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## iDreamSky Technology Holdings Limited

### 创梦天地科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1119)

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

The Board is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2022. The results have been audited by the Auditor in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee.

### FINANCIAL PERFORMANCE HIGHLIGHTS

	For the year ended December 31,			
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Revenues</b>	2,792,970	3,212,118	2,637,637	<b>2,734,124</b>
Gross profit	1,225,738	1,335,764	1,103,341	<b>421,200</b>
Profit/(loss) before income tax	390,585	(574,478)	(181,180)	<b>(2,577,058)</b>
Profit/(loss) for the year	360,397	(564,996)	(155,930)	<b>(2,589,917)</b>
Adjusted profit/(loss) for the year*	553,211	162,253	110,799	<b>(642,906)</b>

\* To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted profit/loss 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/loss 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, interest expense on convertible bonds, impairment provision of goodwill resulting from a business combination, provision for impairment of intangible assets, provision for impairment of financial assets, provision for impairment of prepayments and exchange losses/gains, net.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Overview

Looking back on 2022, it was a tough year. Epidemics plagued us repeatedly throughout the year, the fragmentation of the world intensified, and the economy was shrouded in the haze of the interest rate hike cycle, which signified that the global business environment fell into extreme uncertainty.

Braving the complex external environment, we are committed to our increasingly clear long-term strategy of focusing on and deepening our main game business, and continuously enhancing our innovation ability and improving product profitability. Meanwhile, we are also committed to fundamentally optimizing our response capabilities to customer needs, namely achieving finer granularity in game development and pre-test and verification through digital tools for improving product certainty and player experience. Internally, we will continue to execute the strategy of cost reduction and efficiency increase, with the aim of turning loss into profit in financial year of 2023.

After 14 years of experience accumulation in game development and operation, iDreamSky has formed our unique product and user characteristics. The Company boasts multiple high-profile games with large user bases, including Gardenscapes (夢幻花園), Homescapes (夢幻家園), Subway Surfers (地鐵跑酷) and Temple Run (神廟逃亡), all of which are classic products with long lifecycles, high active users, and high user stickiness. Even after being launched for 6 years or more, they still maintain tens of millions of DAU and stable revenue. And the stable cash flow from our game operations has provided crucial for Company's several years of exploration into several new businesses and products such as game self-development, Fanbook and IP derivatives.

## Business Review

### *Solid growth in exquisite game base, Subway Surfers back to the peak with momentum*

In 2022, Subway Surfers, a 10-year-old mobile game, was brought back to its peak thanks to the team's optimization of the version for several times and hard work to improve players' experience, fueled by the summer co-creation campaign launched by Fanbook. As a result, the game dominated the iOS download charts for 33 consecutive days, accomplished a remarkable achievement in the history of mobile games in China. During the Spring Festival in 2023, the highest number of single-day active users of Subway Surfers exceeded 10

million and the MAU exceeded 100 million amidst fierce competition. On that basis, the social attributes of Subway Surfers have also played an important advantage, with the total number of people sending conversations and emojis in-game and the times of sending them exceeded 30% and 870 million respectively, and the game battles exceeded 1.25 billion times. Games with high social attributes represent that users have social assets in the games or products, with higher sunk costs and lower churn rate. In addition, social interactions also bring more possibilities of dissemination and referral, and we are confident in the future of Subway Surfers.

Temple Run, Gardenscapes and Homescapes achieved good results in the past year, not only maintained high user recognition in 2022, but also contributed to the Group's steady growth in revenue. As for Gardenscapes and Homescapes, we have maintained high frequency and close interaction with our core users through Fanbook, making our product iterations more responsive and accurate. During the period, we launched quality update contents such as Budding Pop (長草顏糰子) and Monet's Garden (莫奈花園), which precisely met the deeper emotional experience demands of female users, and the payment contribution by average DAU reached a new high. During the Spring Festival in 2023, following the launch of light social functions of the Farmscapes (夢幻農場), the Company saw an increase of over 10% month-on-month for the users' daily average online duration and daily average number of logins of users, with the daily average online time exceeded 90 minutes. This further enhanced user stickiness.

Glory All Star (榮耀全明星), our independently self-developed game launched in August 2021, contributed over RMB1 billion in gross billing to the Company in 2022 and ranked first in the horizontal version of fighting RPG games. This product with long term operational value and content-driven has been maintaining a rising user base and revenue curve for one year and a half since its launch. It benefits mainly from our precisely matching users' interests and carrying out deep content cooperation based on celebrities and other IPs, such as Jay Chou's endorsement, collaboration with SNK and Douluo Continent (斗羅大陸) in several releases. In terms of the product system and methodology, we aligned the version, promotion and community to offer users a more in-depth and three-dimensional content experience. It is noteworthy that the launch and successful operation of Glory All Star is also an important part of our overall product matrix, proving our ability to develop and run games in addition to casual games and broadening the boundaries of our capabilities outside of casual games. In the future, we will continue to focus on how to create and operate content with a long lifecycle.

### ***Fanbook set sail on the AI wave***

Fanbook, which officially launched in July 2021, is a Server + Channel based user community operation tool. Currently, most of the user traffic in the market is dominated by large platforms, and it is the lifeblood of every product to be able to maintain and grow its own connectable users. Fanbook aims to be a large-scale user management tool that provide merchants with Direct Access to users, as well as better user activation and insights. This year, Fanbook has reached a significant milestone by surpassing 10 million users, topping 1 million DAU, emerging multiple servers with millions of users and generating steady revenue growth.

Under the current circumstance where traffic growth dividends are diminishing, it is especially important to better serve the acquired stock users. Unlike traditional sales-led growth, community-led growth is attracting more attention and being practiced by more brands. This new logic of operation is also an effective lever for brands to transition to private domain traffic, as well as to refine the operation ability and enhance the stickiness of existing users, the products can be fundamental to extend the life cycle of the game. Taking Subway Surfers as an example, we set up the home base of the game content creators in Fanbook, with core creators in the Fanbook community as the starting point of the “flywheel”. We officially encouraged players to create some wildly imaginative videos, which were then promoted on mainstream platforms. At present, famous games including Black Desert (黑色沙漠), Light and Night (光與夜之戀), Battle of Balls (球球大作戰) and Mini World (迷你世界) have all opened their own user communities on Fanbook.

With the development of large-scale artificial intelligence (AI) technology, Fanbook combined with AI technology will create more valuable scenarios, help teams improve the experience and efficiency of Fanbook, and expand its creativity.

### ***Cost reduction and efficiency increase through prudent expenditure and focusing on pragmatism***

With the strategic focus on our main business in the past year, the Company is actively reviewing and optimizing our cost structure and reorganizing our middle and back office organizational structure in order to seek further improvement opportunities, hence achieving scientific cost savings. In 2023, the Company will continue to implement the concept of cost reduction and efficiency increase into all aspects of our organization, drive substantial improvements in corporate profitability and operating cash flow, and pursue the maximization of long-term free cash flow.

In general, the Company's main business focus in 2022 was to further divest non-core businesses, continuously improve the income level of core businesses and the quality of income. We believe that the quality of the revenue is more important and more meaningful in the long run than revenue itself. Only sustainable revenue generated from long-term game operation capability is meaningful.

## **Business Outlook**

*Looking ahead to 2023, we are embracing the springtime for the industry and self-developed games usher in a harvest period to drive new growth*

In addition to operating our superior products, we have been striving to break through high quality games through independent development in recent years, and two of our key self-developed games will be launched in 2023.

Calabiyau (卡拉彼丘) is a nijigen competitive TPS shooting game developed on the UE4 engine. The core experience of the game revolves around the gameplay of String Theory (弦化玩法), in which the player can freely switch between 2D and 3D modes, and perform actions such as sticking to the wall, floating, and sidestepping to change the tactics. The excellent originality of the product has been highly appreciated and recognized by users, and it has received positive feedback from both professional TPS players and nijigen players in the recent test. Meanwhile, it continuously dominated the Top 1 of the new game reservation list in Bilibili during the test. At the beginning of the project, the project team established a user research community in Fanbook, and during the development process, they always kept sharing the results of the stages, discussing the design, interacting closely with the users and collaborating and working together. In this way, it has expanded the scale of core users and thus building up strength for the product launch. At present, Calabiyau (卡拉彼丘) has been authorized to Tencent to publish the mobile and PC versions in Mainland China, and we plan to launch and operate it in overseas markets on our own.

Another mobile game namely Ni No Kuni: Cross Worlds (二之國:交錯世界) is a Ghibli style of Isekai fantasy adventure RPG, in which there is a very stylized top quality sound and graphics, covering diversified gameplay elements such as adventure combat, character development, leisure management, home DIY and free exploration. Its overseas version was jointly developed by LEVEL-5, Studio Ghibli and Netmarble, with the game music composed by two masters Joe Hisaishi and Hayao Miyazaki collaborating again. The game was launched in five regions (Japan, South Korea, Hong Kong, Macao and Taiwan) and received more than 10 million downloads, with the revenue exceeding USD100 million in 11 days. The Chinese version is currently being developed jointly by Netmarble, Tencent

and iDreamSky. We will optimize the gaming referring to the issues faced in overseas servers and add a lot of exclusive content for the Chinese server, which is expected to be tested in the second quarter of this year.

In terms of existing games, we will enhance their commercialization value based on the high DAU of exquisite games, and increase the number of paying users and ARPPU value, which is also our important strategic goal and growth engine for this year. Meanwhile, Subway Surfers will not only further optimize the in-game playing methods and social interaction, but also strengthen the cross-border cooperation and IP collaboration outside the game. Glory All Star will provide new content versions that better meet players' core preference of "raiding to get better equipments (打團本爆裝備)", as well as IP linkage versions that have been proven repeatedly in 2022. Glory All Star will provide more fun for both new and existing players and continue to inject new vitality into the product activity and revenue.

For Fanbook, the Company will continue to focus on serving more companies in gaming and other industries in 2023, helping them connect users and efficiently manage user lifecycle value. In addition, Fanbook has actively embraced the industry's advanced AIGC technology and put it into application. We are one of the few official partners signed by Microsoft in China, and have already accessed OpenAI capabilities, which made our products successfully commercialized. Currently, users can experience the exciting GPT-4 in Fanbook. In 2023, we will apply such technologies to more Fanbook content creation scenarios, cooperate with more excellent AI companies or products at home and abroad, to develop a wider range of applied products. Moreover, we will empower the digital economy development and improve the productivity and production efficiency of the Company through the implementation of Fanbook+AI.

We have split-off the IP derivatives business segment in February 2023, allowing it to independently finance, operate and develop this year. By handing over the operation and management of the IP derivatives business segment to the team, we aim to free up the Group to focus on our main business, namely game business, and concentrate our resources on them to make sustainable and high-quality revenue. The Management team believes that this arrangement serves the best interest of our shareholders as well as aligns with our long term value-maximization principle of the Company.

With the economy recovery and the industry revival, the overall external environment is gradually improving. The Company has also recently obtained licensing for two self-developed games and plans to launch them in the second half of 2023. Meanwhile, the Group's long-term operational experiences continues to support the development of

exquisite games, and the efficiency improvements brought by Fanbook’s large-scale user management will further boost our growth. We believe that iDreamSky’s overall business will resume rapid growth in 2023.

## Revenue

In 2022, the Group disclosed two reportable segments that are game and information services and IP derivatives business. For further details of the segment information, please refer to Note 3 to the consolidated financial statements.

Revenue increased by 3.7% to approximately RMB2,734.1 million for the year ended December 31, 2022 on a year-on-year basis (2021: RMB2,637.6 million). Revenue from game and information services and IP derivatives business represented 94.9% and 5.1% of the Group’s total revenue for the year ended December 31, 2022 (2021: 98.6% and 1.4%).

### *Revenue from game and information services*

The following table sets forth our revenue from game and information services for the years ended December 31, 2022 and 2021:

	<b>For the year ended December 31,</b>			
	<b>2022</b>		2021	
	<i><b>RMB’000</b></i>	<i><b>%</b></i>	<i><b>RMB’000</b></i>	<i><b>%</b></i>
Game revenue	<b>2,531,285</b>	<b>97.6</b>	2,297,930	88.3
Information service revenue	<b>48,956</b>	<b>1.9</b>	290,426	11.2
Others	<b>14,287</b>	<b>0.5</b>	12,720	0.5
	<b><u>2,594,528</u></b>	<b><u>100</u></b>	<b><u>2,601,076</u></b>	<b><u>100</u></b>

- **Game revenue.** Game revenue, which accounts for the largest portion of revenue from game and information services, contributed 97.6% and 88.3% of the total revenue from game and information services for the years ended December 31, 2022 and 2021. Game revenue increased by 10.2% from RMB2,297.9 million for the year ended December 31, 2021 to RMB2,531.3 million for the year ended December 31, 2022. The increase in the amount was attributable to the steady performance of the Company’s core games in operation: since the launch of the self-developed game, Glory All Star, all metrics have performed well, and the gross billing for the year has increased steadily;

the 10-year-old Subway Surfers returned to its peak during the summer season, and the gross billing has far exceeded expectations. In addition, since signing of the distribution agreements for iOS versions of Gardenscapes and Homescapes at the end of March 2022, thanks to the effective operation of our operation team, gross billing increased strongly during the Reporting Period.

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

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2022</b>	2021
Average MAU ( <i>millions</i> )	<b>124.0</b>	128.0
Average MPU ( <i>millions</i> )	<b>5.9</b>	5.5
ARPPU ( <i>RMB</i> )	<b>36.4</b>	34.2

Our key operating metrics included data from all games published and operated by us. During the year ended December 31, 2022, the mobile version of Cross Gate (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 three games published and operated by Tencent, instead of us.

- **MAU.** Our average MAU decreased from 128.0 million in 2021 to 124.0 million in 2022, because the Group gradually terminated products that were no longer in line with the Group's game business strategy.
  - **MPU.** Our average MPUs increased from 5.5 million in 2021 to 5.9 million in 2022, which was mainly due to Subway Surfers' excellent performance during the summer season, resulting in an increase in MPUs.
  - **ARPPU.** Our ARPPU increased from RMB34.2 in 2021 to RMB36.4 in 2022, primarily due to an increase in the proportion of the Company's RPGs revenue for the year, which had a higher ARPPU.
- **Information service revenue.** Our information service revenue is primarily derived from our advertising services. Information service revenue decreased from RMB290.4 million for the year ended December 31, 2021 to RMB49.0 million for the year ended December 31, 2022. The decrease was mainly due to the Company's initiative to



reduce and even close the opening and plug-in advertisements to further improve the in-game customer experience; at the same time, due to the impact of the COVID-19 pandemic, and the overall economic environment, the budget of advertisers dropped significantly.

### ***Revenue from IP derivatives business***

Revenue from the Group's IP derivatives business is mainly derived from game console experience and retail, sales of trendy products, etc. For the year ended December 31, 2022, the Group's revenue from IP derivatives business was RMB139.6 million (2021: RMB36.6 million), representing a year-on-year increase of 281.4%. This was mainly due to the increasing number of QQfamily stores and the continuous expansion of other sales channels.

### **Cost of revenue**

For the year ended December 31, 2022, the total cost of revenue of the Group was RMB2,312.9 million, representing a year-on-year increase of 50.7% (2021: RMB1,534.3 million).

As a percentage of revenues, our cost of revenues increased from 58.2% for the year ended December 31, 2021 to 84.6% for the year ended December 31, 2022. On the one hand, due to the progress of game publication licensing, which has significantly affected the launch of the Company's reserve products, we have made impairment provisions for the book balance of some reserve games that missed the optimal launch opportunity. On the other hand, we adjusted and optimized our product layout in the future, focusing on the publication and self-development of exquisite games as our core strategic point, and gradually terminated products that were no longer in line with the Group's game business strategy. For the year ended December 31, 2022, the Company made an impairment of approximately RMB533.1 million for the prepaid royalties for such games. Excluding this effect, the gross profit margin of game and information service business for the year was approximately 36.0%.

### **Selling and marketing expenses**

Our selling and marketing expenses increased by 123.4% from RMB509.7 million for the year ended December 31, 2021 to RMB1,138.7 million for the year ended December 31, 2022. As a percentage of revenue, our selling and marketing expenses increased from 19.3% for the year ended December 31, 2021 to 41.6% for the year ended December 31, 2022. This was due to the promotion of various strategies for key products such as Glory All Star and

Subway Surfers, especially the brand marketing by means of celebrity endorsement and IP linkage, as well as the performance-based marketing on major traffic platforms and other channels, which had a phased impact on the sales and marketing expense ratio during the Reporting Period.

### **General and administrative expenses**

Our general and administrative expenses decreased by 51.0% to RMB122.5 million for the year ended December 31, 2022 (impairment of prepaid revenue sharing for the year included in cost of revenue) from RMB250.1 million for the year ended December 31, 2021 (including impairment of prepaid revenue sharing of approximately RMB51.9 million). As a percentage of revenue, our general and administrative expenses decreased from 9.5% for the year ended December 31, 2021 to 4.5% for the year ended December 31, 2022, as we continued to optimize the Group's internal operating structure and increased the focus on front-end business, and improve organizational management effect and profit to achieve scientific cost reduction and efficiency enhancement.

### **Research and development expenses**

For the years ended December 31, 2022 and 2021, our research and development expenses were RMB322.6 million and RMB325.2 million, respectively, which was basically the same for both years. Research and development expenses mainly represent the Group's investment in the research and development of core self-developed games and digital tools.

### **Impairment losses on intangible assets**

Our impairment losses on intangible assets increased from RMB49.7 million for the year ended December 31, 2021 to RMB752.3 million for the year ended December 31, 2022. This was also due to the strategic focus of the Group's game business on the publishing and self-development of exquisite games, and the gradual termination of some products that were no longer in line with the strategic direction, and the provision for impairment of related game royalties.

## **Net impairment losses on financial assets**

Our net impairment losses on financial assets increased from RMB20.6 million for the year ended December 31, 2021 to RMB360.9 million for the year ended December 31, 2022. This was mainly due to the impact of the pandemic and the changes in the industry ecosystem, resulting in insufficient solvency of some partners. The Management considered that there was indication of impairment after comprehensive assessment, therefore, the impairment increased during the year.

## **Other losses, net**

Our other losses, net increased from RMB14.4 million for the year ended December 31, 2021 to RMB67.4 million for the year ended December 31, 2022. This was mainly due to the provision for impairment of goodwill of RMB73.2 million arising from the acquisition of Tianjin Huohun during the year.

## **Fair value losses on financial assets at fair value through profit or loss**

Our fair value loss on financial assets at fair value through profit or loss increased from RMB3.5 million for the year ended December 31, 2021 to RMB83.2 million for the year ended December 31, 2022. The main reasons are: 1) the overall under-performs of the industry and the operation metrics of some of our investee companies fell short of expectations, thus we have recognized losses from changes in fair value of relevant equity investments of RMB106.6 million; and 2) one of our investee companies was listed on the Beijing Stock Exchange in December 2022, and recognized gains from changes in fair value of RMB48.9 million.

## **Finance costs, net**

Our finance costs, net increased from RMB70.0 million for the year ended December 31, 2021 to RMB176.5 million for the year ended December 31, 2022. This was mainly because we incurred foreign exchange losses of RMB52.4 million in 2022, while we incurred foreign exchange gains of RMB59.1 million in 2021.

## **Income tax expense/credit**

We recorded an income tax expense of RMB12.9 million for the year ended December 31, 2022, compared to an income tax credit of RMB25.3 million for the year ended December 31, 2021.

## Loss/profit for the year

Our net loss for the year increased from RMB155.9 million for the year ended December 31, 2021 to RMB2,589.9 million for the year ended December 31, 2022. Our adjusted loss for the year (as defined below) was RMB642.9 million for the year ended December 31, 2022 and our adjusted profit for the year was RMB110.8 million for the year ended December 31, 2021.

## Other Financial Information

	For the year ended	
	December 31,	
	2022	2021
	RMB'000	RMB'000
Adjusted (loss)/profit for the year <sup>(1)</sup>	<b>(642,906)</b>	110,799
EBITDA <sup>(2)</sup>	<b>(2,191,301)</b>	186,585
Adjusted EBITDA <sup>(3)</sup>	<b><u>(314,574)</u></b>	<b><u>390,638</u></b>

### Notes:

- (1) Adjusted loss for the year was derived from our 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, interest expense on convertible bonds, impairment provision for goodwill resulting from a business combination, impairment loss of intangible assets, impairment of financial assets, impairment loss of prepayments and exchange losses/gains, net. The adjusted profit for the year of 2021 has been restated to be comparable to that disclosed in 2022.
- (2) EBITDA is net income or loss before interest expenses, income tax expense/credit, 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/credit and interest expenses.

### *Non-IFRS Financial Measure*

To supplement the consolidated financial statements of the Group prepared in accordance with IFRS, the three non-IFRS measures, namely adjusted profit for the year, EBITDA and adjusted EBITDA, as additional financial measures, have been presented in this annual results announcement. These unaudited non-IFRS financial measures are used by 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, 2022 and 2021 to the nearest measures prepared in accordance with IFRS:

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Reconciliation of loss for the year to adjusted</b>		
<b>(loss)/profit for the year:</b>		
<b>Loss for the year</b>	<b>(2,589,917)</b>	<b>(155,930)</b>
Add: Fair value losses on financial assets at fair value through profit or loss	<b>83,150</b>	3,511
Add: Share-based compensation expenses	<b>13,637</b>	24,894
Add: Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss	—	85,662
Add: Impairment losses on contract assets	—	669
Add: Impairment provision of goodwill resulting from a business combination	<b>73,222</b>	—
Add: Impairment provision of investments in associates	<b>7,917</b>	20,719
Add: Interest expense on convertible bonds	<b>70,284</b>	62,676
Add: Impairment loss on intangible assets	<b>752,293</b>	49,673
Add: Impairment loss, net on financial assets	<b>360,928</b>	20,580
Add: Impairment loss on prepayments	<b>533,135</b>	57,492
Add: Exchange losses/(gains), net	<b>52,445</b>	(59,147)
<b>Adjusted (loss)/profit for the year</b>	<b><u>(642,906)</u></b>	<b><u>110,799</u></b>
<b>Reconciliation of loss for the year to EBITDA and adjusted EBITDA:</b>		
<b>Loss for the year</b>	<b>(2,589,917)</b>	<b>(155,930)</b>
Add: Depreciation of property, plant and equipment, investment properties and right-of-use assets	<b>39,473</b>	26,102
Add: Amortization of intangible assets	<b>211,366</b>	207,247
Add: Income tax expense/(credit)	<b>12,859</b>	(25,250)
Add: Interest expense	<b>134,918</b>	134,416

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>EBITDA</b>	<b>(2,191,301)</b>	186,585
Add: Fair value losses on financial assets at fair value through profit or loss	<b>83,150</b>	3,511
Add: Share-based compensation expenses	<b>13,637</b>	24,894
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Add: Impairment loss on prepayments	<b>533,135</b>	57,492
Add: Exchange losses/(gains), net	<b>52,445</b>	(59,147)
	<hr/>	<hr/>
<b>Adjusted EBITDA</b>	<b><u>(314,574)</u></b>	<b><u>390,638</u></b>

## **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, 2022, the Group's total cash and cash equivalents decreased by 87.3% to approximately RMB90.5 million from approximately RMB714.8 million as of December 31, 2021. Our cash and cash equivalents were primarily denominated in RMB, HKD and USD.

As of December 31, 2022, the Group's total borrowings amounted to approximately RMB1,011.2 million (2021: approximately RMB1,350.4 million). The nature of the Group's borrowings is summarised as follows:

	<b>As at December 31</b>	
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Secured bank borrowings	<b>991,241</b>	1,330,430
Secured other borrowings	<b>20,000</b>	—
Unsecured other borrowings	<b>—</b>	20,000
	<b><u>1,011,241</u></b>	<u>1,350,430</u>

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

	<b>As at December 31</b>	
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
RMB	<b>568,400</b>	791,500
EUR	<b>442,841</b>	558,930
	<b><u>1,011,241</u></b>	<u>1,350,430</u>

As at December 31, 2022, the current assets of the Group amounted to approximately RMB2,117.6 million, and the current liabilities of the Group amounted to approximately RMB2,447.1 million. As at December 31, 2022, the current ratio (being calculated as the current assets divided by current liabilities) of the Group was 0.87 as compared with 2.42 as at December 31, 2021.

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, 2022, the debt ratio of the Group was 58.5% as compared with 36.3% as of December 31, 2021.



Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, convertible bonds, 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, 2022 and 2021, the gearing ratio of the Group is 80.5% and 26.3% respectively.

### **Pledge of Assets**

Among the total borrowings of the Group as of December 31, 2022, approximately RMB751.2 million (2021: approximately RMB835.9 million) were secured by certain trade receivables, certain game intellectual properties and deposits, which accounted for approximately 74.3% (2021: approximately 61.9%) of the Group’s total borrowings.

### **Contingent Liabilities**

As of December 31, 2022, the Group did not have any unrecorded significant contingent liabilities or guarantees against us (2021: Nil).

### **Capital Expenditure**

For the year ended December 31, 2022, our total capital expenditure was approximately RMB221.9 million, compared to approximately RMB266.4 million for the year ended December 31, 2021. Our capital expenditure primarily included expenditures for purchase of property, plant and equipment (including decoration for the offline stores), and intangible assets. We plan to fund our capital expenditures through a combination of operating cash flows, debt financing and equity 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, 2022.

## **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, 2022 and 2021.

## **Employees and Their Remuneration Policies, Retirement Plans and Training Programs**

As at December 31, 2022 and 2021, we had 1,048 and 1,113 full-time employees, respectively. Substantially all of our employees are located in the PRC, and a small number of employees are located in Hong Kong.

Our success depends on our ability to attract, retain and motivate qualified personnel. We provide employees with competitive remuneration packages to achieve the Group's talent strategic objectives. In addition to basic salary, we also provide employees with diversified remuneration policies such as performance bonus and share awards. We also purchase commercial health and accident insurance for our employees. We have granted, and plan to continue to grant in the future, share award schemes to our employees to incentivize their contributions to our growth.

The Group and its employees in the PRC participate in various social security plans and housing funds in accordance with the laws and regulations of the PRC and the requirements of the relevant authorities where the PRC employees are located. Among them, post-employment benefit plans are basic pension insurance organized and implemented by the Ministry of Labor and Social Security of the PRC (the "**Social Security Department**"), which belong to the category of defined contribution plans. These insurance plans shall be calculated as a percentage of the employees' basic salaries and make monthly contributions, which are charged to profit or loss on an accrual basis. The Social Security Department is responsible for the payment of the basic social pension to the retired employees upon their

retirement in the PRC. We also make contributions for our Hong Kong employees at the statutory mandatory contribution rates jointly borne by the Company and the employees within the statutory limits prescribed by the Mandatory Provident Fund Schemes Ordinance.

During the year ended December 31, 2022, no forfeited contributions were used to offset employers' contributions and no forfeited contributions were available to reduce the contributions payable in the future years.

We provide talent management training programs for our senior management to help them enhance their strategic vision and leadership skills. We also provide employees with job-specific trainings, such as customer service training and compliance management training, as well as various theme-specific trainings such as Tech-talk activities, induction training for fresh graduates and employee sharing activities. Through these trainings, we help employees improve their professional skills and comprehensive qualities.

## **Use of Proceeds**

Pursuant to the announcement of the Company dated November 28, 2021, in order to strengthen the financial position of the Group and to provide long-term funding for the Group's expansion and growth plans, the Company plans to allot and issue shares under general mandate (the "**Placing Shares**") and to allot and issue shares under specific mandate (the "**Subscription Shares**"). The intended use of proceeds from the Placing and Subscription is in line with the Group's strategic focus to enhance our game development capabilities, further enrich our game portfolio and increase our active user base, while accelerating the expansion of the Group's offline stores and further promoting the development of the designer business. In addition, the Directors consider that it is in the interests of the Company to broaden the shareholder base and capital base of the Company.

### ***Proceeds from the Placing Shares and Use of Proceeds***

On December 13, 2021, the Company completed the placing and issue of 72,280,000 ordinary shares under general mandate. For details, please refer to the announcement of the Company dated December 13, 2021. The actual net proceeds from the Placing Shares were approximately HK\$427.0 million, equivalent to approximately RMB349.2 million based on the exchange rate of RMB0.8178 to HK\$1.00.

During the year ended December 31, 2022, the proceeds from the Placing Shares were fully utilized in accordance with the intended use as set out in the relevant announcements. The table below sets out the details of the actual amount utilized (adjusted on a pro rata basis based on the actual net proceeds):

Purpose	Proceeds from Placing Shares <i>RMB million</i>	Unutilized amount as at January 1, 2022 <i>RMB million</i>	Actual utilized	Actual utilized
			amount during the year ended December 31, 2022 <i>RMB million</i>	amount from completion of Placing Shares to December 31, 2022 <i>RMB million</i>
General working capital	32.00	15.14	15.14	32.00
R&D for further expansion of the Company's self-developed game portfolio <sup>(1)</sup>	210.00	184.50	184.50	210.00
Expansion of the offline stores of the Group <sup>(2)</sup>	70.00	70.00	70.00	70.00
Other possible investments in the future <sup>(3)</sup>	37.23	37.23	37.23	37.23
Total	<u>349.23</u>	<u>306.87</u>	<u>306.87</u>	<u>349.23</u>

*Notes:*

- (1) The Company's self-developed games under development include match-three puzzle games, competitive shooting games and role-playing games.
- (2) The Company applied the amount to set up and launch QQfamily offline stores in popular commercial districts in first-and second-tier cities in Mainland China.
- (3) The Company intended to pursue other possible investment opportunities, including but not limited to, establishing strategic partnerships and partnerships, and seeking to invest in and acquire businesses that are synergistic and complementary to the Group's ecosystem, including businesses or assets that can enhance the Company's game development capabilities and offline entertainment business.
- (4) Certain figures and percentage figures included in the above table have been subject to rounding adjustments.

## *Proceeds from the Subscription Shares and Use of Proceeds*

On November 28, 2021, the Company entered into the Subscription Agreements with each of Brilliant Seed, Tencent Mobility and Instant Sparkle. The Subscription was approved by the independent Shareholders at the extraordinary general meeting convened on February 16, 2022 and the allotment and issue of an aggregate of 32,854,730 Shares was completed on February 28, 2022. The subscription price was HK\$5.92 per Share and the market price of the Shares as quoted on the Stock Exchange on the date of the Subscription Agreement was HK\$6.53 per Share. For details, please refer to the announcements of the Company dated November 28, 2021 and February 28, 2022, the circular dated January 20, 2022 and the poll results announcement of the extraordinary general meeting dated February 16, 2022.

The actual net proceeds from the Subscription Shares were approximately HK\$194.5 million, equivalent to approximately RMB159.1 million at the exchange rate of RMB0.8178 to HK\$1.00.

During the year ended December 31, 2022, the proceeds from the Subscription Shares were fully utilized in accordance with the intended use as set out in the relevant announcements. The table below sets out the details of the actual amount utilized (adjusted on a pro-rata basis based on the actual net proceeds):

<b>Purpose</b>	<b>Proceeds from Subscription Shares <i>RMB million</i></b>	<b>Actual utilized amount during the year ended December 31, 2022 <i>RMB million</i></b>	<b>Actual utilized amount from the completion of the Subscription Shares to December 31, 2022 <i>RMB million</i></b>
General working capital	18.00	18.00	18.00
R&D for further expansion of the Company's self-developed game portfolio <sup>(1)</sup>	93.00	93.00	93.00
Expansion of the offline stores of the Group <sup>(2)</sup>	36.20	36.20	36.20
Other possible investments in the future <sup>(3)</sup>	11.86	11.86	11.86
<b>Total</b>	<b>159.06</b>	<b>159.06</b>	<b>159.06</b>

*Notes:*

- (1), (2) and (3) The use of proceeds from the subscription of shares is consistent with the use of proceeds from the placing of shares. For details, please refer to the notes on the previous page for the proceeds from the placing of shares and the use.
- (4) Certain figures and percentage figures included in the above table have been subject to rounding adjustments.

### **Updates on Acquisition of Tianjin Huohun**

On August 7, 2018, the Company acquired 70% of the issued share capital of Shanghai Huohun Internet Technology Co., Ltd. (renamed Tianjin Huohun Internet Technology Co., Ltd. (“**Tianjin Huohun**”) in January 2021) at a total consideration (the “**Consideration**”) of RMB1.05 billion (the “**Acquisition**”), the goodwill of RMB989.23 million recognised upon completion of the Acquisition. The Consideration was determined after arm’s length negotiations between the Company and the then shareholders of Tianjin Huohun (the “**Vendors**”) by reference to (1) the profit guarantee given by the Vendors; (2) the price-to-earnings ratio of approximately five times; and (3) the benefits and merits from the Acquisition including acquisition of R&D talents and potential synergies with the Company’s principal business.

According to the Agreement on Acquisition of Tianjin Huohun (the “**Tianjin Huohun SPA**”), the Vendors shall compensate the Company according to the predetermined mechanism/formula if Tianjin Huohun fails to achieve the predetermined profit target of RMB300.00 million in the period commencing from June 1, 2018 and ending on May 31, 2019 (the “**Performance Appraisal Period**”). Tianjin Huohun recorded a net profit of RMB210.00 million during the Performance Appraisal Period. According to the compensation mechanism under the Tianjin Huohun SPA, the Group is entitled to acquire the remaining 30% equity of Tianjin Huohun at the consideration of RMB1.00.

On May 3, 2019, the Group signed a supplementary agreement with the Vendors to collect cash compensation from the Vendors, which can be offset with the consideration that has not been paid to Vendors, rather than acquiring the remaining 30% equity. According to the supplementary agreement, the compensation amount was RMB315.00 million. The difference of RMB294.91 million between the RMB315.00 million and the asset value of RMB20.09 million of the contingent consideration recognized on the acquisition date and December 31, 2018 was recognized as other income for the year ended December 31, 2019.

The management believed that Tianjin Huohun was an independent cash generating unit (the “**Tianjin Huohun CGU**”) and allocated goodwill to Tianjin Huohun CGU. The recoverable amount of Tianjin Huohun CGU was calculated based on the use value as at December 31, 2021 and December 31, 2022.

Pursuant to paragraph 10 of IAS 36, “goodwill acquired in a business combination to be tested for impairment annually”, the management engaged an independent valuer, AVISTA to carry out impairment assessment on the goodwill. Based on the assessment on the recoverable amount of the Tianjin Huohun CGU as of December 31, 2019, 2020 and 2021, the Group recorded an impairment loss of goodwill of Tianjin Huohun of RMB422.33 million and RMB493.68 million for the years ended December 31, 2019 and 2020 respectively (2021: Nil). For further details, please refer to the annual reports of the Company for 2019, 2020 and 2021.

Based on the management’s estimation of the recoverable amount of the Tianjin Huohun CGU during the period, the Group made a further impairment loss provision of RMB73.22 million to the goodwill as of December 31, 2022. The aforesaid impairment was mainly due to the fact that Tianjin Huohun has no plan to develop new games and its existing game is underperformed.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended December 31,	
		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
Revenues	4	2,734,124	2,637,637
Cost of revenues	5	<u>(2,312,924)</u>	<u>(1,534,296)</u>
<b>Gross profit</b>		<b>421,200</b>	1,103,341
Selling and marketing expenses	5	(1,138,693)	(509,687)
General and administrative expenses	5	(122,455)	(250,120)
Research and development expenses	5	(322,638)	(325,201)
Impairment losses on intangible assets	5	(752,293)	(49,673)
Net impairment losses on financial assets		(360,928)	(20,580)
Other income	6	34,349	53,296
Other losses, net	7	(67,352)	(14,449)
Fair value losses on financial assets at fair value through profit or loss		<u>(83,150)</u>	<u>(3,511)</u>
<b>Operating loss</b>		<b>(2,391,960)</b>	(16,584)
Finance income		8,780	64,383
Finance costs		<u>(185,261)</u>	<u>(134,416)</u>
Finance costs, net		(176,481)	(70,033)
Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss		—	(85,662)
Share of results of investments accounted for using the equity method		<u>(8,617)</u>	<u>(8,901)</u>
<b>Loss before income tax</b>		<b>(2,577,058)</b>	(181,180)
Income tax (expense)/credit	8	<u>(12,859)</u>	<u>25,250</u>
<b>Loss for the year</b>		<b><u>(2,589,917)</u></b>	<b><u>(155,930)</u></b>



		<b>Year ended December 31,</b>	
		<b>2022</b>	<b>2021</b>
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Other comprehensive loss</b>			
<i>Items that will not be reclassified to profit or loss</i>			
— Currency translation differences		<b>303,748</b>	(93,486)
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		<u>(247,571)</u>	<u>81,992</u>
<b>Total comprehensive loss for the year</b>		<b><u>(2,533,740)</u></b>	<b><u>(167,424)</u></b>
<b>Loss for the year attributable to:</b>			
— Owners of the Company		<b>(2,492,293)</b>	(157,478)
— Non-controlling interests		<u>(97,624)</u>	<u>1,548</u>
		<b><u>(2,589,917)</u></b>	<b><u>(155,930)</u></b>
<b>Total comprehensive loss attributable to:</b>			
— Owners of the Company		<b>(2,436,116)</b>	(168,972)
— Non-controlling interests		<u>(97,624)</u>	<u>1,548</u>
		<b><u>(2,533,740)</u></b>	<b><u>(167,424)</u></b>
<b>Losses per share</b>			
— Basic losses per share ( <i>in RMB</i> )	9	<b><u>(1.80)</u></b>	<b><u>(0.13)</u></b>
— Diluted losses per share ( <i>in RMB</i> )	9	<b><u>(1.80)</u></b>	<b><u>(0.13)</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As of December 31,	
		2022	2021
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		107,943	62,249
Intangible assets	10	1,004,718	1,694,129
Investment properties		6,955	31,860
Right-of-use assets		185,415	156,383
Investments accounted for using the equity method		347,461	372,185
Financial assets at fair value through profit or loss		348,897	457,507
Prepayments and other receivables	12	91,182	31,152
Goodwill		—	73,222
Contract assets		—	159
Deferred tax assets		113,553	125,572
		<b>2,206,124</b>	<b>3,004,418</b>
<b>Current assets</b>			
Inventories		20,688	11,331
Trade receivables	11	724,932	781,346
Amounts due from related parties		16,418	5,382
Prepayments and other receivables	12	996,668	1,917,866
Contract assets		—	295
Contract costs		55,405	91,296
Financial assets at fair value through profit or loss		125,857	73,959
Restricted cash		87,099	10,246
Cash and cash equivalents		90,527	714,801
		<b>2,117,594</b>	<b>3,606,522</b>
<b>Total assets</b>		<b>4,323,718</b>	<b>6,610,940</b>

		<b>As of December 31,</b>	
		<b>2022</b>	2021
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital, share premium and treasury shares		<b>3,291,884</b>	3,166,013
Reserves		<b>800,985</b>	744,982
(Accumulated losses)/retained earnings		<b>(2,472,523)</b>	24,055
		<u><b>1,620,346</b></u>	<u>3,935,050</u>
<b>Non-controlling interests</b>		<b>174,196</b>	274,192
		<u><b>1,794,542</b></u>	<u>4,209,242</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	<i>13</i>	—	450,719
Lease liabilities		<b>82,113</b>	59,945
Convertible bonds	<i>14</i>	—	401,461
		<u><b>82,113</b></u>	<u>912,125</u>
<b>Current liabilities</b>			
Borrowings	<i>13</i>	<b>1,011,241</b>	899,711
Lease liabilities		<b>34,926</b>	19,881
Trade payables	<i>15</i>	<b>443,498</b>	112,500
Other payables and accruals	<i>16</i>	<b>224,687</b>	166,531
Current income tax liabilities		<b>41,317</b>	40,310
Deferred government grants		—	467
Contract liabilities		<b>199,133</b>	250,173
Convertible bonds	<i>14</i>	<b>492,261</b>	—
		<u><b>2,447,063</b></u>	<u>1,489,573</u>
<b>Total liabilities</b>		<u><b>2,529,176</b></u>	<u>2,401,698</u>
<b>Total equity and liabilities</b>		<u><b>4,323,718</b></u>	<u>6,610,940</u>

# NOTES TO THE 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, Uglund 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 mobile game development and operating, and game console experience and retails, as well as sales of trendy products in the People’s Republic of China (the “**PRC**” or “**China**”).

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since December 6, 2018.

This consolidated financial statements for the year ended December 31, 2022 are presented in Renminbi (“**RMB**”).

## 2. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standard (“**IFRSs**”) and requirements of the Hong Kong Companies Ordinance Cap. 622.

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

(a) *Going concern basis*

During the year ended December 31, 2022, the Group reported a net loss of RMB2,589,917,000. As of December 31, 2022, the Group's current liabilities exceeded its current assets by RMB329,469,000, and the Group had borrowings with total amount of RMB1,011,241,000 and convertible bonds of HKD775,000,000 (equivalent to approximately RMB692,284,000) (the "**2025 Convertible Bonds**"), while the Group's cash and cash equivalents amounted to RMB90,527,000.

As of December 31, 2022, the Group did not comply with certain financial covenant requirements of a bank borrowing with amount of EUR59,800,000 (equivalent to approximately RMB442,841,000). The non-compliance may cause the relevant bank borrowing, as well as other borrowings of RMB548,400,000 and the 2025 Convertible Bonds, subject to certain cross default or repayment acceleration clauses, become immediately due and payable should the lenders exercise their rights to demand or accelerate repayment under the relevant agreements.

In addition, as disclosed in Note 14, the holders of the 2025 Convertible Bonds (the "**CB Holders**") will have the rights at holder's option, to require the Group to redeem all or some of such holder's bonds on October 16, 2023.

The above conditions indicated existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Company have carefully considered the future liquidity, the operation performance and the available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern for at least twelve months from December 31, 2022, taking into consideration the following plans and measures:

- (1) The management of the Company expects a significant improvement in its operating performance and will be able to generate operating cash inflow in 2023 because (i) most existing games have had sticky user base and will require less expenditures on advertising and promotion in future; (ii) the Group has adjusted its business strategy to focus on a limited number of games in late stage of development to better control development cost;

(iii) the Group will accelerate the collection of outstanding trade and other receivables by taking measures including but not limited to legal actions and (iv) as disclosed in Subsequent Events, subsequent to the year end, the Group has expanded its business cooperation with certain shareholder and the Group received RMB139,000,000 as prepayment of revenue sharing for certain existing games and certain new games that are expected to launch in the second half of year 2023.

- (2) As mentioned above, as of December 31, 2022, the Group did not comply with certain financial covenant requirements of the bank borrowing with amount of EUR59,800,000 with maturity date on March 24, 2023. As of March 23, 2023, the Group entered a new facility agreement of EUR40,000,000 with the same bank. The Group applied the amount of EUR40,000,000 drawn down under the new facility together with EUR19,800,000 from its own financial resources to settle the original bank borrowing of EUR59,800,000 in full. According to the new facility agreement, (i) one of the financial covenant requirements in original agreement was removed, (ii) the Group will be subject to the first test of compliance with the financial covenant requirements for the six months ending June 30, 2023, and (iii) it is clarified that the failure to satisfy any financial covenant requirements for the year ended December 31, 2022 shall not result in a default or an event of default under the new facility.
- (3) Based on the communication with the banks and the trustee of the CB Holders, the directors considered that the banks and the CB Holders will not exercise their rights under the cross default or repayment acceleration clauses given: (i) the Group had fully settled the borrowings of EUR59,800,000 and (ii) as mentioned in (2), the bank had clarified that the failure to satisfy any financial covenant requirements for the year ended December 31, 2022 shall not result in a default or an event of default under the new facility.
- (4) Subsequent to the year end, other than the repayment of borrowings as described in (2) above, the Group repaid other borrowings of RMB218,400,000 and obtained new bank borrowings with total amount of RMB198,400,000. Also, in addition to the unutilized facilities amounting to RMB110,000,000 as of December 31, 2022, the Group had further obtained new banking facilities of RMB236,500,000 and had drawn down a total

amount RMB173,526,000 from these facilities. The directors believe the Group will be able to renew its existing banking facilities and borrowings when they fall due in 2023 as well as obtaining new bank facilities based on the Group's relationship with the banks and the historical experience of successful loan renewal with the banks.

- (5) Since the 2025 Convertible Bonds still have a term of more than two years before its final maturity in October 2025 and considering the anticipated improvement in operation performance of the Group as mentioned above, the directors of the Company is confident that the CB Holders will be convinced not to exercise their redemption option on October 16, 2023.
- (6) The Group will continue to monitor its compliance with the financial covenant requirements of all borrowings and facilities. Should the Group be unable to comply with the covenant requirements, the management of the Company will discuss and negotiate with the respective banks and will seek to further revise the terms and covenant requirements or obtain a waiver of compliance with the covenant requirements from the lenders, if needed.
- (7) As of December 31, 2022, the Group had registered quotas to issue overseas bonds with amount not exceeding USD300,000,000. The directors of the Company believes that the Group would be able to obtain funding from issuance new bonds as and when needed in the twelve months from December 31, 2022 under the prevailing rules and regulations.

The directors have reviewed the Group's cash flow projection prepared by management, which cover a period of not less than twelve months from 31 December 2022. In the opinion of the directors of the Company, in light of the above and taking into consideration the anticipated cash flows to be generated from the Group's operations as well as the abovementioned plans and measures, the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from December 31, 2022. Accordingly, the directors of the Company consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, a material uncertainty exists as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon, inter alia,

- (i) success in implementing the plan and measures to improve the Group's operating performance and to accelerate the collection of outstanding trade and other receivables so as to generate sufficient operating cash inflows to meet with its financial obligations;
- (ii) continuous compliance by the Group of the existing and revised terms and conditions of its borrowings and, where applicable, success in obtaining waiver from the lenders or to revise the terms and conditions of the borrowings for the continuous compliance thereof as and when needed, such that the existing borrowings and facilities will continue to be available to the Group and be repaid in accordance with the agreed repayment schedules;
- (iii) success in renewal of the bank facilities and borrowings when they fall due and obtain new bank facilities and draw down from those available bank facilities as and when required;
- (iv) successful in convincing the trustee or CB Holders not to exercise the redemption options; and
- (v) success in issuance of overseas bonds to raise additional funding as and when needed.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

***(b) New and amended standards adopted by the Group***

The Group has applied new and amended standards effective for the financial year beginning on January 1, 2022. The adoption of these new and revised standards does not have any significant impact on the consolidated financial statements of the Group.



(c) *New standards and interpretations not yet adopted*

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for December 31, 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		<b>Effective for annual periods beginning on or after</b>
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023
Amendments to IAS 1, and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
IFRS 17	Insurance contract	January 1, 2023
Amendments to IFRS 17, IFRS 4 and IAS 16	Extension of the Temporary Exemption from Applying IFRS 9 and Property, Plant and Equipment	January 1, 2023
Amendments to IFRS 16	Lease liability in a sales and leaseback	January 1, 2024
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2024
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

### 3. Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision-maker ("CODM"). The Group's CODM has been identified as the Chief Executive Officer ("CEO"), who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. Since 2021, the CEO of the Group considered that the Group's operations are operated and managed on below 2 reportable segments and comparative segment information has been restated to align with the presentation of the current period's segment information disclosure.

**(a) *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.

**(b) *IP derivatives business***

The segment of IP derivatives business primarily offers game console experience and retails, game and cultural IP-themed sales of trendy products.

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, research and development expenses and impairment losses on intangible assets 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.

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, 2022 and 2021 is as follows:

	<b>Year ended December 31, 2022</b>		
	<b>Game and information services RMB'000</b>	<b>IP derivatives business RMB'000</b>	<b>Total RMB'000</b>
Revenues	2,594,528	139,596	2,734,124
Cost of revenues	<u>(2,194,068)</u>	<u>(118,856)</u>	<u>(2,312,924)</u>
Gross profit	<u>400,460</u>	<u>20,740</u>	<u>421,200</u>
Gross margin	15.43%	14.86%	15.41%
Segment results	<u>(1,736,129)</u>	<u>(71,162)</u>	<u>(1,807,291)</u>
Reconciliation:			
Unallocated operating expenses			(107,588)
Net impairment losses on financial assets			(360,928)
Other income			34,349
Other losses, net			(67,352)
Fair value losses on financial assets at fair value through profit or loss			(83,150)
Finance income			8,780
Finance costs			(185,261)
Share of results of investments accounted for using the equity method			<u>(8,617)</u>
Loss before income tax			<u><u>(2,577,058)</u></u>

	Year ended December 31, 2021		
	Game and information services <i>RMB'000</i>	IP derivatives business <i>RMB'000</i>	Total <i>RMB'000</i>
Revenues	2,601,076	36,561	2,637,637
Cost of revenues	<u>(1,512,157)</u>	<u>(22,139)</u>	<u>(1,534,296)</u>
Gross profit	<u>1,088,919</u>	<u>14,422</u>	<u>1,103,341</u>
Gross margin	41.86%	39.45%	41.83%
Segment results	<u>95,603</u>	<u>(32,223)</u>	<u>63,380</u>
Reconciliation:			
Unallocated operating expenses			(94,720)
Net impairment losses on financial assets			(20,580)
Other income			53,296
Other losses, net			(14,449)
Fair value losses on financial assets at fair value through profit or loss			(3,511)
Finance income			64,383
Finance costs			(134,416)
Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss			(85,662)
Share of results of investments accounted for using the equity method			<u>(8,901)</u>
Loss before income tax			<u><u>(181,180)</u></u>

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.

#### 4. Revenues

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Game and information services revenues		
Game revenue	<b>2,531,285</b>	2,297,930
Information service revenue	<b>48,956</b>	290,426
Others	<b>14,287</b>	12,720
IP derivatives revenues	<b>139,596</b>	36,561
	<b><u>2,734,124</u></b>	<b><u>2,637,637</u></b>

The timing of revenues recognition by category is as follows:

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
At a point in time	<b>1,196,027</b>	811,868
Over time	<b>1,538,097</b>	1,825,769
	<b><u>2,734,124</u></b>	<b><u>2,637,637</u></b>

## 5. Expenses by nature

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

	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Promotion and advertising expenses	<b>1,056,654</b>	477,141
Channel costs	<b>955,847</b>	966,559
Impairment provisions for intangible assets	<b>752,293</b>	49,673
Impairment provisions for prepayments	<b>533,135</b>	57,492
Employee benefit expenses	<b>412,944</b>	326,798
Revenue share to content providers	<b>392,881</b>	298,100
Amortization of intangible assets	<b>211,366</b>	207,247
Cost of goods	<b>114,227</b>	20,445
Technical and development services fee in relation to game development and others	<b>78,902</b>	123,567
Cloud computing, bandwidth and server custody fees	<b>37,626</b>	31,172
Depreciation of right-of-use assets	<b>30,573</b>	17,798
Professional service fees	<b>18,321</b>	29,576
Travelling and entertainment expenses	<b>10,857</b>	18,103
Short-term rental and utilities expenses	<b>8,616</b>	6,956
Depreciation of property, plant and equipment	<b>8,460</b>	7,076
Auditor's remuneration		
— Audit services	<b>6,500</b>	5,600
— Non-audit services	<b>297</b>	296
Others	<b>19,504</b>	25,378
	<hr/>	<hr/>
<b>Total cost of revenues, selling and marketing expenses, general and administrative expenses, research and development expenses and impairment losses on intangible assets</b>	<b><u>4,649,003</u></b>	<b><u>2,668,977</u></b>

## 6. Other income

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	18,680	38,013
Additional deduction of value-added tax	15,634	13,913
Rental income	35	1,361
Interest income from wealth management products	—	9
	<b>34,349</b>	<b>53,296</b>

## 7. Other losses, net

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Goodwill impairment	73,222	—
Impairment of investments in associates	7,917	20,719
Gains on disposal of financial assets at fair value through profit or loss	(117)	(1,608)
Net losses on disposal of intangible assets	—	1,887
Net losses on disposal of property, plant and equipment	1,243	4,835
Losses/(gains) on disposal of investments in associates and joint venture	7,188	(6,526)
Gains on disposal of subsidiaries	(23,540)	(2,828)
Gains on disposals of right-of-use assets	(116)	(1,916)
Donation	1,294	2,396
Others	261	(2,510)
	<b>67,352</b>	<b>14,449</b>

## 8. Income tax expense/(credit)

The income tax expense/(credit) of the Group for the year ended December 31, 2022 and 2021 is analyzed as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Current income tax	840	21,751
Deferred income tax	12,019	(47,001)
<b>Income tax expense/(credit)</b>	<b>12,859</b>	<b>(25,250)</b>

## 9. Losses per share and dividends

### (a) Losses per share

#### (i) Basic

	Year ended December 31,	
	2022	2021
Loss attributable to owners of the Company (RMB'000)	(2,492,293)	(157,478)
Weighted average number of shares in issue (thousands)	1,386,326	1,259,699
Basic losses per share (in RMB)	<b>(1.80)</b>	<b>(0.13)</b>

Basic losses per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of shares in issue during the year, excluding ordinary shares repurchased by the Group and held as treasury shares.



(ii) *Diluted*

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

As the Group incurred loss for the year ended December 31, 2022 and 2021, the impact of employee incentive plan and convertible bonds 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 years ended December 31, 2022 and 2021 are the same as basic losses per share.

(b) *Dividends*

The Board has resolved that no dividend shall be declared for the year ended December 31, 2022 and 2021.

**10. Intangible assets**

	<b>Game intellectual properties and licenses</b>	<b>Computer software</b>	<b>Capitalized development costs for internal use software</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Year ended December 31, 2021</b>				
Opening net book amount	1,804,441	7,413	11,296	1,823,150
Additions	171,981	493	—	172,474
Amortization charge (a)	(191,793)	(5,676)	(9,778)	(207,247)
Impairment (b)	(49,673)	—	—	(49,673)
Disposal	(39,623)	(1)	—	(39,624)
Currency translation differences	(4,951)	—	—	(4,951)
	<u>1,690,382</u>	<u>2,229</u>	<u>1,518</u>	<u>1,694,129</u>

	<b>Game intellectual properties and licenses</b>	<b>Computer software</b>	<b>Capitalized development costs for internal use software</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>At December 31, 2021</b>				
Cost	2,394,122	38,703	77,602	2,510,427
Accumulated amortization	<u>(703,740)</u>	<u>(36,474)</u>	<u>(76,084)</u>	<u>(816,298)</u>
Net book amount	<u><u>1,690,382</u></u>	<u><u>2,229</u></u>	<u><u>1,518</u></u>	<u><u>1,694,129</u></u>
<b>Year ended December 31, 2022</b>				
Opening net book amount	<b>1,690,382</b>	<b>2,229</b>	<b>1,518</b>	<b>1,694,129</b>
Additions	<b>261,276</b>	<b>457</b>	<b>—</b>	<b>261,733</b>
Amortization charge (a)	<b>(208,233)</b>	<b>(1,615)</b>	<b>(1,518)</b>	<b>(211,366)</b>
Impairment (b)	<b>(752,293)</b>	<b>—</b>	<b>—</b>	<b>(752,293)</b>
Currency translation differences	<u><b>12,515</b></u>	<u><b>—</b></u>	<u><b>—</b></u>	<u><b>12,515</b></u>
Closing net book amount	<u><u><b>1,003,647</b></u></u>	<u><u><b>1,071</b></u></u>	<u><u><b>—</b></u></u>	<u><u><b>1,004,718</b></u></u>
<b>At December 31, 2022</b>				
Cost	<b>2,513,531</b>	<b>39,160</b>	<b>77,602</b>	<b>2,630,293</b>
Accumulated amortization	<b>(851,938)</b>	<b>(38,089)</b>	<b>(77,602)</b>	<b>(967,629)</b>
Accumulated impairment (b)	<u><b>(657,946)</b></u>	<u><b>—</b></u>	<u><b>—</b></u>	<u><b>(657,946)</b></u>
Net book amount	<u><u><b>1,003,647</b></u></u>	<u><u><b>1,071</b></u></u>	<u><u><b>—</b></u></u>	<u><u><b>1,004,718</b></u></u>

(a) *Amortization charges for intangible assets*

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

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Cost of revenues	190,665	153,620
General and administrative expenses	18,318	46,226
Research and development expenses	1,403	4,894
Selling and marketing expenses	980	2,507
	<u>211,366</u>	<u>207,247</u>

(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 cash flow projections to be generated in the remaining contractual period.

During the year ended December 31, 2022, certain game intellectual properties and licenses which belong to the segment of game and information services were fully impaired and impairment losses of RMB752,293,000 (2021: RMB49,673,000) was charged to the consolidated statement of comprehensive income, as the Group decided not to further develop and launch certain games which missed the best time window for launching due to the progress of approval of publication numbers. The Group's core strategy focuses on the publishing and self-development of exquisite games. Therefore, the Group has adjusted and optimized its product layout in the future and gradually terminated products that are no longer in line with the Group's game business strategy in the future.

As certain game contracts have expired before December 31, 2022, the management expects that it is unlikely to reverse the impairment provision in the future, so part of the impairment of the game amounting to RMB94,347,000 is written off, of which the cost was RMB154,382,000 and the accumulated amortization was RMB60,035,000.

## 11. Trade receivables

	<b>As of December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Third parties	<b>842,957</b>	852,231
Related parties	<b>31,968</b>	16,202
	<u>874,925</u>	<u>868,433</u>
Less: provision for impairment	<b>(149,993)</b>	(87,087)
	<u><b>724,932</b></u>	<u>781,346</u>

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

	<b>As of December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Within 3 months	<b>240,231</b>	202,698
3 months to 1 year	<b>270,370</b>	391,224
1 to 2 years	<b>273,176</b>	254,215
2 to 3 years	<b>89,065</b>	18,184
Over 3 years	<b>2,083</b>	2,112
	<u><b>874,925</b></u>	<u>868,433</u>

- (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.

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

	<b>Year ended December 31,</b>	
	<b>2022</b>	2021
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
<b>At the beginning of the year</b>	<b>87,087</b>	97,969
Provision for impairment	<b>167,899</b>	5,788
Receivables written off during the period as uncollectible	<u><b>(104,993)</b></u>	<u>(16,670)</u>
<b>At the end of the year</b>	<u><b>149,993</b></u>	<u>87,087</u>

The provisions for impaired receivables have been included in “net impairment losses on financial assets” in the consolidated statement of comprehensive income.

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

	<b>As of December 31,</b>	
	<b>2022</b>	2021
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
RMB	<b>869,833</b>	803,990
USD	<u><b>5,092</b></u>	<u>64,443</u>
	<u><b>874,925</b></u>	<u>868,433</u>

- (d) As of December 31, 2022 and 2021, the fair values of trade receivables approximate their carrying amounts. The maximum exposure to credit risk at each of the reporting date is the carrying value of the net receivable balance.
- (e) As at December 31, 2022 and 2021, trade receivables of RMB65,738,000 and RMB12,449,000 respectively were pledged to banks to secure certain bank facilities granted to the Group.

## 12. Prepayments and other receivables

	As of December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Prepayments</b>		
Prepaid revenue sharing to content providers (a)	866,765	1,083,335
Prepaid advertising expenses (b)	376,609	488,522
Recoverable value-added tax	29,090	37,186
Prepayment to related parties	6,938	41,620
Prepayment for intangible assets	920	3,254
Others	32,827	28,742
	<u>1,313,149</u>	<u>1,682,659</u>
Less: provision for impairment (e)	(380,628)	(9,873)
	<u>932,521</u>	<u>1,672,786</u>
Less: non-current Prepayment	(920)	(3,254)
	<u><b>931,601</b></u>	<u><b>1,669,532</b></u>
<b>Other receivables</b>		
Loans to third parties (c)	238,091	213,362
Loans to shareholders	86,157	19,127
Rental and other deposits	12,258	8,206
Loan to employees (d)	1,879	6,449
Others	20,667	39,871
	<u>359,052</u>	<u>287,015</u>
Less: provision for impairment	(203,723)	(10,783)
	<u>155,329</u>	<u>276,232</u>
Less: non-current other receivables	(90,262)	(27,898)
	<u><b>65,067</b></u>	<u><b>248,334</b></u>

As of December 31, 2022 and 2021, there were no significant balances that were past due.

- (a) The prepaid revenue sharing to game developers is for the services to be rendered by game developers when the Group operates the third party developed games for certain period of time in certain countries. Such amounts are recognized as “cost of revenues” when relevant revenue is recognized.
- (b) The Group engaged various online advertising suppliers and made prepayments in exchange for better advertising opportunities and resources in some arrangements. Such amounts are recognized as “selling and marketing expenses” when the advertising services are rendered.
- (c) Loans to third parties represent the loans provided to a number of third parties, which were mainly unsecured, interest free except a loan that was interest-bearing fixed 4.35% per annum. In the opinion of the directors, none of the loans to any single third parties is material to the Group during the year ended December 31, 2022.
- (d) 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.
- (e) Movements in the provision for impairment of prepayments as follows:

	<b>Year ended December 31,</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
<b>At the beginning of the year</b>	<b>9,873</b>	9,873
Provision for impairment	<b>533,135</b>	57,492
Written off during the year	<b>(162,380)</b>	(57,492)
	<u><b>380,628</b></u>	<u>9,873</u>
<b>At the end of the year</b>	<b>380,628</b>	9,873

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 cash flow projections to be generated in the remaining contractual period.

During the year ended December 31, 2022, certain game intellectual properties and licenses which belong to the segment of game and information services were fully impaired and impairment losses of RMB533,135,000 (2021: RMB57,492,000) was charged to cost of revenue in the consolidated statement of comprehensive income, as the Group decided not to further develop and launch certain games which missed the best time window for launching due to the progress of approval of publication numbers. The Group’s core strategy focuses on the

publishing and self-development of exquisite games. Therefore, the Group has adjusted and optimized its product layout in the future and gradually terminated products that are no longer in line with the Group's game business strategy in the future.

### 13. Borrowings

	<b>As of December 31,</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Included in non-current liabilities</b>		
Secured bank borrowings	—	450,719
<b>Included in current liabilities</b>		
Secured bank borrowings	<b>508,400</b>	447,500
Current portion of long-term bank borrowings, secured	<b>482,841</b>	432,211
Secured other borrowings	<b>20,000</b>	—
Unsecured other borrowings	—	20,000
	<b>1,011,241</b>	899,711
	<b>1,011,241</b>	<b>1,350,430</b>

As at December 31, 2022, the Group's long-term bank borrowings bear weighted average interest rate of 4.19% (2021: 4.52%) per annum, and the short-term bank borrowings bear weighted average interest rate of 5.57% (2021: 4.42%) per annum.

As disclosed in Note 2(a), as of December 31, 2022, the Group did not comply with certain financial covenant requirements of a bank borrowing. The non-compliance may cause the relevant bank borrowing, subject to certain cross default clauses, become immediately due and payable should the lenders exercise their rights to demand repayment under the relevant agreements. As a result, the Group reclassified non-current bank borrowings of RMB40,000,000 to current liabilities as of December 31, 2022.



## 14. Convertible bonds

On October 6, 2020, the Group entered into a subscription agreement for 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 HKD4.99 per share. On October 16, 2020, the 2025 Convertible Bonds were issued. The holder of each 2025 Convertible Bonds will have the right at holder’s option, to require the Group to redeem all or some only of such holder’s bonds on October 16, 2023.

The 2025 Convertible Bonds was recognized 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 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 recognized as a single liability component, and it subsequently carried at amortized cost.
- Equity component, being the conversion option of the 2025 Convertible Bonds, initially recognized at the residual amount after deducting the value of the aforesaid single liability component from the net proceeds at the initial recognition.

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

	<b>Liability</b> <i>RMB'000</i>	<b>Equity</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>As of January 1, 2021</b>	367,874	262,620	630,494
Interest expenses	62,676	—	62,676
Coupon interests paid	(20,205)	—	(20,205)
Currency translation differences	(8,884)	—	(8,884)
	<u>401,461</u>	<u>262,620</u>	<u>664,081</u>
<b>As of December 31, 2021</b>	<u>401,461</u>	<u>262,620</u>	<u>664,081</u>
<b>As of January 1, 2022</b>	<b>401,461</b>	<b>262,620</b>	<b>664,081</b>
Interest expenses	<b>70,284</b>	—	<b>70,284</b>
Coupon interests paid	<b>(20,104)</b>	—	<b>(20,104)</b>
Currency translation differences	<b>40,620</b>	—	<b>40,620</b>
	<u>492,261</u>	<u>262,620</u>	<u>754,881</u>
<b>As of December 31, 2022</b>	<u>492,261</u>	<u>262,620</u>	<u>754,881</u>

Interest expense is 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 disclosed in Note 2(a), the Group did not comply with certain financial covenant requirements of a bank borrowing which may cause the 2025 Convertible Bonds, subject to certain repayment acceleration clauses, become immediately due and payable should the lenders exercise their rights to accelerate repayment under the relevant agreements. In addition, the CB Holders will have the rights at holder's option, to require the Group to redeem all or some of such holder's bonds on October 16, 2023.

As a result, the Group reclassified the 2025 Convertible Bonds to current liabilities as of December 31, 2022.

Since the 2025 Convertible Bonds still have a term of more than two years before its final maturity in October 2025 and considering the anticipated improvement in operation performance of the Group as mentioned in Note 2(a), the directors of the Company is confident that the CB Holders will be convinced not to exercise their redemption option on October 16, 2023. As a result, the carrying amount of liability component of 2025 Convertible Bonds were not remeasured.

As of December 31, 2022, there has been no conversion of the 2025 Convertible Bonds.

## 15. Trade payables

	<b>As of December 31,</b>	
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Third parties	<b>392,851</b>	90,659
Related parties	<b>50,647</b>	21,841
	<b><u>443,498</u></b>	<u>112,500</u>

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

## 16. Other payables and accruals

	<b>As of December 31,</b>	
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Payroll and welfare payables	<b>98,230</b>	55,783
Other tax payables	<b>36,430</b>	25,534
Other payables due to related parties	<b>30,507</b>	65,127
Other payables to construction in progress	<b>21,254</b>	—
Professional service fee payable	<b>6,422</b>	5,600
Advance from business partners	<b>5,362</b>	2,071
Interest payable	<b>1,480</b>	155
Others	<b>25,002</b>	12,261
	<b><u>224,687</u></b>	<u>166,531</u>

As of December 31, 2022 and 2021, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

## **EXTRACT OF INDEPENDENT AUDITOR’S REPORT**

The following is the extract of the independent auditor’s report from the external auditor of the Company:

### **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, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Emphasis of matter**

#### **Material Uncertainty Related to Going Concern**

We draw your attention to Note 2(a) to the consolidated financial statements, which indicates that during the year ended December 31, 2022, the Group reported a net loss of RMB2,589,917,000. As of December 31, 2022, the Group’s current liabilities exceeded its current assets by RMB329,469,000, and the Group had total borrowings amounting to RMB1,011,241,000 and convertible bonds of HKD775,000,000 (equivalent to approximately RMB692,284,000) due on October 16, 2025 (the “**2025 Convertible Bonds**”), while the Group’s cash and cash equivalents amounted to RMB90,527,000. In addition, as of December 31, 2022, the Group did not comply with the financial covenant requirements of a borrowing that may cause certain borrowings and the 2025 Convertible Bonds become immediately due and payable should the lenders exercise their rights to demand immediate repayment under the agreements. Also as disclosed in Note 14, the holders of the 2025 Convertible Bonds will have the rights at holder’s option, to require the Group to redeem all or some only of such holder’s bonds on October 16, 2023.

These conditions, along with other matters described in Note 2(a), indicate the existence of material uncertainties that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **DIVIDEND**

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2022 (2021: Nil).

## **CORPORATE GOVERNANCE**

### **Compliance with the CG Code**

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

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

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

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

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

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

## Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the Reporting Period.

## Purchase, Sale or Redemption of Listed Securities

As the Board considered that the dealing prices of the Company's shares at the time did not reflect their intrinsic value, and the share repurchase program could reflect the Board's confidence in the Company's long-term development prospects and growth potential as well. During the Reporting Period, the total number of shares repurchased by the Company on the Stock Exchange were 9,932,000, at a total consideration (before deduction of expenses) of HK\$38,895,987.51. Of these, 8,994,400 shares repurchased from April to July 2022 and 937,600 shares repurchased from September to October 2022 have been canceled on September 1, 2022 and January 13, 2023, respectively.

During the Reporting Period, the Company's monthly report on share repurchase is set out as below:

Month	Number of Shares repurchased	Highest purchase price per Share HK\$	Lowest purchase price per Share HK\$	Total consideration (before deduction of expenses) HK\$
April 2022	3,444,000	3.680	2.710	10,518,102.00
May 2022	4,824,800	4.820	3.800	20,839,125.52
June 2022	526,400	5.010	4.920	2,626,128.00
July 2022	199,200	4.880	4.570	923,735.99
September 2022	933,600	4.820	3.890	3,975,176.00
October 2022	4,000	3.430	3.430	13,720.00
	<u>9,932,000</u>			<u>38,895,987.51</u>

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, 2022.

## **AUDIT COMMITTEE**

The Audit Committee, together with the Auditor, has reviewed the Group's audited consolidated financial statements for the year ended December 31, 2022. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

## **SUBSEQUENT EVENT**

In February 2023, the Group disposed 27% equity interests of a subsidiary which operates the IP derivatives business and lost control over the subsidiary.

On March 20, 2023, the Group entered into a series of supplementary agreements on game cooperation with its shareholder, which are mainly related to cooperation of existing games, and certain new games that are expected to launch in the second half of the year 2023. Pursuant to the supplemental agreements, the Group has the right to receive an advance payment of RMB150,000,000 (of which RMB139,000,000 has been received) for the revenue sharing of such games, subject to certain conditions being met.

## **AUDITOR'S PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT**

The figures in respect of the announcement of the Group's results for the year ended December 31, 2022 have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and consequently no assurance has been expressed by the Auditor on this announcement.

## **PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT**

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

## DEFINITIONS

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

“ARPG”	action role-playing game
“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 total game revenue for the period divided by the total number of paying users during that period
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company
“AVISTA”	Avista Business Consulting (Shanghai) Co., Ltd., an independent valuer engaged by the management
“Board”	the board of Directors of the Company
“Brilliant Seed”	Brilliant Seed Limited, a company incorporated in the BVI on January 2, 2018 and wholly-owned by Mr. Chen Xiangyu
“Brilliant Seed Subscription Agreement”	the subscription agreement dated 28 November, 2021 entered into between the Company, Mr. Chen Xiangyu as guarantor and Brilliant Seed in relation to the subscription of the subscription shares by Brilliant Seed at the subscription price
“CG Code”	the Corporate Governance Code as set out in the Appendix 14 to the Listing Rules



“Company” or “our Company” or “iDreamSky”	iDreamSky Technology Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange under stock code 1119
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“DAU”	daily active users
“Director(s)”	the director(s) of the Company
“EUR”	Euro, the legal currency of the member states of the European Union
“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 legal currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Instant Sparkle”	Instant Sparkle Limited, a company incorporated in the BVI on January 2, 2018 and wholly-owned by Mr. Lei Junwen
“Instant Sparkle Subscription Agreement”	the subscription agreement dated November 28, 2021 entered into between the Company, Mr. Lei Junwen as guarantor and Instant Sparkle in relation to the subscription of the subscription shares by Instant Sparkle at the subscription price
“IP(s)”	intellectual property(ies)
“IFRS(s)”	International Financial Reporting Standards
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“match-three puzzle game(s)”	games in which users have to put three identical elements in a row or line to eliminate them
“MAU”	monthly active users
“MMORPG”	massively multiplayer online role-playing game
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“MPU”	monthly paying users
“PRC” or “China”	the People’s Republic of China, excluding, for the purposes of this announcement only, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“PRC Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely Shenzhen iDreamSky Technology Co., Ltd. (深圳市创梦天地科技有限公司) and its subsidiaries
“Reporting Period”	the year ended December 31, 2022
“RMB”	Renminbi, the legal currency of the PRC
“Role Playing Game” or “RPG(s)”	games in which users assume the roles of characters in a fictional setting
“Share(s)”	ordinary share(s) of the Company with a nominal value of USD0.0001 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	completed on February 28, 2022, the subscription of 32,854,000 Shares by three related subscribers at the price of HKD5.92 per Share

“Subscription Agreements”	the Brilliant Seed Subscription Agreement, the Tencent Subscription Agreement and the Instant Sparkle Subscription Agreement
“subsidiary(ies)”	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 Mobility”	Tencent Mobility Limited, incorporated in Hong Kong, a wholly-owned subsidiary of Tencent
“Tencent Subscription Agreement”	the subscription agreement dated November 28, 2021 entered into between the Company and Tencent Mobility in relation to the subscription of the subscription shares by Tencent Mobility at the subscription price
“Tianjin Huohun”	Tianjin Huohun Internet Technology Co., Ltd. (天津火魂網絡科技有限公司), a non-wholly owned subsidiary of the Company incorporated in the PRC, formerly named Shanghai Huohun Internet Technology Co., Ltd. (上海火魂網絡科技有限公司), which changed its name to Tianjin Huohun Internet Technology Co., Ltd. in January 2022
“TPS”	third-person shooting game

“USD”	U.S. dollars, the legal currency of the United States of America
“%”	per cent

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

Shenzhen, the PRC, March 30, 2023

*As at the date of this announcement, the Board comprises Mr. Chen Xiangyu as chairman and executive Director, Mr. Guan Song and Mr. Jeffrey Lyndon Ko as executive Directors, Mr. Ma Xiaoyi, Mr. Zhang Han, Mr. Yao Xiaoguang and Mr. Chen Yu as non-executive Directors, and Ms. Yu Bin, Mr. Li Xintian, Mr. Zhang Weining and Mr. Mao Rui as independent non-executive Directors.*