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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 TRANSACTIONS 2021 GAME COOPERATION FRAMEWORK AGREEMENT REVISION OF PROPOSED ANNUAL CAPS

BACKGROUND

References are made to the announcements (the “**Announcements**”) of iDreamSky Technology Holdings Limited (the “**Company**”) dated December 29, 2020 and August 12, 2021, respectively, in relation to, among other things, entering into the 2021 Game Cooperation Framework Agreement and revision of the proposed annual caps. Unless otherwise defined, terms used herein shall have the same meaning as those defined in the Announcements.

2021 GAME COOPERATION FRAMEWORK AGREEMENT

On December 29, 2020, Shenzhen iDreamSky and Tencent Computer entered into the 2021 Game Cooperation Framework Agreement for a period of three years from January 1, 2021 to December 31, 2023, pursuant to which the Group and Tencent Computer agreed to:

- (i) license (a) games of the Group and/or (b) games licensed to the Group by third parties, and engage Tencent Group for distribution or publishing for such games;
- (ii) license the games of Tencent Group for the distribution and operations on the Company’s platforms; and
- (iii) cooperate on other gaming-related matters, including but not limited to (a) Tencent Group engaging us to develop customized games, (b) Tencent Group licensing its IPs to the Group for development of games, and (c) joint development of games by the Group and Tencent Group.

Tencent Group and the Group shall pay distribution fees and/or licensing fees to each other (as the case may be). The precise scope of service, commission rate, the applicable payment channel and other details of the arrangement shall be agreed between the relevant parties separately.

The distribution fees and/or licensing fees payable by the Group and Tencent Group (as the case may be) to each other shall be calculated on any of the following bases:

- fixed amount of distribution fees and/or licensing fees;
- revenue/profit sharing between the parties;
- prepaid revenue/profit sharing between the parties; and/or
- product bonus.

Pricing Policy

The distribution fees and/or licensing fees payable by the Group to Tencent Group and the customized development fees and/or licensing fees payable by Tencent Group to the Group shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and consideration of various commercial factors, including the nature, popularity, quality and commercial potential of the relevant games.

PREVIOUS REVISION OF THE PROPOSED ANNUAL CAPS

On August 12, 2021, in view of the expected demand of Tencent Group for the Group's customized development services and of the Group's intention to enhance the cooperation with Tencent Group, the Board has revised the annual caps of the licensing fees payable by Tencent Group to the Group under the 2021 Game Cooperation Framework Agreement for the three years ending December 31, 2023, by including an additional category of caps for customized development fees paid by Tencent Group to the Group. For details of the revision, please refer to the announcement of the Company dated August 12, 2021.

EXISTING PROPOSED ANNUAL CAPS

The existing proposed annual caps for the distribution fees and/or licensing fees payable by the Group to Tencent Group and the customized development fees and/or licensing fees payable by Tencent Group to the Group under the 2021 Game Cooperation Framework Agreement for the three years ending December 31, 2023 are set out in the table below:

	For the year ended/ending December 31,		
	2021	2022	2023
	(RMB'000)	(RMB'000)	(RMB'000)
(a) Distribution fees payable by the Group to Tencent Group (i.e. where the Group engages Tencent Group for distribution of its games)	19,800	23,760	28,512
(b) Licensing fees payable by Tencent Group to the Group in the form of revenue sharing (i.e. where the Group engages Tencent Group for publishing of our games and games licensed to the Group by third parties)	92,906	125,941	124,900
(c) Licensing fees payable by the Group to Tencent Group (i.e. where Tencent Group engages us for publishing and operation of, the games of Tencent Group)	36,866	42,556	20,027
(d) Customized development fees payable by Tencent Group to the Group (i.e. where Tencent Group engages us for development of Tencent Group's games of certain specialized area)	21,667	21,667	21,667

ACTUAL TRANSACTION AMOUNTS

The actual transaction amounts of the distribution fees and/or licensing fees paid by the Group to Tencent Group and the customized development fees and/or licensing fees paid by Tencent Group to the Group under the 2021 Game Cooperation Framework Agreement up to April 30, 2023 are set out below:

	For the year ended December 31, 2021 (RMB'000)		2022 (RMB'000)	For the four months ended April 30, 2023 (RMB'000)
(a) Distribution fees payable by the Group to Tencent Group (i.e. where the Group engages Tencent Group for distribution of its games)	6,928	9,934	4,506	
(b) Licensing fees payable by Tencent Group to the Group in the form of revenue sharing (i.e. where the Group engages Tencent Group for publishing of our games and games licensed to the Group by third parties)	33,905	35,893	7,801	
(c) Licensing fees payable by the Group to Tencent Group (i.e. where Tencent Group engages us for publishing and operation of, the games of Tencent Group)	—	39,637	16,593	
(d) Customized development fees payable by Tencent Group to the Group (i.e. where Tencent Group engages us for development of Tencent Group's games of certain specialized area)	—	8,321	—	

FURTHER REVISION OF THE PROPOSED ANNUAL CAPS

Given that the Company expects to further strengthen the cooperation with Tencent Group in the game business, on May 18, 2023, the Board proposed to further revise the caps of RMB58,127,000 for the licensing fees payable by the Group to Tencent Group for the year ending December 31, 2023 under the 2021 Game Cooperation Framework Agreement (the “**Revised Annual Caps**”). Other than that, the annual caps for the distribution fees paid by the Group to Tencent Group and the customized development fees and/or licensing fees paid by Tencent Group to the Group remain unchanged.

Basis for the Revised Annual Caps

In determining the Revised Annual Caps, the Board, after arm's length negotiation and discussion, considers that the business cooperation between the Group and Tencent Group in game operation is becoming increasingly close and that the number and amount of game business which Tencent Group engages us to publish and operate will increase. Therefore, in order to meet the actual business demand, the Board proposes to adjust the proposed annual caps of the 2021 Game Cooperation Framework Agreement.

Except for the above Revised Annual Caps, the remaining terms of the 2021 Game Cooperation Framework Agreement remain unchanged.

The above Revised Annual Caps are not intended, and do not purport, to be an indication of the Group's future performance or profitability and investors should not rely on the Revised Annual Caps in deciding whether to invest in the shares of the Company.

REASONS FOR AND BENEFITS OF THE REVISION OF PROPOSED ANNUAL CAPS

The Company believes that the enhanced cooperation with Tencent Group pursuant to the 2021 Game Cooperation Framework Agreement will enable both parties to leverage the competitive edges of each other, and further enhance the Group's revenue capacity of game publishing business.

In light of the above, the Directors believe that it is for the benefit of the Group to continue to cooperate with Tencent Group under the 2021 Game Cooperation Framework Agreement and consider that the transactions under the 2021 Game Cooperation Framework Agreement are entered into in the usual and ordinary course of business of the Group. The Directors (including the independent non-executive Directors) consider that the Revised Annual Caps are based on normal commercial terms and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

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 17.66% of the total issued shares of the Company, and Tencent Computer is a subsidiary of Tencent. Therefore, Tencent Computer is a connected person of the Company, and the 2021 Game Cooperation Framework 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 as defined under Rule 14.07 of the Listing Rules for the Revised Annual Caps calculated based on an annual basis exceeds 0.1% but is below 5%, the Revised Annual Caps are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Ma Xiaoyi, Mr. Yao Xiaoguang and Mr. Chen Yu, the non-executive Directors, are currently holding senior management roles at Tencent, and have therefore abstained from voting on the relevant Board resolutions approving the Revised Annual Caps. Save as disclosed above, none of the other Directors has or is considered to have material interests in the transactions contemplated under the 2021 Game Cooperation Framework Agreement.

GENERAL

As a leading digital entertainment platform in China, the Group's main businesses include the online boutique game business and Fanbook, a community operation tool. The Group has always been committed to bringing joy to users through technology and creativity. Shenzhen iDreamSky is an integrated affiliate of the Company in China, mainly engaged in the R&D, distribution and operation of games through mobile applications and websites.

Tencent through its subsidiaries, principally provides value-added services, online advertising, financial technology and corporate services to users mainly in the PRC. Tencent Computer, a subsidiary of Tencent, is principally engaged in the business of provision of value-added services in the PRC.

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

Shenzhen, the PRC, May 18, 2023

As at the date of this announcement, the Board 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.