**	40,136
Prepayment to related parties *(Note 38(c)(v))*	**11,518**	981
Rental and other deposits	**6,995**	5,797
Current portion of loans to employees *(a)*	**5,562**	4,989
Others	**50,937**	68,335
Less: provision for impairment *(f)*	**(14,813)**	(22,314)
	1,506,821	1,285,881

As of December 31, 2019 and 2020, 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 recognised 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 recognised as "cost of revenues" when relevant revenue is recognised.

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 except that two loans were interest-bearing fixed rate ranging from 4.35% to 10% per annum and secured by shares of the debtors' subsidiary. In the opinion of the directors, except for an interest-bearing loan amounting to RMB90,000,000 none of the loans to any single third parties is material to the Group during the year ended December 31, 2019 and 2020.

(e) The prepayment for property as of December 31, 2019 represents the prepayment for land use rights.

(f) 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,	
	2020	2019
	RMB'000	*RMB'000*
At the beginning of the year	**14,370**	7,967
Provision for impairment	**70,102**	105,176
Written off during the year	**(74,599)**	(98,773)
At the end of the year	**9,873**	14,370

The impairment provision mainly represents impairment of prepaid revenue sharing to game developers, which is primarily related to certain games licensed by the Group which did not operate well or align with the Group's future strategy. 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 management estimates 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, 2020, an impairment provision of RMB70,102,000 was provided for certain games of the Group, among which 14 games would be expired before May 31, 2021 while the Group is yet to reach extension agreements with game developers in 2020, none of them was considered individually material to the Group.

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 become expired in January 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.

(g) As of December 31, 2019 and 2020, the carrying amount of other receivables were primarily denominated in RMB and USD and approximated their fair value at each of the reporting dates.

25 Cash and bank balances

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Cash at bank and on hand	**691,185**	531,858
Due from other financial institutions	**44,382**	888
	735,567	532,746

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
RMB	**155,065**	225,735
USD	**116,442**	298,226
HKD	**442,615**	8,690
Others	**21,445**	95
	735,567	532,746

26 Restricted cash

Restricted cash are pledged in the bank accounts as securities, underwriting fee and upfront fee payable for bank borrowings (Note 30).

27 Share capital and share premium and treasury shares

	Number of shares	Nominal value of shares	Equivalent nominal value of shares	Share premium	Total	Treasury shares	Group total
		USD'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Authorised:							
As of December 31, 2019 and 2020	5,000,000,000	500					
Issued and fully paid:							
As of December 31, 2018	1,196,170,660	12	75	2,542,476	2,542,551	—	2,542,551
Shares vested for share incentive scheme *(a, Note 29(c))*	13,776,841	—	—	—	—	—	—
As of December 31, 2019	1,209,947,501	12	75	2,542,476	2,542,551	—	2,542,551
Shares vested for share incentive scheme *(a, Note 29(c))*	20,441,306	—	—	—	—	—	—
Acquisition of treasury shares *(b)*	—	—	—	—	—	(8,585)	(8,585)
As of December 31, 2020	1,230,388,807	12	75	2,542,476	2,542,551	(8,585)	2,533,966

(a) 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 RSUs 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 and 20,441,306 shares vested during the years ended December 31, 2019 and 2020, the remaining treasury shares of the Group is 39,330,183 as of December 31, 2020.

(b) During the year ended December 31, 2020, the Group bought back a total of 2,600,000 ordinary shares of the Company that listed on the HKEX. The total amount paid to buy back these ordinary shares was HKD10,201,000 (equivalent to RMB8,585,000). All these ordinary shares were classified as treasury shares as of December 31, 2020.

28 Reserves

	Notes	Capital reserves RMB'000	Statutory reserves RMB'000	Translation differences RMB'000	Other reserves RMB'000	Total reserves RMB'000
As of January 1, 2019		16,100	32,749	33,236	172,467	254,552
Share-based compensation expenses		—	—	—	100,301	100,301
Profit appropriation to statutory reserves	(a)	—	46,778	—	—	46,778
Transaction with non-controlling interests	(b)	—	—	—	(22,266)	(22,266)
Currency translation differences		—	—	289	—	289
As of December 31, 2019		16,100	79,527	33,525	250,502	379,654
Share-based compensation expenses		—	—	—	89,460	89,460
Equity component of convertible bonds issued	31(b)	—	—	—	262,620	262,620
Profit appropriation to statutory reserves	(a)	—	11,161	—	—	11,161
Currency translation differences		—	—	(11,212)	—	(11,212)
As of December 31, 2020		16,100	90,688	22,313	602,582	731,683

(a) Statutory reserves

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 capitalised 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.

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.

28 Reserves (Continued)

(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 recognised within equity	(22,266)

29 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.

29 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 recognised into the statement of comprehensive income immediately in 2017.

29 Share-based payments (Continued)

(b) 2017 Restricted Shares Scheme (Continued)

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 recognise this share-based compensation expenses immediately as no vesting conditions attached.

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 RSUs Holding Entities for employee incentive plan purpose. On July 1, 2018, RSUs 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.

29 Share-based payments (Continued)

(c) 2018 Share Incentive Plan (Continued)

During the year ended December 31, 2019, RSUs 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 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.

During the year ended December 31, 2020, RSUs Holding Entities granted aggregate of 18,566,947 shares to employees, among which 3,647,147 shares are without vesting conditions. Out of the remaining 14,919,800 shares, the vesting period for 112,779 shares is 1 year and the vesting schedule is 100% after 12 months from original grant date; the vesting period for 24,000 shares is 2 years, and the vesting schedule is 50% after 12 months from original grant date and the remaining 50% will vest after 24 months from original grant date; the vesting period for 8,373,322 shares is 3 years, and the vesting schedule is 1/3 after 12 months from original grant date and remaining 2/3 will vest in 2 equal installments over the next 2 years; the vesting period for 6,409,699 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 RMB89,460,000 share-based compensation expense accordingly during the year ended December 31, 2020.

Movement in the number of awarded shares for the years ended December 31, 2019 and 2020 is as follows:

	Year ended December 31,	
	2020	2019
At the beginning of the year	**41,737,885**	39,483,710
Granted	**18,566,947**	16,492,066
Vested	**(20,441,306)**	(13,776,841)
Forfeit	**(21,113,738)**	(461,050)
At the end of the year	**18,749,788**	41,737,885

30 Borrowings

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Non-current		
Secured bank borrowings *(a)*	—	162,451
Unsecured bank borrowings	—	60,000
Secured other borrowings *(Note 21(a))*	—	31,697
	—	254,148
Current		
Current portion of long-term bank borrowings, secured *(a)*	**152,068**	19,354
Current portion of long-term bank borrowings, unsecured	—	100,000
Secured bank borrowings *(a)*	**421,700**	280,000
Secured other borrowings *(b)*	**44,026**	—
Secured long-term bank borrowings reclassified to current bank borrowings *(a)*	**935,865**	616,937
	1,553,659	1,016,291
	1,553,659	1,270,439

As of December 31, 2020, the Group's long-term bank borrowings bear weighted average interest rate of 4.54% (2019: 3.86%) per annum, and the short-term bank borrowings bear weighted average interest rate of 5.41% (2019: 5.05%) per annum.

30 Borrowings (Continued)

(a) The pledge and guarantee related to bank borrowings is as follows:

	Bank borrowings as of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Secured by (1) the pledge of certain trade receivables of a subsidiary of the Company (2) the deposit of EUR1,692,000 (3) the shares of several oversea subsidiaries of the Company (4) the shares of a subsidiary of the Company *(i)*	**725,482**	—
Guaranteed by the Company, and/or certain subsidiaries of the Company	**501,700**	200,000
Secured by the pledge of assets of the Group (including trade receivables, intellectual properties and licenses or term deposits), and/or guaranteed by the Company and/or its subsidiaries	**232,000**	786,764
Guaranteed by a subsidiary of the Company and/or Mr. Chen Xiangyu and his spouse	**50,000**	—
Secured by the pledge of the land and buildings of a subsidiary of the Company and guaranteed by a subsidiary of the Company and an independent third party	**451**	1,805
Secured by the shares of a subsidiary of the Company	**—**	90,173
	1,509,633	1,078,742

(i) In March 2020, the Company entered into a three-year loan facility agreement with a bank, where a loan facility up to EUR92,000,000 (equivalent to RMB738,300,000) was made available to the Company. As of December 31, 2020, the loan balance of RMB725,482,000 net of transaction cost was borrowed from aforesaid loan facility agreement. Restricted cash of RMB13,585,000 is pledged deposit for this aforesaid loan.

(b) In July and August 2020, a subsidiary of the Company enter into a half-year loan facility agreement with a financial institution, where a loan facility up to RMB13,139,000 and RMB887,000 respectively was made available to that subsidiary. As of December 31, 2020, the loan balance of RMB13,139,000 and RMB887,000 respectively was borrowed from aforesaid loan facility agreements. The loans carried a fixed rate of 6.00% per annum, and was guaranteed by Mr. Chen Xiangyu and his spouse.

30 Borrowings (Continued)

(b) (Continued)

In August 2020, a subsidiary of the Company enter into a one-year loan facility agreement with a financial institution, where a loan facility up to RMB30,000,000 was made available to that subsidiary. As of December 31, 2020, the loan balance of RMB30,000,000 was borrowed from aforesaid loan facility agreement. The loan carried a fixed rate of 4.96% per annum, and was secured by the pledge of certain game intellectual properties and licenses of the subsidiary and guaranteed by Shenzhen Hi Tech Investment and Financing Guarantee Co., Ltd. and Mr. Chen Xiangyu and his spouse.

(c) The Group reclassified RMB791,865,000 long-term bank borrowings to current liabilities as the Group breached certain financial ratio requirements in the loan agreements as of December 31, 2020 (December 31, 2019: RMB616,937,000). The long-term bank borrowings of RMB144,000,000 were also reclassified to current liabilities due to the cross-default terms. These bank borrowings have not became due and payable as of December 31, 2020 and up to the date of this report, as the respective bank has not issued notice to the Group to require repayment of these bank borrowings.

(d) The maturity of borrowings is as follows:

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**1,553,659**	1,016,291
Between 1 and 2 years	**—**	110,148
Between 2 and 5 years	**—**	144,000
	1,553,659	1,270,439

(e) The carrying amount of the Group's borrowings is denominated in the following currencies:

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
RMB	**828,177**	711,977
EUR	**725,482**	526,765
USD	**—**	31,697
	1,553,659	1,270,439

31 Convertible bonds

(a) Convertible bonds classified as financial liabilities at fair value through profit or loss

On January 3, 2020 ("**Issue Date**"), the Company issued convertible bonds with face value of USD30,000,000 to Poly Platinum Enterprises Limited ("**Poly**") ("**2023 Convertible Bonds**"). The cash proceeds related to the issuance of RMB204,552,000 were received by the Group on January 6, 2020.

The 2023 Convertible Bonds were recognised and measured as financial liabilities at fair value through profit or loss. The fair value as of the Issue Date was of RMB204,552,000. During the year, the loss from changes in fair value of 2023 Convertible Bonds was RMB20,879,000. As of December 31, 2020, the fair value of 2023 Convertible Bonds is RMB206,308,000, which is determined by using valuation methodology with the use of unobservable inputs (level 3) (Note 4(i)).

The convertible bonds shall be matured on January 3, 2023 ("**Maturity Date**"). If agreed by the Company and Poly, the Maturity Date could be extended to five years from the Issue Date. The 2023 Convertible Bonds bear interest on the outstanding principal amount from and including the Issue Date at the rate of 2.5% per annum, payable semi-annually in arrears.

Pursuant to the subscription agreement, the 2023 Convertible Bonds, at the option of the holder, will be convertible (unless previously redeemed, converted or cancelled) on or after the Issue Date up to the close of business on the date falling ten days prior to the maturity date (the "**Conversion Period**") into fully paid ordinary shares with a par value of USD0.0001 each of the Company at an initial conversion price of HK$4.69 per share. The conversion price is subject to adjustment in the circumstances described under certain terms and conditions of the subscription agreement. No 2023 Convertible Bonds were converted into ordinary shares of the Company during the year.

On giving notice in accordance with the respective terms and conditions of the subscription agreement, at any time after 18 months from the Issue Date, and prior to the Maturity Date, the convertible bonds due may be redeemed up to 50% of the outstanding principal amount of the convertible bonds at the option of the Company.

The convertible bonds may be redeemed at the option of the Company or the holders pursuant to the respective terms and conditions under the subscription agreement. The convertible bonds may be redeemed at the option of the Company in whole but not in part for taxation reasons as described in the subscription agreement. The convertible bonds may be redeemed at the option of the holder following the occurrence of a relevant event described in the subscription agreement to request the Company to redeem all or some of the convertible bonds upon giving notice in accordance with the subscription agreement.

31 Convertible bonds (Continued)

(a) Convertible bonds classified as financial liabilities at fair value through profit or loss (Continued)

Movement of the 2023 Convertible Bonds is set out as follows:

	As of December 31, 2020 RMB'000
Opening balance	—
Issuance of convertible bonds	204,552
Fair value loss	20,879
Coupon interests paid	(4,894)
Currency translation differences	(14,229)
Closing balance	206,308

(b) Convertible bonds

On October 6, 2020, the Group entered into a subscription agreement for HKD-settled convertible bonds in an aggregate principal amount of HKD775,000,000 (equivalent to approximately RMB673,312,000) due October 16, 2025 (the "**2025 Convertible Bonds**"), with an initial conversion price of HKD4.99 per share. The 2025 Convertible Bonds bear interest rate of 3.125% per annum, payable semi-annually, with maturity of 5 years from the issuance date and can be converted into shares of the Company at the holder's option at any time on or after the date which is 41 days after the issuance date up to the close of business on the date falling seven days prior to the maturity date at an initial conversion price of HK$4.99 per share. On October 16, 2020, the 2025 Convertible Bonds were issued.

The 2025 Convertible Bonds was recognised as liability component and equity component as follows:

- The initial value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond of the Group. Embedded financial derivatives, comprised the fair value of the option of the holders of the 2025 Convertible Bonds to require the Company to redeem the 2025 Convertible Bonds; and the fair value of the option of the Company to redeem the 2025 Convertible Bonds. These embedded early redemption options are closely related to the host debt as the redemption amount is principal amount together with accrued but unpaid interest, therefore they are not able to be accounted for separately. The initial value of the liability component and the fair value of the imbedded redemption options were recognised as a single liability component, and it subsequently carried at amortised cost.

- Equity component, being the conversion option of the 2025 Convertible Bonds, initially recognised at the residual amount after deducting the value of the aforesaid single liability component from the net proceeds at the initial recognition.

31 Convertible bonds (Continued)

(b) Convertible bonds (Continued)

Movement of the 2025 Convertible Bonds is set out as follows:

	Liability *RMB'000*	Equity *RMB'000*	Total *RMB'000*
As of January 1, 2020	—	—	—
Carrying amount on initial recognition	366,687	271,841	638,528
Interest expenses *(Note 11)*	13,240	—	13,240
Currency translation differences	(12,053)	(9,221)	(21,274)
As of December 31, 2020	367,874	262,620	630,494

Interest expense are calculated by applying the effective interest rate of 16.73% per annum to the liability component.

The 2025 Convertible Bonds are guaranteed by the Company.

As at December 31, 2020, there has been no conversion of the 2025 Convertible Bonds.

32 Trade payables

	As of December 31,	
	2020 ***RMB'000***	2019 *RMB'000*
Third parties	**215,267**	143,451
Related parties *(Note 38(c)(iv))*	**12,074**	17,342
	227,341	160,793

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 and so on. The credit terms of trade payables granted to the Group are usually 3 months.

32 Trade payables (Continued)

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

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**109,436**	79,208
3 months to 1 year	**107,788**	51,464
1 to 2 years	**998**	21,784
2 to 5 years	**9,119**	8,337
	227,341	160,793

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

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
RMB	**220,550**	153,031
USD	**6,791**	7,762
	227,341	160,793

(c) As of December 31, 2019 and 2020, the fair value of trade payables approximated to their carrying amount.

33 Other payables and accruals

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Other payables to related parties *(Note 38(c)(vi))*	**146,010**	207,400
Payroll and welfare payables	**47,308**	45,436
Other tax payables	**30,667**	27,952
Underwriting fee and upfront fee payable	**18,458**	—
Professional service fee payable	**4,800**	16,912
Advance from business partners	**2,154**	12,543
Interest Payable	**327**	336
Others	**31,723**	6,466
	281,447	317,045

As of December 31, 2019 and 2020, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

34 Contract costs and liabilities

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Contract costs:		
Costs to obtain contracts for game publishing	**194,462**	151,967
Contract liabilities:		
Game publishing	**321,752**	265,459

34 Contract costs and liabilities (Continued)

(a) Significant changes in contract costs and liabilities

Contract costs are mainly related to contract acquisition costs, which primarily consists of unamortised commissions charged by the Platforms and game developers.

In adopting IFRS 15, the Group recognises 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 capitalised as contract acquisition costs and amortised over the Player Relationship Period, which is consistent with the pattern of recognition of the associated revenue. The Group had no impairment losses recognised on any contract costs.

Contract liabilities primarily consist of the unamortised 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) Revenues recognised in relation to contract liabilities

The following table shows the amount of revenues recognised in the consolidated statement of comprehensive income for the respective years relating to contract liabilities brought forward:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Revenues recognised that was included in the contract liabilities balance at the beginning of the year		
Game publishing	**265,459**	208,776

35 Deferred income tax

(a) Deferred tax assets

The analysis of deferred income tax assets are as follows:

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
The balance comprises temporary differences attributable to:		
Contract liabilities	**48,263**	39,819
Impairment provisions	**29,218**	9,591
Tax losses	**12,275**	10,717
Intangible assets amortisation	**10,935**	8,612
Fair value losses on financial assets at fair value through profit or loss	**5,132**	3,762
Accrued expenses	**1,591**	1,622
Deferred government grants	**278**	155
Total deferred tax assets	**107,692**	74,278
Set-off of deferred tax liabilities	**(29,121)**	(22,795)
Deferred tax assets — net	**78,571**	51,483

35 Deferred income tax (Continued)

(a) Deferred tax assets (Continued)

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 RMB'000	Contract liabilities RMB'000	Intangible assets amortisation RMB'000	Impairment provisions RMB'000	Fair value losses on financial assets at fair value through profit or loss RMB'000	Accrued expenses RMB'000	Tax losses RMB'000	Total RMB'000
At January 1, 2019	288	31,316	6,078	8,236	2,237	1,480	4,883	54,518
Recognised 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
Recognised in profit or loss	123	8,444	2,323	19,627	1,370	(31)	1,558	33,414
At December 31, 2020	278	48,263	10,935	29,218	5,132	1,591	12,275	107,692

(b) Deferred tax liabilities

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
The balance comprises temporary differences attributable to:		
Contract costs	**29,121**	22,795
Set-off of deferred tax assets	**(29,121)**	(22,795)
Deferred tax liabilities — net	**—**	—

35 Deferred income tax (Continued)

(b) Deferred tax liabilities (Continued)

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, 2019	18,022
Recognised in profit or loss	4,773
At December 31, 2019	22,795
Recognised in profit or loss	6,326
At December 31, 2020	29,121

(c) Deferred income tax assets are recognised for tax losses carrying forwards and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable. As of December 31, 2019 and 2020, the Group did not recognise deferred income tax assets in respect of losses of approximately RMB102,048,000 and RMB152,774,000 respectively. The tax losses as of December 31, 2020 amounting to RMB91,968,000 can be carried forward indefinitely, and the remaining amount of RMB60,806,000 will expire from year 2021 to 2025.

36 Cash generated from operations

(a) Reconciliation of net (loss)/profit to cash inflow from operating activities:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(564,996)**	360,397
Adjustments for:		
— Depreciation of property, plant and equipment *(Note 14)*	**11,105**	9,295
— Depreciation of investment properties *(Note 16)*	**773**	645
— Depreciation of right-of-use assets *(Note 15)*	**21,067**	23,430
— Amortisation of intangible assets *(Note 17)*	**217,947**	117,438
— Losses on disposals of property, plant and equipment *(Note 9)*	**488**	225
— Losses on disposals of intangible assets *(Note 9)*	**2,358**	—
— Gains on disposal of investments in an associate *(Note 9)*	**(138)**	—
— Impairment provisions for financial assets, contract assets and prepayments *(Note 7)*	**171,906**	175,192
— Impairment provisions for intangible assets *(Note 17)*	**69,843**	20,117
— Impairment provisions for investments in associates	**91,897**	—
— Share-based compensation expenses	**89,460**	100,301
— Share of results of investments accounted for using the equity method *(Note 20)*	**10,970**	1,999
— Gains on disposal of subsidiaries *(Note 9)*	**—**	(24,567)
— Losses on disposal of financial assets *(Note 9)*	**20,933**	1,429
— Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss *(Note 31)*	**20,879**	—
— Goodwill impairment *(Note 9)*	**493,680**	422,331
— Gains 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)	**(22)**	(388)
— Finance costs	**97,918**	46,889
— Exchange loss, net	**49,512**	—
— Changes in fair value of financial assets at fair value through profit or loss *(Note 21)*	**14,998**	(74,672)
— Income tax expense *(Note 12)*	**(9,482)**	30,188
Changes in working capital:		
— Increase in receivables	**(534,087)**	(529,138)
— Increase/(decrease) in payables	**126,496**	(19,483)
— Changes in contract costs	**(42,495)**	(32,143)
— Changes in contract liabilities	**56,293**	56,683
Cash generated from operations	**417,303**	391,257

36 Cash generated from operations (Continued)

(a) Reconciliation of net (loss)/profit to cash inflow from operating activities: (Continued)

In the consolidated statement of cash flows, proceeds from sale of property, plant and equipment and intangible assets comprise:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Net book amount *(Note 14)*	**1,038**	330
Losses on disposal of property, plant and equipment *(Note 9)*	**(488)**	(225)
Proceeds from disposal of property, plant and equipment	**550**	105
Net book amount *(Note 17)*	**12,146**	—
Loss on disposal of intangible assets *(Note 9)*	**(2,358)**	—
Proceeds from disposal of intangible assets	**5,660**	—
Receivables from disposal of intangible assets	**4,128**	—

(b) **Net debt reconciliation**

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Cash and cash equivalents	**735,567**	532,746
Restricted cash	**52,042**	—
Convertible bonds	**(367,874)**	—
Convertible bonds classified as financial liabilities at fair value through profit or loss	**(206,308)**	—
Borrowings — repayable within 1 year	**(1,553,659)**	(1,016,291)
Borrowings — repayable after 1 year	**—**	(254,148)
Lease liabilities	**(27,032)**	(48,925)
Amounts due to related parties	**(14,734)**	(21,159)
Interest payable	**(327)**	(336)
Net debt	**(1,382,325)**	(808,113)

36 Cash generated from operations (Continued)

(b) Net debt reconciliation (Continued)

	Cash and cash equivalents RMB'000	Restricted Cash RMB'000	Convertible bonds RMB'000	Convertible bonds classified as financial liabilities at fair value through profit or loss RMB'000	Borrowings-repayable within 1 year RMB'000	Borrowings-repayable after 1 year RMB'000	Lease liabilities RMB'000	Amounts due to related parties RMB'000	Interest payable RMB'000	Total RMB'000
Net debt as of January 1, 2019	1,121,641	—	—	—	(984,357)	(129,805)	(45,737)	(21,159)	—	(59,417)
Cash flows										
— Net cash flows	(599,851)	—	—	—	(491,696)	333,264	20,659	—	—	(737,624)
— Interest paid	—	—	—	—	—	—	—	—	46,888	46,888
Non-cash movements										
— Acquisition — leases	—	—	—	—	—	—	(23,847)	—	—	(23,847)
— Exchange impacts	10,956	—	—	—	—	2,155	—	—	—	13,111
— Reclassification	—	—	—	—	459,762	(459,762)	—	—	—	—
— Other non-cash movements	—	—	—	—	—	—	—	—	(47,224)	(47,224)
Net debt as of December 31, 2019	532,746	—	—	—	(1,016,291)	(254,148)	(48,925)	(21,159)	(336)	(808,113)
Net debt as of Juanary1, 2020	532,746	—	—	—	(1,016,291)	(254,148)	(48,925)	(21,159)	(336)	(808,113)
Cash flows										
— Net cash flows	230,909	52,042	(638,528)	(204,552)	(185,726)	(58,806)	22,043	6,425	—	(776,193)
— Interest paid	—	—	—	4,894	—	—	—	—	84,685	89,579
Non-cash movements										
— Convertible bonds-equity component	—	—	262,620	—	—	—	—	—	—	262,620
— Interest expense	—	—	(13,240)	—	—	—	—	—	—	(13,240)
— Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss	—	—	—	(20,879)	—	—	—	—	—	(20,879)
— Exchange impacts	(28,088)	—	21,274	14,229	48,104	(86,792)	—	—	—	(31,273)
— Reclassification	—	—	—	—	(399,746)	399,746	—	—	—	—
— Other non-cash movements	—	—	—	—	—	—	(150)	—	(84,676)	(84,826)
Net debt as of December 31, 2020	735,567	52,042	(367,874)	(206,308)	(1,553,659)	—	(27,032)	(14,734)	(327)	(1,382,325)

37 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,	
	2020	2019
	RMB'000	*RMB'000*
Intangible assets	**321,731**	318,867
Construction in progress	**189,970**	—
	511,701	318,867

(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.

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Minimum lease payments receivable on leases of investment properties are as follows:		
Within 1 year	**1,326**	987
Later than 1 year and no later than 5 years	**3,032**	3,287
	4,358	4,274

38 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
Shenzhen Tencent Computer Systems Company Limited	Related party of a shareholder
Tencent Technology (Shenzhen) Company Limited	Related party of a shareholder
Tencent Cloud Computing (Beijing) Company Limited	Related party of a shareholder
Tencent Digital (Shenzhen) Co., Ltd.	Related party of a shareholder
Tencent Technology (Shanghai) Company Limited	Related party of a shareholder
Chongqing Tencent Information Technology Co., Ltd.	Related party of a shareholder
Shanghai Tencent Penguin Film Culture Communication Co., Ltd.	Related party of a shareholder
Hainan Tencent Network Information Technology Co., Ltd.	Related party of a shareholder
Beijing Sougou Information Service Co., Ltd.	Related party of a shareholder
Guangzhou Kugou Computer Technology Co., Ltd.	Related party of a shareholder
Tenpay Payment Technology Co., Ltd.	Related party of a shareholder
iDreamSky Technology Limited	Shareholder of the Company
Tianjin Lewei Shidai Culture Development Co., Ltd.	Joint venture of the Group
Shenzhen Mengzuofang Technology Co., Ltd.	Joint venture of the Group
Hengqin Chuangmeng Qida Equity Investment Enterprise (Limited Partnership)	Associate of the Group
Hangzhou Crossingstar Culture Creativity Co., Ltd.	Associate of the Group
Zhejiang Yiyou Internet Technology Co., Ltd.	Associate of the Group
Guangzhou Tizi 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
Guangzhou Topcomm Media Advertising Co., Ltd.	Entity invested by a director of the Group
Mr. Jeffrey Lyndon Ko	A director of the Group

38 Significant related party transactions (Continued)

(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.

(i) Provision of services

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Related party of a shareholder	**59,279**	52,690
Entity invested by a director of the Group	**—**	35,683
	59,279	88,373

(ii) IP cooperation

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Related party of a shareholder	**7,282**	—

(iii) Purchases of services

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Related parties of a shareholder	**26,115**	34,819
Associate of the Group	**—**	2,319
	26,115	37,138

38 Significant related party transactions (Continued)

(b) Significant transactions with related parties (Continued)

(iv) Revenue share to content providers

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Associate of the Group	**55,630**	67,342

(v) Loans provided to related parties

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Loans to related parties:		
Associate of the Group	**10,000**	50
Joint venture of the Group	**504**	—
A director of the Group	**258**	352
	10,762	402
Repayment received from related parties:		
Associate of the Group	**10,000**	—
Shareholder of the Company	**—**	32,516
	10,000	32,516

(vi) Loan from a related party

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Repayment to a related party:		
Associate of the Group	**6,425**	—

38 Significant related party transactions (Continued)

(c) Year end balances with related parties

(i) Amounts due from related parties

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Non-controlling shareholder of a subsidiary	**—**	8,000
A director of the Group	**1,104**	901
Joint venture of the Group	**504**	71
Associate of the Group	**70**	—
	1,678	8,972
Less: provision for impairment *(Note 3.1)*	**(21)**	(449)
	1,657	8,523

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,	
	2020	2019
	RMB'000	*RMB'000*
Related parties of a shareholder	**53,923**	23,735
Associate of the Group	**—**	27,389
	53,923	51,124

(iii) Amounts due to related parties

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Associates of the Group	**14,734**	21,159

The above amount due to related parties were unsecured, interest-free and repayable on demand.

38 Significant related party transactions (Continued)

(c) Year end balances with related parties (Continued)

(iv) Trade payables due to related parties

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Related parties of a shareholder	**10,711**	3,254
Associate of the Group	**1,363**	14,088
	12,074	17,342

(v) Prepayments to related parties

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Associates of the Group	**11,498**	943
Related party of a shareholder	**20**	38
	11,518	981

(vi) Other payables due to related parties

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Non-controlling shareholders of a subsidiary*	**135,850**	196,500
Associates of the Group	**5,000**	6,000
Joint venture of the Group	**4,900**	4,900
Related party of a shareholder	**260**	—
	146,010	207,400

* These balances are the unpaid consideration to the sellers for the acquisition of Shanghai Huohun.

38 Significant related party transactions (Continued)

(d) Key management personnel compensations

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**5,053**	3,942
Pension costs-defined contribution plan, other social security costs, housing benefits, and other employee benefits	**110**	214
	5,163	4,156

39 Contingencies

The Group did not have any material contingent liabilities as of December 31, 2019 and 2020.

40 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, 2019 and 2020.

(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.

40 Benefits and interests of directors (Continued)

(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, 2019 and 2020.

(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, 2019 and 2020.

(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, 2019 and 2020, except for the transactions disclosed in Note 38.

41 Subsequent event

There was no material subsequent events undertaken by the Group after December 31, 2020.

42 Financial position and reserve movement of the Company

(a) Financial position of the Company

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Investments in subsidiaries	**1,279,856**	1,279,856
Investments accounted for using the equity method	**1,534**	4,930
Financial assets at fair value through profit or loss	**101,006**	—
Intangible assets	**186,390**	77,952
	1,568,786	1,362,738
Current assets		
Amounts due from subsidiaries	**1,690,716**	888,614
Amounts due from related parties	**130**	—
Prepayments and other receivables	**134,070**	26,085
Restricted cash	**32,042**	—
Cash and cash equivalents	**568,951**	292,684
	2,425,909	1,207,383
Total assets	**3,994,695**	2,570,121
EQUITY		
Equity attributable to owners of the company		
Share capital and share premium and treasury shares	**2,533,966**	2,542,551
Other reserves	**248,052**	64,555
Accumulated losses	**(150,821)**	(48,746)
Total equity	**2,631,197**	2,558,360
LIABILITIES		
Non-current liabilities		
Convertible bonds classified as financial liabilities at fair value through profit or loss	**206,308**	—
Convertible bonds	**367,874**	—
	574,182	—
Current liabilities		
Borrowings	**725,482**	—
Amounts due to subsidiaries	**45,158**	—
Other payables and accruals	**18,676**	11,761
	789,316	11,761
Total liabilities	**1,363,498**	11,761
Total equity and liabilities	**3,994,695**	2,570,121

The financial position of the Company was approved by the Board of Directors on March 25, 2021 and was signed on its behalf:

Chen Xiangyu	Guan Song
Director	*Director*

42 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, 2020	64,555	(48,746)
Losses for the year	—	(102,075)
Equity component of convertible bonds issued	262,620	—
Currency translation differences	(79,123)	—
At December 31, 2020	248,052	(150,821)

43 Subsidiaries and controlled structured entities

The following is a list of principal subsidiaries of the Company as of December 31, 2020:

Company Name	Place of establishment and nature of legal entity	Particulars of issued/ registered capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
(a) Directly owned				
iDreamSky Holdings (HK)	Hong Kong	HKD1	100%	Investment holding/Hong Kong
Dreambeyond Holdings Limited	Cayman	USD50,000	100%	Investment holding/Cayman
(b) Indirectly owned				
Qianhai iDream	The PRC, limited liability company	USD100,000,000	100%	Internet and software technology development and service/ The PRC
Chuangyi Shikong	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
Shenzhen Ledou Gaming Co., Ltd.	The PRC, limited liability company	RMB10,000,000	100%	Internet and software technology development and service/ The PRC

43 Subsidiaries and controlled structured entities (Continued)

Company Name	Place of establishment and nature of legal entity	Particulars of issued/ registered capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
(b) Indirectly owned (Continued)				
Zhuhai Hengqin Hunmeng Investment Enterprise LLP	The PRC, limited liability company	RMB100,000,000	100%	Financing/The PRC
Shanghai Huohun	The PRC, limited liability company	RMB10,000,000	51%	Internet and software technology development and service/ The PRC
Shanghai Shengting	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
Changsha Mengju Legu Technology Co., Ltd.	The PRC, limited liability company	RMB1,000,000	69%	Internet and software technology development and service/ The PRC
Nanjing iDream Legu Technology Co., Ltd.	The PRC, limited liability company	RMB10,000,000	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)	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 Creative Limited	Hong Kong	HKD1	100%	Investment holding/Hong Kong
DSKY Venture (Korea)	Korea	WON5,373,040,000	100%	Investment holding/Korea

43 Subsidiaries and controlled structured entities (Continued)

Company Name	Place of establishment and nature of legal entity	Particulars of issued/ registered capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
(c) 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	The PRC, limited liability company	RMB10,000,000	100%	Internet and software technology development and service/ The PRC
Horgos Ledou Technology Co., Ltd.	The PRC, limited liability company	RMB1,000,000	100%	Internet and software technology development and service/ The PRC
Shenzhen Chuangmeng Huyu Technology Co., Ltd.	The PRC, limited liability company	RMB1,000,000	51%	Culture, sports and entertainment/ 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
Shenzhen iDreamSky Land Entertainment Co., Ltd.	The PRC, limited liability company	RMB25,023,567	63%	Culture, sports and entertainment/ The PRC
Nanjing Mengyu Technology Co., Ltd.	The PRC, limited liability company	RMB10,000,000	63%	Internet and software technology development and service/ The PRC
Hunan Langshan iDreamSky Cultural Communication Co., Ltd.	The PRC, limited liability company	RMB2,000,000	100%	Culture, sports and entertainment/ The PRC

43 Subsidiaries and controlled structured entities (Continued)

Company Name	Place of establishment and nature of legal entity	Particulars of issued/ registered capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
(c) Controlled by the Company pursuant to the Contractual Arrangements (Continued)				
Shenzhen Mengyutongchuang Technology Enterprise (Limited Partnership)	The PRC, limited liability company	RMB1,000,000	100%	Internet and software technology development and service/ The PRC
Guangzhou Mengyu Technology Co., Ltd.	The PRC, limited liability company	RMB3,000,000	32%	Culture, sports and entertainment/ The PRC
Guangzhou Chuangying Entertainment Enterprise Management Co., Ltd.	The PRC, limited liability company	RMB5,000,000	63%	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 summarised financial information of the relevant subsidiaries is presented separately.

Definitions

In this annual 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
"Chuangyi Shikong"	Qianhai Chuangyi Shikong Technology (Shenzhen) Co., Ltd. (前海創意時空科技(深圳)有限公司), a company incorporated in China, and a subsidiary of our Company
"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 its registered 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

”Horgos iDreamSky”	Horgos iDreamSky Information Technology Co., Ltd. (霍爾果斯创梦天地信息科技有限公司), a company incorporated in China, and a subsidiary of our Company.
“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
“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, 2020
“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, which changed its name to Tianjin Huohun Internet Technology Co., Ltd. (天津火魂網絡科技有限公司) on January 25, 2021
"Shanghai Shengting"	Shanghai Shengting Information Technology Co., Ltd. (上海盛汀信息科技有限公司), a company incorporated in China, and a wholly owned subsidiary of Shanghai Huohun, and which changed its name to Tianjin Shengting Information Technology Co., Ltd. (天津盛汀信息科技有限公司) on January 25, 2021
"Share(s)"	ordinary share(s) of the Company with nominal value of US$0.0001 each in the share capital of the Company
"Shenzhen iDreamSky"	Shenzhen iDreamSky Technology Co., Ltd. (深圳市创梦天地科技有限公司), a company established in the PRC and a PRC Consolidated Affiliated Entity of our Company
"Shenzhen Mengyu"	Shenzhen Mengyu Technology Co., Ltd. (深圳市夢域科技有限公司), a company incorporated in China, and a subsidiary of our Company.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Tencent"	Tencent Holdings Limited, one of the Company's substantial shareholders, a limited liability company incorporated under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange under stock code 700
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC and a consolidated affiliated entity of Tencent
"Tencent Group"	Tencent and its subsidiaries
"U.S. dollars" or "US$" 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