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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)

CONTINUING CONNECTED TRANSACTION QQ FAMILY COOPERATION AGREEMENT

THE QQ FAMILY COOPERATION AGREEMENT

The Board is pleased to announce that, on March 11, 2021, Shenzhen iDreamSky Entertainment and Tencent Technology entered into the QQ Family Cooperation Agreement. Pursuant to the QQ Family Cooperation Agreement, Tencent Technology has agreed to grant to Shenzhen iDreamSky Entertainment a non-exclusive and non-transferable license of the QQ Family IPs for use in connection with the Group's initiative to establish QQ Family-themed offline stores within the PRC.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tencent is a substantial shareholder of the Company holding through its wholly-owned subsidiaries approximately 18.59% of the total issued shares of the Company, and Tencent Technology is a subsidiary of Tencent. Therefore, Tencent Technology is a connected person of the Company, and the QQ Family Cooperation Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed fees on an annual basis for the QQ Family Cooperation Agreement is more than 0.1% but less than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement and annual review requirements but are exempt from the requirement of independent Shareholders' approval under Chapter 14A of the Listing Rules.

Pursuant to the Rule 14A.52 of the Listing Rules, as the term of QQ Family Cooperation Agreement exceeds three years, the Company has appointed Somerley to explain the reason for a longer term and to confirm that it is a normal business practice for agreement(s) of this type to be of such duration.

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Principal Terms of the QQ Family Cooperation Agreement

Principal terms of the QQ Family Cooperation Agreement are set out as follows:

- Date** : March 11, 2021
- Parties** : (1) Tencent Technology (as licensor); and
(2) Shenzhen iDreamSky Entertainment (as licensee).
- Term** : A period from March 1, 2021 to February 28, 2026

Pursuant to the Rule 14A.52 of the Listing Rules, as the term of QQ Family Cooperation Agreement exceeds three years, the Company has appointed Somerley to explain the reason for a longer term and to confirm that it is a normal business practice for agreement(s) of this type to be of such duration. Please refer to the section headed "OPINION FROM THE INDEPENDENT FINANCIAL ADVISER ON TERM OF THE QQ FAMILY COOPERATION AGREEMENT" below for further details.

- Subject matter** : Pursuant to the QQ Family Cooperation Agreement, Tencent Technology has agreed to grant to Shenzhen iDreamSky Entertainment a non-exclusive and non-transferable license of the QQ Family IPs for use in connection with the Group's initiative to establish QQ Family-themed offline stores within the PRC. Notwithstanding the foregoing, Tencent Technology agreed, among other things, that they will not conduct, or license any other party to operate QQ Family-themed offline stores with business relating to gaming device testing, game sales, integrated movie and video experience or video game-themed gathering.

In the course of construction, design, decoration and operation of QQ Family-themed offline stores, Shenzhen iDreamSky Entertainment is entitled to use the QQ Family IPs for visual identity design and in-store decoration of the QQ Family-themed offline store, the design of staff uniform and the design and production of marketing materials in accordance with the terms as set out in the QQ Family Cooperation Agreement. Shenzhen iDreamSky Entertainment shall submit design proposal and progress chart to Tencent Technology for review and written approval before implementing the relevant proposals.

Pursuant to the QQ Family Cooperation Agreement, within the first three years of the term of the QQ Family Cooperation Agreement, Shenzhen iDreamSky Entertainment may launch a total of 150 QQ Family-themed offline stores directly operated by the Group (being seven flagship stores with a gross floor area of at least 300 square meters and the remaining standard stores with a gross floor area of 50 to 300 square meters) within popular commercial area in first- and second-tier cities of the PRC. The parties will further assess the collaboration and may agree on details of store opening target for the last two years of the term separately in due course.

Based on the Group's preliminary assessment, the first QQ Family-themed offline flagship store is proposed to be located at OTC Harbour, Nanshan, Shenzhen, while the first QQ Family-themed offline standard store is proposed to be located at Garden City, Nanshan, Shenzhen. It is currently expected that the above two stores will be opened in June 2021. However, the locations and the opening date of the two stores will be subject to final confirmation between the parties through email.

Fee arrangements and settlement terms : In return for the grant of a non-exclusive and non-transferable license of the QQ Family IPs by Tencent Technology to Shenzhen iDreamSky Entertainment, Shenzhen iDreamSky Entertainment shall pay to Tencent Technology an aggregate of RMB10,000,000 (value-added tax inclusive) for the first three years of the term of the QQ Family Cooperation Agreement in the following manner:

- (A) a total of RMB2,000,000 as annual licensing fee for the period from March 1, 2021 to February 28, 2022, to be paid by Shenzhen iDreamSky Entertainment to Tencent Technology in two instalments of RMB1,000,000 each within 15 business days after the signing of the QQ Family Cooperation Agreement and before August 1, 2021, respectively;
- (B) a total of RMB2,000,000 as annual licensing fee for the period from March 1, 2022 to February 28, 2023, to be paid by Shenzhen iDreamSky Entertainment to Tencent Technology in two instalments of RMB1,000,000 each before March 1, 2022 and August 1, 2022, respectively; and
- (C) a total of RMB6,000,000 as annual licensing fee for the period from March 1, 2023 to February 29, 2024, to be paid by Shenzhen iDreamSky Entertainment to Tencent Technology in two instalments of RMB3,000,000 each before February 1, 2023 and August 1, 2023, respectively.

Further, Shenzhen iDreamSky Entertainment and Tencent Technology may agree on a profit sharing arrangement between the parties for the last two years within the terms of the QQ Family Cooperation Agreement. Such fees will be settled quarterly, calculated based on the financial summary report submitted by Shenzhen iDreamSky Entertainment to Tencent Technology within ten business days after the end of each quarter.

Deposit : In addition, Shenzhen iDreamSky Entertainment shall also pay a deposit of RMB300,000 within 15 working days after the date of the QQ Family Cooperation Agreement to Tencent Technology in guarantee of satisfaction of certain business or sales target as prescribed in the QQ Family Cooperation Agreement.

Pricing Policy

The fixed licensing fees and the profit sharing arrangement under the QQ Family Cooperation Agreement shall be determined after arm's length negotiation between the parties with reference to the prevailing market rate and various commercial factors, including the commercial potential and prospects of QQ Family-themed offline stores.

Annual Caps and Basis of Determination

The proposed annual caps for the licensing fees payable by Shenzhen iDreamSky Entertainment to Tencent Technology under the QQ Family Cooperation Agreement for the following periods within the term of the QQ Family Cooperation Agreement, are as follows are set out as follows:

Period	Proposed Annual Cap for the corresponding period
From March 1, 2021 to February 28, 2022	RMB2,000,000
From March 1, 2022 to February 28, 2023	RMB2,000,000
From March 1, 2023 to February 29, 2024	RMB6,000,000
From March 1, 2024 to February 28, 2025	RMB6,000,000
From March 1, 2025 to February 28, 2026	RMB6,000,000

The above proposed annual caps were determined based on (A) the fixed licensing fees agreed in the QQ Family Cooperation Agreement with respect to the first three years within the term of the QQ Family Cooperation Agreement; and (B) the expected growth in QQ Family-themed offline store business after arm's length discussion. In particular:

- (a) in determining the fixed annual licensing fees payable by Shenzhen iDreamSky Entertainment to Tencent Technology for the first two years, the parties to the QQ Family Cooperation Agreement discussed, on an arm's length basis, and determined a relatively favourable rate with a view to encouraging the launch and development of this new QQ Family-themed offline store initiative;
- (b) in determining the fixed annual licensing fee payable by Shenzhen iDreamSky Entertainment to Tencent Technology for the third year, the parties have taken into account the expected growth and expansion in this business; and
- (c) in determining the above proposed annual caps in respect of licensing fee payable by Shenzhen iDreamSky Entertainment to Tencent Technology in the form of profit sharing for the last two years, the Directors have considered the number of QQ Family IPs covered under the QQ Family Cooperation Agreement, the sales expected to be generated from QQ Family-themed offline stores, and the general popularity of QQ Family IPs.

Reasons for and Benefits of the QQ Family Cooperation Agreement

The Company considers Tencent as a leading provider of the Internet value added service in the PRC and the QQ Family IPs are well-known IPs with a substantial number of potential fans in the PRC. The Company expects that cooperation with the Tencent Group under the QQ Family Cooperation Agreement will further strengthen and diversify its business profile through its initiative to launch QQ Family-themed offline stores.

OPINION FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the terms of the QQ Family Cooperation Agreement were determined after arm's length negotiation, and the transactions contemplated thereunder (including the proposed annual caps for the corresponding periods within the term of the QQ Family Cooperation Agreement) are conducted in the ordinary and usual business of the Company and are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Mr. Ma Xiaoyi, Mr. Yao Xiaoguang and Mr. Chen Yu, all being Directors, are employees of Tencent and have therefore abstained from voting on the relevant Board resolutions approving the QQ Family Cooperation Agreement. Save as disclosed above, none of the other Directors has or is considered to have material interests in the transactions contemplated under the QQ Family Cooperation Agreement.

OPINION FROM THE INDEPENDENT FINANCIAL ADVISER ON TERM OF THE QQ FAMILY COOPERATION AGREEMENT

In arriving at its opinion, Somerley has relied on the information set out in this announcement and has referred to the term of the QQ Family Cooperation Agreement, which has a duration of five years. Somerley has taken into consideration the following reasons for a longer duration for the QQ Family Cooperation Agreement, including:

- (i) the Group will, as the operator of QQ Family-themed offline stores, devote significant efforts and initial capital expenditures (including renovation and fittings) for the development and operation of the new offline stores over a number of years, which makes it commercially desirable for the Group to have a sufficiently long duration to capture the benefits arising from its efforts in the initial years;
- (ii) it is intended that the duration of the lease agreements relating to the QQ Family-themed offline stores will be for terms of longer than three years; and
- (iii) a longer licensing duration of QQ Family IPs for use in connection with the Group's QQ Family-themed offline stores will facilitate this business initiative to expand the Group's offline entertainment business in the PRC.

In assessing the duration of the QQ Family Cooperation Agreement, Somerley has reviewed a similar agreement entered into between the Group and the Tencent Group, pursuant to which Tencent exclusively authorise the Group to use its Tencent Video's content, trademark and video content-based decorations in connection with certain offline experience stores set up by the Group, for a duration of five years. The QQ Family Cooperation Agreement, also with a duration of five years, will facilitate the Group's development and operation of QQ Family-themed offline stores, and it would be reasonable for the Group to match the duration of the QQ Family Cooperation Agreement with that of the intended business initiative and the corresponding store lease agreements. Somerley has also reviewed a number of comparable transactions involving licensing of intellectual properties in the PRC mainly regarding use of trademarks, where at least one of the parties (or its direct or indirect holding company) is listed on the Stock Exchange (other than the Group) and principally engaging in the mobile gaming business in the PRC, details of which were published on the website of the Stock Exchange (the "**Comparable Transactions**"). Somerley notes that the durations of the Comparable Transactions range from approximately three to ten years. Accordingly, the duration of the QQ Family Cooperation Agreement falls within the range.

Based on the above considerations, Somerley is of the opinion that the duration of five years under the QQ Family Cooperation Agreement is on normal commercial term for a transaction of this nature and it is normal business practice for agreement of this type to be of such duration.

INFORMATION ON THE PARTIES

The Group is a digital entertainment platform with a leading position in game publishing market in China, and adopts a free-to-play model for all of its games and has also expanded service offerings to other digital entertainment areas, such as e-sports, comics and videos. Shenzhen iDreamSky Entertainment is a PRC consolidated affiliated entity of the Company and is principally engaged in operating offline experiential stores, offering gaming device experiencing and sales, game and designer toys sales, integrated movie and video experience and multi-themed gathering.

Tencent through its subsidiaries, principally provides value-added services, online advertising and FinTech and business services to users mainly in the PRC. Tencent Technology is a consolidated affiliated entity of Tencent and is principally engaged in the business of provision of value-added services in the PRC.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tencent is a substantial shareholder of the Company holding through its wholly-owned subsidiaries approximately 18.59% of the total issued shares of the Company, and Tencent Technology is a subsidiary of Tencent. Therefore, Tencent Technology is a connected person of the Company, and the QQ Family Cooperation Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

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DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Board”	the board of directors of the Company
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this announcement only, Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	iDreamSky Technology Holdings Limited (创梦天地科技控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange under stock code 01119
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

“Group”	the Company, its subsidiaries and its PRC consolidated affiliated entities from time to time
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance, being the independent financial adviser appointed for the purpose of Rule 14A.52 of the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“RMB”	Renminbi, legal currency of the PRC
“Shareholders”	holder(s) of share(s) of the Company
“Shenzhen iDreamSky Entertainment”	Shenzhen iDreamSky Entertainment Co., Ltd. (深圳市创梦天地娱乐有限公司), established in the PRC and a subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Tencent”	Tencent Holdings Limited, one of our substantial shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board (stock code: 700)
“Tencent Group”	Tencent and its subsidiaries from time to time
“Tencent Technology”	Tencent Technology (Shenzhen) Company Limited (騰訊科技(深圳)有限公司), established in the PRC and a subsidiary of Tencent

“QQ Family Cooperation Agreement”	the cooperation agreement dated March 11, 2021 entered into between Shenzhen iDreamSky Entertainment and Tencent Technology with respect to the grant of a non-exclusive and non-transferable license of the QQ Family IPs by Tencent Technology to Shenzhen iDreamSky Entertainment
“QQ Family IPs”	certain intellectual property rights owned by Tencent Technology as set out in the QQ Family Cooperation Agreement subject to the non-exclusive and non-transferable license granted by Tencent Technology to Shenzhen iDreamSky Entertainment thereunder
“%”	per cent

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

Shenzhen, the PRC, March 11, 2021

As at the date of this announcement, the Board of Directors 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.