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

2018 ANNUAL REPORT

Contents

Corporate Information

Board of Directors

Executive Directors

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

Non-executive Directors

Mr. Ma Xiaoyi
Mr. Du Feng

Independent Non-executive Directors

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

Audit Committee

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

Remuneration and Appraisal Committee

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

Nomination Committee

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

Strategy Committee

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

Authorized Representatives

Mr. Lei Junwen
Ms. Leung Suet Lun

Joint Company Secretaries

Mr. Zhang Heng
Ms. Leung Suet Lun

Legal Advisor

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

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Compliance Advisor

SPDB International Capital Limited
Suites 3207–3212, One Pacific Place
88 Queensway
Hong Kong

Registered Office

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

Headquarters

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Kexing Science Park
Nanshan District
Shenzhen
PRC

Principal Place of Business in Hong Kong

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Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Principal Share Registrar

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

Hong Kong Share Registrar

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

Principal Banker

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

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

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

Company's Website

http://www.idreamsky.com/

Stock Code

1119

Date of Listing

December 6, 2018

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

* To supplement our audited consolidated financial statements which are presented in accordance with IFRS, we also use adjusted net profit 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 net profit was derived from our profit for the year excluding share-based compensation expenses, listing expenses and fair value gains or losses on financial assets, if any.

Chen Xiangyu
Chairman

2018 was a monumental year for the Company, as our Shares were listed on the Main Board of the Stock Exchange on December 6, 2018. I am therefore pleased to present our first annual report for the year ended December 31, 2018 to the Shareholders.

OVERVIEW

We are a digital entertainment platform with a leading position in game publishing market in China with 129.2 million average MAUs for the year ended December 31, 2018.

We operate games as a service. We adopt a free-to-play model for all of our games, constantly enrich content offerings and in-game social functions to users and generate revenue from sales of in-game virtual items whereby we prolong game lifecycle and enhance user engagement to achieve monetization. We have also expanded our service offerings to other digital entertainment areas, such as e-sports, comics and video. For the year ended December 31, 2018 and in the foreseeable future, game revenue continued and will continue to be the most significant component in our total revenues, and we expect our revenue generated from other digital entertainment services will also continue to grow.

In 2018, we have received various awards and recognitions in the PRC, such as "Golden Diamond Award — the Most Influential Enterprise" awarded by Guangdong Entertainment & Game Industry Association, and our game, *Gardenscapes (夢幻花園)*, was rewarded as the "Golden Diamond Award — Most Popular Game of the Year".

RESULTS

Our Group's audited profit for the year ended December 31, 2018 was RMB267.8 million, representing an increase of 76.3% compared with that for the previous year. Our Group's adjusted net profit for the year ended December 31, 2018 was RMB443.6 million, an increase of 86.1% compared with that for the previous year.

BUSINESS REVIEW AND OUTLOOK

1. Company Business Highlights

In 2018, our growth has been driven by our philosophy of *iDreamSky Flywheel (创梦飛輪)*, which represents a self-spinning and reinforcing growth cycle empowered by each of the accelerating components.

– ***Continuously offer high quality digital contents to users***

High quality contents are the core of our growth philosophy. We strived to offer a wide variety of high quality contents, such as games, comics, animation, TV play and interactive story to our users.

— **High quality games**. We actively cooperate with domestic and overseas well-known enterprises, with game products in a variety of game genre. As of December 31, 2018, we had 59 games, including 17 RPGs, eight matching puzzle games, 13 casual competition games, 7 endless running games and 14 other games. In 2018, we launched a number of new games, such as *FIFPro World Players' Union* (*全民冠軍足球*) (sports game) and *Cross Gate* (*魔力寶貝*) (turn-based game).

— **Other digital contents**. With the diversified forms of digital contents, we simultaneously develop our core business, namely, comics, animation, TV play and interactive story in the digital contents segment.

— **Comics**. In 2018, our original online comic book, *The Way from Zero to One (零一之道)*, was published on *Tencent Comic* reaching reader volume of more than 100 million. We have acquired and maintained core user base through comics, and on this basis, the comics will be further adapted to online games, thereby providing our users with more diversified entertainment contents.

— **Animation**. In 2018, we commenced animation production of the top-tier comic book, *Me, The Almighty God (我是大神仙)* in cooperation with Tencent. We present our comic contents by way of animation, with top-tier animation production and dubbing by famous voice actors in China and in a more vivid and sensational form, to further enhance the influence and commercial value of the animation. Also, the cooperation with Taiwan Tong Li Publishing Co. (台灣東立出版社) to develop *The Ravages of Time (火鳳燎原)* into animation was formally confirmed this year.

— **TV play**. We produced the TV play *The Naive Pilgrimage to the West (天真派西遊記)* jointly with Tianjin Dingdong Cultural Media Co., Ltd. (天津叮咚文化傳媒有限公司), and are entitled to the right of adaption and the right of priority in the development of peripheral products, such as online games.

— **Interactive story**. This year, we independently developed the mobile platform *Dramabook (會演互動)*, which contains the functions that multiple plots can be chosen by the users, allowing the users to immerse themselves in the contents and attracting more young users with innovative concepts.

— ***Effectively attract users and build a large user base by high quality contents***

In 2018, we launched a number of top casual games, such as *CATS: Crash Area Turbo Stars (喵星大作戰)* and *Terraria (泰拉瑞亞)* and acquired and maintained large user base with several boutique games, such as *Subway Surfers (地鐵跑酷)*, *Temple Run 2 (神廟逃亡2)* and *Gardenscapes (夢幻花園)*.

In 2018, through cooperation with the emerging mobile promotional channels (such as short video platforms), upgrading our advertising platform, established exclusive data management platform (DMP), we made our advertisement more accurately and intelligently and thereby lowering user acquisition cost. Meanwhile, through the extensive coverage of *Wechat Mini Programs*, we directed the traffic to our games through word-of-month referrals by our existing users, and through cooperation with offline channels, we increased the numbers of users in small and medium-sized cities and rural areas, thereby expanding our user coverage. Our average MAUs in 2018 reached 129.2 million, representing a year on year increase of 5.7%.

— ***Enhance user stickiness and engagement by offering diversified digital contents both online and offline***

Based on a large user base, we launched online user services system, including IPG membership system, *WePlay APP* and other applications, and further explored the social functions in games, so as to better manage users and improve user stickiness and engagement.

We established *Great Moments Voyage (好時光影遊社)*, a brand of offline experiential store, in cooperation with Tencent to build an online and offline destination for entertainment around the clock. As of December 31, 2018, we have 16 Great Moments Voyage experiential stores in China with 2 stores through self-operation and 14 stores through cooperation with local partners. It integrates movies, games, e-sports and game related merchandise, and diversed immersive experience to users. This not only capitalizes on the enormous online resources and fan base to the offline but also realises consumption through interactive and immersive entertainment facilities. We managed to convert users to our online members by way of offline operational activities, and to accumulate the numbers of our members through *Wechat Mini Programs* and *Wechat Official Account*.

— ***Maximize user value and achieve strong monetization through data-driven operation***

Driven by the enhanced operation capability with deep understanding of user behavior as well as diversified methods of monetization, we continuously improved our capability of commercialization. Through robust data analysis, we had deep understanding of users' behavior, and accordingly, we increased our paying user rates and ARPPU and expanded the numbers of paying users by optimizing product contents and launching the appropriate operational activities. Our paying user rates increased from 4.9% in 2017 to 5.4% in 2018, and our ARPPU increased by 14% from RMB21.5 to RMB24.5 in the corresponding period.

Meanwhile, we were active in expanding diversified ways of monetization, including advertisement to further achieve successful commercialization.

— ***Continually cooperate with top-tier content providers and empower our game development capability through successful commercialization, which sustain our supply of quality content***

We have closely cooperated with global well-known content providers, such as Tencent and Shanda Games to continuously obtain quality game contents. Through cooperation with Tencent Games, our self-developed game, *Cross Gate (Mobile version) (魔力寶貝 (手機版))*, recorded a gross billing of over 200 million in the first 30 days after its launch, and we also launched the *FIFPro World Player's Union (全民冠軍足球)* on Tencent's game platforms.

2. Company Financial Performance Highlight

In 2018, we achieved 34.1% year-on-year growth in our revenue. Game revenue and information service revenue were the key drivers for the overall revenue growth.

Operating profit grew by 56.5% year-on-year. Operating margin was 13.9%, representing an increase of 2.0 percentage points from the previous year.

Profit for the year increased by 76.3% year-on-year. Adjusted net profit for the year increased by 86.1%.

3. Key Operational Metrics

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

	For the year ended December 31,	
	2018	2017
Average MAUs (millions)	**129.2**	122.2
Average MPUs (millions)	**6.7**	6.0
Average ARPPU (RMB)	**24.5**	21.5

* Our key operating metrics included data from all games published and operated by us. During the year ended December 31, 2018, *Cross Gate (Mobile version) (魔力寶貝(手機版))* and *FIFPro World Players' Union (全民冠軍足球)* were the only two games not published or operated by us, which were published and operated by Tencent.

- **MAUs.** MAUs are the number of unique user accounts on our platform in a particular month, which includes multiple accounts held by one single user. Our average MAUs increased from 122.2 million in 2017 to 129.2 million in 2018 and were directly affected by (i) the number of mobile games that we offered, (ii) the popularity of these games, and (iii) the development of our global game publishing business. Our MAUs reflect level of our user engagement.

- **MPUs.** MPUs are the number of unique user accounts through which a payment is made for our mobile games in a particular month, which includes multiple accounts held by one single user. Our average MPUs increased from 6.0 million in 2017 to 6.7 million in 2018, and are directly affected by, in addition to the factors that affect our MAUs, (i) the diversity and popularity of our virtual item offerings, and (ii) the convenience of payment methods we offer to our users.

- **Monthly ARPPU.** Our monthly ARPPU is calculated using game revenues for the entire year divided by the average MPUs over the twelve-month period. Our monthly ARPPU increased from RMB21.5 in 2017 to RMB24.5 in 2018, primarily due to (i) the launch of more games which require more time commitment and offer higher-priced virtual items, and (ii) increased in-game marketing events.

4. **Company Outlook and Strategies for 2019**

In 2019, we will continue to provide users with high quality contents, further develop in-depth user service system, continuously enhance research and development and improve commercialization capabilities, and build an online and offline destination of choice for entertainment around the clock.

Our development plans include:

— Continuously sourcing quality game contents globally and acquiring source codes of games from global top-tier content providers. In 2019, we will publish more than 20 new games, including anime collectible card games *Rakshasa Street (鎮魂街)* and *Mob Psycho 100 (路人超能100)*, a MMORPG game *Dark Blood (暗黑熱血)** and a real-time strategy game *Art of War 3 (全球行動)** which will be published on Tencent's game platforms;

— Strengthening our in-house development capacity with a focus on innovation and continuously creating quality contents in the areas of games, comics, animation and interactive story;

— Continuously providing diversified digital entertainment services, further expanding our user base (in particular, the young users and female users), effectively attracting users through providing benefits under the membership system, and enhancing user participation;

— Improving and diversifying offline immersive experience, enriching type of offline entertainment, and increasing the number of our stores, particularly through cooperation;

— Continuously enhancing R&D and improve monetization capabilities. In 2019, we will make a breakthrough on aspects such as big data analysis, upgrading of advertising platforms, e-commerce on games, and application of artificial intelligence; and

— Strengthening the strategic investment deployment, connecting industrial resources, and developing the digital entertainment platform comprehensively.

* This is a temporary name of the game, and may be subject to change.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank the management of the Group and all our staff for their hard work over the past year. I would also like to extend my sincere gratitude to our Shareholders, business partners and stakeholders for their continued support.

Chen Xiangyu
Chairman
Hong Kong, March 28, 2019

The following table sets forth the comparative figures for the years ended December 31, 2018 and 2017:

	For the year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Revenues	**2,364,641**	1,763,548
Cost of revenues	**(1,325,818)**	(1,054,120)
Gross profit	**1,038,823**	709,428
Selling and marketing expenses	**(303,373)**	(203,073)
General and administrative expenses	**(284,655)**	(203,119)
Research and development expenses	**(99,102)**	(105,742)
Net impairment losses on financial assets and contract assets	**(30,189)**	(10,625)
Other income	**15,249**	30,809
Other gains/(losses), net	**3,244**	(5,579)
Fair value losses on financial assets at fair value through profit or loss	**(10,631)**	(1,708)
Operating profit	**329,366**	210,391
Finance income	**16,358**	7,670
Finance costs	**(51,023)**	(45,476)
Finance cost, net	**(34,665)**	(37,806)
Share of net profits of investments accounted for using the equity method	**2,346**	1,107
Profit before income tax	**297,047**	173,692
Income tax expense	**(29,214)**	(21,788)
Profit for the year	**267,833**	151,904
Adjusted profit for the year	**443,640**	238,347

Revenues

Revenues increased by 34.1% to RMB2,364.6 million for the year ended December 31, 2018 on a year-on-year basis. The following table sets forth our revenues by line of business for the years ended December 31, 2018 and 2017:

	For the year ended December 31,			
	2018		2017	
	RMB'000	**%**	*RMB'000*	%
Game revenue	**2,087,561**	**88.3**	1,535,018	87.0
Information service revenue	**269,962**	**11.4**	220,748	12.5
Other revenue	**7,118**	**0.3**	7,782	0.5
	2,364,641	**100.0**	1,763,548	100.0

- **Game revenue**. The largest portion of revenues is derived from our games, which contributed 88.3% and 87.0% of our total revenues in for the years ended December 31, 2018 and 2017. The increase in game revenue from RMB1,535.0 million for the year ended December 31, 2017 to RMB2,087.6 million for the year ended December 31, 2018 was primarily due to (i) the solid performance of two of our high-grossing games, *Five Elements of Heaven (五行天)* and *Gardenscapes (夢幻花園);* and (ii) the publishing of a number of new popular games, including *Cross Gate (Mobile version) (魔力寶貝 (手機版))*, *FIFPro World Players' Union (全民冠軍足球)*.

- **Information service revenue**. Our information service revenue is primarily derived from our advertising services. The increase in information service revenue from RMB220.7 million for the year ended December 31, 2017 to RMB270.0 million for the year ended December 31, 2018 was primarily the result of (i) our increased in game advertisement slots; and (ii) the higher rates charged to advertisers or advertising agents as a result of the market conditions during this year.

- **Other revenue**. Other revenue decreased from RMB7.8 million for the year ended December 31, 2017 to RMB7.1 million for the year ended December 31, 2018. Our other revenue is derived from primarily from (i) our fund management fees; and (ii) revenues generated from *Great Moments Voyage*.

Cost of revenues

Our cost of revenues increased by 25.8% from RMB1,054.1 million for the year ended December 31, 2017 to RMB1,325.8 million for the year ended December 31, 2018. The increase primarily reflected greater channel costs and revenue share to content providers.

As a percentage of revenues, cost of revenues decreased to 56.1% for the year ended December 31, 2018 from 59.8% for the year ended December 31, 2017. The decrease was primarily due to the decrease in our payment channel costs, resulting from an increased proportion of payment processed through third-party payment channels, which typically charge lower payment processing fees as compared to mobile carriers. Such decrease was partially offset by an increase in our revenue share to content providers, which was in line with the growth of revenues generated by third-party licensed games.

Selling and marketing expenses

Our selling and marketing expenses increased by 49.4% from RMB203.1 million for the year ended December 31, 2017 to RMB303.4 million for the year ended December 31, 2018. The increase was primarily due to an increase in promotion and advertising expenses primarily attributable to our strengthened efforts in promoting our games, such as *Gardenscapes (夢幻花園)*.

General and administrative expenses

Our general and administrative expenses increased by 40.2% from RMB203.1 million for the year ended December 31, 2017 to RMB284.7 million for the year ended December 31, 2018. As a percentage of revenues, our general and administrative expenses increased from 11.5% for the year ended December 31, 2017 to 12.0% for the year ended December 31, 2018. The increase was primarily due to an increase in our listing expenses, which was partially offset by a decrease in our employee benefits expenses.

Research and development expenses

Our research and development expenses decreased by 6.2% from RMB105.7 million for the year ended December 31, 2017 to RMB99.1 million for the year ended December 31, 2018, primarily due to our continued efforts in optimizing our research and development resources and increasing overall operational efficiency. As a percentage of revenues, our research and development expenses decreased from 6.0% for the year ended December 31, 2017 to 4.2% for the year ended December 31, 2018.

Income tax expense

Income tax expense increased by 33.9% to RMB29.2 million for the year ended December 31, 2018 on a year-on-year basis. The increase was mainly due to the increase in profit before income tax.

Profit for the year

In 2018, our profit for the year amounted to RMB267.8 million, representing an increase of approximately RMB115.9 million or 76.3% compared with RMB151.9 million in 2017.

Adjusted profit for the year

To supplement our audited consolidated financial statements which are presented in accordance with IFRS, we also use adjusted net profit 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 net profit was derived from our profit for the year excluding share-based compensation expenses, listing expenses and fair value gains or losses on financial assets, if any.

In 2018, our adjusted net profit for the year amounted to RMB443.6 million, representing an increase of approximately RMB205.3 million or 86.1% compared with RMB238.3 million in 2017.

EBITDA and Adjusted EBITDA

EBITDA is net income or loss before interest, taxes, depreciation and amortization. Adjusted EBITDA is calculated using adjusted net profit for the year, adding back depreciation of property and equipment, amortization of intangible assets, income tax expense and interest expenses.

The following table reconciles our profit for the year to our EBITDA and Adjusted EBITDA for years ended December 31, 2018 and 2017:

	For the year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**267,833**	151,904
Add: Depreciation of property and equipment	**7,693**	7,862
Add: Amortization of intangible assets	**86,143**	75,613
Add: Income tax expense	**29,214**	21,788
Add: Interest expense	**51,023**	45,476
EBITDA	**441,906**	302,643
Add: Fair value losses on financial assets at fair value through profit or loss	**10,631**	391
Add: Share-based compensation expenses	**85,910**	86,052
Add: Listing expenses	**79,266**	—
Adjusted EBITDA	**617,713**	389,086

Liquidity and Financial Resources

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

As at December 31, 2018, the Group's total cash and cash equivalents increased by 85.4% to approximately RMB1,121.6 million from approximately RMB605.1 million as at December 31, 2017. The increase in total cash and cash equivalents during the year under review was primarily resulted from the IPO Proceeds. Our cash and cash equivalents were primarily denominated in RMB, HKD and USD.

As at December 31, 2018, the Group's total bank borrowings amounted to approximately RMB1,114.2 million (2017: RMB1,000.1 million). As at December 31, 2018, the RMB-denominated bank borrowings accounted for approximately 52.2% (2017: 46.9%) of the Group's total bank borrowings. Among the Group's total bank borrowings as at December 31, 2018, a substantial portion of approximately 88.3% (2017: 99.7%) would be due within one year.

As at December 31, 2018, the current assets of the Group amounted to approximately RMB3,267.2 million, and the current liabilities of the Group amounted to approximately RMB2,304.7 million. As at December 31, 2018, the current ratio (being the current assets to current liabilities ratio) of the Group was 1.42 as compared with 1.43 as at December 31, 2017.

Debt ratio is calculated based on our total liabilities as at the respective date divided by our total assets as at the same date. As at December 31, 2018, the debt ratio of the Group was 43.4% as compared with 51.8% as at December 31, 2017.

Pledge of Assets

Among the total bank borrowings of the Group as at December 31, 2018, approximately RMB918.2 million (2017: RMB1,000.1 million) were secured, which accounted for approximately 82.4% (2017: 100.0%) of the Group's total borrowings.

Contingent Liabilities

As at December 31, 2018, the Group did not have any unrecorded significant contingent liabilities or guarantees against us (2017: nil).

Capital Expenditure

Our capital expenditures comprised royalty fees paid to game developers, and purchase of property, plant and equipment. For the year ended December 31, 2018, our total capital expenditure was approximately RMB462.9 million (2017: RMB155.8 million).

We expect that our capital expenditure in 2019 will continue to be primarily royalty fees paid to game developers, land use right and purchase of property, plant and equipment, and to finance our capital expenditures through a combination of operating cash flows and the IPO Proceeds. We may adjust our capital expenditure according to our future development plans or in light of market conditions and other factors that we consider appropriate.

Material Acquisitions and Significant Investments

On August 7, 2018, we acquired 70% of the equity interest of Shanghai Huohun Internet Technology Co., Ltd. (上海火魂網絡科技有限公司) ("**Shanghai Huohun**"), a company established in the PRC and principally engaged in custom game research and development. For further details about our acquisition of Shanghai Huohun, please refer to the section headed "History, Reorganization and Corporation Structure — Acquisition of Shanghai Huohun" in the Prospectus.

Foreign Exchange Risk Management

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

We did not hedge against any fluctuations in foreign currency during the years ended December 31, 2018 and 2017.

Employee and Remuneration Policy

We had 665 and 703 full-time employees as of December 31, 2017 and 2018, respectively. Substantially all of our employees are based in the PRC.

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

USE OF PROCEEDS

The Shares of our Company were listed on the Main Board of the Stock Exchange on December 6, 2018 by way of global offering, raising total net proceeds of approximately HK$776.4 million after deducting professional fees, underwriting commissions and other related listing expenses.

As stated in the Prospectus, the intended uses of the IPO proceeds are set out as follows:

- approximately HK$295.0 million (representing 38% of the IPO proceeds) is expected to be used to further expand our game portfolio and enrich our contents offerings;

- approximately HK$186.3 million (representing 24% of the IPO proceeds) is expected to be used to fund our strategic acquisition in upstream or game-related industries to intensify our collaboration with key market players, as well as to support the expansion of our international operations;

- approximately HK$178.6 million (representing 23% of the IPO proceeds) is expected to be used to strengthen our in-house research and development capabilities and to strengthen our technical knowhow to enhance our in-house game development capabilities;

- approximately HK$69.9 million (representing 9% of the IPO proceeds) is expected to be used for working capital and other general corporate purposes; and

- approximately HK$46.6 million (representing 6% of the IPO proceeds) is expected to be used to expand our offline entertainment services.

Since the Listing Date up to as of December 31, 2018, the IPO proceeds had not yet been utilised. In 2019, the Group will start to utilise the IPO proceeds in accordance with the intended purposes as set out in the Prospectus.

The Board is pleased to present its report together with the audited consolidated financial statements of the Company for the year ended December 31, 2018.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on January 3, 2018 as an exempted company with limited liability under the laws of the Cayman Islands. The Company's Shares were listed on the Main Board of the Stock Exchange on December 6, 2018.

PRINCIPAL ACTIVITIES

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

Business Review and Outlook

A review of our business, a discussion and analysis of our performance during the year, the material factors underlying our results and financial position, certain material events occurred during the year, and the future development of our business have been set out in the section headed "Management Discussion and Analysis" on pages 10 to 15 of this annual report.

Post Balance Sheet Events

The material post balance sheet events are disclosed in note 37 to the consolidated financial statements.

Principal Risks and Uncertainties

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

We also operate our business under contractual arrangements, and are therefore subject to the related risks which are summarized in the section headed "Contractual Arrangements — Risks relating to the Contractual Arrangements" on pages 39 to 40 of this annual report.

Environmental Performance and Policies

The Group is a digital entertainment platform that publishes games through mobile apps and websites. Its business operation involves minimum direct discharge of pollutants or hazardous waste to the environment. However, the Group is committed to minimising the impact on the environment from our business activities. In particular, the Group adheres to green, low-carbon office concept and encourages its employees to participate in resource conservation during their daily work at the office. Further details are set out in the section headed "Environment" in the Environmental, Social and Governance Report on pages 66 to 72 in this annual report.

Compliance with Laws and Regulations

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

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

Relationship with Major Stakeholders

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

RESULTS

The results of the Group for the year ended December 31, 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 81 to 82 of this annual report.

FINAL DIVIDENDS

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2018 (2017: Nil).

FINANCIAL SUMMARY

A summary of the Company's results, assets and liabilities for the last four financial years are set out on page 4 of this annual report, and the figures for the years ended December 31, 2015, 2016 and 2017 are extracted from the Prospectus. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2018, revenue generated from the Group's five largest customers accounted for 10.6% (2017: 8.2%) of the Group's total revenue and our single largest customer accounted for 3.5% (2017: 2.2%) of the Group's total revenue.

Major Suppliers

For the year ended December 31, 2018, the Group's five largest suppliers accounted for 12.7% (2017: 13.9%) of the Group's total purchases and our single largest supplier accounted for 3.8% (2017: 4.1%) of the Group's total purchases.

During the year ended December 31, 2018, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Company's five largest customers and suppliers.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company as at December 31, 2018 are set out in note 26 to the consolidated financial statements.

HUMAN RESOURCES

As at December 31, 2018, the Group had 703 employees (2017: 665). The total remuneration expenses, excluding share-based compensation expense, for the year ended December 31, 2018 were 150.2 million, representing a decrease of 13.1% as compared to the year ended December 31, 2017. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group for the year ended December 31, 2018 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company for the year ended December 31, 2018 are set out in note 23 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group for the year ended December 31, 2018 are set out on pages 85 to 86 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at December 31, 2018, we did not have any distributable reserves (2017: nil).

TAXATION

Tax position of the Group for the year ended December 31, 2018 is set forth in note 12 to the consolidated financial statements.

DIRECTORS

The Directors as at December 31, 2018 and up to the date of this annual report are:

Executive Directors:

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

Non-executive Directors:

Mr. Ma Xiaoyi
Mr. Du Feng

Independent non-executive Directors:

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

In accordance with article 16.19 of the articles of association of the Company (the "**Articles of Association**"), Mr. Jeffrey Lyndon Ko shall retire by rotation, and being eligible, have offered himself for re-election at the AGM.

In accordance with article 16.2 of the Articles of Association, any Director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Mr. Chen Xiangyu, Mr. Guan Song, Mr. Lei Junwen, Mr. Ma Xiaoyi, Mr. Du Feng, Ms. Yu Bin, Mr. Li Xintian and Mr. Zhang Weining shall retire by rotation, and being eligible, have offered themselves for re-election at the AGM.

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

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 43 to 47 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors, and the Company considers such Directors to be independent from the Listing Date to December 31, 2018.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

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

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

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

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

EMOLUMENT POLICY

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

Details of the emoluments of the Directors and five highest paid individuals for the year ended December 31, 2018 are set out in note 10 to the consolidated financial statements.

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

	Number of senior management Year ended December 31,	
	2018	2017
HKD0 to HKD1,000,000	**2**	1
HKD10,000,001 to HKD15,000,000	**2**	2
HKD15,000,001 to HKD15,500,000	**—**	1
HKD25,000,001 to HKD25,500,000	**1**	—
HKD32,500,001 to HKD33,000,000	**1**	—
HKD43,000,001 to HKD43,500,000	**—**	1
	6	5

Note: One of the senior management members joined the Group during the Reporting Period.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

RIGHTS AND INTERESTS OF DIRECTORS ON COMPETING BUSINESSES

Our executive Director, Mr. Chen Xiangyu, is the founder and the largest Shareholder of our Company holding approximately 25.92% interest in the total issued share capital of our Company as at the date of this annual report. Mr. Chen has held interests as a limited partner in certain venture capital funds and/or angel investment funds which may from time to time invest in technology companies, and his economic interest in such funds was insignificant.

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

Save as disclosed above, as at December 31, 2018, none of the Directors or their associates has any competing interests in the businesses which compete or are likely to compete, directly or indirectly, with our Group or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended December 31, 2018.

CHANGE IN INFORMATION IN RESPECT OF DIRECTORS

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

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

As at December 31, 2018, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interest in Shares and underlying Shares

Name of Directors	Capacity/Nature of Interest	Number of Shares held(8)	Approximate percentage of interest in the Company(1) (7)
Mr. Chen Xiangyu ("**Mr. Chen**")(2) (3)	Interest of controlled corporation	329,140,880(L)	25.92%
Mr. Guan Song ("**Mr. Guan**")(4)	Interest of controlled corporation	47,078,020(L)	3.71%
Mr. Jeffrey Lyndon Ko ("**Mr. Ko**")(5)	Interest of controlled corporation	13,979,400(L)	1.10%
Mr. Lei Junwen ("**Mr. Lei**")(6)	Interest of controlled corporation	27,423,760(L)	2.16%
	Beneficial owner	120,000(L)	0.01%

Notes:

(1) The percentages are calculated on the basis of 1,269,718,990 Shares in issue as at December 31, 2018.

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

(3) As at December 31, 2018, Mr. Chen is the administrator of the RSU Plan and is deemed to be interested in the Shares held by the RSU Holdings Entities, which the companies holding the Shares pursuant to the RSU Plan on trust or on behalf of the grantees of the Company, namely Sky Investment Limited and Sky Technology Limited.

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

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

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

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

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

(ii) Interest in associated corporations

Name of Directors	Associated corporations	Capacity/Nature of Interest	Amount of registered capital (RMB)	Percentage of shareholding in the associated corporation
Mr. Chen Xiangyu	Shenzhen Mengyu Technology Co. Ltd. (深圳市夢域科技有限公司)	Beneficial owner	500,000	5.00%

Save as disclosed above, as at December 31, 2018, none of the Directors or the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at December 31, 2018, to the best knowledge of the Directors, the following persons (not being a director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Capacity/Nature of Interest	Number of Shares held[8] [9]	Approximate percentage of interest in the Company[1] [7]
Brilliant Seed Limited[2]	Beneficial owner	242,870,430(L)	19.13%
Mr. Chen[2] [3]	Interest of controlled corporation	329,140,880(L)	25.92%
Tencent Mobility Limited[4]	Beneficial owner	235,999,300(L)	18.59%
Tencent Holdings Limited[4]	Interest of controlled corporation	235,999,300(L)	18.59%
iDreamSky Technology Limited[5]	Beneficial owner	213,801,980(L)	16.84%
Dream Investment Holdings Limited	Interest of controlled corporation	213,801,980(L)	16.84%
Dream Technology Holdings Limited	Interest of controlled corporation	213,801,980(L)	16.84%
Credit Suisse (Hong Kong) Limited[6]	Beneficial owner	59,087,600(L) 19,045,600(S)	4.65% 1.50%
Credit Suisse Securities (Europe) Limited[6]	Beneficial owner	46,000(S)	0.00%
Credit Suisse Group AG[6]	Interest of controlled corporation	59,087,600(L) 19,091,600(S)	4.65% 1.50%

Notes:

(1) The percentages are calculated on the basis of 1,269,718,990 Shares in issue as at December 31, 2018.

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

(3) As at December 31, 2018, Mr. Chen is the administrator of the RSU Plan and is deemed to be interested in the Shares held by the RSU Holdings Entities, which the companies holding the Shares pursuant to the RSU Plan on trust or on behalf of the grantees of the Company, namely Sky Investment Limited and Sky Technology Limited.

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

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

(6) Credit Suisse (Hong Kong) Limited is wholly owned by Credit Suisse AG, which is in turn wholly owned by Credit Suisse Group AG. Under the SFO, Credit Suisse Group AG is deemed to be interested in the Shares held by Credit Suisse (Hong Kong) Limited. Credit Suisse Securities (Europe) Limited is wholly owned by Credit Suisse Investment Holdings (UK), which is in turn wholly owned by Credit Suisse Investments (UK). Credit Suisse Investments (UK) is wholly owned by Credit Suisse AG, which is in turn wholly owned by Credit Suisse Group AG. Under the SFO, Credit Suisse Group AG is deemed to be interested in the Shares held by Credit Suisse Securities (Europe) Limited.

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

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

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

Save as disclosed above, as at December 31, 2018, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

SHARE OPTION SCHEME

From the Listing Date to December 31, 2018, no share option scheme was made by the Company, and there is no specific provision under the Articles of Association or the Cayman Islands laws regarding share option scheme.

RSU PLAN

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

Purpose

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

Eligible Participants

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

Maximum Number of Shares

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

Administration

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

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

Award of RSUs

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

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

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

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

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

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

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

Details of the RSUs granted under the RSU Plan

As at December 31, 2018, the aggregate number of Shares underlying RSUs granted under the RSU Plan was 5,220,583 Shares and the aggregate number of Shares underlying RSUs vested under the RSU Plan was 1,272,212 Shares. Any vested or unvested RSUs or any Share underlying any RSUs shall not be transferred or sold before the Listing and during the period of six months following the Listing Date.

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

As at December 31, 2018, RSUs granted in respect of 2,825,138 Shares to Participants (who are not our Directors, senior management and their associates) have a vesting schedule of 32 months, 25% of which were vested on July 1, 2018, 25% were vested on March 1, 2019, 25% will vest on March 1, 2020, and 25% will vest on March 1, 2021.

As at December 31, 2018, RSUs granted in respect of 686,771 Shares to Participants (who are not our Directors, senior management and their associates) have a vesting schedule of 48 months, 25% of which will vest on July 1, 2019, 25% on July 1, 2020, 25% on July 1, 2021, and 25% on July 1, 2022.

As at December 31, 2018, RSUs granted in respect of 406,462 shares to Participants (who are not our directors, senior management and their associates) vested on July 1, 2018.

RSUs granted to our Directors, senior management and their associates

As at December 31, 2018, no RSUs were granted to our Directors under the RSU Plan. RSUs in respect of 159,465 Shares were granted to an associate of our Directors on July 1, 2018, and all such RSUs were vested on the same date.

As at December 31, 2018, RSUs in respect of 1,142,747 Shares were granted to our senior management member, Mr. Fang Hui, which have a vesting period of 48 months, 25% of which will vest on July 1, 2019, 25% on July 1, 2020, 25% on July 1, 2021, and 25% on July 1, 2022.

EQUITY-LINKED AGREEMENTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

NON-COMPETITION UNDERTAKING

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

The independent non-executive Directors have reviewed the performance of the non-competition undertaking from the date of the Power of Attorney to December 31, 2018 based on the information provided and/or confirmed by Mr. Chen, and are satisfied that Mr. Chen has complied with the non-competition undertaking.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of our Group constitute the continuing connected transactions of the Company for the year ended December 31, 2018. For further details of these continuing connected transactions, please refer to the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions" in the pages 257 to 280 of the Prospectus.

Advertising Cooperation Framework Agreement

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

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

Reasons for the Transactions

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

Listing Rules Implications

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

Payment Service Framework Agreement

On November 21, 2018, Shenzhen iDreamSky entered into a framework agreement with Tencent Computer, pursuant to which Tencent Computer agreed to provide us with payment services through the payment channels of Tencent Group so as to enable our users to conduct online transactions (the "**Payment Service Framework Agreement**"). We shall, in return, pay a payment service fee to Tencent Group. The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately.

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

Reasons for the Transactions

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

Listing Rules Implications

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

Products and Services Purchasing Framework Agreement

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

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

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

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

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

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

Reasons for the Transactions

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

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

Listing Rules Implications

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

IP Cooperation Framework Agreement

On November 21, 2018, Shenzhen iDreamSky and Tencent Computer entered into a framework agreement (the "**IP Cooperation Framework Agreement**") relating to cooperation in comics. The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately.

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

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

Reasons for the Transactions

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

Listing Rules Implications

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

Game Cooperation Framework Agreement

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

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

Reasons for the Transactions

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

Listing Rules Implications

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

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

Review of Annual Caps of the Continuing Connected Transactions

A summary of the proposed annual caps and the actual transaction amounts of the above continuing connected transactions for the year ended December 31, 2018 is set out as follows:

Continuing Connected Transactions	**Proposed Annual Cap for 2018** *(RMB)*	**Actual Transaction Amount in 2018** *(RMB)*
Promotion Cooperation Framework Agreement:		
Advertising service fee payable by Tencent Group to our Group	10,000,000	9,535,000
Payment Service Framework Agreement:		
Payment service fee payable by our Group to Tencent Group	1,800,000	1,367,000
Products and Services Purchasing Framework Agreement:		
Procurement fees payable by our Group to Tencent Group for cloud services	15,000,000	14,235,000
Procurement fees payable by our Group to Tencent Group for other services and products	650,000	62,000
IP Cooperation Framework Agreement: *(Note 1)*		
Development fee in respect of comics and comics adaption work payable by our Group to Tencent Group	6,840,000	Nil
Licensing fee in respect of adaptation rights of Originated Work payable by our group to Tencent Group	10,000,000	Nil
Game Cooperation Framework Agreement: *(Note 2)*		
Distribution fee payable by our Group to Tencent Group *(Note 3)*	20,000,000	23,189,000
Licensing fee payable by Tencent Group to our Group in the form of revenue sharing	150,000,000	31,078,000
Licensing fee payable by our Group to Tencent Group	30,000,000	Nil
Customized development fee payable by Tencent Group to our Group	10,000,000	Nil

Notes:

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

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

3. As disclosed in the Company's announcement dated March 28, 2019, the actual distribution fee paid by our Group to Tencent Group under the Game Cooperation Framework Agreement amounted to RMB23,189,000, which exceeded the proposed annual cap for the year ended December 31, 2018. Please refer to the aforementioned announcement for further details.

Annual Review by our Independent Non-Executive Directors and Auditor

For the year ended December 31, 2018, the independent non-executive Directors have reviewed the aforesaid continuing connected transactions and confirmed that the transactions have been entered into:

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

(ii) on normal commercial terms or better; and

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

The auditor of the Company has performed certain pre-determined audit procedures regarding the continuing connected transactions entered into by the Company as set out above for the year ended December 31, 2018, and states that except for the distribution fee paid by the Group to Tencent Group of RMB23,189,000 under the Game Cooperation Framework Agreement, which has exceeded the proposed annual cap of RMB20,000,000 for such transaction:

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

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

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

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

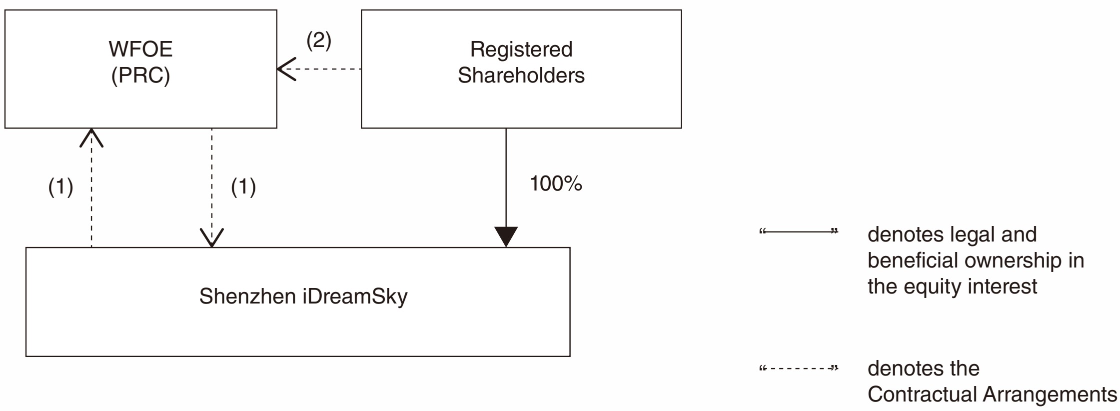
Related Party Transactions

Details of the related party transactions carried out in the normal course of business are set out in note 34 to the consolidated financial statements. Save as disclosed above, none of these related party transactions constitutes a connected transaction or continuing connected transaction as defined under the Listing Rules, and the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

CONTRACTUAL ARRANGEMENTS

Our Company has entered into a series of Contractual Arrangements with the WFOE and our PRC Consolidated Affiliated Entities, pursuant to which our Company would gain effective control over, and receive all the economic benefits generated by, the businesses operated by our PRC Consolidated Affiliated Entities. Accordingly, through the Contractual Arrangements, the results of operations and assets and liabilities of Shenzhen iDreamSky and its subsidiaries are consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group. The total revenue of our PRC Consolidated Affiliated Entities during the year ended December 31, 2018 was approximately RMB2,211.6 million, and the total assets of our PRC Consolidated Affiliated Entities as at December 31, 2018 was approximately RMB3,617.3 million.

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



Notes:

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

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

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

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

Summary of the Contractual Arrangements

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

(a) Exclusive Business Cooperation Agreement

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

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

(b) Exclusive Option Agreement

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

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

(c) Equity Pledge Agreement

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

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

(d) Powers of Attorney

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

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

(e) Spouse Undertakings and Confirmations from the Relevant Individual Shareholders

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

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

Reasons for adopting the Contractual Arrangements

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

Risks relating to the Contractual Arrangements

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

- If the PRC government determines that the Contractual Arrangements do not comply with the applicable regulations, our business could be materially and adversely affected.

- If the PRC government determines that our ownership structure does not comply with restrictions contained in the GAPP Notice, we would be subject to severe penalties.

- Our Contractual Arrangements with Shenzhen iDreamSky and its Registered Shareholders may not be as effective in providing control as direct ownership. Shenzhen iDreamSky and its Registered Shareholders may fail to perform their obligations under these Contractual Arrangements.

- Our ability to enforce the share pledge agreements may be subject to limitations based on PRC laws and regulations.

- The Registered Shareholders of Shenzhen iDreamSky have potential conflicts of interest with us, which may adversely affect our business.

- We may lose the ability to use and enjoy the benefits of the assets held by Shenzhen iDreamSky that are important to the operations of our business if such entity goes bankrupt or becomes subject to dissolution or liquidation proceeding.

- Our Contractual Arrangements with Shenzhen iDreamSky may result in adverse tax consequences.

- Substantial uncertainties exist with respect to enactment timetable, interpretation and implementation of the draft PRC Foreign Investment Law and how it may impact the viability of our current cooperate structure, corporate governance and business operations.

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

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

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

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

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

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

Listing Rules Implications and Waivers from the Stock Exchange

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

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

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

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

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

Annual Review by our Independent Non-Executive Directors and Auditor

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

(a) the transactions carried out during the year ended December 31, 2018 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;

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

(c) other than the Contractual Arrangements, no new contracts had been entered into, renewed and/or reproduced between our Group and the PRC Consolidated Affiliated Entities during the year ended December 31, 2018; and

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

Our Auditor has confirmed in a letter to our Board that the transactions under the Contractual Arrangements have been approved by our Board, the transactions carried out during the year ended December 31, 2018 had been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that no dividends or other distributions had been made by our PRC Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

DONATIONS

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

ISSUANCE OF DEBENTURES

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

SIGNIFICANT LEGAL PROCEEDINGS

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

PERMITTED INDEMNITY PROVISION

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

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

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

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

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 48 to 65 of this annual report.

USE OF NET PROCEEDS FROM LISTING

The IPO proceeds from the listing of the Shares of the Company on the Main Board of the Stock Exchange were approximately HK$776.4 million. Since the Listing Date up to as of December 31, 2018, the IPO proceeds had not yet been utilised. In 2019, the Group will start to utilise the IPO proceeds in accordance with the intended purposes as set out in the Prospectus. For further details, please refer to the section headed "Management Discussion and Analysis — Use of Proceeds" on page 15 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The Audit Committee, together with the Auditor, has reviewed the Group's consolidated financial statements for the year ended December 31, 2018. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

AUDITOR

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

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

On behalf of the Board
Chen Xiangyu
Chairman

Hong Kong, March 28, 2019

Directors

Executive Directors

Mr. Chen Xiangyu (陳湘宇), aged 36, is an executive Director, Chairman of the Board and Chief Executive Officer of our Company. Mr. Chen has more than ten years of experience in mobile games, telecommunication, technology and management and is primarily responsible for overseeing the overall strategic planning and business direction as well as day-to-day management of our Group. Mr. Chen also serves as the chief executive officer and a director of Shenzhen iDreamSky, a director of Shenzhen Mengyu and a director of Chuangyi Shikong. Mr. Chen has received numerous awards and recognitions for his entrepreneurship and industry expertise, including being listed as one of the "40 Elite Individuals in Business Under the age of 40 in the PRC" (中國40位40歲以下的商界精英) in years 2014 and 2016 by Fortune Magazine (Chinese edition), being listed as one of the "Top 10 PRC Entrepreneurs Born in 1980s" (中國十大八零後創業家) by the Hurun Report (胡潤百富) in 2016, being listed as one of the "100 Most Innovative Individuals in PRC Business of 2016" (2016中國商業最具創意人物100) by the Fast Company Magazine, being awarded the Young Individual in Technology Award (青年科技獎) by the Shenzhen Science and Technology Awards (深圳市科學科技獎) in 2017 and being selected as "Remarkable Young Entrepreneur of the Year in Shenzhen" (深圳青年創業年度風雲人物). In 2016, Mr. Chen was appointed as "Ambassador of Innovative Entrepreneurship of Nanshan District" (南山區創新創業形象大使) by the government of Nanshan District, Shenzhen, the PRC. In July 2017, he was nominated to the position of committee member of the Youth Association of Shenzhen (深圳市青年聯合會委員). Prior to joining our Group, Mr. Chen has held various positions in the telecommunications and technology industries, including serving as project manager at the overseas projects division of Achievo Information Technology (Shenzhen) Co., Ltd. (深圳市大展信息科技有限公司) from October 2008 to November 2009. Mr. Chen received his bachelor's degree in computer science and technology from the Central South University in the PRC in July 2000.

Mr. Guan Song (關嵩), aged 37, is an executive Director and Chief Technology Officer of our Company. Mr. Guan is also a co-founder, the chief technology officer and a director of Shenzhen iDreamSky. Mr. Guan has more than ten years of experience in the telecommunications, technology and Internet, and is primarily responsible for overseeing the overall technological policies, research and development business and the establishment of technological platforms of our Group. Mr. Guan is the joint inventor of a Chinese invention patent and led the development of 10 game software products. Prior to joining our Group, Mr. Guan has held various positions in the telecommunications, technology and Internet industries, including serving as project manager at Achievo Information Technology (Shenzhen) Co., Ltd. (深圳市大展信息科技有限公司) from December 2006 to March 2010. Mr. Guan is certificated for High-Level Professional in Shenzhen by Human and Social Security Administration of Shenzhen Municipality. Mr. Guan received a bachelor's degree in software engineering from Zhejiang University in the PRC in June 2004.

Mr. Jeffrey Lyndon Ko (高煉惇), aged 36, is an executive Director and President of our Company. Mr. Ko is also a co-founder, the president and a director of Shenzhen iDreamSky. Mr. Ko has more than twenty years of experience in the games industry and is primarily responsible for overseeing the import of games and other contents, overseas business development and overseas strategic investments of our Group. Except for holding positions in the Group, Mr. Ko was elected as the president of the Shenzhen ESports Association on November 2018. He also served as the honorary advisor of Hong Kong Esports Club Limited and the honorary president of Macau E-Sports Federation. In 2009, Mr. Ko was awarded a "Developer 30 Under 30 Award" from DEVELOP magazine. He was the first person of Chinese descent to have received such award. In 2018, Mr. Ko was awarded as one of the Top 100 Generation Talents with Most Potential of China.

Mr. Lei Junwen (雷俊文), aged 35, is an executive Director and the Chief Financial Officer of our Company. Mr. Lei has extensive industry experience in the financial management, accountancy and consultancy industries and is primarily responsible for the overall financial management, financing matters and strategic development of our Group. Mr. Lei also serves as the chief financial officer and a director of Shenzhen iDreamSky and a director of Horgos iDreamSky. Mr. Lei has extensive industry experience in the financial management, accountancy and consultancy industries, including experience in KPMG from August 2006 to May 2010, where he was eventually promoted to audit assistant manager, as senior manager of Vermillion Partners Limited (銀硃合夥人有限公司) from June 2010 to November 2013 and as chief financial officer of XDK Communication Equipment (Huizhou) Co., Ltd. (訊達康通訊設備(惠州)有限公司) from December 2010 to November 2013. Mr. Lei obtained his bachelor's degree in accounting from Zhejiang University in the PRC in June 2005.

Non-executive Directors

Mr. Ma Xiaoyi (馬曉軼), aged 44, was appointed as our non-executive Director in May 2018. Mr. Ma has extensive industry experience in the telecommunications and games industries. He joined Tencent in 2007 and is currently the senior vice president of Tencent, where he is responsible for international distribution of Tencent games, establishing and maintaining long-term business partnerships and cooperation for Tencent since November 2008. Before that, Mr. Ma served as general manager of the game business department of Optic Communication Co., Ltd. (廣州光通通信發展有限公司) from January 2003 to April 2007, where he was responsible for online gaming business. Mr. Ma obtained his EMBA degree from Fudan University in the PRC in June 2008.

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

Mr. Du Feng (杜鋒), 42, was appointed as our non-executive Director in May 2018. Mr. Du also serves as a director of Shenzhen iDreamSky. In addition to his positions within our Group, Mr. Du has been a founding partner of Beijing Prometheus Capital Co., Ltd. (北京普思投資有限公司) since May 2012. Before that, Mr. Du served as an executive director of Dalian Ruixin Real Estate Development Co., Ltd. (大連瑞鑫房地產開發有限公司) from June 2005 to October 2010. Mr. Du obtained his diploma in Japanese language from the University of Science & Technology Beijing in the PRC in July 2000 and his MBA degree from New York Institute of Technology in 2003.

Independent Non-executive Directors

Ms. Yu Bin (余濱), 48, was appointed as independent non-executive Director in May 2018. Ms. Yu also serves as an independent director of Shenzhen iDreamSky. Ms. Yu has extensive industry experience in financial management. In addition to her positions in our Group, Mr. Yu has been an independent non-executive director of Tian Ge Interactive Holdings Limited (天鴿互動控股有限公司) since July 2014, an independent director of Baozun Inc. since May 2015, an independent director of GDS Holdings Ltd. since November 2016 and the chief financial officer of Lingochamp Inc. since October 2017. Before that, Ms. Yu has served as the chief financial officer of InnoLight Technology Corp. from January 2015 to April 2017, as chief financial officer of Star China Media Limited (星空華文傳媒集團) from May 2013 to January 2015, VP of finance of Tudou Holdings Limited from July 2010 to December 2011, chief financial officer of Tudou Holdings Limited from January 2012 to April 2013 and Senior Vice President of Youku Tudou Inc. from August 2012 to April 2013. Ms. Yu obtained a bachelor's degree in English literature from Xi'an Foreign Language University in the PRC in July 1992, a master's degree in accounting from the University of Toledo in the United States in May 1999 and a Tsinghua–INSEAD Executive MBA degree from Tsinghua University and INSEAD in January 2013. She has been a member of the American Institute of Certified Public Accountants since November 2013 and a member of Chartered Global Management Accountant since December 2013.

Mr. Li Xintian (李新天), aged 53, was appointed as independent non-executive Director in May 2018. Mr. Li also serves as an independent director of Shenzhen iDreamSky. In addition to his positions in our Group, Mr. Li has been an independent director of Guangdong Hec Technology Holding Co., Ltd. (廣東東陽光科技控股股份有限公司) (formerly named as Guangdong Dongyangguang Aluminum Co., Ltd. (廣東東陽光鋁業股份有限公司)) since May 2008, an independent director of Huachangda Intelligent Equipment Group Co., Ltd. (華昌達智能裝備集團股份有限公司) since November 2013 and an independent director of Hubei Century Network Technology Co., Ltd. (湖北盛天網路技術股份有限公司) since May 2012. Mr. Li has been teaching in the Office of Teaching and Research of Civil Commercial Law of the Department of Law of the University of Wuhan (武漢大學法學院民商法教研室) since September 1992, where he has held the position of lecturer and became a deputy professor on June 2000. Mr. Li has been a professor in the University of Wuhan since November 2005. He was admitted by the Ministry of Justice of Hubei (湖北省司法廳) as a lawyer in July 1993. Mr. Li obtained his bachelor's degree in law in July 1989 from the Wuhan University in the PRC and his doctorate degree in law from the Wuhan University in the PRC in June 2002.

Mr. Zhang Weining (張維寧), aged 40, was appointed as independent non-executive Director in May 2018. Mr. Zhang also serves as an independent director of Shenzhen iDreamSky. In addition to his positions in our Group, Mr. Zhang has been serving as an associate professor of Cheung Kong Graduate School of Business (長江商學院) since May 2015. Before that, Mr. Zhang served as assistant professor in Business School of National University of Singapore from August 2010 to December 2011. Mr. Zhang has been a director of Guangzhou Topcomm Media Advertising Co., Ltd. (廣州尚思傳媒廣告股份有限公司) from June 2013 to May 2018, and holds approximately 9% of the share capital therein. Mr. Zhang has been a director of Sichuan Tianyi Science & Technology Co., Ltd. (四川天一科技股份有限公司) from August 2012 to November 2015. He has been a director of Transino Technology Corp., LTD. (北京時代正邦科技股份有限公司) since September 2016. Mr. Zhang obtained his bachelor's degree in accounting in Southwestern University of Finance and Economics in the PRC in July 2001 and his doctorate degree in management in the University of Texas in the United States in August 2010.

Senior Management

Mr. Fang Hui (方輝), aged 36, was appointed as Chief Strategy Officer of our Company on May 2018. Mr. Fang also serves as the chief strategy officer of Shenzhen iDreamSky, where he is responsible for strategic investments, commercial affairs in the PRC and finance and economics related matters. Prior to joining our Group, Mr. Fang served in Tencent Technology (Beijing) Limited (騰訊科技(北京)有限公司) from April 2014 to April 2017. From September 2008 to March 2014, Mr. Fang was vice president in CITIC Securities Co., Ltd. (中信證券股份有限公司), where he worked on investment banking matters. Mr. Fang obtained his bachelor's degree in sociology and economics in July 2005 and his master's degree in sociology in July 2008 in Peking University in the PRC.

Mr. Ho, Mario Yau Kwan (何猷君), aged 23, was appointed as Chief Marketing Officer of our Company since May 2018. Mr. Ho serves as the chief marketing officer of Shenzhen iDreamSky, where he is responsible for marketing and promotions, Esports related business and augmented reality games. Mr. Ho has been the first Chairperson of the Macau E-sports Federation since April 2018. He has been a member of the Guangdong Province Federation of Returned Overseas Chinese Youth Committee (廣東省僑聯青年委員會) and a member of the Youth Committee of the Associação Comercial de Macau (澳門中華總商會青年委員會) since 2018. Mr. Ho obtained his bachelor's degree in management science in June 2016 from the Massachusetts Institute of Technology.

For biographical details of Mr. Chen Xiangyu, Mr. Guan Song, Mr. Jeffrey Lyndon Ko and Mr. Lei Junwen, who form part of our senior management team, please refer to the section above on pages 43 to 44 of this annual report.

CORPORATE GOVERNANCE PRACTICES

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

THE BOARD

Responsibilities

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

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

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

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

Board Composition

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

Executive Directors:

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

Non-executive Directors:

Mr. Ma Xiaoyi
Mr. Du Feng

Independent Non-executive Directors:

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

The biographies of the Directors are set out under the section headed "Directors and Senior Management" on pages 43 to 47 of this annual report. To the best knowledge of the Board, save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" in this annual report, none of the Directors have any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

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

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

BOARD DIVERSITY POLICY

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

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

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

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

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

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

The measurable objectives

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

Objective 2: Reviewing annually whether the composition and structure of the Board is suitable for the overall development strategy of the Group based on its business operation and the developmental need to propose adjustment and implementation plans.

Progress on achieving the objectives

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

Objective 2: The current arrangement and structure of the Board of the Company is appropriate for the development need of the existing business operation of the Group and is conducive for providing the Company with extensive valuable advice and supervision on decision-making. The Company will continually assess the diversity of the Board and objectively consider the composition and effectiveness of the Board from the 2019 financial year.

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

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

Chairman and Chief Executive Officer

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

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

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

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

Continuous Professional Development

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

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

All Directors have participated appropriate training before the listing of the Company's Shares on the Stock Exchange to deepen their understanding of the Listing Rules and other relevant laws and regulations.

According to the information provided by the Directors, a summary of training received by the Directors for the period from the appointment date to December 31, 2018 is as follows:

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

Notes:

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

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

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

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

Appointment and Re-election of Directors

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

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

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

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

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

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

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

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

Board Meetings

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

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

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

As the Company was listed on December 6, 2018, the Board did not have any matters to discuss during the Relevant Period which is less than one month, and no Board meeting or general meeting of the Company was held during the Relevant Period. The Company will fully comply with the requirement under the code provision A.1.1 of the CG Code to convene Board meetings at least four times a year at approximately quarterly intervals.

Model Code for Securities Transactions

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

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

Delegation by the Board

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

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

Corporate Governance Function

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

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

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

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

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

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

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

BOARD COMMITTEES

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

Audit Committee

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

The principal duties of the Audit Committee include the following:

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

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

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

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

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

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

As the Shares of the Company were listed on the Stock Exchange on December 6, 2018, the Audit Committee did not have any matters that need to be discussed with the Auditor during the Relevant Period covering less than one month, therefore, the Audit Committee neither hold any meeting of the Audit Committee nor hold any meetings with the Auditor during the Relevant Period. The Audit Committee will fully comply with its terms of reference.

Nomination Committee

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

The principal duties of the Nomination Committee include the following:

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

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

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

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

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

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

As the Shares of the Company were listed on the Stock Exchange on December 6, 2018, the Nomination Committee did not have any matters that need to be discussed during the Relevant Period covering less than one month, therefore, the Nomination Committee did not hold any meetings during the Relevant Period. The Nomination Committee will fully comply with its terms of reference.

Policy on Director Nomination

In light of article 16 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

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

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

Nomination Committee's Role and its Selection Process and Criteria

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

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

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

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

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

5. in case of a candidate for an independent non-executive director of the Company, to assess: (i) the independence of such candidate with reference to, among other things, the independence criteria as set out in Rule 3.13 of the Listing Rules; and (ii) the guidance and requirements relating to independent non-executive directors set out in Code Provision A.5.5 of Appendix 14 to the Listing Rules (to take effect from January 1, 2019) and in the Guidance for Boards; and

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

Board's Decision

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

Remuneration and Appraisal Committee

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

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

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

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

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

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

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

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

As the Company's shares have been listed on Stock Exchange since December 6, 2018, the Remuneration and Appraisal Committee did not have any matters that need to be discussed during the Relevant Period covering less than one month and, therefore, it did not hold any meeting during the Relevant Period. The Remuneration and Appraisal Committee will fully comply with its terms of reference.

Remuneration of Directors and Senior Management

Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 43 to 47 of this annual report, for the year ended December 31, 2018, are set out in note 10 to the audited consolidated financial statements.

Strategy Committee

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

The principal duties of the Strategy Committee include the following:

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

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

3. Reviewing the implementation of the above matters.

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

During the Relevant Period, no meeting of the Strategy Committee was held.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for year ended December 31, 2018 which give a true and fair view of the affairs of the Company and of the Company's results and cash flows.

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

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

The statement by the Auditor regarding their reporting responsibilities on the audited consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 79 to 80 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board continuously supervises the effectiveness of the Company's risk management and internal control system with the assistance of the Audit Committee, so as to protect the Company's assets and the interests of Shareholders. The Company's risk management and internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company has established its internal audit function, which is responsible for independently reviewing the adequacy and effectiveness of the company's risk management and internal control system and reporting the results to the Audit Committee. The General Office of the Company coordinates the detailed work of internal control and takes charge of sorting out and optimizing business processes and the management mechanism, as well as conducting evaluation on the effectiveness of internal control. In addition to the internal control and internal audit functions, all employees are accountable for risk management and internal control within their business scope. Business departments actively cooperate with internal control and internal audit functions, report to the management team on any important business development and how policies and strategies established by the Company are implemented within the department, and timely identify, assess and manage major risks.

The Company has formulated risk management and internal control management policies to construct a fundamental environment for risk management and internal control. In addition, the Company has set up the internal control framework, which relates to business processes such as procurement, sales, human resources and payroll, game development, marketing, tax, capital, information security and intellectual property rights, financial reporting and disclosure. The risk bank has also been put in place and risk assessment is conducted on a regular basis, to ensure the effective operation of risk management and internal control.

The Company has taken a series of rectification measures for the non-compliance issues disclosed in the prospectus, and will continue to follow up the corresponding risks.

As at the date of this report, the Board has reviewed the effectiveness of the risk management and internal control system of the Company for the year ended December 31, 2018. The review included all key controls, including financial, operational and compliance control and risk management functions. The Board considered that the Company's accounting, internal audit and financial reporting functions are performed by staff of appropriate qualifications and experience, training programs and budgets on such functions are sufficient, and the risk management and internal control system is adequate and efficient. Review of the effectiveness of the risk management and internal control system for the year ended December 31, 2018 has been discussed by the Company's management, internal audit team and Auditor and evaluated by the Audit Committee.

DIVIDEND POLICY

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

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

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the Auditor to the Company for the year ended December 31, 2018 was approximately as follows:

Type of Services	**Amount** *(RMB)*
Audit services	3,200,000
Non-audit services	—
Total	3,200,000

JOINT COMPANY SECRETARIES

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

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

For the year ended December 31, 2018, Mr. Zhang and Ms. Leung have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

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

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

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

The Company's shares were listed on December 6, 2018. During the Relevant Period, the Company did not convene any general meeting.

SHAREHOLDERS' RIGHTS

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

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

Convening of extraordinary general meeting and putting forward proposals

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

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company adopted amended and restated memorandum and articles of association on November 20, 2018, which has been effective from the Listing Date. During the Relevant Period, no other changes have been made to the said amended and restated memorandum and articles of association.

ABOUT THE ESG REPORT

This is the first Environmental, Social and Governance Report ("**ESG report**") published by the Company. This ESG report sets out how the Group complies with the "comply or explain" provisions under the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Listing Rules in respect of our operations and activities for the year ended December 31, 2018.

ABOUT iDreamSky

- **Business Introduction**

  We are a leading digital entertainment platform with a leading position in the game publishing market in Chinese. We deliver joy through technology and creativity, building an online and offline destination of choice for entertainment around the clock. We insist on supreme games and spare no effort to promote the development of the game industry. Established in 2011, we have successfully launched *Subway Surfers (地鐵跑酷)*, *Temple Run 2 (神廟逃亡2)*, *Monument Valley (紀念碑谷)*, *Saint Seiya-Assembly (聖鬥士星矢 — 集結)*, *Gardenscapes (夢幻花園)* and other popular mobile games which have accumulated a large number of users for us. In addition to digital entertainment contents including games for users, we provide online community service and offline entertainment destination service, in order to satisfy diversified entertainment demand of our users, help us further expand service offerings, create differentiation from competitors and explore more business opportunities based on high quality content and large user base.

- **Strategy of Sustainable Development**

  As a responsible corporate citizen, we shoulder community responsibilities in our best efforts, and devote to building a healthy, harmonious online and offline entertainment lifestyle. We provide users with supreme game content to meet their needs and exceed their expectations; provide employees with a safe and comfortable working environment, protect employees' legitimate rights and interests, build a fair and open career path for them; work with suppliers to create a green and win-win supply chain system; attentively listen to the opinions and suggestions of other stakeholders, such as government departments and community organizations, actively participate in social welfare activities, and pay attention to environmental protection.

- **Stakeholder Engagement**

  Our stakeholders mainly include employees, customers, suppliers, business partners, shareholders, the government and, in a broad sense, the community. We listen to the voices of stakeholders and respond to their needs through a range of communication channels such as *WeChat Official Account*, *Micro-Blog Official Account*, official website, and emails, so as to maintain a close and harmonious relationship with them and ultimately achieve long-term success.

ENVIRONMENT

- **Emissions Reduction**

  We are a digital entertainment platform that publishes games through mobile apps and websites. Our business operations generally do not involve direct discharge of waste gas and greenhouse gases, or discharge of pollutants to water and land, or generation of hazardous waste.

  In 2018, we indirectly emitted approximately 275.47 tonnes of carbon dioxide under the use of electricity resources, and per capita emissions were 0.39 tonnes. We involved a total of 4,540.8 cubic meters of non-hazardous waste generated by our daily operations, and the per capita waste generated was 6.46 cubic meters, mainly including office waste and kitchen waste, all of which are handled by the property department of the office and qualified recyclers.

- **Use of Resources**

  We adhere to the green, low-carbon office concept and advocate all employees of the company to participate in resource conservation actions, shown as follows:

  - Encourage employees to travel by means of public transportation and reduce the use of private cars;

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

  - Implement paperless office, store data in electronic form, use e-mail and other online tools to communicate, for necessary documents, set the default duplex printing on the printer;

  - During the lunch break, all lighting and lighting equipment in the office area will be automatically turned off. After work, the lighting and air-conditioning devices will be turned off in no man's area. Administrative staffs are supposed to inspect the working area to ensure that there is no waste of electricity;

  - We post the slogan of saving water and paper in obvious place in the washrooms, and encourage all departments to get household paper only when needed.

  With our joint efforts, the electricity consumption of the Company for the year of 2018 was approximately 768,972 kilowatt-hours, and the per capita power consumption was approximately 1,093.84 kilowatt-hours. The total amount of water consumed in the year was approximately 4,483.24 tonnes and the water consumption per capita was approximately 6.38 tonnes. A total of 5,360 kg of paper was used, including office paper and household paper, and the paper consumption per capita was approximately 7.62 kg. Vehicles employed by the Company are all hybrid, whose total consumption of petrol were approximately 12,064.4 liters in 2018, and the consumption of petrol per capita was approximately 17.16 liters.

- **Environmental and Natural Resources**

  Due to the nature of our business, our operation has a limited impact on environment, and there is no industrial discharge into water, gas and other solid waste arising from our business, nor do we involve the use of packaging materials. All the water consumed by the Company comes from the municipal pipeline network, thus no issues related to water supplies were identified. Generally, our consumption of natural resources is comparatively limited and we impose little impact on the environment. Despite this, we have spared no effort to take active and effective measures to prevent pollution, conserve resources and energy, in order to protect the natural environment.

  As the Company has started to establish a data collection mechanism and key performance indicator evaluation system related to environment and resources in 2018, it aims that the impact of corresponding energy-saving measures can be quantified through data in subsequent years.

SOCIETY

- **Employment and Labor Practices**

  We value the personal rights of each employee and strictly observe national laws and relevant policies of the Labor Law of the PRC, the Labor Contract Law of the PRC and the Social Insurance Law of the PRC to provide our employees with various security, welfare and benefits. Meanwhile, the Company has formulated and published the Employee Handbook which sets out the policies on employment, attendance, holidays, compensation and benefits. We prohibit discrimination in any race, color, nationality, language, age, gender, disability, beliefs, marital status, etc. in terms of compensation and employment, recruitment and dismissal, promotion and employee benefits, and try to uphold the principles of fairness, justice and openness.

  In addition, we put great emphasis on the welfare of female employees. Female employees enjoy 1 hour of breastfeeding leave per day during lactation (baby born to one year old), which can be divided into two times, 30 minutes each time, and the breastfeeding leave for each working day can be combined. At the same time, separate baby-care rooms are provided within the living area for female employees during lactation.

  We strictly prohibit the employment of child labour and forced labour. Upon joining, an employee's identity information and the authenticity of relevant information provided during the recruitment process will be verified thoroughly by the human resources team to ensure that the Company does not employ child labour and forced labour. During the reporting period, we did not find any employment of child labour and forced labour.

As of December 31, 2018, we have a total of 703 employees, with a male-to-female ratio of approximately 1.5:1. Due to the particularities of the industry, the majority of staff in the Group are young people with an average education level of undergraduate and above. In the senior management staffing, the ratio of male to female executives is 9:2 and the average age is 33.2 years old. The Company promotes employee diversity and avoids discrimination or unfairness in any forms, including region, age and gender.

We value the importance of communications with employees. Apart from the annual EMT (Executive Management Team)-staff town hall meeting, regular meetings are held by various departments to collect employees' opinions. The Company has a relatively open communication channel. Employees can directly engage in communications with senior management to provide opinions and suggestions in the forms of work email, WeChat or appointment interview.

- **Health and Safety**

  We are committed to providing a safe and comfortable working environment for our employees. We place and plant large quantities of green plants throughout the office. Smoking is strictly prohibited in all parts of the office and a complete set of fire-fighting facilities that meet fire protection standards is placed. Clear guidelines for emergency exit routes are indicated in the office and living areas. Strictly abiding by the Fire Protection Law of the PRC, we regularly conduct fire drills to heighten employees' safety and prevention awareness according to the requirements of the property management department in the office area. As of December 31, 2018, no incidence of any work-related injury or fatality was identified.

  In addition, we place high regard on employees' physical and psychological health. Apart from statutory holidays, our employees are entitled to 8 different types of paid leaves, such as annual leave, sick leave, pregnancy check-up leave, maternity leave, paternity leave and breastfeeding leave. In addition to the government-defined social medical insurance, we purchase commercial medical insurance for employees and provide them with annual body check. We also enhance employees' physical fitness by organizing a variety of activities, such as basketball associations, badminton associations, outdoor development and team building activities.

- **Development and Training**

  The Company attaches great importance to talent training. According to the talent development strategy and the needs and characteristics of employee training in different periods, we have set short-term and long-term goals for talent training and development to ensure the effective support of the Company's talent development strategy for business objectives. We have formulated and published the Employee Training Management System to standardize training procedures and standards, to build and improve our talent training system and to facilitate the establishment of a learning organization.

  We have established a sound performance evaluation system that evaluates employees with the principles of fairness, justice and objectivity. The evaluation results will directly affect employee promotion, salary and annual bonus assessment as well as the formulation of follow-up performance improvement plans. If employees have any objections to the performance evaluation results, they can file complaints to the human resources department. The human resources department will collect relevant opinions, investigate the complaints, communicate with the complainant's superiors and collaborators and give employees a true and reasonable response to ensure the objectivity and fairness of the evaluation results.

  We provide employees with learning and development opportunities through a variety of training formats, such as internal staff sharing meeting, external industry lectures and seminars, and trainings by external lecturers. According to statistics, as of December 31, 2018, a total of 31 internal sharing and external industry trainings were held by the Company ranging from 2 to 8 hours, attended by 1,131 employees.

- **Supply Chain Management**

  We are committed to building an environmentally friendly and harmonious supply chain management system. We establish stable partnerships with suppliers while meeting social, environmental, legal, and ethical requirements. Therefore, the Company also expects our suppliers to meet legal requirements concerning occupational health and safety, anti-discrimination, environmental protection and anti-corruption.

  The Company has established a solid supplier evaluation system to evaluate all new and existing suppliers to ensure that they meet our expectations. For suppliers newly engaged by us, the suppliers should submit background information form and attach official certificates and relevant qualifications for the procurement team's review. In addition, we shall set up a supplier development team based on the actual procurement need to verify qualifications and relevant background materials of the suppliers, select the best-fit supplier, and regularly update the list of qualified suppliers. For the existing suppliers, we conduct periodic evaluations and assessments every year to encourage our suppliers to improve product quality, delivery efficiency and cost control, so as to improve corporate competitiveness and make progress together.

- **Product Responsibility**

  We remain committed to creating supreme games for our users and strictly supervising the products. We control from the source of content by actively cooperating with large IP providers and not undertaking vulgar games. We organize technical staff and testers to undertake internal tests in order to conduct preliminary evaluation of monetizing points, gameplay and art design. We resolutely resist vulgar contents such as pornography, violence and gambling.

  In August 2018, 8 government-level regulatory agencies of China (including the National Press and Publication Administration (the National Press and Publication Administration) and the Ministry of Education) issued the "Integrated Prevention and Control Program for Children and Adolescents with Myopia". During the Reporting Period, no specific implementation rules have been issued to implement the program. Despite this, we take active and effective actions to protect the physical and psychological health of minors, such as launching and implementing the "Parental Protection Program for Online Gaming Minors" and setting up a special monitoring channel for parents on the game homepages to control the playing time of the minors.

  The Company has established a reasonable game development and public release procedure, and our games must pass multiple tests before being released, to guarantee the product quality to the greatest extent. Within the Reporting Period, the Company did not recall any product out of product quality or safety issues. Furthermore, we have set up the procedure of customer complaint processing. Customer service staff will timely follow up customer complaints and help to resolve relevant problems. We will continuously improve our products based on customer feedbacks to enhance user experience.

The Company is committed to the protection of intellectual property rights, to effectively safeguard the Company's intangible assets and the legitimate rights and interests of the Research and Development team. The Legal Affairs Department is responsible for the overall management of intellectual property rights, and has assisted the Company to establish a comprehensive intellectual property management system, setting up guidelines for the management of trademarks, copyrights, patents and other intellectual property rights, and encouraging employees to invent, create and apply for patents. The Company also prepares patents in AR and VR game technology ahead, which is at the leading level in the game industry.

Our business model allows us to collect and process a large amount of player data. Therefore, we are at risk of cyber-attacks and data leakage. In response to the attacks of external hackers, we work extensively with Tennent to encrypt passwords and data transmissions. For the use of internal information, we strictly control access to user information and sign a "Non-Disclosure Agreement" with key technical staff to minimize data security risks and protect user privacy as possible.

- **Anti-corruption**

To prevent acts including bribery, fraud and corruption, we have formulated and published the Employee Code of Conduct and Ethics. We conduct moral and anti-corruption employee trainings to promote the importance of integrity and professional ethics. We also provide anonymous channels for filing complaints and regulate complaint and investigation procedures with regard to accounting, internal accounting control, auditing and suspicious financial operations. Anyone can file a complaint to the Compliance Office and the Audit Committee via mail or email. When investigating a complaint submitted, the Company must make reasonable efforts to protect the confidentiality and anonymity of the complainant.

Meanwhile, to avoid potential violations during the procurement process, we have formulated and published the Procurement Management System which prohibits company personnel from accepting or extorting property from suppliers in any form infringing the Company's interests.

There was not any corruption lawsuit filed or concluded against the Group, its affiliates or its employees during the Reporting Period. We are not aware of any violations of laws and regulations relating to bribery, extortion, fraud and money laundering.

- **Community Investment**

In recent years, we have been taking active participation in charity activities and fulfilling corporate social responsibilities. We not only engaged ourselves in building the community through conventional channels such as charitable donations, celebrating Children's Day in cooperation with a primary school located in Xinjiang and improving its teaching facilities, participating in the earthquake rescue in Lushan and the fight of the flood in Hunan, but also organized employees to take part in activities for caring special groups such as cataract patients. In June 2018, we focused on building positive parent-child relationship and cooperated with Mama.cn to launch a variety of activities such as "Intimate Parenting Program".

Looking forward to the future, we will actively participate in social welfare activities, and continuously fulfill our corporate social responsibilities.

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

Opinion

What we have audited

The consolidated financial statements of iDreamSky Technology Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 81 to 181, which comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

- Revenue recognition — estimation of lifespan of in-game virtual items
- Accounting for acquisition of Shanghai Huohun Internet Technology Co., Ltd. ("**Shanghai Huohun**")
- Impairment assessment of goodwill

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition — estimation of lifespan of in-game virtual items Refer to notes 2.22 and 4(a) to the consolidated financial statements. During the year ended December 31, 2018, the Group's revenue from game publishing services ("**Game Business**") amounted to RMB2,087,561,000, representing 88.29% of the Group's total revenue. It was mainly derived from the sales of in-game virtual items. The Group recognizes the revenue from sales of in-game virtual items ratably over the lifespan of in-game virtual items determined by management with reference to the expected playing period of paying players ("**Player Relationship Period**") for mid-and hardcore mobile games and certain casual mobile games. We focus on this area due to the fact that management applied significant judgements in determining the Player Relationship Period. These judgements included (i) the determination of key assumptions applied in the Player Relationship Period, including historical users' consumption patterns, churn rates, reactivity on marketing activities and game life-cycle; (ii) the identification of events that may trigger changes in the expected Player Relationship Period.	Our procedures performed in relation to the estimation of lifespan of in-game virtual items included: — We understood and evaluated management's judgements to determine the lifespans of in-game virtual items based on the expected Player Relationship Period taking into consideration of the nature of games, market practice and our industry knowledge; — We understood, evaluated and tested, on a sample basis, key controls in respect of the estimation of lifespan of in-game virtual items, including management's review and approval of (i) determination of the estimated lifespan of new virtual items prior to their launches; and (ii) changes in the estimated lifespan of existing virtual items based on periodic reassessment on any indications triggering such changes. We also assessed the data generated from the Group's information system supporting the management's review, including testing the information system logic for generation of reports, and checking, on a sample basis, the monthly computation of revenue recognised on selected games based on reports generated from the Group's information system.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Accounting for acquisition of Shanghai Huohun Refer to note 32 to the consolidated financial statements. On August 7, 2018, the Group completed the acquisition of 70% of the issued share capital of Shanghai Huohun at a consideration of RMB1,050,000,000. Pursuant to the share purchase agreement, in the event Shanghai Huohun cannot meet a pre-determined profit target of RMB300,000,000 during the period from June 1, 2018 to May 31, 2019, the seller will pay back part of the consideration to the Group calculated according to a pre-determined formula ("**contingent consideration arrangement**"). Management has engaged an independent valuer to assist in carrying out a valuation to assess the fair values of the identifiable assets acquired and liabilities assumed and the contingent consideration as at the acquisition date. Goodwill of RMB989,233,000 and a contingent consideration refundable of RMB20,089,000 were initially recognised upon the acquisition. We focus on this area due to the fact that significant management estimations and judgements were involved in the assessment of the fair values of identifiable assets acquired and assumed liabilities. Moreover, there is significant assumption with respect to the probabilities of fulfilment of the profit target by Shanghai Hunhun applied in the determination of the fair value of the contingent consideration refundable.	Our procedures performed in relation to management's assessment included: — We examined the share purchase agreement of the acquisition and interviewed management of the Company and the seller to understand the closing conditions and commercial rationale of the acquisition, and assessed management's identification of assets acquired and liabilities assumed; — We assessed the competency, capabilities and objectivity of the external valuer used by management; — We discussed with the external valuer their scope of work, and assessed the appropriateness of the valuation methodologies and the key assumptions used in determining the fair value of identifiable assets acquired and liabilities assumed and contingent consideration based on our industry knowledge and market practices; — We challenged management's estimation of the probabilities of fulfilling the profit target by Shanghai Huohun with reference to market research on the industry performance and management approved forecast, historical performance and performance of Shanghai Huohun for the period from June 1, 2018 to December 31, 2018 and business plan of the Company in relation to the development of Shanghai Huohun; — We tested the arithmetical accuracy on management's calculation that determines the fair values of acquired net assets and contingent consideration and the amount of goodwill. We found the assumptions made by management in relation to the assessment of the fair values of identifiable assets acquired and assumed liabilities, and contingent consideration to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to note 32 to the consolidated financial statements. As at December 31, 2018, the Group held significant amount of goodwill amounting to RMB989,233,000. Management engaged an independent valuer to assist in carrying out the goodwill impairment assessment. For the purpose of assessing impairment, management considered that Shanghai Huohun is a separate group of cash-generated-units (the "**Shanghai Huohun CGU**") and the goodwill is allocated to the Shanghai Huohun CGU. The recoverable amount of the Shanghai Huohun CGU was determined based on fair value less costs to sell method. Fair value derived from the market approach reflecting the market expectations over the corresponding industry using the price-to-earnings ratios ("**P/E ratios**") of the comparable companies based on market consensus. We focus on this area due to the magnitude of the carrying amount of goodwill and the facts that significant judgements were required by management on the key assumptions adopted in the valuation model, i.e. the average P/E ratio of the comparable companies, discount on the lack of marketability ("**LoMD**"), the adjustment for control premium, and Shanghai Huohun's estimated net income for the first operating year. Management concluded that the goodwill was not impaired.	Our procedures in relation to management's impairment assessment of goodwill included: — We assessed the appropriateness of management's identification of CGU and allocation of goodwill based on Group's accounting policy and our understanding of the Group's business; — We assessed the competency, capabilities and objectivity of the external valuer used by management; — We involved our internal valuation expert to assist us in assessing the appropriateness of valuation method to determine the fair value; — We challenged and assessed the reasonableness of the key assumptions used in the assessment, including the average P/E ratio of comparable companies, LoMD, the adjustment for control premium and Shanghai Huohun's estimated net income for the first operating year, based on our knowledge of the business and industry with the involvement of our internal valuation experts, and checking the board approved budget and assessing the reasonableness of the budget; — We evaluated the reasonableness of sensitivity analysis performed by management on the key assumptions to understand the impact of reasonable changes in assumptions on the estimated recoverable amount. We found management's judgements and assumptions adopted in the goodwill impairment assessment to be supported by the available evidence.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 28, 2019

		Year ended December 31,	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
Revenues	6	**2,364,641**	1,763,548
Cost of revenues	7	**(1,325,818)**	(1,054,120)
Gross profit		**1,038,823**	709,428
Selling and marketing expenses	7	**(303,373)**	(203,073)
General and administrative expenses	7	**(284,655)**	(203,119)
Research and development expenses	7	**(99,102)**	(105,742)
Net impairment losses on financial assets and contract assets	7	**(30,189)**	(10,625)
Other income	8	**15,249**	30,809
Other gains/(losses), net	9	**3,244**	(5,579)
Fair value losses on financial assets at fair value through profit or loss	18	**(10,631)**	(1,708)
Operating profit		**329,366**	210,391
Finance income	11	**16,358**	7,670
Finance costs	11	**(51,023)**	(45,476)
Finance cost, net	11	**(34,665)**	(37,806)
Share of net profits of investments accounted for using the equity method	17	**2,346**	1,107
Profit before income tax		**297,047**	173,692
Income tax expense	12	**(29,214)**	(21,788)
Profit for the year		**267,833**	151,904
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
— Currency translation differences		**39,532**	19,632
Total comprehensive income for the year		**307,365**	171,536

		Year ended December 31,	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
Profit for the year attributable to:			
— Equity holders of the Company		**246,384**	150,134
— Non-controlling interests		**21,449**	1,770
		267,833	151,904
Total comprehensive income attributable to:			
— Equity holders of the Company		**285,916**	169,766
— Non-controlling interests		**21,449**	1,770
		307,365	171,536
Earnings per share			*(Restated)*
— Basic earnings per share (in RMB)	13	**0.23**	0.15
— Diluted earnings per share (in RMB)	13	**0.23**	0.15

The notes on pages 89 to 181 are an integral part of these consolidated financial statements.

	Notes	As at December 31, 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**26,893**	27,575
Intangible assets	15	**682,702**	305,519
Investments accounted for using the equity method	17	**284,896**	174,485
Financial assets at fair value through profit or loss	18	**267,506**	214,841
Prepayments and other receivables	21	**41,480**	4,489
Goodwill	32	**989,233**	—
Contract asset	20	**21,653**	—
Deferred tax assets	30	**36,496**	21,745
		2,350,859	748,654
Current assets			
Trade receivables	19	**820,894**	630,216
Amounts due from related parties	34	**39,032**	16,192
Prepayments and other receivables	21	**1,031,745**	670,473
Contract asset	20	**26,440**	—
Contingent consideration assets		**20,089**	—
Contract costs	29	**119,824**	93,915
Financial assets at fair value through profit or loss	18	**87,547**	—
Restricted cash	22(b)	**–**	7,800
Cash and cash equivalents	22(a)	**1,121,641**	605,075
		3,267,212	2,023,671
Total assets		**5,618,071**	2,772,325
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	23	**75**	—
Share premium	23	**2,542,476**	—
Reserves	24	**254,552**	1,224,591
Retained earnings		**329,898**	106,781
		3,127,001	1,331,372
Non-controlling interests		**51,105**	5,322
Total equity		**3,178,106**	1,336,694

	Notes	As at December 31, 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	26	**129,805**	3,159
Deferred government grants	8	**5,429**	15,580
		135,234	18,739
Current liabilities			
Borrowings	26	**984,357**	996,929
Trade payables	27	**153,001**	149,540
Amounts due to related parties	34	**21,159**	—
Other payables and accruals	28	**885,046**	91,340
Income tax liabilities		**40,766**	19,918
Deferred government grants	8	**11,626**	4,355
Contract liabilities	29	**208,776**	154,810
		2,304,731	1,416,892
Total liabilities		**2,439,965**	1,435,631
Total equity and liabilities		**5,618,071**	2,772,325

The notes on pages 89 to 181 are an integral part of these consolidated financial statements.

The financial statements on pages 81 to 181 were approved by the Board of Directors on March 28, 2019 and were signed on its behalf

Chen Xiangyu
Director

Lei Junwen
Director

		Attributable to equity holders of the Company							
							(Accumulated losses)/	Non-	
		Capital	Merger	Statutory	Translation	Other	Retained	controlling	
		reserve	reserves	reserves	differences	reserves	earnings	interests	Total
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at January 1, 2017		10,000	15,937	5,000	(25,928)	546,323	(27,170)	1,002	525,164
Profit for the year		—	—	—	—	—	150,134	1,770	151,904
Other comprehensive income									
— Currency translation differences		—	—	—	19,632	—	—	—	19,632
Total comprehensive income for the year		—	—	—	19,632	—	150,134	1,770	171,536
Transactions with owners									
Capital injection from equity holders of the Company's subsidiary	24	30,536	1,013,746	—	—	—	—	—	1,044,282
Capital injection from non-controlling shareholders of the Company's subsidiary	24	—	—	—	—	—	—	2,550	2,550
Profit appropriation to statutory reserves	24	—	—	9,482	—	—	(9,482)	—	—
Share-based compensation expenses	25	—	—	—	—	86,052	—	—	86,052
Effects on restructuring of the Listing Business	24	—	(492,890)	—	—	—	—	—	(492,890)
Effects on a subsidiary's conversion from a limited liability company into a joint stock company	24	320,364	(308,663)	(5,000)	—	—	(6,701)	—	—
Total transactions with owners recognized directly in equity for the year		350,900	212,193	4,482	—	86,052	(16,183)	2,550	639,994
Balance at December 31, 2017		360,900	228,130	9,482	(6,296)	632,375	106,781	5,322	1,336,694

	Notes	Share Capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Merger reserves RMB'000	Statutory reserves RMB'000	Translation differences RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Total RMB'000
		Attributable to equity holders of the Company									
Balance at January 1, 2018		–	–	360,900	228,130	9,482	(6,296)	632,375	106,781	5,322	1,336,694
Profit for the year		–	–	–	–	–	–	–	246,384	21,449	267,833
Other comprehensive income		–	–	–	–	–	–	–	–	–	–
– Currency translation differences		–	–	–	–	–	39,532	–	–	–	39,532
Total comprehensive income for the year		–	–	–	–	–	39,532	–	246,384	21,449	307,365
Transactions with owners											
Capital reduction from equity holders of the Company's subsidiary	24	–	–	(2,250)	(47,750)	–	–	–	–	–	(50,000)
Effect of Reorganization of the Group	24	61	1,084,848	(358,650)	(180,380)	–	–	(545,818)	–	–	61
Capital injection from equity holders of the Company	23	5	753,766	–	–	–	–	–	–	–	753,771
Proceeds from initial public offering ("**IPO**"), net of transaction costs	23	9	703,862	–	–	–	–	–	–	–	703,871
Profit appropriation to statutory reserves	24	–	–	–	–	23,267	–	–	(23,267)	–	–
Share-based compensation expenses	25	–	–	–	–	–	–	85,910	–	–	85,910
Acquisition of a subsidiary	32	–	–	–	–	–	–	–	–	17,434	17,434
Contributions from non-controlling shareholder of Shanghai Huohun	34	–	–	16,100	–	–	–	–	–	6,900	23,000
Total transactions with owners recognized directly in equity for the year		75	2,542,476	(344,800)	(228,130)	23,267	–	(459,908)	(23,267)	24,334	1,534,047
Balance at December 31, 2018		75	2,542,476	16,100	–	32,749	33,236	172,467	329,898	51,105	3,178,106

The notes on pages 89 to 181 are an integral part of these consolidated financial statements.

	Notes	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	**240,895**	414,020
Income taxes paid		**(34,495)**	(29,946)
Net cash inflow from operating activities		**206,400**	384,074
Cash flows from investing activities			
Interest received from wealth management products	8	**868**	5,851
Placement of wealth management products		**(488,730)**	(1,628,540)
Receipt from maturity of wealth management products		**488,730**	1,628,540
Proceeds from disposals of property, plant and equipment	31	**200**	107
Purchase of property, plant and equipment		**(30,921)**	(13,754)
Purchase of intangible assets		**(472,152)**	(160,313)
Loans to related parties	34	**(34,094)**	(17,044)
Repayment of loans due from related parties	34	**10,052**	20,247
Loans to third parties		**(99,797)**	(11,652)
Repayment of loans due from third parties		**61,025**	19,633
Investments in financial assets at fair value through profit or loss		**(158,365)**	(45,531)
Proceeds from disposal of financial assets at fair value through profit or loss		**16,846**	—
Investments in associates and joint ventures		**(127,800)**	(59,648)
Proceeds from disposal of investments in associates and joint ventures		**10,080**	—
Acquisition of a subsidiary, net of cash acquired	32	**(337,420)**	—
Prepayment for investments	21	**(10,000)**	—
Net cash outflow from investing activities		**(1,171,478)**	(262,104)

	Notes	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Proceeds from capital injection from shareholders of a subsidiary		—	894,282
Proceeds from capital injection to the Company	23	753,832	—
Proceeds from capital injection from non-controlling shareholders of a subsidiary		—	2,550
Distribution and payments to the equity holders of the Group		(50,000)	(959,073)
Proceeds from borrowings		300,000	803,806
Repayment of borrowings		(188,986)	(140,585)
Loans from related parties	34	21,159	—
Repayment of loans due to related parties		—	(612,569)
Interest expenses paid		(51,023)	(45,476)
Proceeds from IPO, net of transaction costs		688,864	—
Net cash inflow/(outflow) from financing activities		1,473,846	(57,065)
Net increase in cash and cash equivalents		508,768	64,905
Cash and cash equivalents at the beginning of the financial year		605,075	543,376
Effects of exchange rate changes on cash and cash equivalents		7,798	(3,206)
Cash and cash equivalents at the end of the year		1,121,641	605,075

The notes on pages 89 to 181 are an integral part of these consolidated financial statements.

1 General information

iDreamSky Technology Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on January 3, 2018 as an exempted company with limited liability. The address of the Company's registered office is P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1—1205 Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the "**Group**") are principally engaged in the licensing and operating of single player mobile games and mobile online games (the "**Listing Business**") in the People's Republic of China (the "**PRC**" or "**China**").

The Company has its primary listing on the Stock Exchange of Hong Kong Limited on December 6, 2018.

This consolidated financial statements for the year ended December 31, 2018 are presented in Renminbi ("**RMB**"), unless otherwise stated.

In preparation for the IPO and listing of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited, the Group underwent a reorganization ("**the Reorganization**") to establish the Company as the ultimate holding company of the companies now comprising the Group which conduct the Listing Business. Details of the Reorganization are set out below:

(a) Establishment of offshore group structure

The Company was incorporated in the Cayman Islands as an exempted company on January 3, 2018. iDreamSky Holdings (HK) Limited ("**iDreamSky Holdings (HK)**") was incorporated in Hong Kong as a limited liability company on January 19, 2018 and is wholly owned by the Company.

(b) Establishment of the offshore shareholder structure

To reflect the onshore shareholder structure of Shenzhen iDreamSky Technology Co., Ltd. ("**Shenzhen iDreamSky**"), on March 27, 2018, the Company allotted and issued an aggregate of 97,036,690 shares of US$0.0001 each (the "**Share**") to offshore holding companies which are beneficially owned by the equity owners of Shenzhen iDreamSky as at that date.

(c) Establishment of Shenzhen Qianhai iDream Technology Co., Ltd. ("Qianhai iDream")

On April 23, 2018, Qianhai iDream was established by iDreamSky Holdings (HK) as a wholly-owned foreign enterprise (the "**WOFE**").

(d) Transfer of non-restricted business to Qianhai iDream and iDreamSky Holdings (HK)

Certain subsidiaries of Shenzhen iDreamSky which conduct business that are not subject to foreign investment restrictions under the relevant PRC laws and regulations were transferred to and wholly owned by Qianhai iDream and iDreamSky Holdings (HK).

1 General information (Continued)

(e) Entering into the Contractual Arrangements to control our PRC Consolidated Affiliated Entities

On May 10, 2018, the WOFE entered into various agreements ("**Contractual Arrangements**") with, among others, Shenzhen iDreamSky, under which all economic benefits arising from the business of the PRC Consolidated Affiliated Entities are transferred to the WOFE to the extent permitted by the PRC laws and regulations.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"). 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.

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

(a) Application of IFRS 9 and IFRS15

IFRS 9 "Financial Instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities, and introduces new rules of hedge accounting and a new impairment model for financial assets. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

IFRS 15, "Revenue from contracts with customers" replaces the previous revenue standards IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

The Group has elected to apply IFRS 9 and IFRS 15 consistently throughout the years ended December 31, 2018 and 2017.

(b) New and amended standards adopted by the group

The other new or revised standards, amendments and interpretations to existing standards, which are mandatory for the financial year beginning on January 1, 2018, are either currently not relevant to the Group or had no material impact on the Group's consolidated financial statements.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(c) New standards and interpretations that have been issued but not effective

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

	New standards, amendments and interpretations	Effective date
IFRS 16 (ii)	Leases	Annual periods beginning on or after January 1, 2019
IFRS 17 (i)	Insurance contracts	Annual periods beginning on or after January 1, 2021
IFRIC 23 (i)	Uncertainty over income tax treatments	Annual periods beginning on or after January 1, 2019
IAS 19 (i)	"Employee benefits" on plan amendment, curtailment or settlement	Annual periods beginning on or after January 1, 2019
Amendments to IFRS 10 and IAS 28 (i)	Sale or contribution assets between an investor and its associate or joint venture	To be determined
Amendments to IFRS (i)	Annual Improvements to IFRSs 2015—2017 Cycle	Annual periods beginning on or after January 1, 2019
Amendment to IAS 28 (i)	Long term interests in associates and joint ventures	Annual periods beginning on or after January 1, 2019
Amendment to IFRS 9 (i)	Prepayment features with negative compensation	Annual periods beginning on or after January 1, 2019

(i) The Group has already commenced an assessment of the impact of these new or revised standards, and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Group is expected when they become effective.

(ii) The Group is a lessee of certain office spaces and servers which are currently classified as operating leases. The Group's current accounting policy for such leases, as set out in note 2.25, is to record the rental expenses in the Group's consolidated statements of comprehensive income for the current year with the related operating lease commitments being separately disclosed in note 31. IFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognize leases outside of the statements of financial position. Instead, all non-current leases must be recognized in the form of assets (for the right of use) and lease liabilities (for the payment obligations) in the Group's consolidated statements of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in a derecognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the consolidated statements of financial position. In the consolidated statements of comprehensive income, as a result, the annual rental and amortization expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right-of-use of assets and interest expense arising from the lease liabilities will increase. The new standard is not expected to apply until the financial year beginning on or after January 1, 2019. As at December 31, 2018, the operating lease commitments of the Group amounted to RMB52,437,000, the impact of adoption of IFRS 16 is therefore not expected to have a significant effect on the financial statements of the Group.

2 Summary of significant accounting policies (Continued)

2.2 Principles of consolidation

(a) Business combination

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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

2 Summary of significant accounting policies (Continued)

2.2 Principles of consolidation (Continued)

(b) Subsidiaries

Subsidiaries are all entities (including structured entities, such as RSU Holding Entities established for employees incentive plan purpose) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

(i) Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means that amounts previously recognized in other comprehensive income are reclassified to the consolidated income statement or transferred to another category of equity as specified/permitted by applicable IFRSs.

2 Summary of significant accounting policies (Continued)

2.2 Principles of consolidation (Continued)

(c) Separate financial statements

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

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

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights.

(a) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income or loss is reclassified to consolidated income statement where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income or loss is recognized in other comprehensive income or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

2 Summary of significant accounting policies (Continued)

2.3 Associates (Continued)

(a) Investments in associates in the form of ordinary shares (Continued)

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in "other losses, net" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statement.

(b) Investments in associates achieved in stages

The cost of associates acquired in stages, is measured as the sum of the fair value of the interests previously held plus the fair value of any additional consideration transferred as of the date when it becomes associate. A gain or loss on re-measurement of the previously held interests is taken to the consolidated income statement. Any other comprehensive income recognized in prior periods in relation to the previously held interests is also taken to the consolidated income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.

2.4 Joint arrangements

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

2 Summary of significant accounting policies (Continued)

2.4 Joint arrangements (Continued)

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2 Summary of significant accounting policies (Continued)

2.6 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

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

(c) Group companies

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

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

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

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

2.7 Property, plant and equipment

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

2 Summary of significant accounting policies (Continued)

2.7 Property, plant and equipment (Continued)

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

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

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

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

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

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

2.8 Intangible assets

(a) Goodwill

Goodwill is measured as described in note 2.2 (a). Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2 Summary of significant accounting policies (Continued)

2.8 Intangible assets (Continued)

(b) Computer software

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

(c) Game intellectual properties and licenses

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

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

(d) Research and development expenditures

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

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

2 Summary of significant accounting policies (Continued)

2.8 Intangible assets (Continued)

(d) Research and development expenditures (Continued)

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

2.9 Impairment of non-financial assets

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

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories:

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

- those to be measured at amortized cost.

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See note 16 for details about each type of financial assets.

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

2 Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

(b) Recognition and Measurement

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

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

Debt instruments

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

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in the consolidated income statement when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (OCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to the consolidated income statement and recognized in "other losses, net". Interest income from these financial assets is included in finance income using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or financial assets at fair value through OCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated income statement.

2 Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

(b) Recognition and Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated income statement. Dividends from such investments continue to be recognized in the Consolidated income statement as "other income" when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in "fair value gains on financial assets at fair value through profit or loss" in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at fair value through OCI are not reported separately from other changes in fair value.

2.11 Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortized cost and financial assets at fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables only, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The Group uses practical expedients when estimating life time expected losses on trader receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

2.12 Trade receivables

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

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

2.13 Cash and cash equivalents

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

2 Summary of significant accounting policies (Continued)

2.14 Share capital

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

2.15 Trade payables

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

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

2.16 Borrowings

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

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

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

2.17 Contract liabilities and contract costs

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

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

2.18 Current and deferred income tax

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

2 Summary of significant accounting policies (Continued)

2.18 Current and deferred income tax (Continued)

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

2 Summary of significant accounting policies (Continued)

2.18 Current and deferred income tax (Continued)

(c) Offsetting

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

2.19 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

(c) Bonus plans

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

2.20 Share-based payments

(a) Equity-settled share-based payment transactions

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

2 Summary of significant accounting policies (Continued)

2.20 Share-based payments (Continued)

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

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

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

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

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

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

2 Summary of significant accounting policies (Continued)

2.21 Provisions

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

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

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

2.22 Revenue recognition

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

Game distribution revenue

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

2 Summary of significant accounting policies (Continued)

2.22 Revenue recognition (Continued)

Game distribution revenue (Continued)

(a) Casual mobile games

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

(b) Mid- and hardcore mobile games

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

2 Summary of significant accounting policies (Continued)

2.22 Revenue recognition (Continued)

Game distribution revenue (Continued)

(c) Principal Agent Consideration

(i) Third party licensed mobile games

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

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

The Group acts as Agent

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

2 Summary of significant accounting policies (Continued)

2.22 Revenue recognition (Continued)

Game distribution revenue (Continued)

(c) Principal Agent Consideration (Continued)

(i) Third party licensed mobile games (Continued)

The Group acts as Agent (Continued)

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

The Group acts as Principal

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

(ii) Self-developed and acquired mobile games

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

2 Summary of significant accounting policies (Continued)

2.22 Revenue recognition (Continued)

Game distribution revenue (Continued)

(d) Timing of revenue recognition

(i) Casual mobile games

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

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

(ii) Mid- and hardcore mobile games

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

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

2 Summary of significant accounting policies (Continued)

2.22 Revenue recognition (Continued)

Game distribution revenue (Continued)

(d) Timing of revenue recognition (Continued)

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

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

For the years ended December 31, 2017 and 2018, the Player Relationship Period is based on seventeen and twenty one games that have sufficient historical operating data, respectively. The same Player Relationship Period was applied to the other games due to the lack of sufficient historical operating data, as well as the similarity in game characteristics and playing patterns of paying players, such as targeted players and purchasing frequency. While the Group believes its estimates to be reasonable based on available game player information, it may revise such estimates in the future as the games' operation periods change, sufficient individual game data become available, or there is indication that the similarities in characteristics and playing patterns of paying players of the games change. Any adjustments arising from changes in Player Relationship Period would be applied prospectively on the basis that such changes are caused by new information indicating a change in game player behavior patterns. Any changes in the Group's Player Relationship Period may result in revenues being recognized on a basis different from prior periods' and may cause its operating results to fluctuate.

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

Game development and co-operation revenue

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

2 Summary of significant accounting policies (Continued)

2.22 Revenue recognition (Continued)

Game distribution revenue (Continued)

(d) Timing of revenue recognition (Continued)

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

Game development and co-operation revenue (Continued)

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

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

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

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

2 Summary of significant accounting policies (Continued)

2.22 Revenue recognition (Continued)

Game distribution revenue (Continued)

(d) Timing of revenue recognition (Continued)

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

Information service revenue

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

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

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

2.23 Interest income

Interest income is recognized on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.24 Government grants/subsidies

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

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

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

2 Summary of significant accounting policies (Continued)

2.25 Operating Leases

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

2.26 Dividend distribution

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

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The functional currency of the Company is HKD whereas functional currency of the subsidiaries operate in the PRC is RMB and the subsidiaries operate in oversea is USD. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible and may enter into forward foreign exchange contracts, when necessary.

The Group's PRC subsidiaries are exposed to foreign exchange risk arising from recognized assets in foreign currencies, primarily with respect USD in transactions with certain oversea platforms. For the years ended December 31, 2017 and 2018, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, post-tax profit for the year would have been RMB5,491,000 and RMB12,015,000 higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of USD-denominated receivables and cash and cash equivalents.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

The Group's oversea subsidiaries are exposed to foreign exchange risk arising from the borrowings denominated in Euro ("**EUR**") whereas their functional currency is USD. For the years ended December 31, 2017 and 2018, if EUR had strengthened/weakened by 5% against USD with all other variables held constant, post-tax profit for the years ended December 31, 2017 and 2018 would have been RMB22,856,000 and RMB21,470,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated borrowings.

The Group does not hedge against any fluctuation in foreign currencies during the years ended December 31, 2017 and 2018.

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents, details of which have been disclosed in note 22.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in note 26. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

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

As at December 31, 2017 and December 31, 2018, borrowings of the Group which were bearing at floating rates amounted to approximately RMB535,069,000 and RMB535,206,000, respectively. As at December 31, 2017 and December 31, 2018, if the interest rates had been 50 basis point higher/lower and all other variables were held constant, the Group's post-tax profit For the years ended December 31, 2017 and 2018 would has been approximately RMB2,232,000 and RMB2,233,000 lower/higher.

(b) Credit risk

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

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

(i) Credit risk of cash and cash equivalents

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

(ii) Credit risk of contract assets and trade receivables

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

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

(iii) Credit risk of amount due from related parties

During the year ended December 31, 2017, as one of the related parties fails to make demanded repayment within 60 days of when it fall due, the Group made 100% provision for this receivable and applied the expected credit loss rate at 5% to estimate the impairment provision for the remaining balance. During the year ended December 31, 2018, the Group continued to apply the expected credit loss rate at 5% to estimate the impairment provision for the amount due from related parties. Movements in the provision for impairment of amount due from related parties as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year	**2,004**	1,072
Provision for impairment	**1,202**	932
Written off during the year	**(1,152)**	—
At the end of the year	**2,054**	2,004

(iv) Credit risk of other receivables

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

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the third party borrower;
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrower;
- the employment relationship with the employee borrower.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

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

(iv) Credit risk of other receivables (Continued)

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

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

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

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

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

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

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

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

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

Other receivables	Expected credit loss rate	Basis for recognition of expected credit loss provision	Estimated gross amount at default		Carrying amount (net of impairment provision)	
			As at December 31,		As at December 31,	
			2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Loan to third parties	5%	12 months expected losses	**64,319**	28,645	**61,103**	27,213
Current portion of loan to employees	1%	12 months expected losses	**4,141**	4,131	**4,100**	4,090
Non-current portion of loan to employees	1%	12 months expected losses	**5,655**	4,534	**5,598**	4,489
Underperforming receivables	100%	Life time expected losses	**3,098**	965	**—**	—
Others	5%	12 months expected losses	**67,616**	5,048	**64,235**	4,795
			144,829	43,323	**135,036**	40,587

No significant changes to estimation techniques or assumptions were made.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(iv) Credit risk of other receivables (Continued)

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year	**2,736**	3,103
Acquisition of a subsidiary	**78**	—
Provision for impairment	**7,944**	—
Reversal	**—**	(367)
Written off during the year	**(965)**	—
At the end of the year	**9,793**	2,736

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

(c) Liquidity risk

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

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Above 5 years RMB'000	Total RMB'000
As at December 31, 2018					
Borrowings	**1,021,017**	**81,669**	**55,460**	**—**	**1,158,146**
Trade payables	**153,001**	**—**	**—**	**—**	**153,001**
Other payables and accruals (excluding advance, accrued payroll and other taxes payables)	**806,450**	**—**	**—**	**—**	**806,450**
Total	**1,980,468**	**81,669**	**55,460**	**—**	**2,117,597**
As at December 31, 2017					
Borrowings	1,034,422	1,434	1,912	—	1,037,768
Trade payables	149,540	—	—	—	149,540
Other payables and accruals (excluding advance, accrued payroll and other taxes payables)	4,589	—	—	—	4,589
Total	1,188,551	1,434	1,912	—	1,191,897

3.2 Capital managements

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

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

3 Financial risk management (Continued)

3.2 Capital managements (Continued)

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and amount due to related parties less cash and cash equivalents and restricted cash. Total capital is calculated as "equity" as shown in the consolidated statements of financial position. As at December 31, 2017 and 2018, the gearing ratio of the Group is 28.97% and 0.43% respectively. In the opinion of the directors, the Group's capital risk is low.

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at December 31, 2017 and December 31, 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

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

The following table presents the Group's assets that are measured at fair value as of December 31, 2017 and December 31, 2018.

As at December 31, 2018	***Notes***	**Level 1 *RMB'000***	**Level 2 *RMB'000***	**Level 3 *RMB'000***	**Total *RMB'000***
Assets:					
Financial assets at fair value through profit or loss	18	**87,547**	**—**	**267,506**	**355,053**

As at December 31, 2017	*Notes*	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets:					
Financial assets at fair value through profit or loss	18	—	—	214,841	214,841

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

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

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

There was no transfer between level 1 and 2 for recurring fair value measurements. The changes in level 3 financial instruments are presented in note 18.

Valuation processes of the Group (Level 3)

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

The components of the level 3 instruments mainly include investments in private investment funds and unlisted companies, convertible bonds, etc. As these instruments are not traded in an active market, their fair values have been determined using various applicable valuation techniques, including discounted cash flows approach, comparable transactions approach, and other option pricing models, etc. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, estimates of weighted average cost of capital (WACC), recent market transactions, discount for lack of marketability and other exposure, etc. The fair value of these instruments determined by the Group requires significant judgement, including the likelihood of non-performing by the investee company, financial performance of the investee company, market value of comparable companies as well as discount rate, etc.

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

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

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

			Fair value change	
Key unobservable inputs	**Range of inputs**	**Change**	**For the year ended at December 31, 2018** ***RMB'000***	For the year ended at December 31, 2017 *RMB'000*
WACC	18.9–24.9%	+5%	(4,913)	(3,418)
	18.9–24.9%	-5%	5,558	3,846
Terminal Growth Rate	2%–3%	+5%	408	271
	2%–3%	-5%	(412)	(271)
Price-to-sale ratio	3.9%–22.7%	+5%	337	1,361
	3.9%–22.7%	-5%	(337)	(1,361)

4 Critical accounting estimates and judgements

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

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

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

As described in note 2.22, the Group recognizes the revenues ratably over the estimated average Player Relationship Period for mid- and hardcore mobile games and certain casual mobile games whereas the Group acts as Principal. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

4 Critical accounting estimates and judgements (Continued)

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

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

(c) Revenue recognition

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

(d) Recoverability of game intellectual properties and licenses

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

(e) Income taxes

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

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

4 Critical accounting estimates and judgements (Continued)

(f) Expected credit loss for receivables

The impairment provisions for trade receivables and other receivables are based on assumptions about the expected loss rates. The group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see note 3.1(b) and note 19. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statements of comprehensive income.

5 Segment information

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

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

6 Revenues

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Game revenue	**2,087,561**	1,535,018
Information service revenue	**269,962**	220,748
Other revenue	**7,118**	7,782
	2,364,641	1,763,548

7 Expenses by Nature

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Channel costs	**975,182**	753,972
Employee benefits expenses *(Note 10)*	**236,142**	258,898
Promotion and advertising expenses	**297,883**	194,011
Revenue share to content providers	**215,188**	132,108
Amortization of intangible assets *(Note 15)*	**86,143**	75,613
Impairment provisions for intangible assets *(Note 15)*	**14,072**	33,344
Outsourcing expenses for technical services	**13,937**	20,151
Travelling and entertainment expenses	**17,496**	18,905
Professional service fees	**88,522**	17,395
Cloud computing, bandwidth and server custody fees	**26,416**	15,396
Rental expenses	**18,146**	14,346
Impairment provisions for receivables and contract assets	**30,189**	10,625
Impairment provisions for prepayments	**7,967**	8,403
Depreciation of property, plant and equipment *(Note 14)*	**7,693**	7,862
Auditor's remuneration		
— Audit services	**3,200**	—
— Non-audit services	**—**	—
Other tax expenses	**2,728**	2,479
Others	**2,233**	13,171
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**2,043,137**	1,576,679

8 Other Income

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Government grants *(Note a)*	**14,381**	24,958
Interest income from wealth management products	**868**	5,851
	15,249	30,809

(a) Government grants

	As at January 1, 2017	Receipt of grants	Credited to consolidated income statement during the year	As at December 31, 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Government grants related to assets	9,103	3,880	(2,336)	10,647
Government grants related to costs	2,869	29,041	(22,622)	9,288
	11,972	32,921	(24,958)	19,935

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

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

8 Other Income (Continued)

(a) Government grants (Continued)

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

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

9 Other (gains)/Losses, net

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Impairment provision of investment in associates *(Note 17)*	**—**	4,000
Net losses on disposal of property, plant and equipment *(Note 31)*	**588**	316
Compensation	**(1,689)**	—
Gains on disposal of subsidiaries	**(2,509)**	—
Others	**366**	1,263
	(3,244)	5,579

10 Employee benefit expenses

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**132,570**	153,150
Pension costs — defined contribution plans	**12,293**	11,867
Other social security costs, housing benefits and other employee benefits	**5,369**	7,829
Share-based compensation expenses *(Note 25)*	**85,910**	86,052
	236,142	258,898

(a) Pension costs — defined contribution plans

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

10 Employee benefit expenses (Continued)

(b) Directors' and Chief Executives' emoluments

The remuneration of every director and chief executive for the year ended December 31, 2017 is set out below:

Name	Fees	Salaries	Share-based compensation	Pension costs-defined contribution plan, other social security costs, housing benefits, and other employee benefits	Other employee benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors						
Mr. Chen Xiangyu (CEO)	—	870	—	21	8	899
Mr. Jeffrey Lyndon Ko	—	750	533	2	8	1,293
Mr. Guan Song	—	870	533	19	8	1,430
Mr. Lei Junwen	—	750	12,579	21	8	13,358
	—	3,240	13,645	63	32	16,980
Independent non-executive Directors						
Ms. Yu Bin	50	—	—	—	—	50
Mr. Zhang Weining	50	—	—	—	—	50
Mr. Li Xintian	50	—	—	—	—	50
	150	—	—	—	—	150
	150	3,240	13,645	63	32	17,130

10 Employee benefit expenses (Continued)

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

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

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

10 Employee benefit expenses (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2017 and 2018 include three directors whose emoluments are reflected in the analysis presented above, respectively. The aggregate amounts of emoluments for the remaining two individuals for each of the years ended December 31, 2017 and 2018 are set out below:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**1,661**	1,282
Pension costs — defined contribution plan, other social security costs, housing benefits, and other employee benefits	**68**	25
Share-based compensation expenses	**21,365**	37,002
	23,094	38,309

The emoluments of those individuals fell within the following bands:

	Number of individuals	
	Year ended December 31,	
	2018	2017
HKD0 to HKD1,000,000	**—**	1
HKD1,000,001 to HKD1,500,000	**1**	—
HKD26,000,001 to HKD26,500,000	**1**	—
HKD43,000,001 to HKD43,500,000	**—**	1
	2	2

11 Finance costs, net

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Finance costs:		
— Interest expense	**(51,023)**	(45,476)
Finance income:		
— Interest income on bank deposits	**5,870**	4,459
— Exchange gain	**10,488**	3,211
	16,358	7,670
Finance costs, net	**(34,665)**	(37,806)

12 Income tax expense

The income tax expense of the Group for the years ended December 31, 2017 and 2018 is analyzed as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Current income tax:		
— PRC corporate income tax	**43,965**	29,926
Deferred income tax:		
— Origination and reversal of temporary differences	**(14,751)**	(8,138)
Income tax expense	**29,214**	21,788

12 Income tax expense (Continued)

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**297,047**	173,692
Tax calculated at 25%	**74,262**	43,423
Tax effects of:		
— Differential income tax rates applicable to subsidiaries	**—**	(1,126)
— Preferential income tax rates applicable to subsidiaries	**(48,554)**	(27,033)
— Tax losses for which no deferred income tax asset was recognized	**3,365**	3,306
— Expenses not deductible for income tax purposes	**17,809**	11,116
— Super deduction for research and development expenses *(Note c)*	**(17,668)**	(7,898)
Income tax expense	**29,214**	21,788

(a) Cayman Islands corporate income tax

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

(b) Hong Kong profits tax

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

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

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

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

12 Income tax expense (Continued)

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

Qianhai Chuangyi Shikong Technology (Shenzhen) Co., Ltd. was established in Qianhai, Bonded Zone of Shenzhen in October 2014, which was subject to an applicable tax rate of 15%, as it met the requirements set out by local authorities for the preferential tax rate. Horgos iDreamSky Information Technology Co., Ltd. ("**Horgos iDreamsky**") was established in Horgos Development Zone of Xinjiang in June 2016, which was exempt from EIT from the first year of operation for a 5-year period according to the regulations set out by the local authorities. Since Horgos iDreamSky operated in 2016, the tax exemption period commenced from the year of 2016.

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

(d) PRC Withholding Tax ("WHT")

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

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

13 Earnings per share and dividends

(a) Earnings per share

(i) Basic

	Year ended December 31, 2018	2017 (Restated)
Profit attributable to equity holders of the Company *(RMB'000)*	**246,384**	150,134
Weighted average number of shares in issue (thousands)	**1,060,334**	1,005,811
Basic earnings per share *(in RMB)*	**0.23**	0.15

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the respective year/period. The weighted average number of shares used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation.

(ii) Diluted

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

	Year ended December 31, 2018	2017 (Restated)
Profit attributable to equity holders of the Company *(RMB'000)*	**246,384**	150,134
Weighted average number of shares in issue *(thousands)*	**1,060,334**	1,005,811
Adjustments for employee incentive plan (thousands)	**19,796**	—
Weighted average number of shares for calculating diluted earnings per share *(thousands)*	**1,080,130**	1,005,811
Diluted earnings per share *(in RMB)*	**0.23**	0.15

13 Earnings per share and dividends (Continued)

(a) Earnings per share (Continued)

(iii) Earnings per share (restated)

As disclosed in note 23(d), on December 6, 2018, each issued and unissued share of a par value of USD0.0001 each in the capital was subdivided into 10 shares of a par value of USD0.00001 each. According to IAS 33, the weighted average number of ordinary shares outstanding during the period and for all periods should be adjusted, and the EPS figure disclosed for previous year should be recalculated. Therefore, the basic and diluted earnings per share for the year ended December 31, 2017 have been restated from RMB1.49 to RMB0.15 respectively.

(b) Dividends

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2018 (2017:Nil).

14 Property, plant and equipment

	Land and buildings *RMB'000*	Furniture and office equipment *RMB'000*	Server and other equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
Year ended December 31, 2017						
Opening net book amount	9,584	3,837	5,268	593	2,292	21,574
Additions	—	2,001	5,935	2,977	3,373	14,286
Disposals	—	(252)	(5)	(166)	—	(423)
Depreciation charge	(440)	(1,844)	(4,017)	(457)	(1,104)	(7,862)
Closing net book amount	9,144	3,742	7,181	2,947	4,561	27,575
At December 31, 2017						
Cost	9,767	12,119	20,304	3,510	10,609	56,309
Accumulated depreciation	(623)	(8,377)	(13,123)	(563)	(6,048)	(28,734)
Net book amount	9,144	3,742	7,181	2,947	4,561	27,575

14 Property, plant and equipment (Continued)

	Land and buildings *RMB'000*	Furniture and office equipment *RMB'000*	Server and other equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
Year ended December 31, 2018						
Opening net book amount	9,144	3,742	7,181	2,947	4,561	27,575
Additions	—	964	3,796	—	199	4,959
Acquisition of a subsidiary *(Note 32)*	—	301	—	—	2,539	2,840
Disposals	—	(122)	(625)	(41)	—	(788)
Depreciation charge	(439)	(1,166)	(3,226)	(641)	(2,221)	(7,693)
Closing net book amount	8,705	3,719	7,126	2,265	5,078	26,893
At December 31, 2018						
Cost	9,767	12,856	17,904	3,295	13,347	57,169
Accumulated depreciation	(1,062)	(9,137)	(10,778)	(1,030)	(8,269)	(30,276)
Net book amount	8,705	3,719	7,126	2,265	5,078	26,893

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

	Year ended December 31,	
	2018 *RMB'000*	2017 *RMB'000*
Cost of revenues	**1,384**	1,688
General and administrative expenses	**3,433**	2,859
Research and development expenses	**2,524**	2,751
Selling and marketing expenses	**352**	564
	7,693	7,862

As at December 31, 2017 and 2018, the Group's properties with net book amounts of RMB9,144,000 and RMB8,705,000 respectively were pledged to a bank to secure certain banking borrowings of the Group (Note 25).

15 Intangible assets

	Game intellectual properties and licenses RMB'000	Computer software RMB'000	Capitalized development costs for internal use software RMB'000	Total RMB'000
Year ended December 31, 2017				
Opening net book amount	243,129	1,411	6,470	251,010
Additions	141,467	14,130	7,869	163,466
Amortization charge	(63,737)	(3,382)	(8,494)	(75,613)
Impairment	(33,344)	—	—	(33,344)
Closing net book amount	287,515	12,159	5,845	305,519
At December 31, 2017				
Cost	599,132	17,928	25,351	642,411
Accumulated impairment provision	(111,096)	—	—	(111,096)
Accumulated amortization	(200,521)	(5,769)	(19,506)	(225,796)
Net book amount	287,515	12,159	5,845	305,519
Year ended December 31, 2018				
Opening net book amount	**287,515**	**12,159**	**5,845**	**305,519**
Additions	**457,967**	**1,569**	**17,862**	**477,398**
Amortization charge	**(72,256)**	**(5,502)**	**(8,385)**	**(86,143)**
Impairment	**(14,072)**	**—**	**—**	**(14,072)**
Closing net book amount	**659,154**	**8,226**	**15,322**	**682,702**
At December 31, 2018				
Cost	**946,003**	**19,497**	**43,213**	**1,008,713**
Accumulated impairment provision	**(14,072)**	**—**	**—**	**(14,072)**
Accumulated amortization	**(272,777)**	**(11,271)**	**(27,891)**	**(311,939)**
Net book amount	**659,154**	**8,226**	**15,322**	**682,702**

15 Intangible assets (Continued)

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Cost of revenues	**53,058**	58,291
General and administrative expenses	**29,632**	14,974
Research and development expenses	**3,453**	2,348
	86,143	75,613

Impairment provision has been charged in the following categories in the consolidated income statement:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Cost of revenues	**10,770**	1,887
General and administrative expenses	**3,302**	31,457
	14,072	33,344

The Group wrote off RMB8,281,000 and RMB111,096,000 game intellectual properties and licenses, together with the relevant impairment provision, during the year ended at December 31, 2017 and 2018, respectively.

16 Financial instruments by category

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Assets as per consolidated statements of financial position		
Financial assets at fair value through profit or loss *(Note 18)*	**355,053**	214,841
Loans and receivables:		
— Trade receivables *(Note 19)*	**820,894**	630,216
— Other receivables (excluding prepayments) *(Note 3.1(b))*	**135,036**	40,587
— Contract assets *(Note 20)*	**48,093**	—
— Amounts due from related parties *(Note 34)*	**39,032**	16,192
— Restricted cash *(Note 22(b))*	**—**	7,800
— Cash and cash equivalents *(Note 22(a))*	**1,121,641**	605,075
	2,519,749	1,514,711
Liabilities as per consolidated statements of financial position		
Financial liabilities at amortized cost:		
— Borrowings *(Note 26)*	**1,114,162**	1,000,088
— Trade payables *(Note 27)*	**153,001**	149,540
— Other payables and accruals (excluding advance from a investor, payroll and welfare payables and other tax payables) *(Note 28)*	**806,450**	19,867
— Amounts due to related parties *(Note 34)*	**21,159**	—
	2,094,772	1,169,495

17 Investments accounted for using the equity method

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Associates *(a)*	**207,836**	164,585
Joint ventures *(b)*	**77,060**	9,900
	284,896	174,485

17 Investments accounted for using the equity method (Continued)

(a) Investments in associates

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year	**164,585**	114,458
Additions *(Note i)*	**60,850**	54,739
Disposal	**(21,661)**	(557)
Impairment provision *(Note ii)*	**—**	(4,000)
Share of profits of the associates	**2,550**	1,107
Currency translation differences	**1,512**	(1,162)
At the end of the year	**207,836**	164,585

The Group directly hold solely ordinary shares of the associates. As at December 31, 2017 and 2018, the Group invested in 15 and 20 associates respectively. The largest investment in associates was the investment in Beijing Weibo Technology Development Co., Ltd. ("**Beijing Weibo**", formally known as WeCasting Inc.) which was transferred from financial assets at fair value through profit or loss. In addition, the share of profits of the associates was not material to the Group. Therefore, in the opinion of the directors, none of the associates is material to the Group.

The Group acquired certain associates and made additional investments in existing associates, with an aggregate amount of RMB49,536,000 and RMB60,850,000 during the year ended December 31, 2017 and 2018, respectively. These associates are principally engaged in online game business and other internet-related businesses. During the years ended December 31, 2017, the investments amounted to RMB5,203,000 were transferred from "financial assets at fair value through profit or loss" as disclosed in note 18.

(b) Investments in joint ventures

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year	**9,900**	—
Additions *(i)*	**67,000**	9,900
Share of losses of the joint ventures	**(204)**	—
Currency translation differences	**364**	—
At the end of the year	**77,060**	9,900

17 Investments accounted for using the equity method (Continued)

(b) Investments in joint ventures (Continued)

(i) The additions mainly include Shenzhen iDreamSky Venture Investment Partnership (Limited Partnership), which was established by the Group and Overseas Chinese Town Group during the year ended December 31, 2018.

Set out below are the joint ventures of the Group as at December 31, 2017 and 2018. The joint ventures as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the Group's proportion of ownership interest is the same as the proportion of voting rights held by the Group.

Name	Place of incorporation	Percentage of ownership interest attributable to the Group: December 31, 2017	Percentage of ownership interest attributable to the Group: December 31, 2018	Nature of relationship	Principal activities
Tianjin Lewei Shidai Culture Development Co. Ltd.	Tianjin	49%	**49%**	Joint Venture	Film and television program planning
Tianjin Wenmeng Interactive Entertainment Co. Ltd.	Tianjin	50%	**50%**	Joint Venture	Performance brokerage agency
Shenzhen iDreamSky Venture Investment Partnership (Limited Partnership)	Shenzhen	N/A	**50%**	Joint Venture	Venture capital business
Dreamwalk Technologies Limited	Hong Kong	N/A	**30%**	Joint Venture	Software business

There were no contingent liabilities related to the Group's interest in the joint ventures as at December 31, 2017 and 2018.

18 Financial assets at fair value through profit or loss

	Year ended December 31, 2018 RMB'000	Year ended December 31, 2017 RMB'000
Included in non-current assets		
At the beginning of the year	**214,841**	176,571
Additions	**80,159**	47,345
Changes in fair value	**(12,410)**	(1,708)
Transfer to investment in associates	**—**	(5,203)
Disposal	**(17,396)**	—
Currency translation differences	**2,312**	(2,164)
At the end of the year	**267,506**	214,841

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Included in current assets		
At the beginning of the year/period	**—**	—
Additions	**85,707**	—
Changes in fair value	**1,779**	—
Currency translation differences	**61**	—
	87,547	—

The Group's financial assets at fair value through profit or loss comprised debt securities hold by the Group, shares traded on the Stock Exchange of Hong Kong Limited (included in current assets) and some investments in unlisted entities mainly operated in the PRC, UK and Korea.

The debt securities were the investments which were made in the investees in form of convertible redeemable preferred shares. The preferred shares are convertible into ordinary shares anytime at the option of the holder, or automatically in the event of an IPO of the investees. The preferred shares are redeemable at the option of the Group if there is no IPO of investees after several years from the dates of investment. Based on the status of investees, the Group considers the redemption clause is substantive, and therefore has accounted for the investment in those investees as financial assets at fair value through profit or loss.

The investments in unlisted entities represented the Group's certain minority interests in private companies. The Group elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair value are reflected in the consolidated income statement. These companies are engaged in technology, game developing and other internet-related services.

19 Trade receivables

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Third party payment channels and mobile carriers	**76,687**	163,211
Third party distribution channels	**592,963**	341,716
Advertising customers	**132,848**	112,349
Related parties *(Note 34)*	**57,151**	30,223
	859,649	647,499
Less: provision for impairment	**(38,755)**	(17,283)
	820,894	630,216

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

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**390,562**	270,127
3 months to 1 year	**389,012**	270,385
1 to 2 years	**48,438**	96,833
2 to 3 years	**26,719**	10,147
Over 3 years	**4,918**	7
	859,649	647,499

(b) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of each type of the trade receivables to measure the expected credit losses. During the years ended December 31, 2017 and 2018, the expected losses rate for third party payment channels and mobile carriers and related parties is close to zero; the expected credit losses rate for third party distribution channels and advertising customers are determined according to provision matrix as follows:

19 Trade receivables (Continued)

(b) (Continued)

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

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year	**17,283**	7,223
Acquisition of a subsidiary *(Note 32)*	**1,300**	—
Provision for impairment	**21,188**	10,060
Receivables written off during the year as uncollectible	**(1,016)**	—
At the end of the year	**38,755**	17,283

The provisions and reversal of provisions for impaired receivables have been included in "general and administrative expenses" in the consolidated income statement.

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

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
RMB	**857,373**	638,210
USD	**2,276**	9,289
	859,649	647,499

19 Trade receivables (Continued)

(d) As at December 31, 2017 and 2018, the fair values of trade receivables approximate their carrying amounts. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the net receivable balance.

(e) As at December 31, 2017 and 2018, certain trade receivables were pledged to banks to secure certain bank facilities granted to the Group (Note 26).

20 Contract assets

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

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Included in non-current assets		
Contract assets relating to game development	**22,323**	—
Less: provision for impairment	**(670)**	—
	21,653	—
Included in current assets		
Contract assets relating to game development	**27,257**	—
Less: provision for impairment	**(817)**	—
	26,440	—

Movements of provision in contract assets as follows:

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year	**—**	—
Acquisition of a subsidiary	**1,632**	—
Reversal	**(145)**	—
At the end of the year	**1,487**	—

21 Prepayments and other receivables

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Included in non-current assets		
Non-current portion of loan to employees *(Note a)*	**5,655**	4,534
Prepayment for property	**25,882**	—
Prepayment for investments *(Note e)*	**10,000**	—
Less: provision for impairment *(Note f)*	**(57)**	(45)
	41,480	4,489
Included in current assets		
Recoverable value-added tax	**11,578**	5,234
Rental and other deposits	**7,941**	2,992
Prepaid advertising expenses *(Note b)*	**317,666**	292,265
Prepaid revenue sharing to content providers *(Note c)*	**564,016**	365,129
Current portion of loan to employees *(Note a)*	**4,141**	4,131
Loan to third parties *(Note d)*	**67,417**	28,645
Withholding tax	**22,755**	—
Other receivable from disposal of investments accounted for using the equity method	**10,080**	—
Prepayment to related parties *(Note 34)*	**14,109**	15,395
Others	**29,745**	6,770
Less: provision for impairment *(Note f)*	**(17,703)**	(50,088)
	1,031,745	670,473

As at December 31, 2017 and 2018, there were no significant balances that are past due.

(a) Loans to employees mainly represent advances to employees for various expenses to be incurred in the ordinary course of business and housing loans to certain employees. These loans are unsecured, interest-free and to be repaid in 1 to 5 years from the grant dates.

(b) The Group engaged various online advertising suppliers and made prepayments in exchange for better advertising opportunities and resources in some arrangements. Such amounts are recognized as "selling and marketing expenses" when the advertising services are rendered.

(c) The prepaid revenue sharing to game developers represents the Group's contractual obligation to game developers according to the agreements signed with game developers. Such amounts are recognized as "cost of revenues" when relevant revenue is recognized.

(d) Loans to third parties represents the loans provided to a number of third parties, which were unsecured, interest free and repayable on demand. In the opinion of the directors, none of the loans to any single third parties is material to the Group during the year ended December 31, 2017 and 2018.

21 Prepayments and other receivables (Continued)

(e) Prepayment for investments represents the investment amount prepaid pursuant to the payment term in related investment agreements.

(f) The provision for impairment comprises the impairment for prepayments and other receivables. The movements in the provision for impairment for other receivables are disclosed in note 3.1(b). Movements in the provision for impairment of prepayments as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year	**47,397**	39,965
Provision for impairment	**8,016**	8,451
Written off during the year	**(47,397)**	(971)
Reversal	**(49)**	(48)
At the end of the year	**7,967**	47,397

The impairment provision mainly represents prepaid revenue sharing to game developers primarily related to certain games licensed by the Group but subsequently did not operate well after launch.

(g) The carrying amount of the Group's prepayments and other receivables is denominated in the following currencies:

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
RMB	**802,787**	537,046
USD	**284,374**	184,408
EUR	**3,824**	3,641
	1,090,985	725,095

22 Cash and bank balances

(a) Cash and cash equivalents

	As of December 31, 2018 RMB'000	As of December 31, 2017 RMB'000
Cash at bank and on hand	**1,120,741**	335,075
Short-term bank deposits with initial terms within three months	**—**	270,000
Due from banks and other financial institutions	**900**	—
	1,121,641	605,075

Cash and cash equivalents are denominated in the following currencies:

	As of December 31, 2018 RMB'000	As of December 31, 2017 RMB'000
RMB	**256,989**	593,722
USD	**427,671**	9,853
HKD	**436,882**	807
Others	**99**	693
	1,121,641	605,075

(b) Restricted cash

As at December 31, 2017, the restricted deposit of RMB7,800,000 mainly represented blocked deposits for a litigation in the PRC. The litigation was settled in August 2018, and the blocked deposits was unrestricted thereafter.

23 Share capital and share premium and treasury shares

	Number of shares	Nominal value of shares	Equivalent nominal value of shares	Share premium
		USD'000	*RMB'000*	*RMB'000*
Authorised:				
Ordinary shares of USD1.0 each; January 3, 2018 (date of incorporation)	50,000	50	—	—
Share split on March 27, 2018 *(Note a)*	499,950,000	—	—	—
Share split on December 6, 2018 *(Note d)*	4,500,000,000	—	—	
As of December 31, 2018	5,000,000,000	50	—	—
Issued and fully paid:				
Issuance of ordinary shares in relation to the Reorganisation of the Group, including share split effect *(Note b)*	99,308,912	10	61	1,084,848
Issuance of ordinary shares to the new investors	6,338,742	1	5	753,766
Shares allotted for share incentive scheme *(Note c)*	8,627,045	—	—	—
Treasury shares *(Note c)*	(7,354,833)	—	—	—
Share split on December 6, 2018 *(Note d)*	962,278,794			
Issue of ordinary shares upon IPO *(Note e)*	126,972,000	1	9	703,862
As of December 31, 2018	1,196,170,660	12	75	2,542,476

(a) On March 27, 2018, each issued and unissued share of a par value of USD1.00 each in the capital of our Company was subdivided into 10,000 shares of a par value of USD0.0001 each, such that following the subdivision, the authorized share capital of our Company became USD50,000 divided into 500,000,000 shares of a par value of USD0.0001 each.

(b) During the year ended December 31, 2018, as part of the Reorganization, the Company issued and allotted and issued an aggregate of 99,308,912 shares of USD0.00001 each share at par value to offshore holding companies which are beneficially owned by the equity owners of Shenzhen iDreamSky as at that date. Upon the completion of the Reorganization, the amount of RMB358,650,000 capital reserves, RMB180,380,000 merger reserves and RMB545,818,000 other reserves have been transferred to share premium accordingly.

23 Share capital and share premium and treasury shares (Continued)

(c) On May 18, 2018, the Company allotted and issued an aggregate of 8,627,045 shares to the RSU Holding Entities for employee incentive plan purpose. Of which, 1,272,212 shares were granted to certain equity owners of Shenzhen iDreamSky without vesting conditions as part of the Reorganization, and thus, the remaining 7,354,833 shares represented the treasury shares of the Group (Note 25(c)).

(d) On December 6, 2018, each issued and unissued share of a par value of USD0.0001 each in the capital of our Company was subdivided into 10 shares of a par value of USD0.00001 each, such that following the subdivision, the authorized share capital of our Company became USD50,000 divided into 5,000,000,000 shares of a par value of USD0.00001 each.

(e) On 6 December 2018, upon its listing on the Main Board of The Stock Exchange of Hong Kong Limited, the Company issued 126,972,000 new ordinary shares at HKD6.60 per share, and raised gross proceeds of approximately HKD838,015,000 (equivalent to RMB743,571,000). The net proceeds was approximately HKD793,273,000 (equivalent to RMB703,871,000) after deducting listing expenses directly relating to the share issuance.

24 Reserves

	Notes	Capital reserve RMB'000	Merger reserves RMB'000	Statutory reserves RMB'000	Translation differences RMB'000	Other reserves RMB'000	Total reserves RMB'000
As at January 1, 2017		10,000	15,937	5,000	(25,928)	546,323	551,332
Capital injection from equity holders of the Company's subsidiary	(Note d)	30,536	1,013,746	—	—	—	1,044,282
Profit appropriation to statutory reserves	(Note a)	—	—	9,482	—	—	9,482
Share-based compensation expenses	25	—	—	—	—	86,052	86,052
Effects on restructuring of the Listing Business	(Note b)	—	(492,890)	—	—	—	(492,890)
Currency translation differences		—	—	—	19,632	—	19,632
Effects on a subsidiary's conversion from a limited liability company into a joint stock company	(Note c)	320,364	(308,663)	(5,000)	—	—	6,701
As at December 31, 2017		360,900	228,130	9,482	(6,296)	632,375	1,224,591
Capital reduction from to equity holders of the Company's subsidiary		(2,250)	(47,750)	—	—	—	(50,000)
Effect of Reorganisation of the Group	23(b)	(358,650)	(180,380)	—	—	(545,818)	(1,084,848)
Share-based compensation expenses	25	—	—	—	—	85,910	85,910
Profit appropriation to statutory reserves		—	—	23,267	—	—	23,267
Contributions from non-controlling shareholder of Shanghai Huohun		16,100	—	—	—	—	16,100
Currency translation differences		—	—	—	39,532	—	39,532
As at December 31, 2018		16,100	—	32,749	33,236	172,467	254,552

24 Reserves (Continued)

(a) Statutory reserve

In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalized as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered paid in capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made. With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) Effects on restructuring of the Listing Business

In 2017, several companies comprising the Group acquired 95% or 100% equity interest of other companies comprising the Group for the purpose of restructuring of the Listing Business, assets and liabilities of those acquired companies were included in the consolidated financial statements of the Group for all years presented, and the payment or payable amount of RMB492,890,000 out of the Group during the restructuring of the Listing Business was treated as distribution to shareholders and recorded as a reduction to merger reserves.

(c) Pursuant to the resolution of a shareholder meeting of Shenzhen iDreamSky in April 2017, reserves and retained earnings amounting to RMB313,663,000 and RMB6,701,000, respectively, were transferred to its paid-in capital during the conversion of Shenzhen iDreamSky from a limited liability company into a joint stock company, which recorded as merger reserves in the consolidated statement of financial position.

(d) Capital injection from shareholders

On April 30, 2017, several shareholders invested in Shenzhen iDreamSky, the total investment amount was RMB1,024,282,000, out of which RMB29,636,000 was included in capital reserve and the remaining RMB994,646,000 was recorded in merger reserves.

On June 13, 2017, another shareholder injected RMB20,000,000 in Shenzhen iDreamSky, out of which RMB900,000 was recorded in capital reserve and the remaining RMB19,100,000 was recorded as merger reserves.

25 Share-based payments

(a) 2014 Share Incentive Plan

iDreamSky Technology Limited, the original overseas holding company of Shenzhen iDreamsky, adopted a share incentive plan in June 2014 ("**2014 Share Incentive Plan**") to grant restricted shares and share options to the Group's employees for the purpose of attracting and retaining the best available personnel, to provide additional incentives to employees and directors to promote the success of business.

The initial maximum number of ordinary shares that may be issued under the 2014 Share Incentive Plan is 15,169,920 shares which accounted for 12% of iDreamSky Technology Limited's ordinary shares.

(i) Restricted shares

As of January 1, 2015, 13,026,080 restricted shares have been granted to certain directors and employees of the Shenzhen iDreamsky. On April 1, 2015, additional 4,833,450 restricted shares have been granted to certain directors and employees of Shenzhen iDreamsky. The weighted-average grant-date fair value on April 1, 2015 is USD1.72 per share, which is the closing share price of iDreamSky Technology Limited.

Forfeitures are estimated at the time of grant. If necessary, forfeitures are revised in subsequent periods if actual forfeitures differ from those estimates.

The vesting period of the restricted shares and share options granted is 4 years and the vesting schedules is 25% after 12 months from original grant date, and the remaining 75% will vest in 3 equal installments over the next 3 years.

As part of privatization of the original overseas holdings Company of Shenzhen iDreamSky, iDreamSky Technology Limited, and the restructuring made by Shenzhen iDreamSky, the unvested restricted shares and share options under 2014 Share Incentive Plan has been canceled. As a return, the relevant grantees' interests were transferred to the new share incentive plan as disclosed in below note (b).

(b) 2017 Restricted Shares Scheme

On April 30, 2017, as a return of the cancellation of aforesaid unvested restricted shares and share options under 2014 Share Incentive Plan, the relevant grantees became the limited partners of two new established limited liability partnerships, namely Ningbo Meishan Bonded Port Ziheng Investment Management Partnership Enterprise (Limited Partnership) (寧波梅山保稅港區資恒投資管理合夥企業 (有限合夥)) and Ningbo Meishan Bonded Port Mengweixing Investment Management Partnership Enterprise (Limited Partnership) (寧波梅山保稅港區夢維興投資管理合夥企業 (有限合夥)) ("**2017 Restricted Shares Scheme**"), and which also became the shareholders of Shenzhen iDreamSky.

25 Share-based payments (Continued)

(b) 2017 Restricted Shares Scheme (Continued)

Such arrangement was accounted for as the continuance of the original 2014 Share Incentive Plan. Since the relevant vesting conditions attached to original granted restricted shares and share options were removed during aforesaid arrangement, the remaining share-based compensation expenses related to those restricted shares and share options were recognized into the statement of comprehensive income immediately in 2017.

Furthermore, certain employees obtained the partnership units, as limited partners, of aforesaid two partnership at a price lower than their fair value, such transaction was considered as equity-settled share-based payment to employees. The fair value of the partnership units granted to employees on grant date, April 30, 2017, as determined with reference to the financing from independent third parties which occurred on the same day. The Group recognize this share-based compensation expenses immediately as no vesting conditions attached.

The Group recorded aggregate RMB86,052,000 share-based compensation expenses in the consolidated income statement for the year ended December 31, 2017 for the aforesaid 2017 Restricted Shares Scheme arrangement.

As part of the Reorganization, the Ningbo Meishan Bonded Port Ziheng Investment Management Partnership Enterprise (Limited Partnership) (寧波梅山保稅港區資恒投資管理合夥企業 (有限合夥)) and Ningbo Meishan Bonded Port Mengweixing Investment Management Partnership Enterprise (Limited Partnership) (寧波梅山保稅港區夢維興投資管理合夥企業 (有限合夥)) need to reduce its equity interests in Shenzhen iDreamSky. As a return, the relevant limited partners' interests of the aforesaid two partnerships were transferred to the new share incentive plan as disclosed in below note (c).

(c) 2018 Share Incentive Plan

On May 18, 2018, the Company issued and allotted an aggregate of 8,627,045 shares to the RSU Holding Entities for employee incentive plan purpose. On July 1, 2018, RSU Holding Entities granted aggregate of 5,220,583 shares to senior management and employees, among which aggregate of 2,913,310 shares were granted to the relevant limited partners of the aforesaid two partnerships mentioned in Note (b) as a return for their reduction of the equity interests in Shenzhen iDreamSky. Out of 2,913,310 shares, 1,272,212 shares are without vesting conditions and the remaining 1,641,098 are attached some vesting conditions.

Out of the remaining 2,307,273 shares, the vesting schedule for 2,118,854 shares is for 1/3 after 8 months from original grant date, and the remaining 2/3 will be vest in 2 equal installments over the next 2 years; and the vesting schedule for 188,419 is 48 months and the vesting schedule is 25% after 12 months from original grant date, and the remaining 75% will vest in 3 equal installments over the next 3 years. The Group recorded RMB57,951,000 share-based compensation expense accordingly during the year ended December 31, 2018.

25 Share-based payments (Continued)

(c) 2018 Share Incentive Plan (Continued)

Movement in the number of awarded shares for the year ended December 31, 2018 is as follows:

	Number of awarded shares	Number of awarded shares after share split on December 6, 2018
At beginning of the year	—	—
Granted	5,220,583	52,205,830
Vested	(1,272,212)	(12,722,120)
At end of the year	3,948,371	39,483,710

(d) Share-based payments to individual

On April 13, 2018, Brilliant Seed Limited, one shareholder of the Company, which is wholly owned by Mr. Chen Xiangyu, and Bubble Sky Limited, another shareholder of the Company, which is wholly owned by Mr. Guan Song, transferred certain shares of the Company to Shipshap Holdings Limited, which is wholly owned by Mr. Jeffrey Lyndon Ko with a relevant low transfer price. Such transaction was considered as equity-settled share-based payments transaction, and the Group recorded RMB27,959,000 share-based compensation expense accordingly during the year ended December 31, 2018.

26 Borrowings

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Non-current		
Secured bank borrowings *(Note a)*	**1,805**	3,159
Unsecured bank borrowings *(Note b)*	**128,000**	—
	129,805	3,159
Current		
Current portion of long-term borrowing, secured *(Note a)*	**1,354**	1,354
Current portion of long-term borrowing, unsecured *(Note b)*	**68,000**	—
Secured long-term borrowings reclassified to current borrowings *(Note a)*	**915,003**	995,575
	984,357	996,929
	1,114,162	1,000,088

26 Borrowings (Continued)

(a) In April 2016, one of the Group's subsidiaries, Changsha Mengju Information Technology Co., Ltd. ("**Changsha Mengju**"), entered into a five-year loan facility agreement with bank A, pursuant to which a loan facility up to RMB6,000,000 was made available to Changsha Mengju. As at December 31, 2017 and 2018, the loan balance of RMB4,513,000 and RMB3,159,000 was borrowed under the aforesaid loan facility agreement respectively. The loan bore a floating interest rate of SHILOR+191BPS per annum, and was secured by the pledge of Changsha Mengju's land and buildings and guarantees by Shenzhen iDreamSky and another independent third party.

In June 2016, Shenzhen iDreamSky entered into a three-year loan facility agreement with bank D, pursuant to which a loan facility up to RMB331,000,000 was made available to Shenzhen iDreamSky. As at December 31, 2017 and 2018, the loan balance of RMB198,600,000 and RMB130,200,000 were borrowed under the aforesaid loan facility agreement respectively. The loan bore a fixed interest rate of 5.7% per annum. The aforesaid loan was secured by the pledge of Shenzhen iDreamSky's trade receivables, shares of Qianhai Chuangyishikong Technology (Shenzhen) Co., Ltd. and Chuangmeng Wuxian Beijing and shares of several significant overseas subsidiaries of the Group.

In March 2017, Shenzhen iDreamSky entered into a seven-year loan facility agreement with bank D, where a loan facility up to RMB273,250,000 was made available to Shenzhen iDreamSky. As at December 31, 2017 and 2018, the loan balance of RMB266,419,000 and RMB252,756,000 borrowed from aforesaid loan facility agreement with a fixed interest rate of 5.88% per annum. The aforesaid loan is secured by the pledge of Shenzhen iDreamSky's trade receivables and shares of Qianhai Chuangyishikong Technology (Shenzhen) Co., Ltd. and Chuangmeng Wuxian Beijing; the pledge of the shares of several significant oversea subsidiaries of the Group; and the pledge of the shares of iDreamSky hold by domestic shareholders.

In March 2017, one of the Group's subsidiaries Dreammaker (HK) Technology Limited ("**Dreammaker**") entered into a three-year loan facility agreement with bank D, where a loan facility up to EUR68,000,000 was made available to iDreamSky HK. As at December 31, 2017 and 2018, the loan balance of EUR68,000,000 and EUR67,800,000 (equivalent to RMB530,556,000 and RMB532,047,000 respectively) borrowed from aforesaid loan facility agreement with a floating rate of LIBOR+235 BPS per annum and was secured by margin of USD40,000,000.

The Group reclassified all the aforesaid long-term borrowings from bank D to current liabilities as the Group breached certain financial ratio requirements in the loan agreements as at December 31, 2017 and 2018.

26 Borrowings (Continued)

(b) In January 2018, Shenzhen iDreamSky entered into a three-year loan facility agreement with bank D, where a loan facility up to RMB120,000,000 was made available to Shenzhen iDreamSky. As at December 31 2018, the loan balance of RMB96,000,000 borrowed from aforesaid loan facility agreement. The loan bore a fixed interest rate of 5.225% per annum.

In December 2018, Shenzhen iDreamSky entered into a three-year loan facility agreement with bank D, where a loan facility up to RMB60,000,000 was made available to Shenzhen iDreamSky. As at December 31 2018, the loan balance of RMB60,000,000 borrowed from aforesaid loan facility agreement. The loan bore a fixed interest rate of 5.7% per annum.

In December 2018, Shenzhen iDreamSky entered into a three-year loan facility agreement with bank D, where a loan facility up to RMB40,000,000 was made available to Shenzhen iDreamSky. As at December 31 2018, the loan balance of RMB40,000,000 borrowed from aforesaid loan facility agreement. The loan bore a fixed interest rate of 6.175% per annum.

(c) The maturity of borrowing is as follows:

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**984,357**	996,929
Between 1 and 2 years	**77,354**	1,354
Between 2 and 5 years	**52,451**	1,805
Above 5 years	**—**	—
	1,114,162	1,000,088

27 Trade payables

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Third parties	**121,192**	120,399
Related parties *(Note 34)*	**31,809**	29,141
	153,001	149,540

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.

27 Trade payables (Continued)

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

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**56,726**	34,917
3 months to 1 year	**29,845**	87,606
1 to 2 years	**43,004**	10,516
2 to 5 years	**23,426**	16,501
	153,001	149,540

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

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
RMB	**145,656**	143,006
USD	**7,345**	6,534
	153,001	149,540

(c) As of December 31, 2017 and 2018, the fair value of trade payables approximated to their carrying amount.

28 Other payables and accruals

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Payroll and welfare payables	**34,581**	42,983
Professional service fee payable	**69,221**	506
Other tax payables	**44,015**	28,490
Other payables to related parties *(Note 34)*	**733,275**	14,900
Others	**3,954**	4,461
	885,046	91,340

As at December 31, 2017 and 2018, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

29 Contract costs and liabilities

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Contract costs:		
Costs to obtain contracts for game publishing	**119,824**	93,915
Contract liabilities:		
Game publishing	**208,776**	154,810

(a) Significant changes in contract costs and liabilities

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

Contract liabilities primarily consist of the unamortized revenue from sales of virtual items for mobile games, where there is still an implied obligation to be provided by the Group over time.

(b) Revenue recognized in relation to contract liabilities

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Revenue recognized that was included in the contract liabilities balance at the beginning of the year		
Game publishing	**154,810**	107,786

29 Contract costs and liabilities (Continued)

(c) Assets recognized from contract acquisition costs

In addition to the contract costs balance disclosed above, the Group recognizes assets in relation to contract acquisition costs. This is presented as contract costs in the consolidated statements of financial position.

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Assets recognized from contract acquisition costs for game publishing	**119,824**	93,915

In adopting IFRS 15, the Group recognizes contract costs in relation to commissions charged by the Platforms and game developers, which meet contract acquisition cost criteria when the Group views the game players as its customer and that is incremental cost of acquiring a customer contract. They are capitalized as contract acquisition costs and amortized over the Player Relationship Period, which is consistent with the pattern of recognition of the associated revenue. The Group had no impairment losses recognized on any contract costs.

30 Deferred income tax

(a) Deferred tax assets

The analysis of deferred income tax assets are as follows:

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
The balance comprises temporary differences attributable to:		
Deferred government grants	**288**	712
Contract liabilities	**31,316**	20,471
Intangible assets amortization	**6,078**	4,768
Impairment provisions	**8,236**	4,942
Fair value losses on financial assets at fair value through profit or loss	**2,237**	1,317
Accrued expenses	**1,480**	2,317
Tax losses	**4,883**	—
Total deferred tax assets	**54,518**	34,527
Set-off of deferred tax liabilities	**(18,022)**	(12,782)
Deferred tax assets – net	**36,496**	21,745

30 Deferred income tax (Continued)

(a) Deferred tax assets (Continued)

The movements in deferred income tax assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Deferred government grants RMB'000	Contract liabilities RMB'000	Intangible assets amortization RMB'000	Impairment provisions RMB'000	Fair value losses on financial assets at fair value through profit or loss RMB'000	Accrued expenses RMB'000	Tax losses RMB'000	Total RMB'000
At January 1, 2017	463	10,535	2,338	3,700	716	1,365	—	19,117
Recognized in profit or loss	249	9,936	2,430	1,242	601	952	—	15,410
At December 31, 2017	712	20,471	4,768	4,942	1,317	2,317	—	34,527
Acquisition of a subsidiary *(Note 32)*	—	—	—	1,627	—	—	—	1,627
Recognized in profit or loss	(424)	10,845	1,310	1,667	920	(837)	4,883	18,364
At December 31, 2018	288	31,316	6,078	8,236	2,237	1,480	4,883	54,518

(b) Deferred tax liabilities

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
The balance comprises temporary differences attributable to:		
Contract costs	**18,022**	12,782
Set-off of deferred tax assets	**(18,022)**	(12,782)
Deferred tax liabilities – net	**—**	—

30 Deferred income tax (Continued)

(b) Deferred tax liabilities (Continued)

The movements in deferred income tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Contract costs	RMB'000
At January 1, 2017	5,510
Recognized in profit or loss	7,272
At December 31, 2017	12,782
Recognized in profit or loss	5,240
At December 31, 2018	18,022

(c) Deferred income tax assets are recognized for tax losses carrying forwards and deductible temporary differences to the extent that realization of the related tax benefits through the future taxable profits is probable. As at December 31, 2017 and 2018, the Group did not recognize deferred income tax assets in respect of losses of approximately RMB18,916,000 and RMB22,281,000 respectively. These tax losses will expire from year 2019 to 2023.

31 Cash generated from operations

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**267,833**	151,904
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 14)*	**7,693**	7,862
– Amortization of intangible assets *(Note 15)*	**86,143**	75,613
– Loss on disposals of property, plant and equipment *(Note 9)*	**588**	316
– Impairment provisions for receivables, contract assets and prepayments *(Note 7)*	**38,156**	19,028
– Impairment provisions for intangible assets *(Note 15)*	**14,072**	33,344
– Share-based compensations *(Note 25)*	**85,910**	86,052
– Share of profits of investments in associates *(Note 17)*	**(2,346)**	(1,107)
– Gains on disposal of subsidiaries *(Note 9)*	**(2,509)**	—
– Impairment provision of investment in associates *(Note 9)*	**—**	4,000
– Interest income on wealth management products *(Note 8)*	**(868)**	(5,851)
– Finance costs	**51,023**	48,683
– Changes in fair value of financial assets at fair value through profit or loss *(Note 18)*	**10,631**	1,708
– Income tax expense	**29,214**	21,788
Changes in working capital:		
– Increase in receivables	**(407,091)**	(19,829)
– Increase/(decrease) in payables	**42,189**	(17,255)
– Change in contract costs	**(25,909)**	(39,260)
– Change in contract liabilities	**53,966**	47,024
– Decrease in restricted cash	**(7,800)**	—
Cash generated from operations	**240,895**	414,020

31 Cash generated from operations (Continued)

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

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Net book amount *(Note 14)*	**788**	423
Loss on disposal of property, plant and equipment *(Note 9)*	**(588)**	(316)
Proceeds from disposal of property, plant and equipment	**200**	107

(b) Major non-cash transactions

Other than the effects on a subsidiary's conversion from a limited liability company into a joint stock company disclosed in note 24(c) and the transfer of financial assets at fair value through profit or loss to investments in associate as disclosed in note 17(a), there were no material non-cash investing and financing transaction during the years presented.

(c) Net debt reconciliation

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Cash and cash equivalents	**1,121,641**	605,075
Restricted Cash	**—**	7,800
Amount due to related parties	**(21,159)**	—
Borrowings — repayable within 1 year	**(984,357)**	(996,929)
Borrowings — repayable after 1 year	**(129,805)**	(3,159)
Net debt	**(13,680)**	(387,213)

31 Cash generated from operations (Continued)

(c) Net debt reconciliation (Continued)

	Cash and cash equivalents *RMB'000*	Restricted Cash *RMB'000*	Amount due to related parties *RMB'000*	Borrowings— repayable within 1 year *RMB'000*	Borrowings— repayable after 1 year *RMB'000*	Total *RMB'000*
Net debt as at January 1, 2017	543,376	7,800	(612,569)	(332,354)	(4,513)	(398,260)
Cash flows	64,905	—	612,569	(664,575)	1,354	14,253
Exchange impacts	(3,206)	—	—	—	—	(3,206)
Net debt as at December 31, 2017	605,075	7,800	—	(996,929)	(3,159)	(387,213)
Net debt as at January 1, 2018	**605,075**	**7,800**	**—**	**(996,929)**	**(3,159)**	**(387,213)**
Cash flows	**508,768**	**(7,800)**	**(21,159)**	**(300,000)**	**188,986**	**368,795**
Exchange impacts	**7,798**	**—**	**—**	**—**	**(3,060)**	**4,738**
Reclassification	**—**	**—**	**—**	**312,572**	**(312,572)**	**—**
Net debt as at December 31, 2018	**1,121,641**	**—**	**(21,159)**	**(984,357)**	**(129,805)**	**(13,680)**

32 Business combination

(a) Summary of acquisition

On August 7, 2018, the Group acquired 70% of the issued share capital of Shanghai Huohun Internet Technology Co., Ltd. ("**Shanghai Huohun**"), an internet technology company mainly engaged in developing mobile games in mainland China.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration (refer to (b) below):

	RMB'000
Cash	1,050,000
Contingent consideration *(Note (i))*	(20,089)
	1,029,911

32 Business combination (Continued)

(a) Summary of acquisition (Continued)

The assets and liabilities recognized as a result of the acquisition are as follows:

Provisional fair value	***RMB'000***
Cash and cash equivalents	1,580
Trade receivables *(Note (ii))*	42,026
Prepayments and other receivables	3,153
Property, plant and equipment	2,840
Deferred tax assets	1,627
Contract assets	52,754
Trade payables	(419)
Other payables and accruals	(32,444)
Income tax liabilities	(13,005)
Net identifiable assets acquired	58,112
Less: non-controlling interests	(17,434)
Add: goodwill	989,233
Net assets acquired	1,029,911

The goodwill attributable to the workforce and the high profitability of the acquired business and its synergy of the existing business of the Group. It will not be deductible for tax purposes.

(i) Contingent consideration

In the event that certain pre-determined profit target (RMB300,000,000) are not achieved by Shanghai Huohun from June 1, 2018 to May 31, 2019, the seller will repay certain consideration to the Group according to pre-determined formula.

The fair value of the contingent consideration assets in relation to aforesaid potential repayable amount of RMB20,089,000 was estimated by calculating the future expected cash flows and various level of possibilities. The potential undiscounted amount repayable under the agreement is between RMB0 for profit target above RMB300,000,000 and RMB67,205,000 and 30% shares of Shanghai Huohun for profit target below RMB300,000,000. The estimation are based on the assumed profit target of Shanghai Huohun of between RMB196,559,000 and RMB458,637,000. As at December 31, 2018, there is no material change for the aforesaid estimation.

32 Business combination (Continued)

(a) Summary of acquisition (Continued)

(ii) Acquired receivables

The fair value of acquired trade receivables is RMB42,026,000. The gross contractual amount for trade receivables due is RMB43,326,000, of which RMB1,300,000 is expected to be uncollectible.

(iii) Accounting policy choice for non-controlling interests

The Group recognizes non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. The decision is made on an acquisition-by-acquisition basis. For the non-controlling interest in Shanghai Huohun, the Group elected to recognize the non-controlling interests in at its proportionate share of the acquired net identifiable assets.

(iv) Revenue and profit contribution

The acquired business contributed revenue of RMB86,684,000 and net profit of RMB73,990,000 to the Group for the period from August 7 to December 31, 2018. If the acquisition had occurred on January 1, 2018, consolidated pro-forma revenue and profit for the year ended December 31, 2018 would have been RMB2,423,378,000 and RMB318,465,000 respectively.

(b) Purchase consideration — cash outflow

	RMB'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	1,050,000
Less: Cash acquired	(1,580)
Unpaid consideration recorded in other payables	(711,000)
Net outflow of cash — investing activities	337,420

Acquisition-related costs

Acquisition-related costs of RMB1,150,000 will be included in general and administrative expenses in the consolidated income statement.

33 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Intangible assets	**200,202**	11,800

(b) Operating lease commitments

The Group leases office under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years, and majority of lease agreements are renewable at the end of the lease at market rate.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Not later than 1 year	**12,648**	8,269
Later than 1 year and not later than 5 years	**39,789**	4,069
	52,437	12,338

34 Significant related party transactions

(a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group.

Names of major related parties	Nature of relationship
Guangzhou Topcomm Media Advertising Co., Ltd.	Entity invested by a director of the Group
Shenzhen Tencent Computer Systems Company Ltd.	A related party of a shareholder
Beintoo China Co., Ltd.	Associate of the Group
Shenzhen Dinghuisheng Technology Co., Ltd.	Associate of the Group
Shenzhen Kangpuwei Technology Co., Ltd.	Associate of the Group
Shenzhen Changxiang Shikong Technology Co., Ltd.	Associate of the Group
Shenzhen Tianren Interactive Technology Co., Ltd	Associate of the Group
Tencent Technology (Shenzhen) Company Limited	A related party of a shareholder
Tencent Cloud Computing (Beijing) Company Limited	A related party of a shareholder
iDreamSky Technology Limited	The shareholder of the Company
Tenpay Payment Technology Co., Ltd.	A related party of a shareholder
Yantai Dnspod Network Technology Co., Ltd.	A related party of a shareholder
Tianjin Wenmeng Interactive Entertainment Co., Ltd.	Joint venture of the Group
Tianjin Lewei Shidai Culture Development Co., Ltd.	Joint venture of the Group
Hengqin Chuangmeng Qida Equity Investment Enterprise (Limited Partnership)	Associate of the Group
Chengdu Tianle Interactive Technology Co., Ltd	Associate of the Group
Mr. Chen Xiangyu	Individual shareholder of the Group, the Chairman and CEO of the Company
Shenzhen Qianhai Mengyou Technology Co., Ltd.	Associate of the Group
Zhuhai Shahe Internet Technology Co., Ltd.	Associate of the Group
Beijing Shiyongshi Internet Technology Co., Ltd.	Associate of the Group
Wuxi Zhaoliang Game Studio	Non-controlling shareholder of a subsidiary
Wuxi Shijian Game Studio	Non-controlling shareholder of a subsidiary
Wuxi Zengzhiqi Game Studio	Non-controlling shareholder of a subsidiary
Wuxi Zhengtao Game Studio	Non-controlling shareholder of a subsidiary
Shanghai Jingxi Corporate Management Consulting Enterprise (Limited Partnership) ("**Shanghai Jingxi**")	Non-controlling shareholder of a subsidiary
Ningbo Kuke Equity Investment Enterprise (Limited Partnership)	Non-controlling shareholder of a subsidiary

34 Significant related party transactions (Continued)

(b) Significant transactions with related parties

In addition to those disclosed elsewhere in these consolidated financial statements, the following transactions were carried out with related parties.

In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective parties.

(i) Provide services

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Guangzhou Topcomm Media Advertising Co., Ltd	**31,486**	31,594
Shenzhen Tencent Computer Systems Company Limited	**40,613**	8,452
	72,099	40,046

(ii) Purchases of services

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Tencent Cloud Computing (Beijing) Company Limited	**14,235**	5,325
Shenzhen Tencent Computer Systems Company Limited	**23,189**	17,196
Tencent Technology (Shenzhen) Company Limited	**62**	43
Tenpay Payment Technology Co., Ltd	**1,367**	597
Yantai Dnspod Network Technology Co., Ltd	**—**	14
	38,853	23,175

(iii) Purchase of game intellectual properties and licenses

Besides the transactions listed above, in April 2017, Tencent Technology (Shenzhen) Company Limited licensed a game to the Group for 2 years. Under the license agreement, the upfront license fee is USD3,500,000 (equivalent to approximately RMB24,079,000). During the year ended December 31, 2017, the Group paid USD1,500,000 (equivalent to approximately RMB9,496,000) upfront license fee to Tencent Technology (Shenzhen) Company Limited, the remaining balance of USD2,000,000 (equivalent to approximately RMB14,583,000) was recorded in trade payables. Furthermore, pursuant to this agreement, the prepaid revenue share to Tencent Technology (Shenzhen) Company Limited is USD2,500,000 (equivalent to approximately RMB16,508,000), out of which USD500,000 (equivalent to approximately RMB3,440,000) was paid during the year ended December 31, 2017.

34 Significant related party transactions (Continued)

(b) Significant transactions with related parties (Continued)

(iv) Loan provided to related parties

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Loans to related parties:		
— iDreamSky Technology Limited	**20,424**	17,044
— Shenzhen Qianhai Mengyou Technology Co., Ltd.	**5,000**	—
— Wuxi Zengzhiqi Game Studio	**8,000**	—
— Others	**670**	—
	34,094	17,044
Repayment received from related parties:		
— iDreamSky Technology Limited	**4,952**	—
— Shenzhen Dinghuisheng Technology Co., Ltd.	**—**	7,241
— Shenzhen Kangpuwei Technology Co., Ltd.	**—**	4,228
— Shenzhen Changxiang Shikong Technology Co., Ltd.	**—**	4,126
— Shenzhen TianRen Interactive Technology Co., Ltd.	**—**	2,450
— Shenzhen Qianhai Mengyou Technology Co., Ltd.	**5,000**	
— Mr. Chen Xiangyu	**—**	1,928
— Others	**100**	274
	10,052	20,247

(v) Loan from a related party

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Loan from a related party:		
— Hengqin Chuangmeng Qida Equity Investment Enterprise (Limited Partnership)	**21,159**	—
Repayment of loan from a related party:		
— iDreamSky Technology Limited	**—**	612,569

(vi) In July 2018, one of the Group's subsidiaries, Shanghai Huohun borrowed RMB23,000,000 from its non-controlling shareholder Shanghai Jingxi. The loan was exempted by Shanghai Jingxi in October 2018, and the loan exemption was recorded as contribution from non-controlling shareholder in reserves accordingly.

34 Significant related party transactions (Continued)

(c) Year end balances with related parties

(i) Amounts due from related parties

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Beintoo China Co., Ltd.	**—**	1,152
iDreamSky Technology Limited*	**32,516**	17,044
Wuxi Zengzhiqi Game Studio	**8,000**	—
Others	**570**	—
	41,086	18,196
Less: provision for impairment *(Note 3.1)*	**(2,054)**	(2,004)
	39,032	16,192

* The amount due from iDreamSky Technology Limited was subsequently settled in March 2019.

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

(ii) Trade receivables due from related parties

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Shenzhen Tencent Computer Systems Company Limited	**41,165**	3,930
Guangzhou Topcomm Media Advertising Co., Ltd.	**14,869**	23,957
Tenpay Payment Technology Co., Ltd.	**1,098**	2,323
Others	**19**	13
	57,151	30,223

(iii) Amounts due to related parties

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Hengqin Chuangmeng Qida Equity Investment Enterprise (Limited Partnership)	**21,159**	—

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

34 Significant related party transactions (Continued)

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

(iv) Trade payables due to related parties

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Tencent Cloud Computing (Beijing) Company Limited	**3,498**	1,468
Tencent Technology (Shenzhen) Company Limited	**28,311**	27,654
Others	**—**	19
	31,809	29,141

(v) Prepayments to related parties

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Chengdu Tianle Interactive Technology Co., Ltd.	**—**	469
Tencent Technology (Shenzhen) Company Limited	**14,109**	14,626
Tenpay Payment Technology Co., Ltd.	**—**	300
	14,109	15,395

34 Significant related party transactions (Continued)

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

(vi) Other payables due to related parties

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Tianjin Wenmeng Interactive Entertainment Co., Ltd.	**—**	5,000
Tianjin Lewei Shidai culture development Co., Ltd.	**4,900**	4,900
Hengqin Chuangmeng Qida equity investment enterprise (Limited Partnership)	**5,000**	5,000
Wuxi Zhaoliang Game Studio*	**190,000**	—
Wuxi Shijian Game Studio*	**190,000**	—
Wuxi Zengzhiqi Game Studio*	**5,000**	—
Wuxi Zhengtao Game Studio*	**95,000**	—
Shanghai Jingxi Corporate Management Consulting Enterprise (Limited Partnership)*	**215,000**	—
Ningbo Kuke Equity Investment Enterprise (Limited Partnership) *	**16,000**	—
Zhuhai Shahe Internet Technology Co., Ltd.	**4,875**	—
Beijing Shiyongshi Internet Technology Co., Ltd.	**7,500**	—
Others	**—**	—
	733,275	14,900

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

(d) Key management personnel compensations

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Fees	**300**	150
Wages, salaries and bonuses	**4,609**	3,748
Share-based compensation	**49,324**	50,647
Pension costs — defined contribution plan, other social security costs, housing benefits, and other employee benefits	**186**	75
Other employee benefits	**41**	32
	54,460	54,652

35 Contingencies

The Group did not have any material contingent liabilities as at December 31, 2017 and 2018.

36 Benefits and interests of directors

(a) Directors' and chief executive's emoluments

Director's and chief executive's emoluments are disclosed in note 10.

(b) Directors' retirement benefits

No retirement benefits were paid to or payable in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking during the years ended December 31, 2017 and 2018.

(c) Directors' termination benefits

During the reporting period, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

(d) Consideration provided to third parties for making available directors' services

No consideration was provided to or receivable by third parties for making available directors' services subsisted at the end of or at any time during the years ended December 31, 2017 and 2018.

(e) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

Except for the amount due from Mr. Chen Xiangyu during the reporting period as disclosed in note 32(c) above, no loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of or at any time during the years ended December 31, 2017 and 2018.

(f) Directors' material interests in transactions, arrangements or contracts

No other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the years ended December 31, 2017 and 2018, except for the transactions disclosed in Note 34.

37 Subsequent event

There are no material subsequent events undertaken by the Group after December 31, 2018.

38 Financial position and reserve movement of the Company

(a) Financial position of the Company

	Note	As at December 31, 2018 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries		1,279,856
Intangible assets		45,805
		1,325,661
Current assets		
Amount due from subsidiaries		533,143
Cash and cash equivalents		730,122
		1,263,265
Total assets		2,588,926
Equity and liabilities		
Equity attributable to owners of the company		
Share capital		75
Shares premium		2,542,476
Translation difference	(b)	43,425
Accumulated losses	(b)	(22,780)
Total equity		2,563,196
Liabilities		
Current liabilities		
Other payables and accruals		25,730
Total liabilities		25,730
Total equity and liabilities		2,588,926

The balance sheet of the Company was approved by the Board of Directors on March 28, 2019 and was signed on its behalf:

Chen Xiangyu	**Lei Junwen**
Director	*Director*

38 Financial position and reserve movement of the Company (Continued)

(b) Reserve movement of the Company

	Accumulated losses RMB'000	Other reserves RMB'000
At January 3, 2018	—	—
Loss for the period	(22,780)	—
Translation difference	—	43,425
At December 31, 2018	(22,780)	43,425

39 Subsidiaries and controlled structured entities

The following is a list of principal subsidiaries of the Company as at December 31, 2018:

Company Name	Place of establishment and nature of legal entity	Particulars of issued/ paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Directly owned				
iDreamSky Holdings (HK)	Hong Kong	HKD1	100%	Investment holding/Hong Kong
Indirectly owned				
Qianhai iDream	The PRC, Limited liability Company	USD50,000,000	100%	Internet and software technology development and service/The PRC
Shenzhen Chuangmeng Zhitao Technology Co., Ltd.	The PRC, Limited liability Company	USD1,000,000	100%	Internet and software technology development and service/The PRC
Qianhai Chuangyi Shikong Technology (Shenzhen) Co., Ltd.	The PRC, Limited liability Company	RMB187,473,000	100%	Internet and software technology development and service/The PRC
Shenzhen Lefeng Entertainment Technology Co., Ltd.	The PRC, Limited liability Company	RMB5,000,000	100%	Internet and software technology development and service/The PRC
Shenzhen Lexiang Huizhong Technology Co., Ltd.	The PRC, Limited liability Company	RMB5,000,000	100%	Internet and software technology development and service/The PRC
Shenzhen Baixingsheng Investment Management Co., Ltd.	The PRC, Limited liability Company	RMB3,000,000	100%	Financing/The PRC

39 Subsidiaries and controlled structured entities (Continued)

Company Name	Place of establishment and nature of legal entity	Particulars of issued/ paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Changsha Mengju Information Technology Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	100%	Internet and software technology development and service/ The PRC
Shenzhen Ledou Gaming Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	100%	Internet and software technology development and service/ The PRC
Shenzhen Haoyiwan Technology Co., Ltd.	The PRC, Limited liability Company	RMB5,000,000	100%	Wholesale and retail trade/The PRC
Dreammaker (HK) Technology Limited	Hong Kong	HKD1,000,000	100%	Internet Information Service/ Hong Kong
iDreamSky Technology (HK) Limited	Hong Kong	HKD1	100%	Internet Information Service/ Hong Kong
IDS 01 Holdings Limited	Cayman Islands	USD1	100%	Investment holding/Cayman Islands
IDS 02 Holdings Limited	Cayman Islands	USD1	100%	Investment holding/Cayman Islands
IDS 05 Holdings Limited	Cayman Islands	USD1	100%	Investment holding/Cayman Islands
IDS 06 Holdings Limited	Cayman Islands	USD1	100%	Investment holding/Cayman Islands
IDS 08 Holdings Limited	Cayman Islands	USD5,000,000	100%	Investment holding/Cayman Islands
IDS 11 Holdings Limited	Cayman Islands	USD1	100%	Investment holding/Cayman Islands
IDS 12 Holdings Limited	Cayman Islands	USD1	100%	Investment holding/Cayman Islands
IDS 13 Holdings Limited	Cayman Islands	USD1	100%	Investment holding/Cayman Islands
Idreamsky Game Co., Ltd.	Korea	WON1,000,000,000	100%	Investment holding/Korea
iDreamSky Creative Limited	Hong Kong	HKD1	100%	Investment holding/Hong Kong
Near Technology Limited	Hong Kong	HKD1	100%	Investment holding/Hong Kong
DSKY Venture (Korea)	Korea	WON5,373,040,000	100%	Investment holding/Korea

39 Subsidiaries and controlled structured entities (Continued)

Company Name	Place of establishment and nature of legal entity	Particulars of issued/ paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Controlled by the Company pursuant to the Contractual Arrangements				
Shenzhen iDreamSky	The PRC, Limited liability Company	RMB360,900,118	100%	Internet and software technology development and service/ The PRC
Horgos iDreamSky Information Technology Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	95%	Internet and software technology development and service/ The PRC
Shenzhen Chenhai Star Technology Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	100%	Internet and software technology development and service/ The PRC
Shenzhen Qianhai Juzheng Investment Management Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	51%	Financing/The PRC
Shenzhen iDreamSky Land Entertainment Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	75%	Culture, sports and entertainment/ The PRC
Hainan iDreamSky Technology Co., Ltd.	The PRC, Limited liability Company	RMB1,000,000	100%	Internet and software technology development and service/ The PRC
Shenzhen Chuangxiang Mengju Technology Co., Ltd.	The PRC, Limited liability Company	RMB20,000,000	100%	Internet and software technology development and service/ The PRC
Shenzhen Mengyu Technology Co., Ltd.	The PRC, Limited liability Company	RMB10,000,000	95%	Internet and software technology development and service/ The PRC
Beijing iDreamSky Wuxian Technology Co., Ltd	The PRC, Limited liability Company	RMB1,000,000	100%	Technology promotion and application services/The PRC
Nanjing Zhuochuang Huyu Information Technology Co., Ltd	The PRC, Limited liability Company	RMB10,000,000	100%	Research, experiment and development/The PRC

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

"AGM"	the annual general meeting of the Company
"ARPPU" or "average revenue per paying user"	the average amount of game revenue that the Group generates from each paying user for a particular period refers to the average game revenue for the period divided by the average of the paying users during that period
"Articles of Association"	the amended and restated articles of association of our Company adopted on November 20, 2018 with effect from December 6, 2018, as amended and supplemented from time to time
"Audit Committee"	the audit committee of the Company
"Auditor"	PricewaterhouseCoopers, the independent auditor of the Company
"Board"	the board of Directors
"CG Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"Company" or "our Company"	iDreamSky Technology Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange under stock code 01119
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961), as consolidated and revised of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, our Company, the WFOE, Shenzhen iDreamSky and the Relevant Shareholders
"Director(s)"	the director(s) of the Company
"Group" or "our Group" or "we" or "us"	the Company, its subsidiaries and its PRC consolidated affiliated entities from time to time
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"IFRS"	International Financial Reporting Standards
"indie game(s)"	game(s) created without significant financial support of game publisher(s)
"IPO proceeds"	the net proceeds of approximately HK$776.4 million from the global offering of the shares of the Company, after deducting professional fees, underwriting commissions and other related listing expenses
"Listing Date"	December 6, 2018, being the date on which the shares of the Company became listed and commenced trading on the Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"matching puzzle game(s)"	games in which users have to put three identical elements in a row or line to eliminate them
"MAU(s)" or "monthly active user(s)"	the number of unique accounts that interacted with the Group's mobile games in a particular month, which include multiple accounts held by one single user
"MMORPG(s)" or "multi-player online role-playing game(s)"	games in which a large number of players, typically from hundreds to thousands, assume the roles of characters in a fictional setting
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MPU(s)" or "monthly paying user(s)"	the number of unique accounts through which a payment is made for the Group's mobile games in a particular month, which includes multiple accounts held by one single user
"PRC" or "China"	the People's Republic of China, excluding, for the purposes of this report only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"PRC Consolidated Affiliated Entities"	the entities we control through the Contractual Arrangements, namely Shenzhen iDreamSky and its subsidiaries
"Prospectus"	the prospectus of the Company dated November 26, 2018
"Relevant Period"	the period from the Listing Date to December 31, 2018
"Reporting Period"	the year ended December 31, 2018

"RMB"	Renminbi, the lawful currency of the PRC
"RPG(s)" or "role-playing game(s)"	games in which users assume the roles of characters in a fictional setting
"RSU Plan"	the restricted share unit plan of our Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
"Share(s)"	ordinary share(s) of the Company with nominal value of US$0.0001 each in the share capital of the Company
"Shenzhen iDreamSky"	Shenzhen iDreamSky Technology Co., Ltd. (深圳市创梦天地科技有限公司), a company established in the PRC and a PRC Consolidated Affiliated Entity of our Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Tencent"	Tencent Holdings Limited, one of the Company's substantial shareholders, a limited liability company incorporated under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange under stock code 700
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC and a consolidated affiliated entity of Tencent
"Tencent Group"	Tencent and its subsidiaries
"U.S. dollars" or "US$" or "USD"	U.S. dollars, the lawful currency of the United States of America
"WFOE"	Shenzhen Qianhai iDream Technology Co., Ltd. (深圳市前海創夢科技有限公司), a wholly-owned foreign enterprise established in the PRC and a subsidiary of our Company