

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



iDreamSky Technology Holdings Limited

创梦天地科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1119)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2020

The Board is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2020. The results have been audited by the Auditor in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

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

* To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted profit for the year as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Our adjusted profit for the year was derived from our profit/loss for the year excluding share-based compensation expenses, fair value gains or losses on financial assets, impairment provision of contract assets, impairment provision of investments in associates, fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss, impairment provision of goodwill resulting from a business combination and gain from the reversal of the unpaid consideration payables from a business combination, if any.

Business Review and Outlook

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

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

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

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

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

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

Our Three Business Segments

I. Ledou Gaming — Gaming Business

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

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

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

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

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

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

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

In addition, the Company's next generation self-developed cross-platform 2D competitive mobile game Super Animal Royale obtained pre-approval on January 27, 2021, and completed three tests by the day of February 28, 2021. With outstanding data performance, the game received incredible comments from players and praises from industry. The expected date of its launch will be in Q2 of 2021.

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

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

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

II. SaaS Business Segment — Reusable enterprise-class applications

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

III. “WePlay” — Offline stores with new experience to Generation Z

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

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

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

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

Outlook for 2021

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

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

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

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended December 31,	
		2020	2019
		RMB'000	RMB'000
Revenues	4	3,212,118	2,792,970
Cost of revenues	5	(1,876,354)	(1,567,232)
Gross profit		1,335,764	1,225,738
Selling and marketing expenses	5	(339,580)	(293,343)
General and administrative expenses	5	(369,574)	(250,275)
Research and development expenses	5	(325,222)	(191,077)
Net impairment losses on financial assets and contract assets	5	(101,804)	(70,016)
Other income		24,005	28,337
Other losses, net	6	(610,481)	(95,802)
Fair value (losses)/gains on financial assets at fair value through profit or loss		(14,998)	74,672
Operating (loss)/profit		(401,890)	428,234
Finance income		6,691	11,239
Finance costs		(147,430)	(46,889)
Finance cost, net		(140,739)	(35,650)
Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss		(20,879)	—
Share of results of investments accounted for using the equity method		(10,970)	(1,999)
(Loss)/profit before income tax		(574,478)	390,585
Income tax credit/(expense)	7	9,482	(30,188)
(Loss)/profit for the year		<u>(564,996)</u>	<u>360,397</u>

		Year ended December 31,	
	<i>Notes</i>	2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
Other comprehensive (loss)/income			
Items that will not be reclassified to profit or loss			
— Currency translation differences		(79,123)	21,419
Items that may be reclassified to profit or loss			
— Currency translation differences		<u>67,911</u>	<u>(21,130)</u>
Total comprehensive (loss)/income for the year		<u>(576,208)</u>	<u>360,686</u>
(Loss)/profit for the year attributable to:			
— Equity holders of the Company		(441,570)	352,233
— Non-controlling interests		<u>(123,426)</u>	<u>8,164</u>
		<u>(564,996)</u>	<u>360,397</u>
Total comprehensive (loss)/income attributable to:			
— Equity holders of the Company		(452,782)	352,522
— Non-controlling interests		<u>(123,426)</u>	<u>8,164</u>
		<u>(576,208)</u>	<u>360,686</u>
(Losses)/earning per share			
— Basic (losses)/earnings per share (<i>in RMB</i>)	8	<u>(0.36)</u>	<u>0.29</u>
— Diluted (losses)/earnings per share (<i>in RMB</i>)	8	<u>(0.36)</u>	<u>0.28</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As of December 31,	
		2020	2019
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		29,880	31,712
Intangible assets		1,823,150	1,419,264
Investment properties		33,074	26,012
Right-of-use assets		106,015	46,177
Investments accounted for using the equity method		367,574	406,708
Financial assets at fair value through profit or loss		374,769	354,320
Prepayments and other receivables	10	118,662	79,014
Goodwill		73,222	566,902
Contract assets		1,192	4,131
Deferred tax assets		78,571	51,483
		3,006,109	2,985,723
Current assets			
Trade receivables	9	1,149,331	1,005,256
Amounts due from related parties		1,657	8,523
Prepayments and other receivables	10	1,506,821	1,285,881
Contract assets		980	2,122
Contract costs		194,462	151,967
Financial assets at fair value through profit or loss		105,872	114,544
Restricted cash		52,042	—
Cash and cash equivalents		735,567	532,746
		3,746,732	3,101,039
Total assets		6,752,841	6,086,762

	<i>Notes</i>	As of December 31,	
		2020	2019
		RMB'000	RMB'000
EQUITY			
Share capital and reserves of equity holders of the Company			
Share capital and share premium and treasury shares		2,533,966	2,542,551
Reserves		731,683	379,654
Retained earnings		182,622	635,353
		<u>3,448,271</u>	<u>3,557,558</u>
Non-controlling interests		<u>267,570</u>	<u>388,035</u>
Total equity		<u><u>3,715,841</u></u>	<u><u>3,945,593</u></u>
LIABILITIES			
Non-current liabilities			
Borrowings		—	254,148
Lease liabilities		15,782	26,559
Convertible bonds classified as financial liabilities at fair value through profit or loss		206,308	—
Convertible bonds		367,874	—
Deferred government grants		1,847	2,417
		<u>591,811</u>	<u>283,124</u>
Current liabilities			
Borrowings		1,553,659	1,016,291
Lease liabilities		11,250	22,366
Trade payables	<i>11</i>	227,341	160,793
Amounts due to related parties		14,734	21,159
Other payables and accruals		281,447	317,045
Income tax liabilities		30,523	45,480
Deferred government grants		4,483	9,452
Contract liabilities		321,752	265,459
		<u>2,445,189</u>	<u>1,858,045</u>
Total liabilities		<u>3,037,000</u>	<u>2,141,169</u>
Total equity and liabilities		<u><u>6,752,841</u></u>	<u><u>6,086,762</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The Company was incorporated in the Cayman Islands on January 3, 2018 as an exempted company with limited liability. The address of the Company's registered office is P.O. Box 309, Uglan House, Grand Cayman, KY1-1104 Cayman Islands.

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

The Company has its primary listing on the Stock Exchange on December 6, 2018.

This consolidated financial statements for the year ended December 31, 2020 are presented in RMB, unless otherwise stated.

2. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards and the disclosure requirement of the Hong Kong Companies Ordinance Cap.622.

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

(a) New and amended standards adopted by the Group

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

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

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

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

3. Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision-maker ("CODM"). The Group's CODM has been identified as the CEO, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group.

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

Game and information services

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

SaaS and other related services

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

Offline entertainment

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

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

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

The revenue is mainly generated in the PRC.

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

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

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

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

4. Revenues

	Year ended December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Game and information services revenues		
Game revenue	2,805,562	2,446,876
Information service revenue	347,529	315,561
Others	14,390	8,882
SaaS and other related services revenues	38,151	16,580
Offline entertainment business revenues	6,486	5,071
	<u>3,212,118</u>	<u>2,792,970</u>

The timings of revenues recognition by category is as follows:

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

5. Expenses by Nature

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

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

6. Other losses, net

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

7. Income tax (credit)/expense

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

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

8. (Losses)/earnings per share and dividends

(a) (Losses)/earnings per share

(i) Basic

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

Basic (losses)/earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

(ii) Diluted

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

	Year ended December 31,	
	2020	2019
(Loss)/profit attributable to equity holders of the Company (RMB'000)	(441,570)	352,233
Weighted average number of shares in issue (thousands)	1,223,066	1,205,430
Adjustments for employee incentive plan, convertible bonds and convertible bonds classified as financial liabilities at fair value through profit or loss (thousands)	<u>—</u>	<u>39,598</u>
Weighted average number of shares for calculating diluted earnings per share (thousands)	<u>1,223,066</u>	<u>1,245,028</u>
Diluted (losses)/earnings per share (in RMB)	<u><u>(0.36)</u></u>	<u><u>0.28</u></u>

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

(b) Dividends

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

9. Trade receivables

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

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

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

- (b) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of each type of the trade receivables to measure the expected credit losses.

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

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

The provisions and reversal of provisions for impaired receivables have been included in 'net impairment losses on financial assets and contract assets' in the consolidated statement of comprehensive income.

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

	As of December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	1,080,171	899,565
USD	167,129	162,885
	<u>1,247,300</u>	<u>1,062,450</u>

- (d) As of December 31, 2019 and 2020, the fair values of trade receivables approximate their carrying amounts. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the net receivable balance.
- (e) As of December 31, 2019 and 2020, trade receivables of RMB13,703,000 and RMB257,102,000 respectively were pledged to banks to secure certain bank facilities granted to the Group.

10. Prepayments and other receivables

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

- (a) The provision for impairment comprises the impairment for prepayments and other receivables.

Movements in the provision for impairment of prepayments as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	14,370	7,967
Provision for impairment	70,102	105,176
Written off during the year	(74,599)	(98,773)
	<u>9,873</u>	<u>14,370</u>

The impairment provision mainly represents impairment of prepaid revenue sharing to game developers, which is primarily related to certain games licensed by the Group but did not operate well or align with the Group's future strategy. The provision is the excess amount of the carrying amount of the unearned prepaid revenue sharing to game developers over the expected game revenue to be generated in the remaining contractual period. The directors estimate the expected revenue sharing with reference to those games' gross billings trend, the monthly active users and paying ratio over the past period.

During the year ended December 31, 2020, an impairment provision of RMB70,102,000 was provided for certain games of the Group, among which 14 games would be expired before May 31, 2021 while the Group is yet to reach extension agreements with game developers due to the aforesaid reasons, none of them was considered individually material to the Group.

During the year ended December 31, 2019, the Group made an impairment provision of RMB69,707,000 against one game due to the significant decrease of gross billings during the year and the contract of this game become expired in January 2020. The remaining RMB35,469,000 impairment provision was related to around 20 games of the Group, none of them was considered individually material to the Group.

11. Trade payables

	As of December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Third parties	215,267	143,451
Related parties	12,074	17,342
	<u>227,341</u>	<u>160,793</u>

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

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

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

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

	As of December 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	220,550	153,031
USD	6,791	7,762
	<u>227,341</u>	<u>160,793</u>

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

12. Subsequent Event

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

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues

As described in previous section, in 2020, the Group expand its core businesses to more variety of services and started to disclose three reportable segments which are game and information services, SaaS and other related services and offline entertainment. For further details of the segment information, please refer to note 3 to the Consolidated Financial Statements.

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

Revenue from the game and information services

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

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

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

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

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

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

- **MAUs.** Our average MAUs increased from 131.3 million in 2019 to 138.0 million in 2020, which was primarily contributed by the popularity of mobile games we offered.
- **MPUs.** Our average MPUs increased from 5.7 million in 2019 to 5.9 million in 2020, which was in line with the increase of MAUs.
- **Monthly ARPPU.** Our monthly ARPPU increased from RMB31.9 in 2019 to RMB38.0 in 2020, primarily due to the launch of more games which require more time commitment and offer higher-priced virtual items.
- **Information service revenue.** Our information service revenue is primarily derived from our advertising services. The increase in information service revenue from RMB315.6 million for the year ended December 31, 2019 to RMB347.5 million for the year ended December 31, 2020 was primarily the result of (i) our increased in-game advertisement slots; and (ii) the higher rates charged to advertisers or advertising agents.

SaaS and other related services and offline entertainment

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

Cost of revenues

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

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

Selling and Marketing Expenses

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

General and administrative expenses

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

Research and development expenses

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

Net impairment losses on financial assets and contract assets

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

Other losses, net

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

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

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

In assessing and evaluating the goodwill impairment of Shanghai Huohun, we continued to engage Avista Business Consulting (Shanghai) Co., Ltd. (“AVISTA”), an independent valuer, to conduct valuation of the fair value of Shanghai Huohun as of December 31, 2020. AVISTA adopted both income approach, specifically the discounted cash flow method to derive the value-in-use of Shanghai Huohun, and market approach, specifically the comparable company method to derive the fair value of Shanghai Huohun as of December 31, 2020.

The recoverable amount of the Shanghai Huohun CGU is determined based on value in use calculations as of December 31, 2020 as the value in use calculations resulted in a higher amount than the fair value less cost of disposal. The key parameters used for value-in-use calculations for the years ended December 31, 2019 and 2020 are as follows:

	As of December 31,	
	2020	2019
Average revenue growth rate during the forecast period (*)	-5.34%	12.74%
Earnings before interest, taxes, depreciation and amortisation margin (“EBITDA”)	41.30%-59.50%	72.30%-74.10%
Terminal growth rate	3.00%	3.00%
Pre-tax discount rate	30.10%	29.60%

The Company considered that the key assumptions and valuation methodology adopted are reasonable.

Note (*): The decrease in the average revenue growth rate during the forecast period and EBITDA in 2020 when comparing to the last year was mainly due to that some new games of Shanghai Huohun are not able to be released as planned and it is expected that these relevant new games would not be launched in the coming foreseeable future because of the change of game business strategy and focus, while the performance of certain games (including Cross Gate (Mobile version) 魔力寶貝 (手機版)) was below the expectation.

Finance costs, net

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

Income tax credit/expense

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

Loss/profit for the year

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

Other Financial Information

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

Notes:

- (1) Adjusted profit for the year was derived from our profit/loss for the year excluding share-based compensation expenses, fair value gains or losses on financial assets, impairment provision of contract assets, impairment provision of investments in associates, fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss, impairment provision for goodwill resulting from a business combination and gain from the reversal of the unpaid consideration payables from a business combination, if any.
- (2) EBITDA is net income or loss before interest expenses, income tax expenses, depreciation and amortization.
- (3) Adjusted EBITDA is calculated using adjusted profit for the year, adding back depreciation of property, plant and equipment, investment properties and right-of-use assets, amortization of intangible assets, income tax expense and interest expenses.

Non-IFRS Financial Measure

To supplement the consolidated financial statements of the Group prepared in accordance with IFRS, the three non-IFRS measures, namely adjusted profit for the year, EBITDA and adjusted EBITDA, as additional financial measures, have been presented in this annual results announcement. These unaudited non-IFRS financial measures are used by management of the Company to evaluate the Company's financial performance by eliminating the impact of items that they consider not indicative of the Company operating performance and should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information regarding the Group's financial performance to investors and Shareholders of the Company. The Company's management also believes that the non-IFRS measures are appropriate for evaluating the Group's operating results and the relevant trends relating to its financial position. From time to time in the future, there may be other items that the Company may exclude in reviewing its financial results.

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the years ended December 31, 2020 and 2019 to the nearest measures prepared in accordance with IFRS:

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

Liquidity and Financial Resources

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

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

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

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

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

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

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

Debt ratio is calculated based on our total liabilities as at the respective date divided by our total assets as at the same date. As of December 31, 2020, the debt ratio of the Group was 45.0% as compared with 35.2% as of December 31, 2019.

Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, convertible bonds, convertible bonds classified as financial liabilities at fair value through profit or loss, amount due to related parties, interest payable, lease liabilities less cash and cash equivalents and restricted cash. Total capital is calculated as “equity” as shown in the consolidated statements of financial position. As of December 31, 2020 and 2019, the gearing ratio of the Group is 37.2% and 20.5% respectively.

Pledge of Assets

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

Contingent Liabilities

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

Capital Expenditure

For the year ended December 31, 2020, our total capital expenditure was approximately RMB765.5 million, compared to approximately RMB889.5 million for the year ended December 31, 2019. Our capital expenditure primarily included expenditures for royalty fees paid to game developers, land use right, purchase of investment properties and purchase of property, plant and equipment. We plan to fund our capital expenditures through a combination of operating cash flows and debt financing. We may adjust our capital expenditure according to our future development plans or in light of market conditions and other factors that we consider appropriate.

Material Acquisitions and Disposals and Significant Investments

The Group did not have any material acquisitions and disposals and significant investments during the year ended December 31, 2020.

Foreign Exchange Risk Management

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

We did not hedge against any fluctuations in foreign currency during the years ended December 31, 2020 and 2019.

Employee and Remuneration Policy

We had 1,022 and 738 full-time employees as of December 31, 2019 and 2020, respectively. Substantially all of our employees are based in the PRC.

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

USE OF IPO PROCEEDS

The IPO Proceeds from the listing of the shares of the Company on the Main Board of the Stock Exchange were approximately HKD776.4 million. During the year ended December 31, 2020, the utilized amount of IPO Proceeds in accordance with the intended purposes set out in Prospectus was approximately HKD263.2 million. The IPO Proceeds were used up on December 31, 2020. Details are set out in the following table:

	Unutilized amount as of January 1, 2020	Actual net amount utilized during the year ended December 31, 2020
	<i>HKD million</i>	<i>HKD million</i>
Expansion of our game portfolio and enrich our contents offerings	49.8	49.8
Strategic acquisition	131.6	131.6
Strengthen our in-house development and research capabilities	35.2	35.2
Expansion of our offline entertainment services	46.6	46.6
	<hr/>	<hr/>
Total	<u>263.2</u>	<u>263.2</u>

USE OF PROCEEDS FROM THE ISSUANCE OF CONVERTIBLE BONDS

(1) Convertible bonds of USD30 million

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

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

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

(2) Convertible bonds of HKD775 million

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

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

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

	Actual net amount utilized for the year ended December 31, 2020 RMB’000
Expansion of our game portfolio and enrich our contents offerings	190,273
Supplement working capital	120,164
	<hr/>
Total	<u><u>310,437</u></u>

DIVIDEND

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

Compliance with the Corporate Governance Code

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

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

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

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

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

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

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct regarding directors’ securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the Reporting Period.

Purchase, Sale or Redemption of Listed Securities

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

The details of repurchase are set out as below:

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

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

Audit Committee

The Audit Committee, together with the Auditor, has reviewed the Group’s audited consolidated financial statements for the year ended December 31, 2020. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

Subsequent Event

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

Auditor’s Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group’s results for the year ended December 31, 2020 have been agreed by the Auditor to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

Publication of the Annual Results and Annual Report on the Websites of the Stock Exchange and the Company

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

DEFINITIONS

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

“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;
“Audit Committee”	the audit committee of the Company;
“Auditor”	PricewaterhouseCoopers, the independent auditor of the Company;
“Board”	the board of Directors;
“Company” or “our Company” or “iDreamSky”	iDreamSky Technology Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange under stock code 1119;
“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;
“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 Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“match-3 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;
“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 announcement only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“Prospectus”	the prospectus of the Company dated November 26, 2018;
“Reporting Period”	the year ended December 31, 2020;
“RMB”	Renminbi, the lawful currency of the PRC;
“RPG(s)” or “role-playing game(s)”	games in which users assume the roles of characters in a fictional setting;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“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;

“US\$” or “USD” U.S. dollars, the lawful currency of the United States of America.

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

Shenzhen, the PRC, March 25, 2021

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Chen Xiangyu as Chairman and Executive Director; Mr. Guan Song and Mr. Jeffrey Lyndon Ko as Executive Directors, Mr. Ma Xiaoyi, Mr. Zhang Han, Mr. Yao Xiaoguang and Mr. Chen Yu as Non-executive Directors, and Ms. Yu Bin, Mr. Li Xintian, Mr. Zhang Weining and Mr. Mao Rui as Independent Non-executive Directors.