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iDreamSky Technology Holdings Limited

创梦天地科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1119)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

The Board is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2021. 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,			
	2018	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	2,364,641	2,792,970	3,212,118	2,637,637
Gross profit	1,038,823	1,225,738	1,335,764	1,103,341
Profit/(loss) before income tax	297,047	390,585	(574,478)	(181,180)
Profit/(loss) for the year	267,833	360,397	(564,996)	(155,930)
Adjusted profit for the year*	443,640	553,211	162,253	42,201

* 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, interest expense on convertible bonds, 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.

OVERVIEW

The COVID-19 pandemic has lasted for more than two years. The spread of the virus has brought great challenges to our work and life, as well as a series of impacts on our business operations. Amid the uncertainties in the external environment, iDreamSky remained true to its original aspiration, faced difficulties, united with all employees, and worked together with external partners to continue to implement our strategies and achieved gratifying progress. We have reasons to believe that the haze will end and the future will certainly be promising.

Looking back on the development history of iDreamSky, we took advantage of the opportunities in the mobile Internet industry and continued to iterate our strategies in line with the changes in the industry. After continuous review, forward-looking thinking and strategic adjustment since 2018, we have strengthened our future positioning and development focus, and our business has become more focused.

Based on our judgment on the development trend of the industry, as well as the core capabilities and resources accumulated by iDreamSky in the game industry over the years, we have sorted out and established the strategic positioning of the Company, namely “technology-enabled IP operators”. We have integrated a series of core capabilities including digital capabilities into the whole process of IP industry chain operation, which fully support IP and derivatives cultivation, derivatives development and selection, supply chain management, channel operation and sales, targeted customer acquisition, user operation and other links. We have built a bridge between IP creators and users through full life cycle of digital tools, establishing a prosperous and user-centric IP industry chain.

We have expanded from a single online virtual scenario to an offline QQfamily experience retail store, building a more diversified scenario through the combination of online virtual and offline physical stores. In terms of game business, in 2021, we continued to optimize the structure of existing products, increase self-development, and added new joint-development with major shareholders. Some of the self-developed products were officially launched and started to stand out, and the joint development project was smoothly advanced. In terms of other IP operation business, in 2021, we achieved remarkable results in terms of external IP resources acquisition, joint development, supply chain resources integration, offline store implementation, organizational talent construction, etc. The Company continued to deepen the strategic cooperation with important shareholders in terms of resources and ecology, and also continued to explore third-party resources, which facilitated the gradual enrichment and diversification of our IP operation ecosystem.

In 2021, a number of well-known series images of IP licenses such as QQ and PUPU ALIENS were signed, cooperation agreements were signed with QQ Toys Expo (“QTX”), QTX Preview was successfully held, the supply chain of designer products was preliminarily established, self-developed Qmenghu (Q猛虎) and other series of Garage Kits were successfully launched to the market, and QQfamily flagship store and regular stores were successfully opened and operated well.

In the coming year, we will continue to enrich our IP product matrix, enhance cooperation with leading IPs, accelerate the layout of products and stores, improve internal operation efficiency, and continue to build a world-leading technology-enabled IP operator.

Results

In 2021, the Company’s total R&D expenses amounted to RMB325.2 million, and the R&D expense ratio increased from 10.1% in 2020 to 12.3% in 2021. The main reason is that the Company focuses on the strategic positioning of building a technology-enabled IP operator and continues to increase investment in research and development, which is reflected in two aspects: (1) the Company enhances its game development capabilities and is committed to improving and perfecting a new tool for user platform management; and (2) the Company strengthens the research and development of experiential retail business, such as self-developing online mini programs and data analysis backstage system. Although the above investment will bring certain pressure on our financial performance in the short term, the Company has seized new development opportunities amid changes. We believe that the continuous investment in research and development will provide an inexhaustible impetus for the sustainable development of the Company. The current resource investment will lead to significant benefits of our business in the future.

The Group continued to adjust and optimize the inventory of the game business segment. In 2021, we gradually terminated products that were no longer in line with the Group’s game business strategy. Therefore, the total revenue for the year decreased by 17.9% year on year. In 2021, we continued to expand our store network and optimize the business model of our offline stores. Our experiential retail business achieved remarkable results, with the revenue of experiential retail business increasing by 463.1% as compared to the previous year. The Group’s net loss for the year ended December 31, 2021 was RMB155.9 million, compared to a net loss of RMB565.0 million for the year ended December 31, 2020, representing a year-on-year decrease of 72.4%. The Group’s adjusted net profit for the year ended December 31, 2021 was RMB42.2 million, as compared to the adjusted net profit of RMB162.3 million for the year ended December 31, 2020.

In addition, our average MAUs decreased from 138.0 million in 2020 to 128.0 million in 2021, primarily because the Group gradually terminated products that were no longer in line with the Group’s game business strategy. We are able to monetize these users through a combination of in-app purchase, advertising and subscription based revenue models. Our average MPUs decreased from 5.9 million in 2020 to 5.5 million in 2021, and our ARPPU decreased from RMB38.0 in 2020 to RMB34.2 in 2021.

Business Review

Gaming business

The Company continued to adjust and optimize the existing products in gaming business segment in 2021, focusing on the independent research and development and operation of match-three puzzle games and competitive games, developing the RPG category through deep cooperation under the model of “Investment + Customization”, seeking for overseas exquisite games which are suitable for importing into China, and gradually terminating the products which do not fit into the gaming business strategies of the Company. The self-developed games were integrated with animation and trendy products since the initialization of R&D, with an aim to create high-quality IPs in an all-round way and achieve multi-dimensional commercial realization.

– *Match-three puzzle game product line*

The Gardenscapes (夢幻花園) and Homescapes (夢幻家園) series generation II match-three puzzle games released by iDreamSky achieved outstanding performance, maintaining bucking rise in total domestic income in 2021, because we maintained the long life cycle and activity of the game through effective operational activities and secondary development. 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 in April 2021.

– *RPG product line*

Glory All Star (榮耀全明星), the Company’s self-developed ARPG mobile game, which is a horizontal version of fighting game product, has performed far better than expectation since it was launched at two terminals of Android and iOS at the end of August 2021. It has had millions of registered users and hundreds of thousands of daily active users. Being loved by players, this product was promoted successfully during the Spring Festival with the endorsement of the super star “Jay Chou”, making great achievement in terms of monthly revenue.

– *Competitive game product line*

- Super Animal Royale (小動物之星), 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, gaining a good reputation among players. We signed an Exclusive Agency Agreement with Tencent on August 27, 2021 for our self-developed nijigen game CALABIYAU (卡拉比丘), authorizing Tencent to publish the mobile and PC versions of the game in Mainland China (excluding Hong Kong, Macao and Taiwan). We started a national league for Art of War III (全球行動), the first self-developed RTS game of the Company, in 2021. By far, we have successfully held six tournaments in Wuhan, Xi'an, Shanghai, Chengdu, Changsha and Shenzhen and received good response from players. A synergy was achieved between Shenzhen final tournament and QQfamily offline stores.
- We also cooperate with external partners in e-sports competitions to provide players with better product experience, so as to increase the activity of competitive games and extend the product life cycle.

QQfamily — New Consumption Experience to Generation Z

Thanks to the new business model of experience retail, high-quality content and IP, and the support of Shareholders and partners, our experiential retail business has developed an obvious brand premium capacity and become the latest consumption type that the shopping mall urgently needs to drive the circulation of passenger flow and the growth of staying time. That has brought us rent bargaining power and resource acquisition advantages.

In March 2021, the Company obtained a license of QQfamily IP. On July 24, 2021, the first QQfamily flagship store in China was grandly opened on Shenzhen Happy Coast. In October 2021, the QQfamily Shenzhen Happy Coast Flagship Store hosted the Shenzhen Cultural Expo's sub-venue on the Happy Coast. The model of QQfamily flagship store is the combination of its original model which consists of console experience, with sales of trendy products of various IP themes, which is designed to further enrich the business model of offline store and build the second growth curve of iDreamSky. As of the date of this announcement, the total number of the Company's offline regular chain stores has increased to 18, and the Company has reserved 12 stores (of which 9 stores are being renovated). Despite the disruption of offline social activities due to the pandemic, the new QQfamily experience retail store performed well. The daily customer flow of the Happy Coast flagship store climbed from 6,000 at the beginning of its opening to 14,000 at the peak, ranking the top in terms of customer flow in the business district where the store is located. As the pandemic eases and the product matrix is further enriched, the financial performance of our offline stores will become more prominent.

In October 2021, we entered into a cooperation agreement for the QTX with Tencent. In November 2021, we successfully held the QTX Preview. We entered into an agreement on licensing of designer toys of QQ Series Images with Tencent. In January 2022, we entered into an agreement on licensing of PUPU ALIENS Images with Tencent. In January 2022, we entered into a tripartite cooperation contract with Dentsu TEC (Shanghai) Culture Communication Co., Ltd. (電通太科(上海)文化傳播有限公司) and Shanghai Feichang Kusuo Culture Technology Co., Ltd. (上海非常酷索文化科技有限公司) in relation to the Panda Imagination Family (Japanese Name: Panda's Ana). In March 2022, we signed an equity subscription agreement and a procurement and distribution agreement with Mighty Jaxx, a future cultural company in Singapore. The above strategic cooperation will help iDreamSky to enrich its high-quality IP reserves and promote the development of trendy product business.

Business Outlook

Game Business

– Match-three puzzle game product line

Looking forward to 2022, we have signed a distribution agreement in relation to the iOS versions of the flagship products of the match-three puzzle track game, i.e. Gardenscapes and Homescapes, which we believe will bring superior experience to iOS users with Chinese characteristics. At the same time, we have also deployed the self-developed synthetic match-three puzzle products such as National Customs Synthesis (國風合成) and Dumpling Synthesis (團子合成) (tentative names), which have brand-new paintings and gameplay and are favored by young users. They are expected to start testing in 2022 and launch in due course. Witch Diaries, our self-developed generation II match-three puzzle game, is expected to be launched worldwide in 2022.

– RPG product line

- Glory All Star successfully verified the players' hobbies of the horizontal version of fighting mobile game product in China. The Company will continue to increase investment in this category, and expects to complete the research and development of the overseas version of Glory All Star in 2022 and launch it globally.

- Black Desert (黑色沙漠), a MMORPG mobile game jointly run by Tencent and us, has obtained the publication number on June 28, 2021 and will be launched in the near future. In January 2022, we entered into a joint development/operation agreement with Tencent for a new MMORPG game in China, which is expected to be launched in Q4 of 2022. We are highly focused on our self-developed selection, and we will continue to strengthen the business cooperation model jointly developed/operated with Tencent.

– *Competitive game product line*

CALABIYAU, our self-developed nijigen competition game, will be officially launched globally in due course; Eternal Return (永恆輪迴) (PC version), our jointly developed competitive game, is expected to undergo national service testing in April 2022.

QQfamily — New Consumption Experience to Generation Z

In 2022, the Company will continue to deploy QQfamily offline stores, and Tencent Video Great Moment Experience Store will also be optimized and adjusted in due course to become the business model of QQfamily “Experience + Retail”. We expect to open up 40 to 50 QQfamily regular chain stores in the coming year, strengthening the coverage of core business districts in the Greater Bay Area, and expanding into Central China, Southwest China, Yangtze River Delta and other regions. We have reserved 12 stores, of which 9 stores are under renovation. In addition, we will also launch online business at an appropriate time to create a closed-loop online and offline business.

We apply our digital capabilities accumulated over the years throughout IP industry chain operation, fully empowering early-stage IP cultivation, IP derivatives development and selection, supply chain management, offline store operation, channel sales, user operation and other links. We will also rely on the QTX to link up more abundant industrial chain resources, strive to cooperate with more well-known IP manufacturers around the world, enrich product lines, and continuously improve a gross profit margin through the in-depth extension and scale-up of the industrial chain.

Despite the offline social disruption caused by the pandemic, our new QQfamily experience retail store performed well. Taking the longest-established Happy Coast flagship store as an example, the daily customer flow of a single flagship store climbed from 6,000 at the beginning of its opening to 14,000 at the peak. From the opening at the end of July 2021 to the end of February 2022, the cumulative number of customer visits reached nearly 600,000, ranking the top in the business district where the store is located. In the future, we will continue to deepen the strategic cooperation with substantial shareholders in terms of resources and ecology, and continue to explore the integration of third-party resources, so as to promote the enrichment and diversification of our IP operation ecosystem. We aim to provide customers with more consumption options, improve the conversion rate of customer flow and increase the operating income.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended December 31,	
		2021	2020
		<i>RMB'000</i>	<i>RMB'000</i>
Revenues	4	2,637,637	3,212,118
Cost of revenues	5	<u>(1,534,296)</u>	<u>(1,876,354)</u>
Gross profit		1,103,341	1,335,764
Selling and marketing expenses	5	(509,687)	(339,580)
General and administrative expenses	5	(299,793)	(369,574)
Research and development expenses	5	(325,201)	(325,222)
Net impairment losses on financial assets and contract assets	5	(20,580)	(101,804)
Other income	6	53,296	24,005
Other losses, net	7	(14,449)	(610,481)
Fair value losses on financial assets at fair value through profit or loss		<u>(3,511)</u>	<u>(14,998)</u>
Operating loss		(16,584)	(401,890)
Finance income		64,383	6,691
Finance costs		<u>(134,416)</u>	<u>(147,430)</u>
Finance costs, net		(70,033)	(140,739)
Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss		(85,662)	(20,879)
Share of results of investments accounted for using the equity method		<u>(8,901)</u>	<u>(10,970)</u>
Loss before income tax		(181,180)	(574,478)
Income tax credit	8	<u>25,250</u>	<u>9,482</u>
Loss for the year		<u><u>(155,930)</u></u>	<u><u>(564,996)</u></u>

		Year ended December 31,	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
Other comprehensive loss			
Items that will not be reclassified to profit or loss			
— Currency translation differences		(93,486)	(79,123)
Items that may be reclassified to profit or loss			
— Currency translation differences		<u>81,992</u>	<u>67,911</u>
Total comprehensive loss for the year		<u>(167,424)</u>	<u>(576,208)</u>
Loss for the year attributable to:			
— Equity holders of the Company		(157,478)	(441,570)
— Non-controlling interests		<u>1,548</u>	<u>(123,426)</u>
		<u>(155,930)</u>	<u>(564,996)</u>
Total comprehensive loss attributable to:			
— Equity holders of the Company		(168,972)	(452,782)
— Non-controlling interests		<u>1,548</u>	<u>(123,426)</u>
		<u>(167,424)</u>	<u>(576,208)</u>
Losses per share			
— Basic losses per share (<i>in RMB</i>)	9	<u>(0.13)</u>	<u>(0.36)</u>
— Diluted losses per share (<i>in RMB</i>)	9	<u>(0.13)</u>	<u>(0.36)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As of December 31,	
		2021	2020
		RMB'000	RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		62,249	29,880
Intangible assets		1,694,129	1,823,150
Investment properties		31,860	33,074
Right-of-use assets		156,383	106,015
Investments accounted for using the equity method		372,185	367,574
Financial assets at fair value through profit or loss		457,507	374,769
Prepayments and other receivables	<i>11</i>	31,152	118,662
Goodwill		73,222	73,222
Contract assets		159	1,192
Deferred tax assets		125,572	78,571
		3,004,418	3,006,109
Current assets			
Inventories		11,331	—
Trade receivables	<i>10</i>	781,346	1,149,331
Amounts due from related parties		5,382	1,657
Prepayments and other receivables	<i>11</i>	1,917,866	1,506,821
Contract assets		295	980
Contract costs		91,296	194,462
Financial assets at fair value through profit or loss		73,959	105,872
Restricted cash		10,246	52,042
Cash and cash equivalents		714,801	735,567
		3,606,522	3,746,732
Total assets		6,610,940	6,752,841

		As of December 31,	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital, share premium and treasury shares		3,166,013	2,533,966
Reserves		744,982	731,683
Retained earnings		24,055	182,622
		<hr/>	<hr/>
Non-controlling interests		3,935,050	3,448,271
		274,192	267,570
		<hr/>	<hr/>
Total equity		4,209,242	3,715,841
		<hr/> <hr/>	<hr/> <hr/>
LIABILITIES			
Non-current liabilities			
Borrowings	<i>12</i>	450,719	—
Lease liabilities		59,945	15,782
Convertible bonds classified as financial liabilities at fair value through profit or loss		—	206,308
Convertible bonds		401,461	367,874
Deferred government grants		—	1,847
		<hr/>	<hr/>
		912,125	591,811
		<hr/>	<hr/>
Current liabilities			
Borrowings	<i>12</i>	899,711	1,553,659
Lease liabilities		19,881	11,250
Trade payables	<i>13</i>	112,500	227,341
Amounts due to a related party		—	14,734
Other payables and accruals	<i>14</i>	166,531	281,447
Current income tax liabilities		40,310	30,523
Deferred government grants		467	4,483
Contract liabilities		250,173	321,752
		<hr/>	<hr/>
		1,489,573	2,445,189
		<hr/>	<hr/>
Total liabilities		2,401,698	3,037,000
		<hr/>	<hr/>
Total equity and liabilities		6,610,940	6,752,841
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

iDreamSky Technology Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on January 3, 2018 as an exempted company with limited liability. The address of the Company’s registered office is P.O. Box 309, 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 game console experience and retails, as well as sales of trendy products in the People’s Republic of China (the “**PRC**” or “**China**”).

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

This consolidated financial statements for the year ended December 31, 2021 are presented in Renminbi (“**RMB**”).

2. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”) and requirements 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 assets at fair value through profit or loss and convertible bonds classified as financial liabilities 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 year beginning on January 1, 2021. 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*

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for December 31, 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		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, 2024
Amendments to IAS 1, and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
IFRS 17	Insurance contract	January 1, 2023
Amendments to IFRS 17, IFRS 4 and IAS 16	Extension of the Temporary Exemption from Applying IFRS 9 and Property, Plant and Equipment	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3. Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the Chief Operating Decision Maker ("CODM"). The Group's CODM has been identified as the Chief Executive Officer ("CEO"), who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. During the year ended December 31, 2021, after considering Group's plan to dispose certain subsidiaries in software as a service ("SaaS") and other related services segment and develop the experiential retail business, the segment of "SaaS and other related services" is no longer reviewed by the CODM and the segment of experiential retail business is reviewed by the CODM. As a result of this evaluation, the CEO of the Group considered that the Group's operations are operated and managed on below 2 reportable segments and comparative segment information has been restated to align with the presentation of the current period's segment information disclosure.

Game and information services

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

Experiential retail business

The segment of experiential retail business primarily offers gaming console experiencing and retails, game and cultural IP-themed sales of trendy products.

The CODM assesses the performance of the operating segments mainly based on segment revenues, cost of revenues, gross profit and segment results. The segment results are calculated as segment gross profit minus operating expenses (including selling and marketing expenses, general and administrative expenses 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, 2021 and 2020 is as follows:

	Year ended December 31, 2021		
	Game and information services RMB'000	Experiential retail business RMB'000	Total RMB'000
Revenues	2,601,076	36,561	2,637,637
Cost of revenues	(1,512,157)	(22,139)	(1,534,296)
Gross profit	1,088,919	14,422	1,103,341
Gross margin	41.86%	39.45%	41.83%
Segment results	145,276	(32,223)	113,053
<i>Reconciliation:</i>			
Unallocated operating expenses			(144,393)
Net impairment losses on financial assets and contract assets			(20,580)
Other income			53,296
Other losses, net			(14,449)
Fair value losses on financial assets at fair value through profit or loss			(3,511)
Finance income			64,383
Finance costs			(134,416)
Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss			(85,662)
Share of results of investments accounted for using the equity method			(8,901)
Loss before income tax			<u>(181,180)</u>

	Year ended December 31, 2020		
	Game and information services <i>RMB'000</i>	Experiential retail business <i>RMB'000</i>	Total <i>RMB'000</i>
Revenues	3,205,632	6,486	3,212,118
Cost of revenues	<u>(1,873,952)</u>	<u>(2,402)</u>	<u>(1,876,354)</u>
Gross profit	<u>1,331,680</u>	<u>4,084</u>	<u>1,335,764</u>
Gross margin	41.54%	62.97%	41.59%
Segment results	<u>494,761</u>	<u>(18,758)</u>	<u>476,003</u>
<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			<u>(10,970)</u>
Loss before income tax			<u><u>(574,478)</u></u>

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

4. Revenues

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Game and information services revenues		
Game revenue	2,297,930	2,805,562
Information service revenue (a)	290,426	385,680
Others	12,720	14,390
Experiential retail revenues	36,561	6,486
	<u>2,637,637</u>	<u>3,212,118</u>

- (a) As disclosed in Note 3, during the year ended December 31, 2021, the CEO no longer reviewed the result of the segment of SaaS and other related services. As a result, the management of the Company classified the SaaS and other related services revenues as information service revenue in 2021 and changed the comparative amounts to conform with the current year presentation.

The timing of revenues recognition by category is as follows:

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
At a point in time	811,868	1,070,482
Over time	1,825,769	2,141,636
	<u>2,637,637</u>	<u>3,212,118</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,	
	2021	2020
	RMB'000	RMB'000
Channel costs	966,559	1,278,021
Promotion and advertising expenses	477,141	312,837
Employee benefit expenses	326,798	347,636
Revenue share to content providers	298,100	323,263
Amortization of intangible assets	207,247	217,947
Technical and development services fee in relation to game development and others	123,567	135,097
Impairment provisions for prepayments	57,492	70,102
Impairment provisions for intangible assets	49,673	69,843
Cloud computing, bandwidth and server custody fees	31,172	29,168
Professional service fees	29,576	43,793
Impairment provisions for financial assets and contract assets	20,580	101,804
Cost of goods	20,445	1,587
Travelling and entertainment expenses	18,103	13,782
Depreciation of right-of-use assets	17,798	21,067
Depreciation of property, plant and equipment	7,076	11,105
Short-term rental and utilities expenses	6,956	3,078
Auditor's remuneration		
— Audit services	5,600	6,080
— Non-audit services	296	2,956
Other tax expenses	4,943	4,917
Depreciation of investment properties	1,214	773
Others	19,221	17,678
	<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>2,689,557</u>	<u>3,012,534</u>

6. Other income

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Government grants	38,013	13,820
Additional deduction of value-added tax	13,913	9,916
Rental income	1,361	247
Interest income from wealth management products	9	22
	<u>53,296</u>	<u>24,005</u>

7. Other losses, net

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Goodwill impairment	—	493,680
Impairment of investments in associates	20,719	91,897
(Gains)/losses on disposal of financial assets at fair value through profit or loss	(1,608)	20,933
Net losses on disposal of intangible assets	1,887	2,358
Net losses on disposal of property, plant and equipment	4,835	488
Gains on disposal of investments in associates	(6,526)	(138)
Gains on disposal of a subsidiary	(2,828)	—
Gains on disposals of right-of-use assets	(1,916)	—
Donation	2,396	1,070
Others	(2,510)	193
Other losses, net	<u>14,449</u>	<u>610,481</u>

8. Income tax credit

The income tax credit of the Group for the years ended December 31, 2021 and 2020 is analyzed as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Current income tax	21,751	17,606
Deferred income tax	<u>(47,001)</u>	<u>(27,088)</u>
Income tax credit	<u>(25,250)</u>	<u>(9,482)</u>

9. Losses per share and dividends

(a) Losses per share

(i) Basic

	Year ended December 31,	
	2021	2020
Loss attributable to equity holders of the Company (RMB'000)	(157,478)	(441,570)
Weighted average number of shares in issue (thousands)	<u>1,259,699</u>	<u>1,223,066</u>
Basic losses per share (RMB)	<u>(0.13)</u>	<u>(0.36)</u>

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

As the Group incurred loss for the year ended December 31, 2021 and 2020, the impact of employee incentive plan and convertible bonds was not included in the calculation of the diluted losses per share as their inclusion would be anti-dilutive. Accordingly, diluted losses per share for the year ended December 31, 2021 and 2020 are the same as basic losses per share.

(b) *Dividends*

The Board has resolved that no dividend shall be declared for the year ended December 31, 2021 (2020: Nil).

10. Trade receivables

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Third parties	852,231	1,193,377
Related parties	16,202	53,923
	<hr/>	<hr/>
	868,433	1,247,300
Less: provision for impairment	(87,087)	(97,969)
	<hr/>	<hr/>
	781,346	1,149,331
	<hr/> <hr/>	<hr/> <hr/>

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

	As of December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	202,698	461,593
3 months to 1 year	391,224	542,880
1 to 2 years	254,215	222,792
2 to 3 years	18,184	12,559
Over 3 years	2,112	7,476
	<u>868,433</u>	<u>1,247,300</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,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	97,969	57,194
Provision for impairment	5,788	99,885
Receivables written off during the year as uncollectible	(16,670)	(59,110)
At the end of the year	<u>87,087</u>	<u>97,969</u>

The 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,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	803,990	1,080,171
USD	64,443	167,129
	<u>868,433</u>	<u>1,247,300</u>

- (d) As of December 31, 2021 and 2020, the fair values of trade receivables approximate their carrying amounts. The maximum exposure to credit risk at each of the reporting date is the carrying value of the net receivable balance.
- (e) As of December 31, 2021 and 2020, trade receivables of RMB12,449,000 and RMB257,102,000 respectively were pledged to secure certain bank facilities granted to the Group.

11. Prepayments and other receivables

	As of December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Included in non-current assets		
Non-current portion of loans to third parties <i>(d)</i>	27,127	117,575
Non-current portion of loans to employees <i>(a)</i>	1,157	2,687
Prepayment for intangible assets	3,254	—
Less: provision for impairment <i>(e)</i>	(386)	(1,600)
	<u>31,152</u>	<u>118,662</u>
Included in current assets		
Prepaid revenue sharing to content providers <i>(c)</i>	1,083,335	1,119,504
Prepaid advertising expenses <i>(b)</i>	488,522	129,595
Current portion of loans to third parties <i>(d)</i>	205,362	156,488
Prepayment to related parties	41,620	11,518
Recoverable value-added tax	37,186	41,035
Rental and other deposits	8,206	6,995
Current portion of loans to employees <i>(a)</i>	5,292	5,562
Others	68,613	50,937
Less: provision for impairment <i>(e)</i>	(20,270)	(14,813)
	<u>1,917,866</u>	<u>1,506,821</u>

As of December 31, 2021 and 2020, there were no significant balances that were past due.

- (a) Loans to employees mainly represent advances to employees for various expenses to be incurred in the ordinary course of business and housing loans to certain employees. These loans are unsecured, interest-free and to be repaid in 1 to 5 years from the grant dates.

- (b) The Group engaged various online advertising suppliers and made prepayments in exchange for better advertising opportunities and resources in some arrangements. Such amounts are recognized as “selling and marketing expenses” when the advertising services are rendered.
- (c) The prepaid revenue sharing to game developers is for the services to be rendered by game developers when the Group operates the third party developed games for certain period of time in certain countries. Such amounts are recognized as “cost of revenues” when relevant revenue is recognized.
- (d) Loans to third parties represent the loans provided to a number of third parties, which were unsecured, interest-free except a loan that was interest-bearing fixed 4.35% per annum. In the opinion of the directors, except for an interest-bearing loan amounting to RMB90,000,000, none of the loans to any single third parties is material to the Group during the year ended December 31, 2021 and 2020.
- (e) The provision for impairment comprises the impairment for prepayments and other receivables.

12. Borrowings

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Included in non-current liabilities		
Secured bank borrowings	<u>450,719</u>	<u>—</u>
	<u>450,719</u>	<u>—</u>
Included in current liabilities		
Secured long-term bank borrowings reclassified to current bank borrowings	—	935,865
Secured bank borrowings	447,500	421,700
Current portion of long-term bank borrowings, secured	432,211	152,068
Secured other borrowings	—	44,026
Unsecured other borrowings	<u>20,000</u>	<u>—</u>
	<u>899,711</u>	<u>1,553,659</u>
	<u>1,350,430</u>	<u>1,553,659</u>

13. Trade payables

	As of December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Third parties	90,659	215,267
Related parties	21,841	12,074
	<u>112,500</u>	<u>227,341</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,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	45,047	109,436
3 months to 1 year	48,165	107,788
1 to 2 years	13,815	998
2 to 5 years	5,473	9,119
	<u>112,500</u>	<u>227,341</u>

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

	As of December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	100,487	220,550
USD	12,013	6,791
	<u>112,500</u>	<u>227,341</u>

- (c) As of December 31, 2021 and 2020, the fair value of trade payables approximated to their carrying amount.

14. Other payables and accruals

	As of December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Other payables due to related parties	65,127	146,010
Payroll and welfare payables	55,783	47,308
Other tax payables	25,534	30,667
Underwriting fee and upfront fee payable	—	18,458
Professional service fee payable	5,600	4,800
Advance from businesses partners	2,071	2,154
Interest Payable	155	327
Others	12,261	31,723
	<u>166,531</u>	<u>281,447</u>

As of December 31, 2021 and 2020, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

In 2021, the Group disclosed two reportable segments that are game and information services and experiential retail. For further details of the segment information, please refer to note 3 to the consolidated financial statements.

Revenue decreased by 17.9% to approximately RMB2,637.6 million for the year ended December 31, 2021 on a year-on-year basis (2020: RMB3,212.1 million). Revenue from game and information services and experiential retail represented 98.6% and 1.4% of the Group's total revenue for the year ended December 31, 2021 (2020: 99.8% and 0.2%).

Revenue from game and information services

The following table sets forth our revenue from game and information services for the years ended December 31, 2021 and 2020:

	For the year ended December 31,			
	2021		2020	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Game revenue	2,297,930	88.3	2,805,562	87.5
Information service revenue	290,426	11.2	385,680	12.1
Other revenue	12,720	0.5	14,390	0.4
	<u>2,601,076</u>	<u>100</u>	<u>3,205,632</u>	<u>100</u>

- **Game revenue.** Game revenue, which accounts for the largest portion of revenue from game and information services, contributed 88.3% and 87.5% of the total revenue from game and information services for the years ended December 31, 2021 and 2020. Game revenue decreased from RMB2,805.6 million for the year ended December 31, 2020 to RMB2,297.9 million for the year ended December 31, 2021. The decrease was primarily because the Company continued to adjust and optimize the existing products in gaming business segment, and gradually terminated the game content that no longer meets the Company's game business strategy in 2021.

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

	For the year ended December 31,	
	2021	2020
Average MAUs (<i>millions</i>)	128.0	138.0
Average MPUs (<i>millions</i>)	5.5	5.9
ARPPU (<i>RMB</i>)	34.2	38.0

Our key operating metrics included data from all games published and operated by us. During the year ended December 31, 2021, the mobile version of Cross Gate (魔力寶貝) and FIFPro World Players' Union (全民冠軍足球) and Art of War III were the three games published and operated by Tencent, instead of us.

- **MAUs.** Our average MAUs decreased from 138.0 million in 2020 to 128.0 million in 2021, primarily because the Group gradually terminated products that were no longer in line with the Group's game business strategy.
- **MPUs.** Our average MPUs decreased from 5.9 million in 2020 to 5.5 million in 2021, the reason of which was in line with the decrease of MAUs.
- **ARPPU.** Our ARPPU decreased from RMB38.0 in 2020 to RMB34.2 in 2021, primarily due to the lower proportion of revenue from RPGs, of which the ARPPU was higher.
- **Information service revenue.** Our information service revenue is primarily derived from our advertising services. Information service revenue decreased from RMB385.7 million for the year ended December 31, 2020 to RMB290.4 million for the year ended December 31, 2021. The decrease was primarily due to a significant increase in advertising revenue as a result of increased online advertising placements during the COVID-19 in 2020. In the current year, our online advertising placements have fallen back to normal level, resulting in a decrease in advertising revenue compared to the previous year.

Revenue from experiential retail

Revenue from the Group's experiential retail business is mainly derived from game console experience and retails, as well as sales of trendy products. Due to the Group's strategic deployment and the continuous cultivation of the experiential retail business segment, the Group's revenue from experiential retail business amounted to RMB36.6 million for the year ended December 31, 2021 (2020: RMB6.5 million), representing a year-on-year increase of 463.1%.

Cost of revenues

The Group recorded a total cost of revenues of RMB1,534.3 million for the year ended December 31, 2021, with a year-on-year decrease of 18.2% (2020: RMB1,876.4 million). The decrease was primarily due to less channel costs and revenue sharing to content providers in line with the decrease of our revenues.

As a percentage of revenues, our cost of revenues decreased from 58.4% for the year ended December 31, 2020 to 58.2% for the year ended December 31, 2021. The decline was primarily due to the gradual increase in the proportion of the Company's self-developed games, which have a high gross margin.

Selling and marketing expenses

Our selling and marketing expenses increased by 50.1% from RMB339.6 million for the year ended December 31, 2020 to RMB509.7 million for the year ended December 31, 2021. As a percentage of revenues, our selling and marketing expenses increased from 10.6% for the year ended December 31, 2020 to 19.3% for the year ended December 31, 2021. The Company continued increasing its traffic and advertising due to the launch of new games such as Super Animal Royale launched in May 2021, and Glory All Star launched on both Android and iOS in August 2021. In particular, the Company keeps promoting Glory All Star primarily through buying traffic, and it takes a period of time to get the value return therefrom. Therefore, the growth rate of selling and marketing expenses will be higher than that of the revenue for a certain period, which will have a phased impact on the selling and marketing expenses ratio during the Reporting Period.

General and administrative expenses

Our general and administrative expenses decreased by 18.9% from RMB369.6 million for the year ended December 31, 2020 to RMB299.8 million for the year ended December 31, 2021. As a percentage of revenue, our general and administrative expenses decreased from 11.5% for the year ended December 31, 2020 to 11.4% for the year ended December 31, 2021, keeping basically stable for these two years.

Research and development expenses

Our research and development expenses were RMB325.2 million for the year ended December 31, 2021, maintaining the same level as the previous year. As a percentage of revenue, our research and development expenses increased from 10.1% for the year ended December 31, 2020 to 12.3% for the year ended December 31, 2021. This increase was primarily due to our continuous investment in enhancing our game development capabilities and the Group's efforts in improving and perfecting a new tool for user platform management. On the other hand, the Group has increased investment in research and development of our experiential retail business, such as the development of online applets and data analysis backstage system.

Net impairment losses on financial assets and contract assets

Our net impairment losses on financial assets and contract assets decreased by 79.8% from RMB101.8 million for the year ended December 31, 2020 to RMB20.6 million for the year ended December 31, 2021. The decrease was primarily due to the Company's increased efforts to collect accounts receivable in 2021, resulting in a significant decrease in the balance of accounts receivable and correspondingly in the amount of impairment provision against the accounts receivable.

Other losses, net

Our other losses, net decreased significantly to RMB14.4 million for the year ended December 31, 2021, compared with other losses, net of RMB610.5 million for the year ended December 31, 2020. The sharp decrease of other losses, net for the year ended December 31, 2021 primarily derived from impairment provision of goodwill of RMB493.7 million arising from our acquisition of Tianjin Huohun (as “**Shanghai Huohun**” in the 2020 Annual Report) in 2020, while there was no such impairment charge in 2021.

Finance costs, net

Our finance costs, net decreased from RMB140.7 million for the year ended December 31, 2020 to RMB70.0 million for the year ended December 31, 2021, which was mainly attributable to: (1) the increase in our finance income of RMB57.7 million resulting from the recognition of a foreign exchange gain of RMB59.1 million in 2021, which was mainly due to the translation of our Euro-denominated bank borrowings whereas Euro against U.S. dollars depreciated during the year; and (2) the balance of our bank borrowings continued to decrease, and bank interest expenses decreased by RMB11.8 million accordingly.

Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss

We incurred fair value change losses from convertible bonds classified as financial liabilities at fair value through profit or loss of RMB85.7 million for the year ended December 31, 2021, compared with fair value change losses from convertible bonds classified as financial liabilities at fair value through profit or loss of RMB20.9 million for the year ended December 31, 2020, which was mainly attributable to that the USD30.0 million convertible bonds issued in January 2020 were fully converted into shares on July 16, 2021. The investor's conversion price was HKD4.69 per share. According to the valuation report issued by the valuer, the convertible bonds experienced a significant appraisal appreciation on the date of conversion, and the related appreciation amounting to RMB85.7 million was recorded as loss on fair value change in the consolidated statement of comprehensive income on the date of conversion.

Income tax credit

We recorded income tax credit of RMB25.3 million for the year ended December 31, 2021, compared with income tax credit of RMB9.5 million for the year ended December 31, 2020. The higher income tax credit in 2021 was primarily due to the increase in the balance of deferred income tax assets in 2021, which has generated a large amount of credits from deferred tax arising from the increase in the amount of the tax losses.

Loss/profit for the year

Our net loss for the year decreased by 72.4% from RMB565.0 million for the year ended December 31, 2020 to RMB155.9 million for the year ended December 31, 2021. Our adjusted profit for the year (as defined below) ended 31 December 2021 was RMB42.2 million, and our adjusted profit for the year ended December 31, 2020 was RMB162.3 million.

Other Financial Information

	For the year ended	
	December 31,	
	2021	2020
	RMB'000	RMB'000
Adjusted profit for the year ⁽¹⁾	42,201	162,253
EBITDA ⁽²⁾	186,585	(225,668)
Adjusted EBITDA ⁽³⁾	322,040	488,341

Notes:

- (1) Adjusted profit for the year was derived from our loss for the year excluding share-based compensation expenses, fair value gains or losses on financial assets, impairment provision of contract assets, impairment provision of investments in associates, fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss, interest expense on convertible bonds, impairment provision for goodwill resulting from a business combination and gain from the reversal of the unpaid consideration payables from a business combination, if any. The adjusted profit for the year of 2020 has been restated to be comparable to that disclosed in 2021.
- (2) EBITDA is net income or loss before interest expenses, income tax credit, depreciation and amortization.
- (3) Adjusted EBITDA is calculated using adjusted profit for the year, adding back depreciation of property, plant and equipment, investment properties and right-of-use assets, amortization of intangible assets, income tax credit and interest expenses.

Non-IFRS Financial Measure

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

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

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the years ended December 31, 2021 and 2020 to the nearest measures prepared in accordance with IFRS:

	For the year ended	
	December 31,	
	2021	2020
	RMB'000	RMB'000
Reconciliation of loss for the year to adjusted profit for the year:		
Loss for the year	(155,930)	(564,996)
Add: Fair value losses on financial assets at fair value through profit or loss	3,511	14,998
Add: Share-based compensation expenses	24,894	89,460
Add: Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss	85,662	20,879
Add: Impairment losses on contract assets	669	3,095
Add: Impairment provision of goodwill resulting from a business combination	—	493,680
Add: Impairment provision of investments in associates	20,719	91,897
Add: Interest expense on convertible bonds	62,676	13,240
	<hr/>	<hr/>
Adjusted profit for the year	<u>42,201</u>	<u>162,253</u>
Reconciliation of loss for the year to EBITDA and adjusted EBITDA:		
Loss for the year	(155,930)	(564,996)
Add: Depreciation of property, plant and equipment, investment properties and right-of-use assets	26,102	32,945
Add: Amortization of intangible assets	207,247	217,947
Add: Income tax credit	(25,250)	(9,482)
Add: Interest expense	134,416	97,918
	<hr/>	<hr/>
EBITDA	186,585	(225,668)
Add: Fair value losses on financial assets at fair value through profit or loss	3,511	14,998
Add: Share-based compensation expenses	24,894	89,460
Add: Fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss	85,662	20,879
Add: Impairment losses on contract assets	669	3,095
Add: Impairment provision of goodwill resulting from a business combination	—	493,680
Add: Impairment provision of investments in associates	20,719	91,897
	<hr/>	<hr/>
Adjusted EBITDA	<u>322,040</u>	<u>488,341</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, 2021, the Group's total cash and cash equivalents decreased by 2.8% to approximately RMB714.8 million from approximately RMB735.6 million as of December 31, 2020. Our cash and cash equivalents were primarily denominated in RMB, HKD and USD.

As of December 31, 2021, the Group's total borrowings amounted to approximately RMB1,350.4 million (2020: approximately RMB1,553.7 million). The nature of the Group's borrowings is summarised as follows:

	As at December 31	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank borrowings	1,330,430	1,509,633
Secured other borrowings	—	44,026
Unsecured bank borrowings	20,000	—
	<u>1,350,430</u>	<u>1,553,659</u>

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

	As at December 31	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	791,500	828,177
EUR	558,930	725,482
	<u>1,350,430</u>	<u>1,553,659</u>

As of December 31, 2021, the current assets of the Group amounted to approximately RMB3,606.5 million, and the current liabilities of the Group amounted to approximately RMB1,489.6 million. As of December 31, 2021, the current ratio (being the current assets to current liabilities ratio) of the Group was 2.42 as compared with 1.53 as at 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 December 31, 2021, the debt ratio of the Group was 36.3% as compared with 45.0% as of December 31, 2020. The Company's debt ratio has been decreasing and the capital structure continuing to be optimized.

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 a related party, 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, 2021 and 2020, the gearing ratio of the Group is 26.3% and 37.2% respectively.

Pledge of Assets

Among the total borrowings of the Group as of December 31, 2021, approximately RMB835.9 million (2020: approximately RMB987.9 million) were secured by the Group's land and buildings, certain trade receivables, certain game intellectual properties and deposits, which accounted for approximately 61.9% (2020: approximately 63.6%) of the Group's total borrowings.

Contingent Liabilities

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

Capital Expenditure

For the year ended December 31, 2021, our total capital expenditure was approximately RMB266.4 million, compared to approximately RMB765.5 million for the year ended December 31, 2020. Our capital expenditure primarily included expenditures for license fees paid to game developers, land use right, purchase of property, plant and equipment, and property renovation costs. We plan to fund our capital expenditures through a combination of operating cash flows, debt financing and equity financing. We may adjust our capital expenditure according to our future development plans or in light of market conditions and other factors that we consider appropriate.

Material Acquisitions and Disposals and Significant Investments

The Group did not have any material acquisitions and disposals and significant investments during the year ended December 31, 2021.

Foreign Exchange Risk Management

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

We did not hedge against any fluctuations in foreign exchange during the years ended December 31, 2021 and 2020.

Employee and Remuneration Policy

We had 1,113 and 737 full-time employees as of December 31, 2021 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 Proceeds

1. Proceeds from the Issuance of Convertible Bonds

On October 16, 2020, Dreambeyond Holdings Limited (a wholly-owned subsidiary of the Company) completed the issue of convertible bonds in an aggregate principal amount of HKD775.0 million with a maturity date on October 15, 2025 (the “**2025 Convertible Bonds**”), with net proceeds of approximately HKD758.0 million, equivalent to approximately RMB638.5 million based on the exchange rate of RMB0.8423 to HKD1.00 (the “**2025 CB Proceeds**”), for the Group's research and development of its own games and products and supplementing its capital for future strategic opportunities. For further details of the 2025 Convertible Bonds, please refer to the announcements of the Company dated October 7, 2020 and October 16, 2020.

For the year ended December 31, 2021, the Company has fully utilized the net proceeds from the 2025 Convertible Bond.

The following table sets out details of the actual amount utilized from 2025 CB Proceeds:

	Actual net amount utilized during the year ended December 31, 2020 RMB million	Unutilized amount as of December 31, 2020 RMB million	Actual net amount utilized during the year ended December 31, 2021 RMB million
Research and development of our own games and products	190.3	31.8	31.8
Supplementing for strategic opportunities	120.1	296.3	296.3
Total	310.4	328.1	328.1

2. *Proceeds from Placing of Shares*

On December 13, 2021, the Company completed the placing of 72,280,000 ordinary Shares (the “**Placing Shares**”) at the price of HK\$5.92 per share according to general mandate. The Placing Shares have been successfully placed by the placing agent to five independent third-party placees, being respectively Andy Xiong Holdings Limited, Keywise Capital Management (HK) Limited, Yong Rong Global Excellence Fund, EverFund, and Yong Rong Zhong Yong No. 1 PE Investment Fund. After the completion of placing, the Company obtained actual net proceeds of approximately HKD427.04 million, which was equivalent to approximately RMB349.23 million (the “**Proceeds from the Placing Shares**”) when translated based on the exchange rate of RMB0.8178 to HKD1.00. For details, please refer to the announcement dated December 13, 2021 of the Company.

As of December 31, 2021, the amount of Proceeds from the Placing Shares used for intended purpose was approximately RMB42.36 million. The unutilized amount as of December 31, 2021 was RMB306.87 million, which is expected to be used for the intended purpose in 2022. The table below sets out details of the utilized amount:

Purpose	Actual net amount utilized during the year ended December 31, 2021 <i>RMB million</i>	Unutilized amount as of December 31, 2021 <i>RMB million</i>
General working capital	16.86	15.14
R&D for expansion of our self-developed game portfolio ⁽¹⁾	25.50	184.50
Expansion of the offline stores of the Group ⁽²⁾	—	70.00
Other possible investments in the future ⁽³⁾	—	37.23
Total	<u>42.36</u>	<u>306.87</u>

Notes:

- (1) Currently, the self-developed games of the Company under development include match-three puzzle games, shooting and battle arena games and role-playing games, which are expected to be launched in 2022 and/or 2023, depending on the R&D progress.
- (2) The Company intends to use the amount for establishing and launching QQfamily offline stores in the CBDs in the first and second tiered cities in Mainland China.
- (3) The Company may pursue other possible investment opportunities in the future, including but not limited to establishing strategic alliances and partnership, and seek to invest in and acquire businesses that are synergistic and complementary to the Group’s ecosystem, including the business or assets that can enhance the Company’s game development capabilities and experiential retail business.

Updates on acquisition of Tianjin Huohun

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

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

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

The management believed that Tianjin Huohun was an independent cash generating unit (“**Tianjin Huohun CGU**”) and allocated goodwill to Tianjin Huohun CGU. The recoverable amount of Tianjin Huohun CGU was calculated based on the use value as at December 31, 2020 and December 31, 2021. Such calculations were based on the pre-tax cash flow assumptions in the five-year financial budget prepared by the management. The cash flow after the five-year period was estimated based on the following estimated terminal growth rate.

Pursuant to paragraph 10 of IAS36, “goodwill acquired in a business combination to be tested for impairment annually”, the management engaged an independent valuer, AVISTA to carry out impairment assessment on the goodwill. For the assessment on the recoverable amount of Tianjin Huohun CGU as of December 31, 2019 and 2020, the Group recorded an impairment loss of Tianjin Huohun goodwill of RMB422.33 million and RMB493.68 million for the years ended December 31, 2019 and 2020 respectively. For further details, please refer to the annual reports of the Company for 2019 and 2020.

The parameters used for the calculation of use value as at December 31, 2021 are as follows:

	As of December 31, 2021	2020
Average revenue growth rate during the forecast period	-6.85%	-5.34%
EBITDA margin	15.29-74.58%	41.30%-59.47%
Terminal growth rate	3.00%	3.00%
Pre-tax discount rate	<u>31.28%</u>	<u>30.15%</u>

The Group believed that the selection basis and criteria and key assumptions adopted by AVISTA were fair and reasonable.

When conducting the valuation, AVISTA primarily took into account the financial budget and forecast prepared by the management of Tianjin Huohun, with reference to (1) the average revenue growth rate of Tianjin Huohun from FY2022 to FY2026 ; (2) the EBITDA margin from FY2022 to FY2026 ; (3) the terminal growth rate ; and (4) the pre-tax discount rate. When assessing the fairness and reasonableness of this valuation methodology, the Group reviewed the internal control procedures adopted by the Company in formulating and reviewing the financial budgets and forecast prepared by Tianjin Huohun, which includes the following:

- (a) the product team of Tianjin Huohun (i) assessed and estimated certain key performance assumptions including MAU, paying ratio, ARPPU, and an expected revenue return based on the current performance and expected lifecycle of the games launched ; and (ii) carefully assessed the prospects of such games yet to be launched based on the available operating data of comparable games in the market ;
- (b) the finance team of the Company further assessed the accuracy and reasonableness of the financial budgets and forecast initially proposed by Tianjin Huohun, while the management of the Company reviewed and assessed the reasonableness of the assumptions and comparable data adopted and submitted the same to CEO of the Company for final review and approval.

Based on the estimation of the management on the recoverable amount of Tianjin Huohun CGU during the period, no further impairment loss on goodwill was required as of December 31, 2021.

Impairment from investment in associates

Guangzhou Tizi Internet Technology Co., Ltd. (“**Guangzhou Tizi**”) was incorporated in February 2014, mainly engaging in the research and development and operation of mobile games. The Group acquired 20% equity of Guangzhou Tizi with the investment of RMB6.00 million in October 2014. Because the Group may exercise significant influence over the operation and financial decisions of Guangzhou Tizi by appointing a director of Guangzhou Tizi, the investment was recorded as an investment in associate.

The Group made an additional investment of RMB8.00 million into Guangzhou Tizi in March 2016. Upon the completion of the additional investment, the Group held an aggregate of 30.67% equity interests in Guangzhou Tizi.

The Group has maintained regular communication with Guangzhou Tizi for its business development and financial performance since it became an associate of the Group. However, since May 2021, the Group became aware that Guangzhou Tizi was facing financial difficulties due to the following factors: (1) inability to generate enough cash flow from the existing games, most of which were at the end of their life cycle; and (2) inability to launch new games due to lack of licensed copyright.

In view of the above, the management has conducted an impairment assessment of the recoverable amount of the investment in Guangzhou Tizi based on the latest available information, and made an impairment provision of RMB12.34 million.

In addition, the management made an impairment provision of RMB8.38 million for the investment in Shanghai Shengxi Network Technology Co., Ltd. (上海盛戲網絡科技有限公司).

Dividend

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2021 (2020: Nil).

Compliance with the CG Code

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

Under code provision A.2.1 of the CG Code (reclassified as Code Provision C.2.1 of the CG Code with effect from January 1, 2022), the roles of chairman and chief executive officer should be separate and should be performed by different individuals.

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

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

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

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

Model Code for Securities Transactions

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

Purchase, Sale or Redemption of Listed Securities

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 in January and April 2021 respectively on the Stock Exchange were 700,000 shares and 901,200 shares (1,601,200 shares in aggregate) at a total consideration (before deduction of expenses) of HK\$6,140,717.64. These shares together with the 2,600,000 shares repurchased in December 2020, totaling 4,201,200 shares, have been cancelled on June 29, 2021.

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\$
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, the Group had not purchased, sold or redeemed any of the Company's listed securities for the year ended December 31, 2021.

Audit Committee

The Audit Committee, together with the Auditor, has reviewed the Group's audited consolidated financial statements for the year ended December 31, 2021. 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

On February 28, 2022, an aggregate of 32,854,730 subscription shares have been allotted and issued to three connected persons at the subscription price of HKD5.92 per subscription share pursuant to the terms and conditions of the subscription agreement dated November 28, 2021.

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, 2021 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:

“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 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 of the Company
“CG Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
“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
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“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

“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
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“MPU(s)” or “monthly paying user(s)”	the number of unique accounts through which a payment is made for the Group’s mobile games in a particular month, which includes multiple accounts held by one single user
“PRC” or “China”	the People’s Republic of China, excluding, for the purposes of this announcement only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“QQfamily IP”	certain intellectual property rights owned by Tencent Technology (a company established in the PRC and a subsidiary of Tencent) as set out in the QQfamily Cooperation Agreement which are subject to a non-exclusive and non-transferable license granted by Tencent Technology to Shenzhen iDreamSky Entertainment (a company established in the PRC and a subsidiary of the Company) under the agreement
“Reporting Period”	the year ended December 31, 2021
“RMB”	Renminbi, the lawful currency of the PRC
“RPG” or “role-playing game”	games in which users assume the roles of characters in a fictional setting

“Share(s)”	ordinary share(s) of the Company with nominal value of US\$0.0001 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Tencent”	Tencent Holdings Limited, one of the Company’s substantial shareholders, a limited liability company incorporated under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange under stock code 700
“Tianjin Huohun”	Tianjin Huohun Internet Technology Co., Ltd. (天津火魂網絡科技有限公司), a non-wholly owned subsidiary of the Company incorporated in the PRC, formerly named Shanghai Huohun Internet Technology Co., Ltd., which changed its name to Tianjin Huohun Internet Technology Co., Ltd. (天津火魂網絡科技有限公司) in January, 2021
“U.S. dollars or “US\$” or “USD”	U.S. dollars, the lawful currency of the United States of America
“Valuer” or “AVISTA”	Avista Business Consulting (Shanghai) Co., Ltd., an independent valuer engaged by the management
“%”	per cent

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

Shenzhen, the PRC, March 30, 2022

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.