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iDreamSky Technology Holdings Limited **创梦天地科技控股有限公司**

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1119)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2021

The Board is pleased to announce the unaudited consolidated results of the Group for the six months ended June 30, 2021, together with the comparative unaudited figures for the corresponding period in 2020 as below. These interim results for the six months ended June 30, 2021 have been reviewed by the Auditor in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Six months ended June 30,		
	2021	2020	Period-on-
	RMB'000	RMB'000	period
	(unaudited)	(unaudited)	
Revenue	1,367,072	1,591,643	(14.1%)
Gross profit	518,770	684,793	(24.2%)
(Loss)/profit before income tax	(80,842)	167,324	(148.3%)
(Loss)/profit for the period	(67,956)	147,866	(146.0%)
Adjusted profit for the period*	13,985	215,378	(93.5%)

* To supplement our unaudited consolidated financial statements which are presented in accordance with IFRS, we also use adjusted profit for the period 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 period was derived from our profit/loss for the period excluding share-based compensation expenses, fair value gains or losses on financial assets, fair value changes from convertible bonds classified as financial liabilities at fair value through profit or loss, impairment losses on contract assets, and impairment provisions on investments in associates (if any).

OVERVIEW

As a leading digital entertainment platform in China, iDreamSky has always kept in mind our mission and original aspiration: bring joy to users through technology and creativity, and build a “24/7 online & offline entertainment life circle”. After years of operation, based on our core capabilities and advantages, we have built a large MAU ecosystem, developing a three-dimensional, multi-layer, multi-frequency and long-term interaction mode between quality content and users and avoiding the low MAU valuation of a single leisure category. In the traffic close loop of the “24/7 online & offline entertainment life circle” we build, our MAU value will continue to increase in a spiraling mode, creating value for shareholders.

Thanks to outstanding and refined operation, iDreamSky has accumulated a large number of users. We have defined the core strategy of the games business: taking match-three puzzle games and competitive games as the independent research and development (“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. iDreamSky has successfully launched a number of different types of self-developed games such as “Cross Gate” (《魔力寶貝》), “Art of War III” (《全球行動》), “Super Animal Royale” (《小動物之星》), “Glory All Star” (《榮耀全明星》), etc. In the future, we will introduce more self-developed products to the global game market.

The Company has incubated a series of SaaS tools of interactive product lifecycle 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 data and technology, we help lower the threshold for starting business, and help them improve the efficiency of their team and product operations, and achieve the purpose of reducing cost and increasing revenue.

“WePlay” is the first experimental entertainment retail block in China developed by the Company collaborating with Tencent, Nintendo, Sony and other world-renowned gaming companies. As a holy land to offer players console experiencing, console and designer toys retail, is the latest scene for the “Generation Z” players merging online entertainment and offline socializing. In March 2021, the Company acquired the IP license from the QQfamily. “WePlay” now holds two thematic brands: “Tencent Video Great Moment Voyage” and “QQfamily”. The first QQfamily flagship store was officially opened on July 24, 2021. As of the date of this announcement, the Company had 10 regular chain stores of “WePlay”, including 9 regular chain stores of Tencent Video Great Moment Voyage, and 1 QQfamily flagship store.

RESULTS

For the six months ended June 30, 2021, the Company's R&D expenditure increased by 45.4% compared to the same period of the previous year, because the Company enhanced the game development capabilities, strived to improve the traffic pool management, and increased the investment in the R&D of offline entertainment business, such as the development of service mini program and data analysis backstage system. The above situation may have a short-term impact on our financial performance, but the Company has seized new opportunities in the adjustment. We believe that continued investment in R&D is a key driver of our business breakthrough, and that the resources we invest now will lead to significant benefits of our business in the future.

As stated above, our core strategy is to focus on the development and operation of match-three puzzle games and competitive games, and convert the high-quality mid and hardcore console/PC games into mobile games. As a result, we gradually terminated the products not meeting our strategy for gaming business in 2021, and our revenue for the period had a period on period decrease of 14.1%. For the six months ended June 30, 2021, the Group recorded a net loss of RMB68.0 million, as compared to the net profit of RMB147.9 million for the six months ended June 30, 2020. The adjusted net profit of the Group for the six months ended June 30, 2021 was RMB14.0 million, down by 93.5%.

Our average MAUs decreased from 142.0 million for the six months ended June 30, 2020 to 138.0 million for the six months ended June 30, 2021. In the first half of 2021, our average MPUs was reduced to 5.8 million from the 6.2 million for the first half of 2020; our monthly ARPPU was reduced from RMB35.5 to RMB33.4 for the six months ended June 30, 2021.

BUSINESS REVIEW AND OUTLOOK

1. Business Summary

Ledou Gaming — Gaming Business

In 2021, the Company continued to adjust and optimize the structure of the gaming business, focusing on the independent R&D and operation of match-three puzzle games and competitive games, and seeking for introducing suitable overseas mid and hardcore games into China, and gradually terminating the products that did not conform to its gaming business strategy.

- The Gardenscapes (《夢幻花園》) and Homescapes (《夢幻家園》) series match-three puzzle games released and distributed by iDreamSky had a bucking rising in 2021 compared with the same period of previous year. In April 2021, we granted the overseas release and distribution rights of the Witch Diaries (《女巫日記》), the first self-developed generation II match-three puzzle game, to Tencent. It is expected to be launched worldwide in 2022.

- Super Animal Royale, the Company’s self-developed competitive mobile game, was officially launched on May 13, 2021, and acquired 3.5 million users in only three months after its launch. After three months of operation, it has gained a good reputation among players, and the Company will increase production capacity for this game in the next stage.
- Glory All Star, the Company’s self-developed ARPG product, performed much better than expected during the test period, and was officially launched at Android terminals on April 29, 2021. After the launch, the monthly revenue showed a rising trend. In addition, its iOS version was also officially launched on August 27, 2021.
- We started a national league for “Art of War III”, the first self-developed RTS game of the Company, during the year. By far, we have successfully held three tournaments in Wuhan, Xi’an and Shanghai, and received good response from players. The esports event greatly stimulated the enthusiasm of the players, created a variety of product topics, videos, ideas and other contents, promoted long-term popularity of the product and player activity, continuously attracted the player traffic, thus bringing a variety of benefits for the game development.
- Meanwhile, with the enhanced investment of iDreamSky in e-sports products, we will enable closer interaction between our games, such as “Eternal Return” (《永恒轮回》) and “Super Animal Royale”, and the players through the esports event platform, in order to foster a group of core players. In addition, with the esports event platform, iDreamSky will deepen the cooperation with other CPs, offer more interesting games to players, and build a traffic ecosystem of “games — esports — players”.

SaaS Business Segment — Reusable enterprise-class applications

In May 2021, we reached a strategic partnership with Huawei Cloud to serve the vertical customers in depth together.

In terms of our advertising SaaS business, we have served nearly 600 business customers in the gaming and e-commerce field, with paying customers accounting for more than 50%. Our product passed the test of millions of data. The GTV increased 7 times in three months, representing an exponential growth.

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

In March 2021, the Company acquired another IP license from the QQfamily. Therefore, “WePlay” now holds two thematic brands: “Tencent Video Great Moment Voyage” and “QQfamily”.

Thanks to the business model that meets the market demand, the high-quality contents and IPs, and the support of customer resources, “WePlay” business has developed an obvious brand premium capacity, and become the latest pan-entertainment business modality that the shopping mall urgently needs to drive the circulation of passenger flow and the growth of stay time. This has given us the rent bargaining power and resource access advantages that can further improve the financial performance of individual stores.

In May 2021, the Company opened five regular chain stores in Guangzhou and Shenzhen. On July 24, the first QQfamily flagship store in China was opened in Shenzhen Happy Coast. The model of QQfamily flagship store is the combination of its original model which consists of console experience and sales, with sales of designer toys of various IP themes, which is designed to further enrich the business model of offline store and build the second growth curve of “WePlay”. As of the date of this announcement, the Company has opened 10 regular chain stores of “WePlay”, including 9 regular chain stores of Tencent Video Great Moment Voyage, and 1 QQfamily flagship store.

2. Outlook and strategies of the Company in the second half of 2021

Looking forward to the second half of 2021, we have reserved three self-developed games based on our core strategies. The two of them are “National Customs Synthesis (《國風合成》)” and “Dumpling Synthesis (《團子合成》)” (tentative names), which are match-three puzzle games, will be tested in this year. In addition, Garden Restaurant (《夢幻餐廳》), our jointly-released match-three puzzle game, is expected to be launched in the fourth quarter of 2021.

In addition, Eternal Return (PC version), our jointly-developed competitive game, has entered the approval process of domestic version number. It is expected that the game will be launched in 2022.

We signed an Exclusive Agency Agreement with Tencent on August 27, 2021 for our self-developed FPS game CALABIYAU (《卡拉比丘》), authorizing Tencent to publish the mobile and client versions of the game in Mainland China (excluding Hong Kong, Macao and Taiwan). In addition, Black Desert (《黑色沙漠》), a MMORPG mobile game jointly run by Tencent and us, will be officially launched nationwide in due course.

We will invest more resources to expand the SaaS customer base and user population. Meanwhile, we will also continue to deeply explore user needs and take long-term user operation as our ultimate goal.

QQfamily has attracted many people and received excellent response since its opening. From the trial operation on July 10 to August 9, 2021 the unaudited operating income reached RMB2.17 million, in which the sales of designer toys accounted for approximately 50%.

However, due to the unpredictable impact of the pandemic on the future, the Company will adjust the 2021 target of opening “WePlay” offline stores to 20 regular chain stores. For the QQfamily offline standard store, we will focus on opening new stores in Guangzhou and Shenzhen and the surrounding areas this year, and we are working on the plan for national expansion. In addition, the Company will continue the development of designer toy IPs, and march into the middle and upper reaches of designer toy industry by leveraging its own and its shareholders’ IP resources, in order to break through the close loop of designer toy production links.

CORPORATE RESPONSIBILITY

iDreamSky participated in the drafting of three game-related group standards, namely Game Product Innovation Indicators (《遊戲產品創新指標》), Quality Game Evaluation Norms (《精品遊戲評價規範》) and E-sports Event Classification (《電競賽事分級分類》). In May 2021, such industry standards have been formally approved by the Technical Committee on Group Standardization of China Audio-video and Digital Publishing Association (中國音像與數字出版協會).

iDreamSky will continue to actively respond to the national and policy call, establish and maintain a safe online game environment for minors, continuously strengthen the protection measures for minors, and care for the healthy growth of teenagers in all aspects. During the six months ended June 30, 2021, the Company’s revenue from minors accounted for 0.18% of our game revenue.

ACKNOWLEDGMENTS

On behalf of the Board, I would like to take this opportunity to extend my gratitude to the management and all staff of the Group for their hard work and dedication. I would also like to extend our sincere appreciation for the supports to our shareholders, business partners and stakeholders for their support.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2021

		Six months ended June 30,	
		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenues	5	1,367,072	1,591,643
Cost of revenues	6	(848,302)	(906,850)
Gross profit		518,770	684,793
Selling and marketing expenses	6	(208,067)	(192,180)
General and administrative expenses	6	(128,760)	(122,088)
Research and development expenses	6	(163,599)	(112,489)
Net impairment losses on financial assets and contract assets	6	(33,279)	(35,845)
Other income	7	23,457	14,033
Other losses, net	7	(2,955)	(2,144)
Fair value (losses)/gains on financial assets at fair value through profit or loss		(19,692)	7,434
Operating (loss)/profit		(14,125)	241,514
Finance income		28,351	4,355
Finance costs		(65,722)	(48,347)
Finance costs, net		(37,371)	(43,992)
Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss	12	(21,135)	(27,748)
Share of results of investments accounted for using the equity method		(8,211)	(2,450)
(Loss)/profit before income tax		(80,842)	167,324
Income tax credit/(expense)	8	12,886	(19,458)
(Loss)/profit for the period		(67,956)	147,866

		Six months ended June 30,	
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Other comprehensive (loss)/income			
Items that will not be reclassified to profit or loss			
— Currency translation differences		(14,190)	21,723
Items that may be reclassified to profit or loss			
— Currency translation differences		10,507	(18,878)
		<u>10,507</u>	<u>(18,878)</u>
Total comprehensive (loss)/income for the period		<u>(71,639)</u>	<u>150,711</u>
(Loss)/profit for the period attributable to:			
— Equity holders of the Company		(73,495)	136,986
— Non-controlling interests		5,539	10,880
		<u>5,539</u>	<u>10,880</u>
		<u>(67,956)</u>	<u>147,866</u>
Total comprehensive (loss)/income attributable to:			
— Equity holders of the Company		(77,178)	139,831
— Non-controlling interests		5,539	10,880
		<u>5,539</u>	<u>10,880</u>
		<u>(71,639)</u>	<u>150,711</u>
(Losses)/earnings per share			
— Basic (losses)/earnings per share (<i>in RMB</i>)	9	<u>(0.06)</u>	<u>0.11</u>
— Diluted (losses)/earnings per share (<i>in RMB</i>)	9	<u>(0.06)</u>	<u>0.11</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2021

	<i>Notes</i>	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		43,946	29,880
Intangible assets		1,825,961	1,823,150
Investment properties		32,467	33,074
Right-of-use assets		104,704	106,015
Investments accounted for using the equity method		350,188	367,574
Financial assets at fair value through profit or loss		435,228	374,769
Prepayments and other receivables	<i>11</i>	117,684	118,662
Goodwill		73,222	73,222
Contract asset		299	1,192
Deferred tax assets		96,550	78,571
		<u>3,080,249</u>	<u>3,006,109</u>
Current assets			
Trade receivables	<i>10</i>	1,097,400	1,149,331
Amounts due from related parties		1,646	1,657
Prepayments and other receivables	<i>11</i>	1,632,747	1,506,821
Contract asset		271	980
Contract costs		119,513	194,462
Financial assets at fair value through profit or loss		72,944	105,872
Restricted cash		11,242	52,042
Cash and cash equivalents		386,790	735,567
		<u>3,322,553</u>	<u>3,746,732</u>
Total assets		<u><u>6,402,802</u></u>	<u><u>6,752,841</u></u>

		As of June 30, 2021 <i>RMB'000</i> (Unaudited)	As of December 31, 2020 <i>RMB'000</i> (Audited)
EQUITY			
Equity attributable to equity holders of the Company			
Share capital and share premium and treasury shares		2,528,815	2,533,966
Reserves		755,748	731,683
Retained earnings		109,127	182,622
		<u>3,393,690</u>	<u>3,448,271</u>
Non-controlling interests		<u>278,368</u>	<u>267,570</u>
Total equity		<u><u>3,672,058</u></u>	<u><u>3,715,841</u></u>
LIABILITIES			
Non-current liabilities			
Lease liabilities		19,581	15,782
Convertible bonds classified as financial liabilities at fair value through profit or loss	12	225,367	206,308
Convertible bonds	12	384,512	367,874
Deferred government grants		60	1,847
		<u>629,520</u>	<u>591,811</u>
Current liabilities			
Borrowings	13	1,385,040	1,553,659
Lease liabilities		7,071	11,250
Trade payables	14	272,631	227,341
Amounts due to related parties		—	14,734
Other payables and accruals		221,165	281,447
Income tax liabilities		26,147	30,523
Deferred government grants		1,244	4,483
Contract liabilities		187,926	321,752
		<u>2,101,224</u>	<u>2,445,189</u>
Total liabilities		<u>2,730,744</u>	<u>3,037,000</u>
Total equity and liabilities		<u><u>6,402,802</u></u>	<u><u>6,752,841</u></u>

NOTES:

1. General information

iDreamSky Technology Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on January 3, 2018 as an exempted company with limited liability. The address of the Company’s registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “**Group**”) are principally engaged in mobile game development and operating, and offline gaming device experiencing and retail in the People’s Republic of China (the “**PRC**” or “**China**”).

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

This interim condensed consolidated financial information for the six months ended June 30, 2021 (“**Interim Financial Information**”) is presented in Renminbi (“**RMB**”), unless otherwise stated. This Interim Financial Information was approved for issue by the Board of Directors on August 30, 2021.

2. Basis of preparation

The Interim Financial Information has been prepared in accordance with International Accounting Standard 34 (“**IAS 34**”), “Interim financial reporting”. The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2020 (the “**2020 Financial Statements**”), which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”), as set out in the 2020 annual report of the Company dated March 25, 2021.

3. Significant accounting policies

The accounting policies adopted in the preparation of the Interim Financial Information are consistent with those applied in the preparation of the 2020 Financial Statements and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

The accounting policies applied are consistent with those of the 2020 Financial Statements, as described in those annual consolidated financial statements, except for the adoption of amended IFRSs effective as of January 1, 2021.

(b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been issued and are effective for annual periods beginning on or after January 1, 2021 and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	January 1, 2022
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract	January 1, 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	January 1, 2022
IFRS (amendment)	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 1, and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
IFRS 17	Insurance contract	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group will adopt the above new or revised standards, amendments and interpretations to existing standards as and when they become effective. Management has performed preliminary assessment and does not anticipate any significant impact on the Group's financial position and results of operations upon adopting these standards, amendments to standards and interpretations to the existing IFRSs.

4. Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the Group's Chief Operating Decision Makers ("CODM"). The Group's CODM has been identified as the Chief Executive Officer ("CEO"), who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. As a result of this evaluation, the CEO of the Group consider that the Group's operations are operated and managed 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 primarily offers gaming device experiencing and sales, game and cultural IP-themed sales of designer toys.

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

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

The revenue is mainly generated in the PRC.

The segment information and the reconciliation with profit/(loss) before income tax provided to the Group's CODM for the reportable segments for the six months ended June 30, 2020 and 2021 is as follows:

	Six months ended June 30, 2021			
	Game and information services	SaaS and other related services	Offline entertainment	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	1,324,584	30,657	11,831	1,367,072
Cost of revenues	<u>(835,642)</u>	<u>(6,757)</u>	<u>(5,903)</u>	<u>(848,302)</u>
Gross profit	<u>488,942</u>	<u>23,900</u>	<u>5,928</u>	<u>518,770</u>
Segment results	<u>118,992</u>	<u>(9,445)</u>	<u>(21,231)</u>	<u>88,316</u>
<i>Reconciliation:</i>				
Unallocated operating expenses				(69,972)
Net impairment losses on financial assets and contract assets				(33,279)
Other income				23,457
Other losses, net				(2,955)
Fair value losses on financial assets at fair value through profit or loss				(19,692)
Finance income				28,351
Finance costs				(65,722)
Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss				(21,135)
Share of results of investments accounted for using the equity method				(8,211)
Loss before income tax				<u>(80,842)</u>

Six months ended June 30, 2020

	Game and information services	SaaS and other related services	Offline entertainment	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	1,566,818	22,545	2,280	1,591,643
Cost of revenues	<u>(899,322)</u>	<u>(6,588)</u>	<u>(940)</u>	<u>(906,850)</u>
Gross profit	<u>667,496</u>	<u>15,957</u>	<u>1,340</u>	<u>684,793</u>
Segment results	<u>365,420</u>	<u>(20,170)</u>	<u>(8,978)</u>	<u>336,272</u>
<i>Reconciliation:</i>				
Unallocated operating expenses				(78,236)
Net impairment losses on financial assets and contract assets				(35,845)
Other income				14,033
Other losses, net				(2,144)
Fair value gains on financial assets at fair value through profit or loss				7,434
Finance income				4,355
Finance costs				(48,347)
Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss				(27,748)
Share of results of investments accounted for using the equity method				(2,450)
Profit before income tax				<u>167,324</u>

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

5. Revenues

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Game and information services revenues		
Game revenue	1,189,738	1,387,666
Information service revenue	130,754	177,872
Others	4,092	1,280
SaaS and other related services revenues	30,657	22,545
Offline entertainment revenues	11,831	2,280
	<u>1,367,072</u>	<u>1,591,643</u>

The timings of revenues recognition by category is as follows:

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
At a point in time	416,593	568,844
Over time	950,479	1,022,799
	<u>1,367,072</u>	<u>1,591,643</u>

6. 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:

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Channel costs	569,941	634,101
Promotion and advertising expenses	182,106	186,965
Employee benefits expenses	171,181	189,190
Revenue share to content providers	139,636	175,045
Amortization of intangible assets	101,739	75,065
Technical and development services fee in relation to game development and others	66,315	6,329
Impairment provisions for intangible assets	36,542	4,922
Impairment provisions for financial assets and contract assets	33,279	35,845
Cloud computing, bandwidth and server custody fees	15,013	12,337
Professional service fees	14,648	18,552
Depreciation of right-of-use assets	8,873	11,033
Depreciation of property, plant and equipment	7,819	4,500
Travelling and entertainment expenses	7,017	6,025
Impairment provisions for prepayments	5,883	—
Cost of inventories	4,784	479
Other tax expenses	2,577	3,067
Short-term rental and utilities expenses	2,339	1,069
Depreciation of investment properties	607	387
Others	11,708	4,541
	<hr/>	<hr/>
Total cost of revenues, selling and marketing expenses, administrative expenses, research and development expenses, net impairment losses on financial assets and contract assets	<u>1,382,007</u>	<u>1,369,452</u>

7. Other income and other losses, net

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income		
Government grants	17,010	9,652
Additional deduction of value-added tax	5,652	4,263
Rental income	795	118
	<u>23,457</u>	<u>14,033</u>
Other losses, net		
Impairment of investments in an associate	(12,335)	—
Net losses on disposal of property, plant and equipment	(311)	(72)
Net gains/(losses) on disposal of financial assets	866	(1,516)
Gains on disposal of investments in associates	6,526	—
Gains on disposal of subsidiaries	—	595
Others	2,299	(1,151)
	<u>(2,955)</u>	<u>(2,144)</u>

8. Taxation

Income tax (credit)/expense is recognised based on management's estimate of the annual income tax rates expected for the full financial year.

The income tax (credit)/expense of the Group for the six months ended June 30, 2020 and 2021 is analyzed as follows:

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	5,093	20,410
Deferred income tax	(17,979)	(952)
Income tax (credit)/expense	<u>(12,886)</u>	<u>19,458</u>

9. (Losses)/earnings per share and dividends

(a) (Losses)/earnings per share

(i) Basic

	Six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to equity holders of the Company (RMB'000)	<u>(73,495)</u>	<u>136,986</u>
Weighted average number of shares in issue (thousands)	<u>1,233,186</u>	<u>1,217,467</u>
Basic (losses)/earnings per share (in RMB)	<u>(0.06)</u>	<u>0.11</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 respective period, excluding ordinary shares purchased by the Group and held as treasury shares.

(ii) *Diluted*

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

	Six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>(73,495)</u>	<u>136,986</u>
Weighted average number of shares in issue (<i>thousands</i>)	1,233,186	1,217,467
Adjustments for employee incentive plan and convertible bonds (<i>thousands</i>)	<u>—</u>	<u>39,652</u>
Weighted average number of shares for calculating diluted (losses)/earnings per share (<i>thousands</i>)	<u>1,233,186</u>	<u>1,257,119</u>
Diluted (losses)/earnings per share (<i>in RMB</i>)	<u>(0.06)</u>	<u>0.11</u>

As the Group incurred losses for the six months ended June 30, 2021, 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 six months ended June 30, 2021 are the same as basic losses per share.

(b) *Dividends*

The Board of Directors resolved that no interim dividend shall be declared for the six months ended June 30, 2021 (during the six months ended June 30, 2020: nil).

10. Trade receivables

	As of June 30, 2021 <i>RMB'000</i> (Unaudited)	As of December 31, 2020 <i>RMB'000</i> (Audited)
Third parties	1,168,253	1,193,377
Related parties	29,989	53,923
	1,198,242	1,247,300
Less: provision for impairment	(100,842)	(97,969)
	1,097,400	1,149,331

- (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 June 30, 2021 <i>RMB'000</i> (Unaudited)	As of December 31, 2020 <i>RMB'000</i> (Audited)
Within 3 months	302,226	461,593
3 months to 1 year	642,047	542,880
1 to 2 years	244,124	222,792
2 to 3 years	9,272	12,559
Over 3 years	573	7,476
	1,198,242	1,247,300

(b) Movements in the provision for impairment of trade receivables as follows:

	Six months ended June 30	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
At the beginning of the period	97,969	57,194
Provision for impairment	35,314	31,718
Receivables written off during the period as uncollectible	(16,373)	(19,652)
Reversal	(16,068)	(3,614)
	<u>100,842</u>	<u>65,646</u>
At the end of the period	<u>100,842</u>	<u>65,646</u>

The majority of the Group's trade receivable were denominated in RMB.

As of June 30, 2021, the carrying amounts of the accounts receivable were approximate to their fair values.

(c) As of December 31, 2020 and June 30, 2021, trade receivables of RMB257,102,000 and RMB361,862,000 respectively were pledged to secure certain bank facilities granted to the Group.

11. Prepayments and other receivables

	As of	As of
	June 30,	December 31,
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Included in non-current assets		
Non-current portion of loans to third parties	119,881	117,575
Non-current portion of loan to employees	1,977	2,687
Prepayment for intangible assets	1,365	—
Less: provision for impairment	(5,539)	(1,600)
	<u>117,684</u>	<u>118,662</u>

	As of June 30, 2021 <i>RMB'000</i> (Unaudited)	As of December 31, 2020 <i>RMB'000</i> (Audited)
Included in current assets		
Prepaid revenue sharing to content providers	1,180,078	1,119,504
Prepaid advertising expenses	232,854	129,595
Current portion of loans to third parties	119,220	156,488
Recoverable value-added tax	44,651	41,035
Rental and other deposits	5,860	6,995
Current portion of loan to employees	5,727	5,562
Prepayment to related parties	4,655	11,518
Others	63,580	50,937
Less: provision for impairment	(23,878)	(14,813)
	<u>1,632,747</u>	<u>1,506,821</u>

12. Convertible bonds

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

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

The 2023 Convertible Bonds were recognised and measured as financial liabilities at fair value through profit or loss. The fair value as of the Issue Date was of RMB204,552,000. During the six months ended June 30, 2021, the loss from changes in fair value of 2023 Convertible Bonds was RMB21,135,000 (during the six months ended June 30, 2020: RMB27,748,000). As of June 30, 2021, the fair value of 2023 Convertible Bonds is RMB225,367,000, which is determined by using valuation methodology with the use of unobservable inputs (level 3).

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

Pursuant to the subscription agreement, the 2023 Convertible Bonds, at the option of the holder, will be convertible (unless previously redeemed, converted or cancelled) on or after the Issue Date up to the close of business on the date falling ten days prior to the maturity date (the “**Conversion Period**”) into fully paid ordinary shares with a par value of USD0.0001 each of the Company at an initial conversion price of HK\$4.69 per share. The conversion price is subject to adjustment in the circumstances described under certain terms and conditions of the subscription agreement. No 2023 Convertible Bonds were converted into ordinary shares of the Company during the six months ended June 30, 2021.

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

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

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

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Opening balance	206,308	—
Issuance of convertible bonds	—	204,552
Fair value loss	21,135	27,748
Currency translation differences	(2,076)	3,311
	<u>225,367</u>	<u>235,611</u>
Closing balance	<u>225,367</u>	<u>235,611</u>

(b) Convertible bonds

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

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

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

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

	Liability <i>RMB'000</i> (Unaudited)	Equity <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
As of January 1, 2021	367,874	262,620	630,494
Interest expenses	30,379	—	30,379
Coupon interests paid	(10,179)	—	(10,179)
Currency translation differences	(3,562)	—	(3,562)
As of June 30, 2021	<u>384,512</u>	<u>262,620</u>	<u>647,132</u>

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

The 2025 Convertible Bonds are guaranteed by the Company.

As of June 30, 2021, there has been no conversion of the 2025 Convertible Bonds.

13. Borrowings

	As of June 30, 2021 <i>RMB'000</i> (Unaudited)	As of December 31, 2020 <i>RMB'000</i> (Audited)
Secured long-term bank borrowings reclassified to current bank borrowings (a)	721,116	935,865
Secured bank borrowings	387,000	421,700
Current portion of long-term bank borrowings, secured	223,924	152,068
Secured other borrowings	30,000	44,026
Unsecured other borrowings	23,000	—
	<u>1,385,040</u>	<u>1,553,659</u>

- (a) The Group reclassified RMB586,116,000 long-term bank borrowings to current liabilities as the Group breached certain financial ratio requirements in the loan agreements as of June 30, 2021 (December 31, 2020: RMB791,865,000). The long-term bank borrowings of RMB135,000,000 (December 31, 2020: RMB144,000,000) were also reclassified to current liabilities due to the cross-default terms. These bank borrowings have not become due and payable as of June 30, 2021 (December 31, 2020: RMB144,000,000) and up to the date of this announcement, as the respective bank has not issued notice to the Group to require repayment of these bank borrowings.

14. Trade payables

Trade payables are primarily related to the purchase of services for server custody, game licenses, and the revenues 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. The aging analysis of trade payable based on recognition date is as follows:

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Within 3 months	130,188	109,436
3 months to 1 year	103,824	107,788
1 to 2 years	37,997	998
2 to 5 years	622	9,119
	<u>272,631</u>	<u>227,341</u>

15. Subsequent event

- (a) On July 2, 2021, the Company and Shenzhen Qianhai iDream Technology Co., Ltd. (“**Qianhai iDream**”) with Value Convergence Holdings Limited (00821.HK, “**Value Convergence**”) and a subsidiary of Value Convergence (collectively, the “**VC Group**”) entered into the Sale and Purchase Agreement, pursuant to which, Qianhai iDream agreed to sell the Dolphin Software, Rainbow Software and Nvwa Software (collectively, the “**Relevant Software**”) to the VC Group, at the first consideration of RMB45,000,000. The Company agreed to sell 100% and 60%, respectively, of the equity interest in Dream Impression Holdings Limited and Shenzhen Zero One Zhi He Technology Co., Ltd. (collectively, the “**Target Company**”) to the VC Group, at the second consideration of RMB28,000,000. The total consideration of RMB73,000,000 (equivalent to approximately HK\$87,320,574) will be settled by the allotment and issue of the 425,954,020 consideration shares by the Value Convergence to the Company at the issue price of HK\$0.205 per consideration share on the completion date. Upon the completion, the Company will hold approximately 19.98% of the issued share capital of the Value Convergence. Up to the date of this announcement, the transactions have not been completed.
- (b) On July 16, 2021 (“**Conversion Date**”), at the opinion of the holder, the 2023 Convertible Bonds were fully converted to 49,677,825 fully paid ordinary shares of the Company at a conversion price of HK\$4.69 per share. Accordingly, the fair value of the 2023 Convertible Bonds as at the Conversion Date was transferred to share capital and share premium.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues

Starting from 2020, the Group expanded its core business to more variety of services and started to disclose three reporting segments, namely games and information services, SaaS and other related services and offline entertainment. For further details of the segment information, please refer to note 4 to the consolidated financial statements.

Revenues for the six months ended June 30, 2021 decreased by 14.1% to approximately RMB1,367.1 million (six months ended June 30, 2020: RMB1,591.6 million). For the six months ended June 30, 2021, revenues from games and information services, SaaS and other related services and offline entertainment accounted for 96.9%, 2.2% and 0.9% (six months ended June 30, 2020: 98.4%, 1.4% and 0.2%) of the Group's total revenue, respectively.

Revenues from games and information services

	Six months ended June 30,			
	2021		2020	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Game revenue	1,189,738	89.8	1,387,666	88.6
Information service revenue	130,754	9.9	177,872	11.3
Other revenue	4,092	0.3	1,280	0.1
	<u>1,324,584</u>	<u>100.0</u>	<u>1,566,818</u>	<u>100.0</u>

- **Game revenue.** The largest portion of revenues is derived from our games, which contributed 89.8% and 88.6% of our revenues from the game and information services for the six months ended June 30, 2021 and 2020, respectively. The decrease in game revenue from RMB1,387.7 million for the six months ended June 30, 2020 to RMB1,189.7 million for the six months ended June 30, 2021 was primarily due to that the Group has stepwise terminated games that were no longer in line with the Group's core strategy of focusing on the development and operation of exquisite match-three puzzle games and competitive games.

The following table summarizes our key operating data for the six months ended June 30, 2021 and 2020, respectively:

	Six months ended June 30,	
	2021	2020
Average MAUs (<i>millions</i>)	138.0	142.0
Average MPUs (<i>millions</i>)	5.8	6.2
Monthly ARPPU (<i>RMB</i>)	33.4	35.5

* Our key operating metrics included data from all games published and operated by us. During the six months ended June 30, 2021, Cross Gate (Mobile version) (魔力寶貝(手機版)), FIFPro World Players' Union (全民冠軍足球) and Art of War III (全球行動), were three games not published or operated by us, which were published and operated by Tencent.

- **MAUs.** Our average MAUs decreased from 142.0 million for the six months ended June 30, 2020 to 138.0 million for the six months ended June 30, 2021, which was primarily due to that the Group has stepwise terminated games were no longer in line with the Group's strategy in gaming business.
- **MPUs.** Our average MPUs decreased from 6.2 million for the six months ended June 30, 2020 to 5.8 million for the six months ended June 30, 2021, which was in line with the decrease of MAUs.
- **Monthly ARPPU.** Our monthly ARPPU decreased from RMB35.5 for the six months ended June 30, 2020 to RMB33.4 for the six months ended June 30, 2021, primarily due to the decrease in the proportion of the Company's revenue from mid-to-hardcore games during the period, while the monthly ARPPU for mid-to-hardcore games was higher.
- **Information service revenue.** Our information service revenue is primarily derived from our in-game advertising services. Information service revenue decreased from RMB177.9 million for the six months ended June 30, 2020 to RMB130.8 million for the six months ended June 30, 2021. The decrease was primarily due to the significant increase in the advertising revenue in the first half of 2020 due to the increase in popularity of online advertisements during the COVID-19 pandemic outbreak in 2020; revenue from advertising services decreased as compared with the same period of last year as online advertisement dropped to a normal level during the period.

SaaS and other related services and offline entertainment

Due to the Group's strategic deployment and continuous investment in SaaS and other related services and offline entertainment business, the Group's revenue from SaaS and other related services for the six months ended June 30, 2021 was RMB30.7 million (six months ended June 30, 2020: RMB22.5 million), representing a period-on-period increase of 36.4%, and revenue from offline entertainment business was RMB11.8 million (for the six months ended June 30, 2020: RMB2.3 million), representing a period-on-period increase of 413.0%.

Cost of revenues

Our cost of revenues decreased by 6.5% from RMB906.9 million for the six months ended June 30, 2020 to RMB848.3 million for the six months ended June 30, 2021. The decrease primarily reflected less channel costs and revenue share to content providers in line with the decrease of our revenues.

As a percentage of revenues, our cost of revenues increased to 62.1% for the six months ended June 30, 2021 from 57.0% for the six months ended June 30, 2020. The increase was primarily due to less game revenue being recognized on a net basis and with higher gross margin.

Selling and marketing expenses

Our selling and marketing expenses increased by 8.3% from RMB192.2 million for the six months ended June 30, 2020 to RMB208.1 million for the six months ended June 30, 2021. As a percentage of revenue, our selling and marketing expenses increased from 12.1% for the six months ended June 30, 2020 to 15.2% for the six months ended June 30, 2021. The increase is mainly attributable to the product life cycle of games which is characterised by higher paybacks during product maturity stage and requires high cost outflows during the initial stage. For instances, the launch of new games like Super Animal Royale (《小動物之星》) and Glory All Star (《榮耀全明星》) during the first half of 2021 requires high and continuous promotion cost injections which had impacted the current period's selling and marketing expense ratio.

General and administrative expenses

Our general and administrative expenses increased by 5.5% from RMB122.1 million for the six months ended June 30, 2020 to RMB128.8 million for the six months ended June 30, 2021. As a percentage of revenue, our general and administrative expenses increased from 7.7% for the six months ended June 30, 2020 to 9.4% for the six months ended June 30, 2021. The increase was mainly due to the decrease in the Group's total revenue for the period ended June 30, 2021, resulting in a decrease in the scale effect of the management level.

Research and development expenses

Our research and development expenses increased by 45.4% from RMB112.5 million for the six months ended June 30, 2020 to RMB163.6 million for the six months ended June 30, 2021. As a percentage of revenue, our research and development expenses increased from 7.1% for the six months ended June 30, 2020 to 12.0% for the six months ended June 30, 2021. The increase in research and development expenses was due to our continuous investment in enhancing our game development capabilities and the Group's efforts in improving and perfecting traffic pool management. On the other hand, the Group has increased investment in the research and development of offline entertainment business.

Net impairment losses on financial assets and contract assets

We recorded net impairment losses on financial assets and contract assets of RMB35.8 million and RMB33.3 million for the six months ended June 30, 2020 and the six months ended June 30, 2021, respectively.

Finance costs, net

Our finance costs, net decreased by 15.0% from RMB44.0 million for the six months ended June 30, 2020 to RMB37.4 million for the six months ended June 30, 2021, primarily due to two factors: (1) an increase of RMB24.0 million in our finance income as we recognized an exchange gain of RMB25.6 million in the first half of 2021, which was mainly resulted from our translation of EUR denominated borrowings whereas Euro against U.S. dollars depreciated during the period; (2) an increase of RMB17.4 million in our finance costs, which was mainly due to our issuance of HKD775 million guaranteed convertible bonds in October 2020.

Income tax credit/expense

We recorded an income tax credit of RMB12.9 million for the six months ended June 30, 2021, compared to an income tax expense of RMB19.5 million for the six months ended June 30, 2020. The income tax credit recorded for the current period was mainly due to the increase in the amount of tax losses, resulting in an increase in the balance of deferred income tax assets for the current period, giving rise to a larger amount of deferred tax credit.

Loss/profit for the period

We recorded a net loss of RMB68.0 million for the six months ended June 30, 2021, compared to a net profit of RMB147.9 million for the six months ended June 30, 2020; our adjusted profit for the period for the six months ended June 30, 2021 was RMB14.0 million, compared to an adjusted profit for the period (as defined below) of RMB215.4 million for the six months ended June 30, 2020.

Other Financial Information

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Adjusted profit for the period ⁽¹⁾	13,985	215,378
EBITDA ⁽²⁾	103,918	304,735
Adjusted EBITDA ⁽³⁾	185,859	372,247

Notes:

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

Non-International Financial Reporting Standards Financial Measures

To supplement the consolidated financial statements of the Group prepared in accordance with IFRS, the three non-IFRS measures, namely adjusted profit for the period, EBITDA and adjusted EBITDA, as additional financial measures, have been presented in this interim results announcement. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies.

We present non-IFRS financial measures because they are used by our management to evaluate our operating performance and formulate business plans. By excluding certain expenses, gain/(loss) and other items that are not expected to result in future cash payments or that are non-recurring in nature or may not be indicative of our core operating results and business outlook, we believe 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 six months ended June 30, 2021 and 2020 to the nearest measures prepared in accordance with IFRS:

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Reconciliation of (loss)/profit for the period to adjusted profit for the period:		
(Loss)/profit for the period	(67,956)	147,866
Add: Fair value losses/(gains) on financial assets at fair value through profit or loss	19,692	(7,434)
Add: Share-based compensation expenses	27,748	47,198
Add: Fair value changes from convertible bonds classified as financial liabilities at fair value through profit or loss	21,135	27,748
Add: Impairment losses on contract assets	1,031	—
Add: Impairment provisions on investments in associates	12,335	—
Adjusted profit for the period	<u>13,985</u>	<u>215,378</u>

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Reconciliation of (loss)/profit for the period to EBITDA and adjusted EBITDA:		
(Loss)/profit for the period	(67,956)	147,866
Add: Depreciation of property, plant and equipment, investment properties and right-of-use assets	17,299	15,920
Add: Amortization of intangible assets	101,739	75,065
Add: Income tax (credit)/expense	(12,886)	19,458
Add: Interest expense	65,722	46,426
	<hr/>	<hr/>
EBITDA	103,918	304,735
Add: Fair value losses/(gains) on financial assets at fair value through profit or loss	19,692	(7,434)
Add: Share-based compensation expenses	27,748	47,198
Add: Fair value changes from convertible bonds classified as financial liabilities at fair value through profit or loss	21,135	27,748
Add: Impairment losses on contract assets	1,031	—
Add: Impairment provisions on investments in associates	12,335	—
	<hr/>	<hr/>
Adjusted EBITDA	185,859	372,247
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Liquidity and Financial Resources

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

As of June 30, 2021, the Group's total cash and cash equivalents decreased by 47.4% to approximately RMB386.8 million from approximately RMB735.6 million as of December 31, 2020. Our cash and cash equivalents were primarily denominated in RMB, HKD, EUR and USD.

As of June 30, 2021, the Group's total borrowings amounted to approximately RMB1,385.0 million (December 31, 2020: RMB1,553.7 million). The nature of the Group's borrowings is summarized as follows:

	As of June 30, 2021 RMB'000 (unaudited)	As of December 31, 2020 RMB'000 (Audited)
Secured bank borrowings	1,332,040	1,509,633
Secured other borrowings	30,000	44,026
Unsecured other borrowings	23,000	—
	<u>1,385,040</u>	<u>1,553,659</u>

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As of June 30, 2021 RMB'000 (unaudited)	As of December 31, 2020 RMB'000 (Audited)
RMB	793,000	828,177
EUR	592,040	725,482
	<u>1,385,040</u>	<u>1,553,659</u>

As of June 30, 2021, the current assets of the Group amounted to approximately RMB3,322.6 million, and the current liabilities of the Group amounted to approximately RMB2,101.2 million. As of June 30, 2021, the current ratio (being the current assets to current liabilities ratio) of the Group was 1.58 as compared with 1.53 as of December 31, 2020.

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 June 30, 2021, the debt ratio of the Group was 42.6% as compared with 45.0% as of December 31, 2020.

The 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, amounts due to related parties, interest payable and lease liabilities less cash and cash equivalents and restricted cash. Total capital is calculated as “equity” as shown in the consolidated statement of financial position. As of June 30, 2021 and December 31, 2020, the Group’s gearing ratio was 44.2% and 37.2%, respectively.

Pledge of Assets

Among the total borrowings of the Group as of June 30, 2021, approximately RMB852.0 million (December 31, 2020: RMB987.9 million) were secured by the Group’s land and buildings, certain trade receivables, certain game intellectual properties and certain deposits which accounted for approximately 61.5% (December 31, 2020: 63.6%) of the Group’s total borrowings.

Contingent Liabilities

As of June 30, 2021, the Group did not have any unrecorded significant contingent liabilities or guarantees made by us (December 31, 2020: nil).

Capital Expenditure

For the six months ended June 30, 2021, our total capital expenditure was approximately RMB185.8 million, compared to RMB336.2 million for the six months ended June 30, 2020. Our capital expenditure primarily included expenditures for license fees paid to game developers, right-of-use assets, construction in progress and purchase of property, plant and equipment. We plan to fund our capital expenditures through our operating cash flows, debt financing and equity financing. We may adjust our capital expenditure according to our future development plans or in light of market conditions and other factors that we consider appropriate.

Material Acquisitions and Disposals and Significant Investments

For the six months ended June 30, 2021, the Group did not have any material acquisitions and disposals and significant investments.

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 six months ended June 30, 2021 and 2020.

Employee and Remuneration Policy

We had 889 and 738 full-time employees as of June 30, 2021 and December 31, 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 PROCEEDS FROM ISSUE OF CONVERTIBLE BONDS

HKD775 MILLION CONVERTIBLE BONDS

On October 6, 2020, Dreambeyond Holdings Limited (“**DHL**”, a wholly-owned subsidiary of the Company) and Merrill Lynch (Asia Pacific) Limited (as Manager) entered into a Subscription Agreement, pursuant to which the Manager has agreed to subscribe for (or procure subscribers to subscribe and pay for) the bonds issued by DHL in the aggregate principal amount of HKD775 million. The bonds will mature on October 16, 2025 and bear interest at the rate of 3.125% per annum, payable semi-annually on April 16 and October 16 of each year, commencing on April 16, 2021. The convertible bonds are convertible into shares of the Company at any time during the conversion period and their initial conversion price is set at HKD4.99 per share. The issue of the convertible bonds was completed on October 16, 2020. For further details, please refer to the announcements of the Company dated October 7, 2020 and October 16, 2020.

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

For the year ended December 31, 2020 and the six months ended June 30, 2021, the actual net proceeds from the 2020 convertible bonds utilized in accordance with the intended purpose was RMB310.4 million and RMB250.0 million, respectively and the unutilized amount as of June 30, 2021 was RMB78.1 million. The remaining balance of the 2020 CB Proceeds will continue to be utilized as intended and is expected to be used up in 2021. The table below sets out the details of the actual utilized amount:

	Actual Net Utilization for the six months ended June 30, 2021 RMB million	Actual Net Utilization for the year ended December 31, 2020 RMB million
Expansion of our game portfolio and enriching of our content offerings	31.8	190.3
Replenishment of working capital	218.2	120.1
Total	<u>250.0</u>	<u>310.4</u>

INTERIM DIVIDEND

The Board did not propose any interim dividend for the six months ended June 30, 2021 (for the six months ended June 30, 2020: 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 as set out in Appendix 14 to the Listing Rules as its own code of corporate governance for the six months ended June 30, 2021.

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.

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 meetings 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 provides the Board members 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 six months ended June 30, 2021. 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 during the six months ended June 30, 2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2021, the Company repurchased 700,000 shares and 901,200 shares (a total of 1,601,200 shares) on the Stock Exchange in January and April 2021 respectively for a total consideration (before expenses) of HKD6,140,717.64 as the Board considers that the value of the shares of the Company does not reflect its intrinsic value and the share repurchase reflects the Board's confidence in the development prospects of the Company. As of the date of this announcement, together with the 2,600,000 shares repurchased in December 2020, a total of 4,201,200 shares have been cancelled.

Details of the repurchase by the Company are as follows:

Month	Number of Shares repurchased	Highest purchase price per share HKD	Lowest purchase price per share HKD	Total consideration (before expenses) HKD
January 2021	700,000	4.100	3.680	2,770,500.00
April 2021	901,200	3.765	3.720	3,370,217.64
	<u>1,601,200</u>			<u>6,140,717.64</u>

Save as disclosed above, neither the Company nor any of its subsidiaries or consolidated affiliated entities has purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2021.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited consolidated financial statements for the six months ended June 30, 2021 and has discussed with the external auditor, PricewaterhouseCoopers, who has reviewed the interim financial statements in accordance with International Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the International Auditing and Assurance Standards Board. 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

- (a) On July 2, 2021, the Company and Qianhai iDream with Value Convergence Holdings Limited (00821.HK, “**Value Convergence**”) and a subsidiary of Value Convergence (collectively, the “**VC Group**”) entered into the Sale and Purchase Agreement, pursuant to which, Qianhai iDream agreed to sell the Dolphin Software, Rainbow Software and Nvwa Software (collectively, the “**Relevant Software**”) to the VC Group, at the first consideration of RMB45,000,000. The Company agreed to sell 100% and 60%, respectively, of the equity interest in Dream Impression Holdings Limited and Shenzhen Zero One Zhi He Technology Co., Ltd.(collectively, the “**Target Company**”) to the VC Group, at the second consideration of RMB28,000,000. The total consideration of RMB73,000,000 (equivalent to approximately HK\$87,320,574) will be settled by the allotment and issue of the 425,954,020 consideration shares by the Value Convergence to the Company at the issue price of HK\$0.205 per consideration share on the completion date. Upon the completion, the Company will hold approximately 19.98% of the issued share capital of the Value Convergence. Up to the date of this announcement, the transactions have not been completed.
- (b) On July 16, 2021, at the opinion of the holder, the 2023 Convertible Bonds were fully converted to 49,677,825 fully paid ordinary shares of the Company at a conversion price of HK\$4.69 per share. Accordingly, the fair value of the 2023 Convertible Bonds as at the Conversion Date was transferred to share capital and share premium.

PUBLICATION OF INTERIM RESULTS AND 2021 INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.idreamsky.com>). The interim report of the Company for the six months ended June 30, 2021 containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the above websites in due course.

DEFINITIONS

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

“ARPG”	action role playing game
“ARPPU” or “average revenue per paying user”	the average amount of game revenue that the Group generates from each paying user for a particular period refers to the monthly average game revenue for the period divided by the monthly 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
“CG Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
“Company” or “our Company” or “iDreamSky”	iDreamSky Technology Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange under stock code 01119
“CP”	the content provider
“Director(s)”	the director(s) of the Company
“Euro” or “EUR”	Euro, the lawful currency of the member states of the European Union
“FPS”	first-person shooting game
“Group” or “our Group” or “we” or “us”	the Company, its subsidiaries and its PRC consolidated affiliated entities from time to time
“GTV”	gross transaction value
“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
“IAS”	International Accounting Standards
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“match-three puzzle game(s)”	games in which users have to put three identical elements in a row or line to eliminate them
“MAU(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”	massive multiplayer online role-playing game

“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
“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
“RTS game”	real-time strategy game
“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
“U.S. dollars” or “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 of the Board

Shenzhen, the PRC, August 30, 2021

As at the date of this announcement, the Board 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.