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If you have sold or transferred all your shares in iDreamSky Technology Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

**PROPOSED REFRESHMENT OF EXISTING GENERAL MANDATE
RENEWAL OF THE GAME COOPERATION FRAMEWORK
AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



A notice convening the extraordinary general meeting (the “EGM”) of iDreamSky Technology Holdings Limited (the “Company”) to be held at Earth Room, 16/F, Unit 3, Block A, Kexing Science Park, Nanshan District, Shenzhen, China on Thursday, 28 December 2023 at 10:30 a.m. is set out on pages 68 to 71 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at www.idreamsky.com.

If you do not intend or are unable to attend the EGM and wish to appoint a proxy/proxies to attend and vote on your behalf, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.

11 December 2023

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“2021 Game Cooperation Framework Agreement”	the game cooperation framework agreement dated 29 December 2020 entered into between Shenzhen iDreamSky and Tencent Computer, and the annual caps of the transaction amounts under which were revised on 12 August 2021 and 18 May 2023, respectively
“2022 AGM”	the 2022 annual general meeting of the Company held on 30 June 2023
“2024 Game Cooperation Framework Agreement”	the game cooperation framework agreement dated 10 November 2023 entered into between Shenzhen iDreamSky and Tencent Computer
“associates”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“Companies Act”	the Companies Act (As Revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“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 1119
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“connected transaction(s)”	has the same meaning ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the same meaning ascribed thereto under the Listing Rules

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“Convertible Bond(s)”	the HK\$386 million 5.00% convertible bonds due 2028 issued on 24 July 2023
“Deal Manager for Issuing Convertible Bonds”	Merrill Lynch (Asia Pacific) Limited
“Director(s)”	the director(s) of the Company
“Distribution Transaction(s)”	transaction(s) conducted relating to the licensing fees payable by Tencent Group to the Group in the form of revenue sharing under the 2024 Game Cooperation Framework Agreement
“EGM”	the extraordinary general meeting of the Company to be held at Earth Room, 16/F, Unit 3, Block A, Kexing Science Park, Nanshan District, Shenzhen, China on Thursday, 28 December 2023 at 10:30 a.m., or any adjournment thereof, the notice of which is set out on pages 68 to 71 of this circular
“Existing Extension Mandate”	a general and unconditional mandate granted to the Directors pursuant to the ordinary resolution passed by the Shareholders at the 2022 AGM to extend the Existing Issue Mandate by an amount representing the aggregate amount of Shares repurchased under the Existing Repurchase Mandate
“Existing General Mandate”	the Existing Issue Mandate, the Existing Repurchase Mandate and the Existing Extension Mandate approved under the ordinary resolutions passed by the Shareholders at the 2022 AGM
“Existing Issue Mandate”	a general and unconditional mandate granted to the Directors by the Shareholders at the 2022 AGM by ordinary resolution to exercise the power of the Company to allot, issue and/or otherwise deal with Shares of not exceeding 20% of the issued share capital of the Company as at the date of the 2022 AGM

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“Existing Repurchase Mandate”	a general and unconditional mandate granted to the Directors pursuant to the ordinary resolution passed by the Shareholders at the 2022 AGM to exercise the powers of the Company to repurchase Shares of not exceeding 10% of the issued share capital of the Company as at the date of 2022 AGM
“Group”	the Company, its subsidiaries and its PRC consolidated affiliated entities from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Ms. Yu Bin, Mr. Li Xintian, Mr. Zhang Weining and Mr. Mao Rui, to advise the Independent Shareholders on (i) the proposed granting of the Refreshed General Mandate and (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the proposed granting of the Refreshed General Mandate and (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps
“Independent Shareholders”	remaining shareholders other than those required under the Listing Rules to abstain from voting on the resolutions to be proposed at the EGM

DEFINITIONS

“Independent Third Party(ies)”	an individual or a company which, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is not a connected person of the Company
“Latest Practicable Date”	5 December 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Manager(s)”	Merrill Lynch (Asia Pacific) Limited and Guotai Junan Securities (Hong Kong) Limited
“Memorandum and Articles of Association”	the amended and restated memorandum and articles of association of the Company adopted by the special resolution passed on 30 June 2023 and effective on 30 June 2023 (as amended, supplemented or otherwise modified from time to time)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, as amended, supplemented or otherwise modified from time to time
“Placing”	the placing of a total of 164,177,200 Shares by the Placing Agents to independent investors at the Placing Price pursuant to the Placing Agreement completed on 18 July 2023
“Placing Agents”	Merrill Lynch (Asia Pacific) Limited and Guotai Junan Securities (Hong Kong) Limited
“Placing Agreement”	the placing agreement entered into between the Company and the Placing Agents dated 10 July 2023 in respect of the Placing
“Placing Price”	HK\$3.10 per Placing Share

DEFINITIONS

“Placing Share(s)”	164,177,200 new Shares placed under the Placing
“PRC” or “China”	the People’s Republic of China, and for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Promotion Transaction(s)”	transaction(s) conducted relating to the distribution fees and licensing fees payable by the Group to Tencent Group under the 2024 Game Cooperation Framework Agreement
“Refreshed Extension Mandate”	a general and unconditional mandate proposed to be granted to the Directors at the EGM to extend the Refreshed Issue Mandate by an amount representing the aggregate amount of Shares repurchased under the Existing Repurchased Mandate, which is subject to approval by the Independent Shareholders at the EGM by way of poll
“Refreshed General Mandate”	Refreshed Issue Mandate and Refreshed Extension Mandate, which are subject to the approval of Independent Shareholders at the EGM by way of poll
“Refreshed Issue Mandate”	a general and unconditional mandate proposed to be granted to the Directors at the EGM to exercise the power of the Company to allot, issue and/or otherwise deal with Shares not exceeding 20% of the issued share capital of the Company as at the date of the EGM, which is subject to approval by the Independent Shareholders at the EGM by way of poll
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Share(s)”	ordinary share(s) with nominal value of US\$0.0001 each in the share capital of the Company, or if there has been a capitalization issue, sub-division, reduction, consolidation, reclassification or reconstruction of the share capital of the Company, the shares forming part of the ordinary equity share capital of the Company of such nominal value as shall result from any such capitalization issue, sub-division, reduction, consolidation, reclassification or reconstruction
“Shareholder(s)”	holder(s) of the Share(s) of the Company
“Shenzhen iDreamSky”	Shenzhen iDreamSky Technology Co., Ltd. (深圳市创梦天地科技有限公司), a company established in the PRC on 14 February 2011 and a subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Tencent”	Tencent Holdings Limited, one of the Group’s substantial shareholders, a limited liability company organized and existing under the laws of the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700)
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC on 11 November 1998 and a subsidiary of Tencent
“Tencent Group”	Tencent and its subsidiaries from time to time
“US\$”	U.S. dollars, the lawful currency of the United States of America
“%”	per cent

* *The English names of the PRC nationals, enterprises and entities are translation and/or transliterations of their Chinese names and are included for identification purposes only. In the event of inconsistency between the Chinese names and translations and/or transliterations, the Chinese names shall prevail.*



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)

Executive Directors:

Mr. Chen Xiangyu (*Chairman*)
Mr. Guan Song
Mr. Jeffrey Lyndon Ko
Mr. Yang Jialiang

Non-executive Directors:

Mr. Zhang Han
Mr. Yang Ming

Independent Non-executive Directors:

Ms. Yu Bin
Mr. Li Xintian
Mr. Zhang Weining
Mr. Mao Rui

Registered Office:

The offices of Maples Corporate
Services Limited
P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Head office in the PRC:

16/F, Unit 3, Block A
Kexing Science Park
No. 15 Ke Yuan Road
Nanshan District
Shenzhen
Guangdong Province
PRC

11 December 2023

To the Shareholders

Dear Sirs/Madams

**PROPOSED REFRESHMENT OF EXISTING GENERAL MANDATE
RENEWAL OF THE GAME COOPERATION FRAMEWORK
AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

The purpose of this circular is to give you the notice of the EGM and the information relating to the proposals to be put forward at the EGM, including the letter containing further details of (i) the proposed granting of the Refreshed General Mandate, and (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual

LETTER FROM THE BOARD

caps, the letter of recommendation from the Independent Board Committee to the Independent Shareholders on the foregoing and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the foregoing.

2. PROPOSED REFRESHMENT OF EXISTING GENERAL MANDATE

Reference is made to the announcement of the Company dated 10 November 2023 in relation to, among other things, the proposed refreshment of the Existing General Mandate.

The Board proposes to refresh the Existing Issue Mandate to grant a general and unconditional mandate to the Directors to exercise the power of the Company to allot, issue and/or otherwise deal with Shares not exceeding 20% of the issued share capital of the Company as at the date of passing of the resolution in relation to the proposed refreshment of the Existing Issue Mandate at the EGM. The Board also proposes to refresh the Existing Extension Mandate to provide that any Shares repurchased under the Existing Repurchase Mandate (up to 10% of the issued share capital of the Company as at the date of granting of the Existing Repurchase Mandate) shall be added to the number of Shares to be allotted and issued under the Refreshed Issue Mandate.

Existing General Mandate

At the 2022 AGM, the Shareholders approved, among other things, (i) the granting of the Existing Issue Mandate to the Directors to exercise the power of the Company to allot, issue and/or deal with up to 20% of the issued share capital of the Company as at the date of the 2022 AGM; (ii) the granting of the Existing Repurchase Mandate to the Directors to exercise the power of the Company to repurchase Shares not exceeding 10% of the issued share capital of the Company as at the date of the 2022 AGM; and (iii) the granting of the Existing Extension Mandate to the Directors to extend the Existing Issue Mandate by an amount representing the aggregate amount of Shares repurchased under the Existing Repurchase Mandate.

As at the date of the 2022 AGM, the Company had a total of 1,410,398,345 Shares in issue. The Company may issue up to 282,079,669 Shares pursuant to the Existing Issue Mandate and repurchase up to 141,039,834 Shares pursuant to the Existing Repurchase Mandate. On 18 September 2023, 20 September 2023, 21 September 2023, 28 September 2023, 12 October 2023 and 16 October 2023, the Company repurchased 601,200 Shares, 84,000 Shares, 28,800 Shares, 92,000 Shares, 134,800 Shares and 190,000 Shares pursuant to the Existing Repurchase Mandate, respectively, totalling 1,130,800 Shares. Accordingly, the Directors are authorized to issue up to 283,210,469 Shares pursuant to the Existing Issue Mandate and Existing Extension Mandate. As of the Latest Practicable Date, the Company has not refreshed its Existing General Mandate since the 2022 AGM.

LETTER FROM THE BOARD

After the completion of placing of 164,177,200 Shares on 18 July 2023 and the completion of issue of Convertible Bonds with an aggregate principal amount of HK\$386 million on 24 July 2023 (calculated on the initial conversion price of HK\$3.64 per Share and assuming that the Convertible Bonds are fully converted at the initial conversion price, the Convertible Bonds can be converted to up to 106,043,956 new convertible bond shares), the Company has utilised approximately 95.41% of its Existing General Mandate (representing approximately 95.80% of the Existing Issue Mandate). For further details of the Placing and the issue of Convertible Bonds, please refer to the announcements of the Company dated 11 July 2023, 18 July 2023 and 24 July 2023.

As at the Latest Practicable Date, pursuant to all share schemes of the Company (including the pre-IPO RSU Scheme adopted on 18 May 2018, the 2023 Share Incentive Scheme adopted on 18 May 2023 and the New Share Option Scheme adopted on 30 June 2023 by the Company), the number of Shares in relation to all options granted or to be granted and awards related to the new Shares issued and to be issued will not exceed 10% of the issued share capital of the Company as at the date of the 2022 AGM. Save as disclosed above, the Company has no other outstanding share options, warrants, convertible securities, or other rights to subscribe for Shares.

Refreshed General Mandate

As at the Latest Practicable Date, approximately 95.41% of the Shares which can be issued under the Existing General Mandate (representing approximately 95.80% of the Shares to be issued under the Existing Issue Mandate) has been utilised. The Company will convene the EGM at which an ordinary resolution will be proposed to the Independent Shareholders to grant the Refreshed Issue Mandate to the Directors to exercise the power of the Company to allot, issue and/or otherwise deal with Shares not exceeding 20% of the issued share capital of the Company as at the date of passing of the resolution in relation to the proposed refreshment of the Existing Issue Mandate at the EGM, and grant the Refreshed Extension Mandate for the Directors to provide that any Shares repurchased under the Existing Repurchase Mandate (up to 10% of the issued share capital of the Company as at the date of granting of the Existing Repurchase Mandate) shall be added to the number of Shares to be allotted and issued under the Refreshed Issue Mandate.

The Refreshed General Mandate (if granted) will expire at the earliest of (i) the conclusion of the next annual general meeting of the Company; or (ii) the date by which the next annual general meeting of the Company is required to be held by the Companies Act, applicable laws or the Memorandum and Articles of Association; or (iii) the date upon which such mandates are revoked or varied by ordinary resolutions of the Shareholders in a general meeting prior to the next annual general meeting of the Company.

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Subject to the passing of the resolution proposed for the granting of the Refreshed General Mandate to the Directors, the Existing Issue Mandate and the Existing Extension Mandate granted at the 2022 AGM will be revoked and the Company will not issue Shares under the Existing General Mandate. From the Latest Practicable Date and up to the convening date of the EGM, the Company has no plans to issue Shares under the Existing General Mandate.

As at the Latest Practicable Date, the Company had a total of 1,574,575,545 Shares in issue. Subject to the passing of the resolution proposed for the granting of the Refreshed General Mandate to the Directors and in the event that no further Shares are issued and no repurchased Shares are cancelled by the Company from the Latest Practicable Date to the convening date of the EGM, the Company would be allowed to issue up to 314,915,109 Shares pursuant to the Refreshed Issue Mandate, representing 20% of the issued share capital of the Company as at the Latest Practicable Date, and to add any Shares repurchased under the Existing Repurchase Mandate (up to 10% of the issued share capital of the Company as at the date of granting of the Existing Repurchase Mandate) to the number of Shares to be allotted and issued under the Refreshed Issue Mandate.

Reasons for Proposed Granting of the Refreshed General Mandate

The Company is a company incorporated in the Cayman Islands with limited liability. As a leading digital entertainment platform in China, the Group's main businesses include the game business and Fanbook, a community management tool. The Group has always been committed to bringing joy to users through technology and creativity.

When evaluating the necessity of the proposed granting of the Refreshed General Mandate, the Board has considered the followings:

(i) Existing General Mandate is substantially fully utilised

As stated above, after the completion of the Placing and the issue of the Convertible Bonds, the Company has utilised approximately 95.41% of its Existing General Mandate (representing approximately 95.80% of the Existing Issue Mandate). The next annual general meeting is expected to be convened in the end of June 2024 (which is over seven months from the date of publication of the announcement of the Company dated 10 November 2023 and approximately six months from the Latest Practicable Date). As such, the Company will not be able to flexibly and quickly raise fund to meet its business and operation needs for an extended period of time.

LETTER FROM THE BOARD

As at the Latest Practicable Date, although the Group's existing capital can be able to satisfy the normal operation of its existing business in the short-term, in order to maintain a relatively rapid growth in the Group's overall revenue, it is necessary to add potential self-developed projects and explore new business directions from time to time, which require long-term and continuous investments.

(ii) The Group's potential business expansion

The Group continues to strive to maximize Shareholders' value.

As at the Latest Practicable Date, the Company has the following business opportunities, details of which are as follows:

As the anime-style competitive shooting game Calabiyau (卡拉彼丘) (PC version) launched by the Group in August 2023 was greatly welcomed by users in the PRC, in order to extend its popularity and further introduce the game to more users in other districts or channels, the Group expects to proceed with R&D and release of the overseas PC version and mobile version of Calabiyau (卡拉彼丘). Meanwhile, anime-style players and adventurous gamer are both anticipating the other Ghibli style of Isekai fantasy adventure game (jointly developed and operated by the Company and Tencent Group), Ni No Kuni: Cross Worlds (二之國：交錯世界). The Group expects to devote more resources in promoting the R&D and release of such game. Meanwhile, the Company continues to deploy R&D resources to develop more high-quality games, and introduce excellent overseas high-quality games to Mainland China for distribution, to further enrich the categories and volume of online games, to attract more players and users and to boost profitability and market competitiveness of the Group, thus creating more value for our Shareholders.

The granting of the Refreshed General Mandate is of paramount importance to the Company and can provide the Company with flexibility and enable the Company to seize any suitable fund raising opportunities in time and within a short period of time in order to achieve the above objectives of the Group.

(iii) Disadvantages of other alternatives for financing

Having taken into account the Group's financial conditions, capital structure and finance costs as well as current market conditions, in addition to equity financing under the general mandate, the Board has also considered other alternative means of financing, such as debt financing, rights issue, public offering or internal cash resources (if applicable), to meet the immediate funding needs of the Group.

LETTER FROM THE BOARD

(a) Debt financing

Firstly, debt financing, such as bank borrowings, will impose an interest burden to the Group, and will lead to an increase in the Group's gearing ratio. Secondly, debt financing may be required to undergo a due diligence and negotiation process of approximately two to three months, which includes an assessment of the Group's profitability, financial condition and prevailing market conditions. Thirdly, debt financing may involve the pledge of assets. In view of the above considerations, the Board is of the view that debt financing is full of uncertainty and time-consuming, and is not the best option from a commercial point of view as compared to the additional funding to be obtained by the Group through equity financing activities.

(b) Rights issue or public offering

Based on market practice, the completion of rights issue and public offering generally take approximately four months. Such a lengthy process may result in the loss of other potential opportunities for the Company, as rights issue or public offering may involve (i) the selection of underwriters on favourable terms; (ii) the preparation and publication of relevant documents (such as the prospectus and the application form for the acceptance of rights issue or public offering) and the appointment of reporting accountant (to report on the unaudited pro forma financial information to be included in the prospectus), resulting in additional administrative work, which is time-consuming; and (iii) incurring certain fixed costs (such as expenses in relation to the appointment of a professional adviser, printing costs in relation to the documents such as the prospectus and the application form, costs in relation to the registration and despatch of the new share certificates to a large number of Shareholders). As a result, the completion of rights issue or public offering may require a huge amount of time and costs.

In addition, the Board considers that rights issue or public offering may result in unpredictability of the size of the financing if the rights issue or public offering are conducted on a non-underwritten basis under unstable market environment, and may lead to higher underwriting commissions if such equity fundraising activities are conducted on a fully underwritten basis. Therefore, rights issue or public offering may not be beneficial to the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

(c) Allotment and issue of new Shares under the specific mandate

The Board considers that given the volatility of the capital markets, time is of the essence for the Company to secure suitable investment opportunities. Accordingly, allotment and issue of new Shares under the specific mandate may not be suitable for the Company to grasp the equity financing opportunities in a timely manner as the Company may still be required to fulfil the compliance procedures of holding an extraordinary general meeting to obtain Shareholders' approval in accordance with the Listing Rules despite the terms of the proposed issue of the new Shares being finalised. On the other hand, the refreshment of the Existing General Mandate is a quicker and more effective solution to enable the Company to promptly respond to market conditions and capitalise on fundraising opportunities.

The Refreshed General Mandate, if approved and granted by the Independent Shareholders at the forthcoming EGM, will be readily available. In the absence of the flexibility brought by the Refreshed General Mandate, the Company may not be able to take advantage of favorable financing opportunities in the stock market in a timely manner and is constrained by the more time-consuming process of seeking special mandate from Shareholders to raise funds, thereby running the risk of losing potential investors.

For the issue of Shares under the Refreshed General Mandate (if granted to the Directors), such process generally takes approximately one month and involves minimal costs. The Board considers that, as compared to other financing methods mentioned above, the proposed Refreshed General Mandate, if granted, will enable the Company to avoid the uncertainty brought by associated with the other financing methods mentioned above and minimise our financial burden. Accordingly, the Board considers that the granting of the proposed Refreshed General Mandate to meet the financing requirements and working capital needs of the Company from time to time prior to the holding of the next annual general meeting is reasonable and in the best interests of the Company and its Shareholders as a whole.

As mentioned above, the mobile game Ni No Kuni: Cross Worlds (二之國：交錯世界) jointly developed and operated by the Company and Tencent Group is expected to be launched in the first half of the coming year, and the overseas PC version and mobile version of the Group's anime-style competitive shooting game Calabiyau (卡拉彼丘) are also expected to be launched as early as possible within next year. The aforesaid games still require a relatively large amount of capital investment in the R&D and beta test stage prior to launch. The Company currently predicts that the R&D and testing expenses will be approximately RMB310 million, therefore, the Company has financing needs recently and is actively seeking financing opportunities. As of the Latest Practicable Date, the Company has no definite arrangements for business expansion and financing plans within next year, but the Board considers that it is crucial for the Company to maintain the flexibility and the option to raise funds/issue consideration shares for its investments in a short period of time as and when the opportunity arises.

LETTER FROM THE BOARD

Effect of the Refreshment of Existing General Mandate on the Shareholding Structure of the Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the shareholding structures of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the full utilisation of the Refreshed General Mandate (assuming that (a) the share capital of the Company will not change from the Latest Practicable Date to the date of full utilisation of the Refreshed General Mandate; (b) Shares to be issued under the Refreshed Extension Mandate is calculated on the number of Shares repurchased by the Company as at the Latest Practicable Date (i.e. total of 1,130,800 Shares); and (c) no new Shareholders will become a substantial shareholder (as defined in the Listing Rules) after full utilisation of the Refreshed General Mandate) are as follows:

Shareholders	As at		Immediately after the full	
	the Latest Practicable Date		utilisation of the Refreshed	
			General Mandate	
	<i>Approximate</i>		<i>Approximate</i>	
	<i>No. of Shares</i>	<i>Percentage</i>	<i>No. of Shares</i>	<i>Percentage</i>
Non-public Shareholders				
Mr. Chen Xiangyu ⁽¹⁾	26,720,800	1.70%	26,720,800	1.41%
Brilliant Seed Limited ⁽¹⁾	236,599,922	15.03%	236,599,922	12.51%
Tencent Mobility Limited	249,141,192	15.82%	249,141,192	13.18%
Mr. Guan Song ⁽²⁾	14,978,000	0.95%	14,978,000	0.79%
Bubble Sky Limited ⁽²⁾	19,016,020	1.21%	19,016,020	1.01%
Shipsape Holdings Limited ⁽³⁾	13,965,000	0.89%	13,965,000	0.74%
Mr. Yang Jialiang	210,000	0.01%	210,000	0.01%
Public Shareholders	1,013,944,611	64.39%	1,013,944,611	53.63%
New Shareholders after full utilisation of the Refreshed General Mandate	—	—	316,045,909	16.72%
Total	1,574,575,545	100.00	1,890,621,454	100.00

Notes:

- As at the Latest Practicable Date, Mr. Chen Xiangyu directly held 26,720,800 Shares and indirectly held 236,599,922 Shares through Brilliant Seed Limited.
- As at the Latest Practicable Date, Mr. Guan Song directly held 14,978,000 Shares and indirectly held 19,016,020 Shares through Bubble Sky Limited.

LETTER FROM THE BOARD

3. As at the Latest Practicable Date, Shipshape Holdings Limited was wholly owned by Mr. Jeffrey Lyndon Ko, an Executive Director.
4. Certain figures and percentage figures in the above table have been subject to rounding adjustments.

As at the Latest Practicable Date, the shareholding ratio of the existing public Shareholders was approximately 64.39%. After full utilisation of the Refreshed General Mandate, the shareholding ratio of the existing public Shareholders will be reduced to approximately 53.63%, representing a dilution effect of approximately 10.76%.

Fundraising Activities in the Past Twelve Months

On 10 July 2023, the Company and the Placing Agents entered into the Placing Agreement, pursuant to which the Company agreed to appoint the Placing Agents, and the Placing Agents agreed to act as agents for the Company, to procure, on a best effort basis, Placees to subscribe for the Placing Shares at the Placing Price of HK\$3.10 for each Placing Share. On the same date, the Company also entered into the subscription agreement with the Deal Manager for Issuing Convertible Bonds, pursuant to which the Deal Manager for Issuing Convertible Bonds conditionally agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the bonds to be issued by the Company in an aggregate principal amount of HK\$386 million.

The Placing has been completed in accordance with the terms and conditions of the Placing Agreement on 18 July 2023, in which a total of 164,177,200 Shares have been offered and sold to no less than six independent placees. To the best of the Directors' knowledge, information and belief, all placees (and their respective ultimate beneficial owners) are Independent Third Parties of the Company. No placees become a substantial shareholder immediately after the completion of the Placing. The issue of Convertible Bonds has been completed on 24 July 2023, and was officially listed and quoted on the SGX-ST on 25 July 2023. The Convertible Bonds are in an aggregate principal amount of HK\$386 million (calculated on the initial conversion price of HK\$3.64 per Share and assuming that the Convertible Bonds are fully converted at the initial conversion price, the Convertible Bonds can be converted to up to 106,043,956 new convertible bond shares) and have been offered and sold by the Managers to no less than six independent placees. To the best of the Directors' knowledge, information and belief, all placees (and their respective ultimate beneficial owners) are Independent Third Parties of the Company.

The Placing Shares and the Convertible Bonds were issued in accordance with the general mandate approved at the 2022 AGM. For further details of the Placing and the issue of Convertible Bonds, please refer to the announcements of the Company dated 11 July 2023, 18 July 2023 and 24 July 2023.

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The gross proceeds of the Placing and the issue of Convertible Bonds amounted to approximately HK\$895 million, among which the net proceeds (net of commissions and other estimated expenses payable) amounted to approximately HK\$873 million. Net proceeds of the Placing and the issue of Convertible Bonds were used to repurchase HK\$775 million 3.125% guaranteed convertible bonds due 2025 and/or for general working capital purpose.

The following table shows the planned use of net proceeds from the Placing and the issue of Convertible Bonds and their actual usage as of the Latest Practicable Date:

Use of Proceeds	Planned allocation of the proceeds from the Placing and the issue of Convertible Bonds (HK\$ million)	Proceeds from the Placing and the issue of Convertible Bonds utilised (as at the Latest Practicable Date) <i>Approximate percentage</i>	Amount Utilised (as at the Latest Practicable Date) (HK\$ million)
Repurchase of HK\$775 million 3.125% guaranteed convertible bonds due 2025	749	85.8%	749
General working capital ^(Note)	124	14.2%	124
Total	873	100%	873

Note: As of the Latest Practicable Date, HK\$124 million of the net proceeds from the Placing and the issue of Convertible Bonds has been fully used as general working capital, of which HK\$80 million has been used to pay royalties to game agent developers, HK\$30 million was used for the R&D investment of Calabiyau (卡拉彼丘) and Ni No Kuni: Cross Worlds (二之國：交錯世界), and HK\$14 million was used for other daily operating expenses.

Save as disclosed above, the Company did not conduct any equity fundraising activities during the twelve months preceding the Latest Practicable Date.

Listing Rules Implications

As the proposed granting of the Refreshed General Mandate will be submitted to the Shareholders prior to the next annual general meeting of the Company, pursuant to Rule 13.36(4) of the Listing Rules, the Refreshed General Mandate is subject to the Independent Shareholders' approval at the EGM. Any controlling shareholders and their respective associates or, where there

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are no controlling shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the relevant resolution to approve the proposed Refreshed General Mandate.

As at the Latest Practicable Date, the Company has no controlling shareholder, however, (a) Brilliant Seed Limited is wholly-owned by Mr. Chen Xiangyu, an executive Director, the chairman of the Board and the chief executive officer of the Company, and Mr. Chen Xiangyu as the beneficial owner and through Brilliant Seed Limited held 26,720,800 Shares and 236,599,922 Shares, respectively, representing approximately 1.70% and 15.03% of the issued share capital of the Company, respectively; (b) Bubble Sky Limited is wholly-owned by Mr. Guan Song, an executive Director, and Mr. Guan Song as the beneficial owner and through Bubble Sky Limited held 14,978,000 Shares and 19,016,020 Shares, respectively, representing approximately 0.95% and 1.21% of the issued share capital of the Company, respectively; (c) Shipshape Holdings Limited is wholly-owned by Mr. Jeffrey Lyndon Ko, an executive Director, and Mr. Jeffrey Lyndon Ko through Shipshape Holdings Limited held 13,965,000 Shares, representing approximately 0.89% of the issued share capital of the Company; and (d) Mr. Yang Jialiang, an executive Director, held 210,000 Shares, representing approximately 0.01% of the issued share capital of the Company. Therefore, Mr. Chen Xiangyu, Mr. Guan Song, Mr. Jeffrey Lyndon Ko and Mr. Yang Jialiang and their respective associates will abstain from voting on the resolution in relation to the proposed refreshment of the Existing General Mandate.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, there are no Shareholders that were required to abstain from voting on the resolution in relation to the proposed refreshment of the Existing General Mandate at the EGM as at the Latest Practicable Date.

3. RENEWAL OF THE GAME COOPERATION FRAMEWORK AGREEMENT

References are made to the announcements of the Company dated 29 December 2020, 12 August 2021 and 18 May 2023, respectively, in relation to, among other things, Shenzhen iDreamSky and Tencent Computer entering into the 2021 Game Cooperation Framework Agreement and revised the relevant annual caps. As disclosed in the aforementioned announcements, 2021 Game Cooperation Framework Agreement and its annual caps will expire on 31 December 2023.

Reference is made to the announcement of the Company dated November 10, 2023 in relation to, among other things, Shenzhen iDreamSky and Tencent Computer entering into the 2024 Game Cooperation Framework Agreement to renew the Game Cooperation Framework Agreement.

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The principal terms of the 2024 Game Cooperation Framework Agreement are as follows:

Date: 10 November 2023

Parties: (1) Shenzhen iDreamSky; and
(2) Tencent Computer

Term: From 1 January 2024 to 31 December 2026

Subject matter: Pursuant to the 2024 Game Cooperation Framework Agreement, the Group and Tencent Group agreed to:

- (i) license games of the Group to be published and operated on the platforms of Tencent Group; and
- (ii) license games of Tencent Group to be distributed and operated on the Group's platforms.

The precise manner, scope, relevant commission rate, applicable payment channel and other details of the arrangement of cooperation subject concerned shall be agreed between the relevant parties separately.

Fee arrangement: Based on the specific content of the projects and manners of co-operation, relevant revenue distribution shall be calculated in accordance with any of the following basis:

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

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Pricing Policy

Relevant fees under the 2024 Game Cooperation Framework Agreement 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. In determining such fees, the Company will endeavor to seek cooperation with at least two other Independent Third Parties to the extent practicable in the commercial field, and compare the commercial terms provided by such Independent Third Parties with those provided by Tencent Group. In particular, the Company's development manager of the relevant games and the business manager responsible for such project will solicit quotes from at least two Independent Third Parties and submit a report summarizing the key cooperation terms to the Company's director of the game development department and head of the general office for review. It will be submitted to the Company's operation and management team (including the Company's chief executive officer, chief technology officer, chief financial officer, chief human resources officer and directors of each game studio, etc.) for approval. When it is unable to obtain a quote from more than two other Independent Third Parties due to the nature of the gaming industry, the difference in game genres that third party companies are adept in, the different customer bases of different game genres and other commercial reasons, the Company will compare the commercial terms provided by Tencent Group with the terms provided by at least one Independent Third Party, with reference to the business terms and cooperation models of other companies in the industry of similar types of business, and demonstrate from multiple perspectives (including but not limited to the historical successful cases of operating similar games, the unique technologies required to operate different types of games, the revenue sharing model and sharing ratio) whether it is the best option to cooperate with Tencent Group.

Historical Annual Caps And Historical Amounts

The annual caps for the relevant transactions under the 2021 Game Cooperation Framework Agreement for the three years ending 31 December 2023 are set out as follows:

	For the year ended 31 December		
	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 distributing the Group's games)	19,800	23,760	28,512

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	For the year ended 31 December		
	2021 (RMB'000)	2022 (RMB'000)	2023 (RMB'000)
(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 the Group's 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 the Group for publishing and operating of the games of Tencent Group)	36,866	42,556	58,127
(d) Customized development fees payable by Tencent Group to the Group (i.e. where Tencent Group engages the Group for development of Tencent Group's games of certain specialized areas)	21,667	21,667	21,667

The actual transaction amounts of the relevant transactions for the two years ended 31 December 2022 and the nine months ended 30 September 2023 are set out as follows:

	For the year ended 31 December		For the nine months ended 30 September
	2021 (RMB'000)	2022 (RMB'000)	2023 (RMB'000) (unaudited)
(a) Distribution fees paid by the Group to Tencent Group (i.e. where the Group engages Tencent Group for distributing the Group's games)	6,928	9,934	9,549
(b) Licensing fees paid by Tencent Group to the Group in the form of revenue sharing (i.e. where the Group engages Tencent Group for publishing of the Group's games and games licensed to the Group by third parties)	33,905	35,893	68,496
(c) Licensing fees paid by the Group to Tencent Group (i.e. where Tencent Group engages the Group for publishing and operating the games of Tencent Group)	—	39,637	26,396

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	For the year ended 31 December		For the nine months ended
	2021	2022	30 September 2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i> (unaudited)
(d) Customized development fees paid by Tencent Group to the Group (i.e. where Tencent Group engages the Group for development of Tencent Group's games of certain specialized areas)	—	8,321	—

Annual Caps and their Bases of Determination

The proposed annual caps for the Promotion Transactions and Distribution Transactions under the 2024 Game Cooperation Framework Agreement for the three years ending 31 December 2026 are set out as follows:

	For the year ended 31 December		
	2024	2025	2026
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
(a) Promotion Transaction ⁽¹⁾ : Distribution fees and licensing fee payable by the Group to Tencent Group	61,800	65,760	70,512
(b) Distribution Transaction ⁽²⁾ : Licensing fees payable by Tencent Group to the Group in the form of revenue sharing	303,400	354,900	298,400

Notes:

- (1) Refers to the engagement of Tencent Group for distributing the Group's games by the Group, or the licensing of games to the Group for operation by Tencent Group. Among which, (i) for the engagement of Tencent Group for distributing the Group's game, Tencent Group distributes the Group's games as a game joint operation channel. The Group recognizes the game revenue paid by users through these joint operation channels as total revenue, and pays distribution fees to Tencent Group based on a prescribed percentage, ranging from 30% to 60%, of the gross billings of the relevant games, after deducting certain costs and fees (including channel bad debts, cancelled payments and refunds, etc.); (ii) for the licensing of games to the Group for operation by Tencent Group, the Group is responsible for the operation of those games, which includes determining payment channels, providing customer service, service specifications and pricing, etc. The Group recognizes the total game revenue paid by users as revenue, and pays licensing fees to Tencent Group based on a prescribed percentage, ranging from 20% to 40%, of the gross billings of the relevant games, after deducting certain costs and fees (including channel fees and bad debts, etc.).

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- (2) Refers to the Group's games being exclusively licensed to Tencent Group for operation in specific areas. Tencent Group is responsible for the operation of those games, which includes determining payment channels, providing customer service, service specifications and pricing, etc. The Group is responsible for the content development of those games, version updates and daily technical maintenance, etc. Tencent Group pays the Group licensing fees, based on (i) a fixed amount (follow industry practice and based on the R&D cost of developers, while the specific amount is agreed by the parties after negotiation in accordance with the specific circumstances), and/or (ii) a prescribed percentage, ranging from 20% to 40%, of the gross billings of the relevant games, after deducting certain costs and fees (including channel fees and bad debts, etc.).

With reference to the historical amounts between the Group and Tencent Group, the proposed annual caps were determined based on the future business growth of the Group after arm's length discussion with Tencent Group. In particular:

- (a) In determining the above proposed annual caps in respect of the Promotion Transactions, the annual caps have been determined by the Directors based on the historical distribution fees and licensing fee paid by the Group to Tencent Group for the two years ended 31 December 2022 and the nine months ended 30 September 2023. The growth rate is determined by the Company based on the assumed growth in the Company's business, the operational capacity of the Group and the estimated revenue that may be generated from the games with reference to the historical transaction amount during the term of 2021 Game Cooperation Framework Agreement.
- (b) In determining the above proposed annual caps in respect of the Distribution Transactions, the Directors have considered the number and scale of the games owned by the Group and the games to be licensed by the Group to Tencent Group and the revenue expected to be generated with reference to the historical operating data, including monthly active users, users' spending patterns and reactivity on marketing activities, churn rate and game life-cycle of a comparable competitive game and other selected mobile and PC games. In particular, taking into account (i) the general popularity of game platforms under Tencent Group, and (ii) the licensing fees for certain games of the Group are expected to increase steadily, including the Company's self-developed game Calabiyau (卡拉彼丘), which has been licensed to be published by Tencent Group. The domestic PC version of the game was launched in August 2023 and was well-received by the market upon its launch. The historical operating data of the domestic PC version of Calabiyau since its commercial launch are as follows: average weekly active users reached 0.7 million, average monthly active users reached over 0.3 million, users' average daily online timespan was over 120 minutes, and average income from each paid users was over RMB200. As the characters, gameplay and content of the game continue to be enriched, the Company expects that the game will bring stable growth in cash flow to the Company in 2024 and subsequent years. Moreover, the Company expects that the domestic mobile game version of the game will be launched in 2024 and will still be licensed to Tencent Group for distribution. The launch of the

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mobile game version will also bring significant growth in revenue. While determining the proposed annual caps, the Company has also made reference to the historical operating data of other comparable shooting games and other selected PC and mobile games, including their monthly active users, users' spending patterns and reactivity on marketing activities, churn rate and game life-cycle. In addition, the games that the Company will also publish and jointly operate through the Tencent Group's platforms include Ni No Kuni: Crossed World (二之國：交錯世界) and Delta Force: Hawk Ops (三角洲行動), etc., which are expected to be launched progressively in 2024. Such new games will also bring new revenue growth points. The proposed annual caps for the Distribution Transactions under the 2024 Game Cooperation Framework Agreement are also consistent with the lifecycles of the above games.

In determining the proposed annual caps, the Company has also referred to factors such as the monthly turnovers and lifecycle profile of comparable games in the industry which are similar to the Company's games, as well as the costs and expenses to be incurred and charged by Tencent Group (e.g. platform fees and commissions from payment channels).

Reasons for and Benefits of the 2024 Game Cooperation Framework Agreement

Tencent Group owns a large amount of well-received game products and game platforms, and the Group has been dedicated to the production and operation of popular games. It is expected that Tencent Group and the Group could leverage on each other's competitive advantages in products and platforms and game development capabilities to improve the popularity of games owned by each other and increase the number of platform users.

Internal Control Measures

In order to ensure that the terms under relevant framework agreements for the continuing connected transactions (including 2024 Game Cooperation Framework Agreement) are fair and reasonable, and no less favourable to the Group than terms available to or from Independent Third Parties, and the connected transactions are carried out under normal commercial terms, the Group has adopted the following internal control procedures:

- (a) in order to ensure that the distribution fees and licensing fees payable by the Group to Tencent Group are fair and reasonable and on normal commercial terms, the Company will endeavor to seek cooperation with at least two other Independent Third Parties to the extent practicable in the commercial field, and compare the commercial terms provided by such Independent Third Parties with those provided by Tencent Group. When it is unable to obtain more than two other Independent Third Parties due to commercial reasons, the Company will compare the commercial terms provided by

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Tencent Group with the terms provided by at least one Independent Third Party, and demonstrate from multiple perspectives whether it is the best option to cooperate with Tencent Group;

- (b) the Board and various internal departments of the Company (including finance, legal and compliance, business operation, and internal audit departments) will be jointly responsible for evaluating the terms under relevant framework agreements for the continuing connected transactions (including 2024 Game Cooperation Framework Agreement), in particular, the fairness and reasonableness of the pricing policies and proposed annual caps under each transaction;
- (c) all members of the Group will be required to report to the finance department of the Company, and the finance department will closely monitor, the actual transaction amounts relating to the continuing connected transactions (including 2024 Game Cooperation Framework Agreement) on a monthly basis. If the actual transaction amount reaches 85% of the proposed annual caps of the relevant continuing connected transactions at any time, the matter shall promptly be escalated to the chief financial officer, who will seek advice from the audit committee of the Company and the Board for appropriate measures, including but not limited to revising the relevant proposed annual caps in accordance with the requirements of the Listing Rules, if necessary. The Company believes that the abovementioned 85% cap is a reasonable and effective threshold, given that it will provide the Company with plenty of time to take appropriate measures immediately before the actual transaction amounts exceed the proposed annual caps, i.e. reduce and/or control the transaction amounts and/ or revise the proposed annual caps in accordance with the Listing Rules.

In terms of Tencent Group game distribution, the finance department of the Company will record and track the income generated by Tencent Group game distribution on a regular basis under the financial control system of the Company, and prepare a monthly report to check the gaming transaction amount and payment channels. The finance department will, at the end of each month, reconcile and confirm the amount of relevant monthly transactions with Tencent Group with the amount recorded in Tencent Group's system as soon as practicable. The historical deviation of the transaction amounts recorded in the systems of the Group and Tencent Group is generally small, ranging from approximately 5% to 10%. In the future, based on the audit records of the finance department on the financial control system of the Company, the above measures will be taken immediately when it is informed that the distribution fee payable by the Group to Tencent Group under the 2024 Game Cooperation Framework Agreement is reasonably expected to reach 85% of the proposed annual caps. In addition to the checking and reporting process, the finance department will also take note of any early indications

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that the actual transaction amount may exceed the proposed annual caps, such as analysing the trend of expected revenue to be generated from Tencent Group game distribution on a monthly basis;

- (d) prior to renewing the existing business and/or entering into a new form of business with any connected person, the relevant business operation department shall first report to the finance, legal and compliance departments, and the senior management shall assess whether the scope and relevant proposed annual caps of the existing continuing connected transactions should be amended and/or new framework agreement should be entered into for such new transactions;
- (e) the Company will arrange regular training for its employees, including the business operation, finance, legal and compliance departments, to strengthen their familiarity with the Listing Rules and enhance their awareness of the compliance with the relevant internal control procedures relating to the Group's continuing connected transactions;
- (f) the Company's internal audit team will monitor the effectiveness and adequacy of the internal control measures, and will make recommendation and report to the audit committee of the Company on a regular basis; and
- (g) the independent non-executive Directors and auditor of the Company will conduct annual review of the continuing connected transactions under such framework agreements and provide annual confirmation in accordance with the Listing Rules to ensure that the transactions are conducted on normal commercial terms and in accordance with the pricing policy.

The Board is of the view that the above internal control measures will provide comprehensive oversight of the Company's continuing connected transactions and closely monitoring the proposed annual caps, and enhance the awareness and accountability of internal departments in complying with the relevant rules in relation to the Company's continuing connected transactions. The Board considers that the above internal control measures are sufficient and effective.

Opinion from the Board

The Directors (including the independent non-executive Directors) are of the view that the terms of the 2024 Game Cooperation Framework Agreement were determined after arm's length negotiation, and the transactions contemplated thereunder (including the proposed annual caps for the three years ending 31 December 2026) 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.

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Mr. Yang Ming, a Director, is currently an employee of Tencent and has therefore abstained from voting on the relevant Board resolutions approving the 2024 Game Cooperation Framework Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors is required to abstain from voting due to having a material interest in the 2024 Game Cooperation Framework Agreement and the transactions contemplated thereunder.

Independent Shareholders' Approval

The Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps are subject to the Independent Shareholders' approval at the EGM.

Given that Tencent has material interests in the 2024 Game Cooperation Framework Agreement, and as at the Latest Practicable Date, Tencent holds 249,141,192 Shares through its wholly-owned subsidiary, Tencent Mobility Limited, representing approximately 15.82% of the issued share capital of the Company, Tencent Mobility Limited, a wholly-owned subsidiary of Tencent, will abstain from voting on the resolution in relation to the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed Annual Caps.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, there are no Shareholders that were required to abstain from voting on the resolution in relation to the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps at the EGM.

Information of the Parties

As a leading digital entertainment platform in the PRC, the Group's main businesses include the online high-quality 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 the PRC, mainly engaged in the R&D, distribution and operation of games through mobile applications and websites.

Tencent is a limited liability company organized and existing under the laws of the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700). Through its subsidiaries, Tencent principally provides value-added services, online advertising, FinTech and business services to users mainly in the PRC. Tencent Computer is a subsidiary of Tencent and is principally engaged in the business of provision of value-added services in the PRC.

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Listing Rules Implications

As at the Latest Practicable Date, Tencent holds approximately 15.82% of the issued share capital of the Company through its wholly-owned subsidiary Tencent Mobility Limited, and Tencent Computer is a subsidiary of Tencent. Therefore, Tencent Computer is a connected person of the Company, and the 2024 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) calculated on an annual basis in respect of the proposed annual caps for the Promotion Transactions contemplated under the 2024 Game Cooperation Framework Agreement exceeds 0.1% but is lower than 5%, the Promotion Transactions contemplated under the 2024 Game Cooperation Framework Agreement are therefore subject to the requirements of the reporting, announcement and annual review under Chapter 14A of the Listing Rules, but are exempt from the Independent Shareholders' approval requirements.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) calculated on an annual basis in respect of the proposed annual caps for the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement is more than 5%, the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement are therefore subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

4. EGM

A notice convening the EGM is set out on pages 68 to 71 of this circular to consider the resolutions relating to (i) the proposed refreshment of the Existing General Mandate and (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement as well as its proposed annual caps.

(i) The proposed granting of the Refreshed General Mandate and (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps are subject to the Independent Shareholders' approval at the EGM. The Independent Board Committee comprising all independent non-executive Directors has been established to advise Independent Shareholders in respect of the aforesaid; Somerley has been appointed as the Independent Financial Adviser to advise Independent Board Committee and Independent Shareholders in respect of the aforesaid.

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5. ACTIONS TO BE TAKEN

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.idreamsky.com. If you do not intend or are unable to attend the EGM and wish to appoint a proxy/proxies to attend and vote on your behalf, you are requested to complete the form of proxy and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting if you so wish, and in such event the form of proxy shall be deemed to be revoked.

6. CLOSURE OF THE REGISTER OF MEMBERS

To ascertain the Shareholders' entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 21 December 2023 to Thursday, 28 December 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 20 December 2023.

7. VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the EGM will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

As the proposed granting of the Refreshed General Mandate will be submitted to the Shareholders prior to the next annual general meeting of the Company, pursuant to Rule 13.36(4) of the Listing Rules, the Refreshed General Mandate is subject to the Independent Shareholders' approval at the EGM. Any controlling shareholders and their respective associates or, where there are no controlling shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the relevant resolution to approve the proposed Refreshed General Mandate.

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As at the Latest Practicable Date, the Company has no controlling shareholders, however, (i) Brilliant Seed Limited is wholly-owned by Mr. Chen Xiangyu, an executive Director, Chairman of the Board and Chief Executive Officer of the Company, and Mr. Chen Xiangyu as the beneficial owner and through Brilliant Seed Limited held 26,720,800 Shares and 236,599,922 Shares, respectively, representing approximately 1.70% and 15.03% of the issued share capital of the Company, respectively; (ii) Bubble Sky Limited is wholly-owned by Mr. Guan Song, an executive Director, and Mr. Guan Song as the beneficial owner and through Bubble Sky Limited held 14,978,000 Shares and 19,016,020 Shares, respectively, representing approximately 0.95% and 1.21% of the issued share capital of the Company, respectively; (iii) Shipshape Holdings Limited is wholly-owned by Mr. Jeffrey Lyndon Ko, an executive Director, and Mr. Jeffrey Lyndon Ko through Shipshape Holdings Limited held 13,965,000 Shares, representing approximately 0.89% of the issued share capital of the Company; and (iv) Mr. Yang Jialiang, an executive Director held 210,000 Shares, representing approximately 0.01% of the issued share capital of the Company. Therefore, Mr. Chen Xiangyu, Mr. Guan Song, Mr. Jeffrey Lyndon Ko and Mr. Yang Jialiang and their respective associates will abstain from voting on the resolution in relation to the proposed refreshment of the Existing General Mandate.

The Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps are subject to the Independent Shareholders' Approval at the EGM.

Given that Tencent has material interests in the 2024 Game Cooperation Framework Agreement, and as at the Latest Practicable Date, Tencent holds 249,141,192 Shares through its wholly-owned subsidiary Tencent Mobility Limited, representing approximately 15.82% of the issued share capital of the Company, Tencent Mobility Limited, a wholly-owned subsidiary of Tencent, will abstain from voting on the resolution in relation to the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps.

Saved as disclosed above, to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the Latest Practicable Date, (i) there are no Shareholders that were required under the Listing Rules to abstain from voting at the EGM; (ii) there are no Shares entitling the Shareholders to attend and abstain from voting in favour of the relevant resolutions at the EGM; (iii) there are no Shareholders who are subject to any limitations in relation to voting for the relevant resolutions at the EGM; (iv) there are no Shareholders who are entitled to attend the EGM but are only entitled to vote against the relevant resolutions at the EGM; and (v) there are no Shareholders who stated their intention in the circular to vote against or to abstain from voting on the relevant resolutions at the EGM.

LETTER FROM THE BOARD

8. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that (i) the proposed granting of the Refreshed General Mandate and (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. Accordingly, the Board (including the independent non-executive Directors) recommends Independent Shareholders to vote in favour of the ordinary resolutions relating to (i) the proposed granting of the Refreshed General Mandate and (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps to be proposed at the EGM.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that:

- (i) the proposed granting of the Refreshed General Mandate is fair and reasonable and in the interests of the Company and its Shareholders as a whole; and
- (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement (including the proposed annual caps for the three years ending 31 December 2026) 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.

Accordingly, the Independent Board Committee recommends Independent Shareholders to vote in favour of the resolutions relating to (i) the proposed granting of the Refreshed General Mandate and (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps to be proposed at the EGM.

LETTER FROM THE BOARD

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 32 to 33 of this circular, which contains its recommendation to the Independent Shareholders in relation to (i) the proposed granting of the Refreshed General Mandate; and (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps. Your attention is also drawn to the letter of advice from the Independent Financial Adviser as set out on pages 34 to 61 of this circular, which contains its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the aforesaid. You are advised to read these letters from the Independent Board Committee and the Independent Financial Adviser before deciding how to vote on the resolutions at the EGM.

Yours faithfully,

By order of the Board

iDreamSky Technology Holdings Limited

Chen Xiangyu

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the proposed refreshment of the Existing General Mandate and the renewal of the game cooperation framework agreement.



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)

11 December 2023

To the Independent Shareholders

Dear Sirs or Madams,

PROPOSED REFRESHMENT OF EXISTING GENERAL MANDATE AND THE RENEWAL OF THE GAME COOPERATION FRAMEWORK AGREEMENT

We wish to draw your attention to the circular dated 11 December 2023 issued by the Company to the Shareholders (the “**Circular**”) of which the letter forms part. Unless otherwise stated, terms used herein have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether (i) the proposed refreshment of the Existing General Mandate and (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to recommend how the Independent Shareholders should vote at the EGM.

Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

After taking into account the Letter of the Board and the advice of the Independent Financial Adviser as set out the Circular, we consider that:

- (i) the proposed granting of the Refreshed General Mandate is fair and reasonable and in the interests of the Company and its Shareholders as a whole; and

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

(ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement (including the proposed annual caps for the three years ending 31 December 2026) 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.

Our view related to fairness and reasonableness is based on information, facts and circumstances currently prevailing.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve (i) the granting of the Refreshed General Mandate and (ii) the Distribution Transactions contemplated under the 2024 Game Cooperation Framework Agreement and its proposed annual caps.

Yours faithfully,

The Independent Board Committee

Ms. Yu Bin

Mr. Li Xintian

Mr. Zhang Weining

Mr. Mao Rui

Independent Non-executive Directors

LETTER FROM SOMERLEY

The following is the text of the letter of advice from Somerley, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor

China Building

29 Queen's Road Central

Hong Kong

11 December 2023

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED REFRESHMENT OF EXISTING GENERAL MANDATE AND PROPOSED RENEWAL OF THE GAME COOPERATION FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the proposed granting of the Refreshed General Mandate, comprising the Refreshed Issue Mandate and the Refreshed Extension Mandate, and (ii) the licensing fees payable by Tencent Group to the Group under the cooperation between the Group and Tencent Group on distribution of the Group's games through the platforms of Tencent Group (i.e. the Distribution Transactions), including the proposed annual caps for the three years ending 31 December 2026 (the "**Proposed Annual Caps**"), pursuant to the 2024 Game Cooperation Framework Agreement. Details of the Refreshed General Mandate and the Distribution Transactions, including the Proposed Annual Caps, are contained in the circular of the Company to the Shareholders dated 11 December 2023 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

As the proposed granting of the Refreshed General Mandate is being made prior to the Company's next annual general meeting, pursuant to Rule 13.36(4) of the Listing Rules, the Refreshed General Mandate is subject to the Independent Shareholders' approval by way of an

LETTER FROM SOMERLEY

ordinary resolution at the EGM. Any controlling Shareholders and their respective associates or, where there is no controlling Shareholder, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates, shall abstain from voting in favour of the relevant resolution with respect to the proposed granting of the Refreshed General Mandate.

As at the Latest Practicable Date, the Company has no controlling shareholder. Therefore, Mr. Chen Xiangyu, Mr. Guan Song, Mr. Jeffery Lyndon Ko and Mr. Yang Jialiang, each an executive Director, and their respective associates, shall abstain from voting in favour of the relevant resolution with respect to the proposed granting of the Refreshed General Mandate. As confirmed by the Company, Mr. Zhang Han and Mr. Yang Ming, each a non-executive Director, were not interested in any Shares as at the Latest Practicable Date.

As at the Latest Practicable Date, Tencent indirectly holds approximately 15.8% 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 Distribution Transactions 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) in respect of the Proposed Annual Caps exceeds 5%, the Distribution Transactions (including the Proposed Annual Caps) are subject to the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of Tencent's material interests in the 2024 Game Cooperation Framework Agreement, Tencent and its associates shall abstain from voting on the relevant resolution with respect to the Distribution Transactions (including the Proposed Annual Caps) to be proposed at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Yu Bin, Mr. Li Xintian, Mr. Zhang Weining, and Mr. Mao Rui, has been established to advise the Independent Shareholders as to whether (i) the proposed granting of the Refreshed General Mandate is fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole, and (ii) the Distribution Transactions (including the Proposed Annual Caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. We, Somerley, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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During the past two years, there were no engagements between the Company and Somerley. As at the Latest Practicable Date, there were no relationships or interests between (i) Somerley and (ii) the Group, Tencent Group, or their respective substantial shareholders, subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that such information, facts and opinions were true, accurate and complete in all material aspects and will remain so up to the time of the EGM. We have reviewed, among others, the relevant information contained in (i) the 2024 Game Cooperation Framework Agreement, (ii) the annual report of the Company for the year ended 31 December 2022, (iii) the interim report of the Company for the six months ended 30 June 2023, and (iv) the Circular. We have also discussed with the management of the Group regarding the businesses and funding needs of the Group, the utilisation status of the Existing General Mandate granted to the Directors at the Company's annual general meeting held on 30 June 2023 (the "**2022 AGM**"), as well as the reasons for and benefits for the Refreshed General Mandate. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been omitted or withheld from us, or to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have, however, not conducted any independent investigation into the business, affairs and financial position of the Group, Tencent Group and their respective subsidiaries or associates, nor have we carried out any independent verification of the information supplied.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on (i) the proposed granting of the Refreshed General Mandate, and (ii) the Distribution Transactions (including the Proposed Annual Caps), we have taken into consideration the following principal factors and reasons:

A. Information on the Group

The Group is currently principally engaged in game development, operation and distribution in the PRC. As one of the leading digital entertainment platform in the PRC, the Group's main businesses include (i) game business, including (a) publishing and self-development of high-quality games, such as Glory All Stars (榮耀全明星), an action role-playing game, and (b) operation of third party licensed games, such as Gardencapes (夢幻花園) and Homescapes (夢幻家園), each a match-three puzzle game, and Subway Surfers (地鐵跑酷) and Temple Run (神廟逃亡), each an endless running game; and (ii) Fanbook, an instant messaging user community tool developed and launched by the Group for its operation of games. In addition, the Group distributes games through third-party distribution channels and platforms, such as those operated by Tencent Group. Shenzhen iDreamSky is a consolidated affiliated entity of the Company in the PRC, and it is mainly engaged in the research and development, distribution and operation of games through mobile applications and websites.

Shares of the Company are listed on the Stock Exchange and the Company had a market capitalisation of approximately HK\$3.8 billion as at the Latest Practicable Date.

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B. Proposed Refreshment of Existing General Mandate

1. Financial information of the Group

Financial performance

The following table set out a summary of consolidated statements of comprehensive income of the Group for the two years ended 31 December 2021 and 2022, and for the six months ended 30 June 2022 and 2023, as extracted and summarised from the Company's 2022 annual report and 2023 interim report:

	For the six months ended		For the year ended	
	30 June		31 December	
	2023	2022	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(audited)	(audited)
Revenues	1,121,245	1,381,472	2,734,124	2,637,637
Cost of revenues	(615,476)	(782,968)	(2,312,924)	(1,534,296)
Gross profit	505,769	598,504	421,200	1,103,341
Gross profit margin	45.1%	43.3%	15.4%	41.8%
Selling and marketing expenses	(115,248)	(426,229)	(1,138,693)	(509,687)
General and administrative expenses	(42,911)	(87,616)	(122,455)	(250,120)
Research and development expenses	(141,603)	(184,379)	(322,638)	(325,201)
Impairment losses on intangible assets	(920)	(27,238)	(752,293)	(49,673)
Net impairment losses on financial assets and contract assets	(68,518)	(46,188)	(360,928)	(20,580)
Finance costs, net	(110,681)	(72,715)	(176,481)	(70,033)
Others	15,187	22,606	(124,770)	(59,227)
Profit/(loss) before income tax for the period/year	41,075	(223,255)	(2,577,058)	(181,180)
Income tax (expense)/credit	(485)	1,255	(12,859)	25,250
Profit/(loss) after taxation for the period/year	40,590	(222,000)	(2,589,917)	(155,930)
Adjusted profit/(loss) for the period/year (Note)	201,831	(51,027)	(642,906)	110,799

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Note: Derived from profit/loss for the period/year excluding (i) share-based compensation expenses, (ii) fair value gains or losses on financial assets, (iii) impairment provision of contract assets, (iv) impairment provision of investments in associates, (v) fair value change from convertible bonds classified as financial liabilities at fair value through profit or loss, (vi) interest expense on convertible bonds, (vii) impairment provision of goodwill resulting from a business combination, (viii) provision for impairment of intangible assets, (ix) provision for impairment of financial assets, (x) provision for impairment of prepayments, (xi) (starting from the first half of 2023) losses from the intellectual property derivatives business segment, which has been discontinued since February 2023, and (xii) exchange losses/gains, net, as applicable, as extracted from the Company's 2022 annual report and 2023 interim report

Revenues of the Group, mainly generated from game and information services, raised to approximately RMB2,734.1 million in 2022, representing an increase of approximately 3.7% from approximately RMB2,637.6 million in 2021. The Company's core games in operation had a steady performance in 2022. Glory All Stars (榮耀全明星), the Group's self-developed game launched in August 2021, contributed over RMB1.0 billion in gross billings in 2022. In the first half of 2023, revenues of the Group decreased by approximately 18.8% to approximately RMB1,121.2 million, from approximately RMB1,381.5 million in the first half of 2022, mainly due to the further reduction of operation of the Group's non-core games and hence lower operating revenues from non-core games.

While revenues of the Group remained largely stable in 2021 and 2022, gross profit dropped substantially from approximately RMB1,103.3 million in 2021 to approximately RMB421.2 million in 2022, with gross profit margin decreased from approximately 41.8% in 2021 to approximately 15.4% in 2022. The decreases were mainly attributable to an impairment of approximately RMB533.1 million made for the prepaid royalties for certain terminated games and products. In the first half of 2023, gross profit of the Group decreased to approximately RMB505.8 million, from approximately RMB598.5 million in the first half of 2022, largely due to the decrease in revenues. Gross profit margin improved slightly from approximately 43.3% in the first half of 2022 to approximately 45.1% in the first half of 2023.

Significant amounts of impairment losses on intangible assets, financial assets and contract assets were recorded in 2022, amounting to approximately RMB1,113.2 million, which mainly related to the impairments of certain game royalties and prepaid revenue sharing to game developers, as a result of the Group's strategic focus on core games, the gradual termination of non-core games and products, and the insufficient solvency of certain partners which were negatively impacted by the pandemic and the changes in the industry ecosystem.

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Net finance costs of the Group mainly comprised interest expenses on convertible bonds and bank borrowings, as well as related foreign exchange losses/gains. The amount increased by approximately 1.5 times in 2022 to approximately RMB176.5 million, from approximately RMB70.0 million in 2021. In the first half of 2023, the net finance costs increased by approximately 52.2% to approximately RMB110.7 million, as compared to approximately RMB72.7 million in the first half of 2022. The above increases were mainly due to (i) the foreign exchange losses arising from the Euro-denominated bank borrowings in 2022, and (ii) the continuous increase in interest expense on certain convertible bonds and bank borrowings.

Loss after taxation of the Group increased significantly from approximately RMB155.9 million in 2021 to approximately RMB2,589.9 million in 2022, mainly due to (i) the increase in impairment losses as explained above, (ii) the significant increase in selling and marketing expenses as a result of the promotion for key products including brand marketing, as well as the performance-based marketing on major traffic platforms and other channels, and (iii) the decrease in gross profit as explained above. The Group recorded a profit after taxation of approximately RMB40.6 million in the first half of 2023, as opposed to a loss of approximately RMB222.2 million in the first half of 2022, mainly attributable to the decrease in selling and marketing expenses as a result of the continuous improvement in customer acquisition efficiency and refined operation during the period.

Adjusted loss of the Group was approximately RMB642.9 million in 2022, as opposed to an adjusted profit of approximately RMB110.8 million in 2021, mainly due to the decrease in gross profit and the increase in selling and market expenses as mentioned above. In the first half of 2023, the Group recorded an adjusted profit of approximately RMB201.8 million, as opposed to an adjusted loss of RMB51.0 million in the first half of 2022, mainly attributable to the decrease in selling and marketing expenses.

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Financial position

The following table sets out a summary of the consolidated statements of financial position of the Group as at 31 December 2022 and 30 June 2023, as extracted and summarised from the Company's 2022 annual report and 2023 interim report:

	As at 30 June 2023 <i>RMB'000</i> (unaudited)	As at 31 December 2022 <i>RMB'000</i> (audited)
Assets		
Intangible assets	998,120	1,004,718
Trade receivables	561,022	724,932
Prepayments and other receivables	1,089,212	1,087,850
Financial assets at fair value through profit or loss	449,828	474,754
Restricted cash	73,884	87,099
Cash and cash equivalents	190,211	90,527
Other assets	766,545	853,838
Total assets	4,128,822	4,323,718
Liabilities		
Borrowings	1,027,010	1,011,241
Convertible bonds	541,778	492,261
Trade and other payables and accruals	411,183	668,185
Other liabilities	282,213	357,489
Total liabilities	2,262,184	2,529,176
Equity		
Share capital, share premium and treasury shares	3,291,884	3,291,884
Reserves	845,703	800,985
Accumulated losses	(2,455,062)	(2,472,523)
Equity attributable to equity holders of the Company	1,682,525	1,620,346
Non-controlling interests	184,113	174,196
Total equity	1,866,638	1,794,542

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As at 30 June 2023, major assets of the Group included (i) prepayments and other receivables of approximately RMB1,089.2 million, mainly comprising prepaid revenue sharing to game developers and the prepaid advertising expenses, (ii) intangible assets of approximately RMB998.1 million, mainly representing certain game intellectual properties and licenses measured at cost less amortisation, (iii) trade receivables of approximately RMB561.0 million, (iv) financial assets at fair value through profit or loss of approximately RMB449.8 million, mainly comprising debt securities, wealth management products and certain investments in unlisted and listed entities mainly operated in the PRC, USA, Korea and Singapore, and (v) cash and cash equivalents and restricted cash of approximately RMB264.1 million in total.

As at 30 June 2023, major liabilities of the Group included (i) bank and other borrowings of approximately RMB1,027.0 million, out of which approximately RMB675.7 million, or approximately 65.8% of total, were repayable within one year, (ii) carrying value of convertible bonds of approximately RMB541.8 million, representing the convertible bonds due 2025 with an aggregate principal amount of HK\$775.0 million (the “**2025 Convertible Bonds**”), which were subsequently repurchased in full by October 2023, and (iii) trade and other payables and accruals of approximately RMB411.2 million. As at 30 June 2023, the long-term bank borrowings and short-term bank borrowings bore weighted average interest rate of approximately 3.9% and 4.6% per annum respectively.

As at 31 December 2022, the Group’s current liabilities exceeded its current assets by RMB329.5 million. Subsequently, it turned around into a net current assets position of approximately RMB162.3 million as at 30 June 2023.

As at 30 June 2023, the Group had net debt (calculated as the sum of total borrowings, convertible bonds, interest payable and lease liabilities minus cash and cash equivalents and restricted cash) of approximately RMB1,329.1 million, as compared to approximately RMB1,444.4 million as at 31 December 2022, and gearing ratio (calculated as net debt divided by total equity) of approximately 71.2%, as compared to approximately 80.5% as at 31 December 2022.

Shareholders should note that the financial impacts arising from certain recent financing activities conducted by the Group after 30 June 2023, as further elaborated in the section below headed “2. Recent developments”, have not been reflected in the Group’s historical financial information as presented above.

2. Recent developments

As analysed in the section above, the Group recorded a net loss of approximately RMB2.6 billion for the year 2022. As at 31 December 2022, the Group had net current liabilities of approximately RMB329.5 million, total borrowings of approximately RMB1.0 billion and the 2025

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Convertible Bonds of HK\$775.0 million, while the Group had cash and cash equivalents of approximately RMB90.5 million. We note from the independent auditor's report as contained in the Company's 2022 annual report about the existence of material uncertainties that might cast significant doubt on the Group's ability to continue as a going concern, without modifying its opinion in respect of this matter. We also note that the Group did not comply with certain financial covenant requirement of a bank borrowing of approximately EUR59.8 million, which might cause certain borrowings and the 2025 Convertible Bonds become immediately due and payable should the lenders exercise their rights to demand immediate repayment under the relevant agreements.

Against this background, the Directors and management of the Group gave careful consideration to the future liquidity, operating performance and available resources of financing of the Group. In terms of operational aspects, the Group has been adjusting its business strategy to focus on the publishing and self-development of high-quality games, and gradually terminating non-core products and businesses, so as to improve the Group's revenue quality, profitability and cash generation capability. At the same time, the Group has been actively reviewing and optimising its cost structure and organisational structure in order to achieve cost reduction and efficiency improvement. In terms of financing aspects, in March 2023, the Group had fully settled the abovementioned EUR59.8 million bank borrowing by entering into a new facility of EUR40.0 million with the same bank and its own financial resources. The Group had also obtained and drawn down bank borrowings of approximately RMB688.3 million in the first half of 2023 for the repayment of certain bank borrowings.

In July 2023, the Company announced (i) the proposed repurchase of the 2025 Convertible Bonds pursuant to its terms and conditions (the "**July Bond Repurchase**"); (ii) the proposed placing of new Shares at HK\$3.1 each under the Existing General Mandate (the "**July Share Issue**"); and (iii) the proposed issue of convertible bonds of HK\$386.0 million due 2028 (the "**2028 Convertible Bonds**") under the Existing General Mandate (the "**July CB Issue**"). Both the July Share Issue and the July CB Issue were completed in the same month, with an estimated net proceeds of approximately HK\$873.0 million (after deduction of commission and other estimated expenses payable). The principal amount of HK\$758.0 million of the 2025 Convertible Bonds was repurchased under the July Bond Repurchase, and the remaining principal amount of HK\$17.0 million was repurchased in October 2023.

The Directors stated in the relevant announcements that the July Share Issue and the July CB Issue could provide the Company with additional funds at lower funding cost for the purposes of funding the July Bond Repurchase and/or for general working capital, and it is in line with the interests of the Company to broaden its shareholder base and capital base, and that the July Bond Repurchase could improve the gearing ratio of the Group and optimise the capital structure of the

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Company, which is therefore in the interests of the Company and its Shareholders as a whole. As at the Latest Practicable Date, all net proceeds from the July Share Issue and the July CB Issue had been utilised for the stated purposes.

On 30 August 2023, the Company announced its intention to conduct an on-market share repurchase with a total amount not exceeding HK\$200.0 million, with a view to enhancing the value of the Shares, thereby improving the return to the Shareholders. Since then and up to the Latest Practicable Date, the Company had repurchased an aggregate of 1,130,800 Shares, representing approximately 0.07% of the total issued Shares of the Company.

In order to analyse the most recent financial and liquidity position of the Group, we have obtained the unaudited consolidated management accounts of the Group for the nine months ended 30 September 2023. We note that as at 30 September 2023, the Group had cash and cash equivalents and restricted cash of approximately RMB170.6 million in total and net current assets of approximately RMB565.2 million. On the same date, borrowings and convertible bonds of the Group amounted to approximately RMB1,359.2 million in total, out of which approximately RMB916.0 million were repayable within one year, with a majority maturing by the end of March 2024, as advised by the management of the Group. Gearing ratio of the Group was approximately 56.2% as at 30 September 2023, representing a reduction from approximately 71.2% as at 30 June 2023 mainly due to the July Share Issue.

3. Background to and reasons for the proposed granting of the Refreshed General Mandate

The Company has carried out a series of financing activities in 2023, as described in the previous sections. The July Share Issue and the July CB Issue were mainly to finance the July Bond Repurchase, and to a lesser extent for the Group's general working capital purpose. Based on our discussions with the management of the Group, the aims of the above financing activities were (i) to enhance the Group's liquidity by refinancing through the issuance of the convertible bonds which are now due in July 2028 (if not converted into Shares), (ii) to rebalance the Group's debt and equity mix to a more optimal level based on prevailing market conditions, and (iii) part of the Group's efforts to address the material uncertainties related to going concern as raised by the Company's auditor in the Company's 2022 annual report.

Following the above financing activities, we are advised by the management of the Group that the Group's financial position has improved, in particular that a positive net current assets position and a reduction in gearing ratio were recorded as at 30 September 2023. On the other hand, the Group's level of borrowings remained significant, with borrowings and convertible bonds in aggregate amounted to approximately RMB1,359.2 million as at 30 September 2023, out of which approximately RMB916.0 million were recognised in the Group's current liabilities and were repayable within one year. It would be in the Company's interests to have an additional

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channel to raise capital, as and when required, to lower the Group's level of debt, thereby reducing the relevant finance costs, or to address any future funding needs. As stated in the letter from the Board, as at the Latest Practicable Date, the Group had sufficient capital to meet its short-term needs from its existing businesses, but had limited cash resources to meet the long-term needs from the existing businesses, new potential research and development projects and new business development.

Business development needs

We have discussed with the management of the Group about the future funding needs of its business development plan, and are advised that the Group have been striving to bring high quality games through independent development in recent years, such as Calabiyau (卡拉彼丘), an anime-style competitive shooting game developed by the Group, the PC version of which was launched in August 2023 and the overseas PC version and mobile version are planned to launch as early as possible during the year 2024. The Group has also obtained, in December 2022, a publishing license of Ni No Kuni: Cross Worlds (二之國：交錯世界), a fantasy adventure RPG mobile game, which is expected to be launched in the first half of 2024. Management of the Group informed us that the Group currently expects to commit research expenditures of approximately RMB310 million in aggregate, in relation to the development of Calabiyau (卡拉彼丘) and Ni No Kuni: Cross Worlds (二之國：交錯世界) prior to their commercial launches, exceeding the level of the Group's cash currently on hands. To substantiate this, we have obtained and discussed with the management of the Group the underlying estimations, mainly taking into account, among others, (i) the commercial launch schedule, and (ii) the estimated monthly expenditures prior to the commercial launch, which are determined with reference to the historical monthly expenditures, for the abovementioned games.

The game development requires significant investments, as reflected by the Group's significant research and development expenses of over RMB300 million in each of the past three financial years. Going forward, we understand from the management that the Group will continue to deploy resources on game research and development and introduction of overseas games to the PRC market.

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Status of the Existing Issue Mandate and the Existing Extension Mandate

At the 2022 AGM, (i) the Existing Issue Mandate was granted to the Directors to allot, issue and/or deal with up to 282,079,669 Shares, representing 20% of the number of total issued Shares of the Company as at the date of the 2022 AGM, and (ii) the Existing Extension Mandate was granted to the Directors to extend the Existing Issue Mandate by an amount representing the aggregate amount of Shares repurchased under the Existing Repurchase Mandate.

As at the Latest Practicable Date, the Existing Issue Mandate had been utilised as to 164,177,200 Shares pursuant to the July Share Issue, and as to 106,043,956 Shares earmarked for the full conversion of the 2028 Convertible Bonds. As such, the Existing Issue Mandate has substantially been utilised, with the remaining number of Shares that can be issued pursuant to the Existing Issue Mandate of 11,858,513 Shares only representing approximately 4.2% of its original limit. Together with the Existing Extension Mandate allowing the Directors to re-issue an aggregate of 1,130,800 Shares recently repurchased up to the Latest Practicable Date, the Company can only issue a further 12,989,313 Shares before its next annual general meeting without requiring approval from the Shareholders, or approximately HK\$31.3 million assuming these Shares can be issued based on the closing price of HK\$2.410 per Share as at the Latest Practicable Date, a relatively small amount compared to the Company's consolidated total equity of approximately RMB1,866.6 million (or approximately HK\$2,050.8 million, based on the exchange rate of HK\$1 = RMB0.91016 as published by the People's Bank of China as at the Latest Practicable Date) as at 30 June 2023.

Reasons for and Benefits of the Refreshed General Mandate

As set out in the letter from the Board, as at the Latest Practicable Date, the Company had no definite arrangements for business expansion and financing plans for the year 2024. Despite the above, we concur with the Company's view that the Group has legitimate reasons to refresh the Existing General Mandate. If the Refreshed General Mandate is granted, it can allow flexibility for the Group to raise new fund via equity issue before its next annual general meeting, without the need to go through the lengthy process in obtaining further approval from the Shareholders. In view of the current depressed sentiment in the Hong Kong capital market, we consider it important for the Company to have the ability to grasp any future window of opportunity between now and the next annual general meeting, for example when there is an improvement in the market price of the Shares, to conduct equity financing efficiently and avoid the uncertainties that may result from not obtaining a specific mandate in a timely manner, if and when the Company enters into such transactions. Comparisons between the Refreshed General Mandate against other financing alternatives are further elaborated in the section below headed "4. Other financing alternatives".

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Taking into account that (i) the unutilised portion of the Existing Issue Mandate and the Existing Extension Mandate (approximately 4.6% of the granted limit) is very limited following the July Share Issue and the July CB Issue, (ii) the importance for the Group to have the flexibility to further rebalance its capital structure towards equity to reduce its level of debt and the relevant finance costs, in view of its current liquidity and financial resources, and (iii) the need for the Group to continue investing in its core business in game development, which requires substantial research and development expenditures, we consider that the proposed granting of the Refreshed General Mandate would afford the Company a greater financing flexibility, allowing the Company to respond promptly to the market and providing a more efficient process of financing should funding needs arise.

4. Other financing alternatives

Based on our discussions with the management of the Group, the Group has considered different forms of financing alternatives, including further debt financing and other forms of equity financing, such as rights issue or public offering, and the combination of both debt and equity financing, to fund its liquidity and capital expenditures, and this would depend on the Group's financial conditions, future development plans, market conditions and other commercial factors.

According to the management of the Group, sole reliance on debt financing (excluding convertible bonds) is not considered to be preferable given (i) the Group does not currently have meaningful amount of assets suitable to be pledged against additional borrowings; (ii) debt financing may be required to undergo a due diligence and negotiation process, and additional financial covenant requirements may be imposed by financial institutions on the Group, which would limit the Group's funding and operational flexibility, in particular given the recent non-compliance of financial covenant as discussed in the section above headed "2. Recent developments"; (iii) the current level of borrowings and gearing; and (iv) the fact that debt financing will inevitably impose an interest burden to the Group, which will in turn erode the Group's profitability and negatively affect refinancing ability.

As discussed earlier, the Group has recently obtained financing of about HK\$900 million following the July Share Issue and the July CB Issue, each pursuant to the Existing General Mandate. Given that the issue price of any new Shares and the initial conversion price of any new convertible bonds are generally determined with reference to the prevailing market price of the Shares, if the Refreshed General Mandate is granted, the Group would have a greater flexibility for the issuance of new Shares and new convertible bonds under the Refreshed General Mandate prior to the next annual general meeting, as and when needed, and does not require further approval from the Shareholders. Management of the Group considers that the issuance of new shares and

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new convertible bonds under the Refreshed General Mandate provides funding to the Group at a relatively lower funding cost and in a timely manner, strengthens the Group's financial position, and reduces the Group's gearing ratio as compared to pure debt financing.

In respect of other forms of equity financing, such as rights issue and public offering, the management of the Group are of the view that although rights issue and public offering would allow all Shareholders to participate in and maintain their respective pro-rata shareholding interests in the Company, there are relatively higher uncertainties when compared to equity financing by issuance of new Shares and new convertible bonds under the Refreshed General Mandate, for example, whether adequate funds could be raised from rights issue or public offering depending on market conditions and the acceptance level from the Shareholders, and it would require a relatively lengthy process to complete the financing exercises. In respect of the allotment and issue of new Shares under a specific mandate, the management of the Group consider it may not be suitable for the Company to grasp the equity financing opportunities in time as compared to that under the Refreshed General Mandate.

In our opinion, while all possible financing alternatives should be considered whenever there are funding needs by the Group and a decision should only be made after considering specific circumstances at the time, there are drawbacks for each of the alternatives as discussed above. Consequently, the proposed granting of the Refreshed General Mandate can be seen as an additional choice to the Group and provide the Company a greater flexibility and discretion in deciding the most appropriate financing method that meet the Group's future funding and business development plans, prior to the next annual general meeting. Therefore, we concur with the Directors' view regarding the shortcomings of other financing alternatives as discussed above, and that the proposed granting of the Refreshed General Mandate is in the interests of the Company and the Shareholders as a whole.

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5. Terms and conditions of the Refreshed General Mandate

The Company will convene the EGM at which an ordinary resolution will be proposed to the Independent Shareholders to grant the Refreshed General Mandate, which includes (i) the Refreshed Issue Mandate for the Directors to exercise the power of the Company to allot, issue and/or otherwise deal with new Shares not exceeding 20% of the total issued Shares of the Company as at the date of passing of the relevant resolution at the EGM, and (ii) the Refreshed Extension Mandate for the Directors to provide that any Shares repurchased under the Existing Repurchase Mandate shall be added to the number of Shares to be allotted and issued under the Refreshed Issue Mandate.

The Refreshed General Mandate (if granted) will expire at the earliest of: (i) the conclusion of the next annual general meeting of the Company; or (ii) the date by which the next annual general meeting of the Company is required to be held by the Companies Act, applicable laws or the Memorandum and Articles of Association; or (iii) the date upon which such mandates are revoked or varied by ordinary resolutions of the Shareholders in a general meeting of the Company prior to the next annual general meeting of the Company.

Subject to the passing of the resolution to be proposed for the granting of the Refreshed General Mandate at the EGM, the Existing Issue Mandate and the Existing Extension Mandate granted at the 2022 AGM will be revoked and the Company will not issue Shares under the Existing General Mandate.

As at the Latest Practicable Date, the Company had a total of 1,574,575,545 issued Shares. Subject to the passing of the resolution to be proposed for the granting of the Refreshed General Mandate at the EGM and in the event that no further Shares are issued, repurchased and/or cancelled by the Company from the Latest Practicable Date to the convening date of the EGM, the Company would be allowed to (i) issue up to 314,915,109 Shares pursuant to the Refreshed Issue Mandate, representing 20% of the total issued Shares of the Company as at the Latest Practicable Date, and (ii) add any Shares repurchased under the Existing Repurchase Mandate (i.e. up to 141,039,834 Shares, representing 10% of the total issued Shares of the Company as at the date of the 2022 AGM) to the number of Shares to be allotted and issued under the Refreshed Issue Mandate.

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6. Potential dilution effect to the existing public Shareholders

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the full utilisation of the Refreshed General Mandate (assuming that (a) no further Shares are issued, repurchased and/or cancelled by the Company and no conversion of the 2028 Convertible Bonds from the Latest Practicable Date to the date of the full utilisation of the Refreshed General Mandate, such that up to 314,915,109 Shares can be issued under the Refreshed Issue Mandate; (b) an aggregate of 1,130,800 Shares can be re-issued under the Refreshed Extension Mandate, based on the number of Shares repurchased by the Company up to the Latest Practicable Date; and (c) no new Shareholders will become a substantial shareholder (as defined in the Listing Rules) after the full utilisation of the Refreshed General Mandate), for illustrative and reference purpose:

	As at the Latest Practicable Date		Immediately after the full utilisation of the Refreshed General Mandate	
	<i>Number of Shares</i>	<i>Approximate Percentage</i>	<i>Number of Shares</i>	<i>Approximate Percentage</i>
Non-public Shareholders				
Mr. Chen Xiangyu (<i>Note 1</i>)	26,720,800	1.70%	26,720,800	1.41%
Brilliant Seed Limited (<i>Note 1</i>)	236,599,922	15.03%	236,599,922	12.51%
Tencent Mobility Limited	249,141,192	15.82%	249,141,192	13.18%
Mr. Guan Song (<i>Note 2</i>)	14,978,000	0.95%	14,978,000	0.79%
Bubble Sky Limited (<i>Note 2</i>)	19,016,020	1.21%	19,016,020	1.01%
Shipsape Holdings Limited (<i>Note 3</i>)	13,965,000	0.89%	13,965,000	0.74%
Mr. Yang Jialiang, an executive Director	210,000	0.01%	210,000	0.01%
Sub-total	560,630,934	35.61%	560,630,934	29.65%
Public Shareholders	1,013,944,611	64.39%	1,013,944,611	53.63%
New Shareholders after the full utilisation of the Refreshed General Mandate	—	—	316,045,909	16.72%
Total	1,574,575,545	100.00%	1,890,621,454	100.00%

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Notes:

- (1) *Mr. Chen Xiangyu, an executive Director, directly held 26,720,800 Shares and indirectly held 236,599,922 Shares through Brilliant Seed Limited, which was wholly-owned by Mr. Chen Xiangyu, as at the Latest Practicable Date*
- (2) *Mr. Guan Song, an executive Director, directly held 14,978,000 Shares and indirectly held 19,016,020 Shares through Bubble Sky Limited, which was wholly-owned by Mr. Guan Song, as at the Latest Practicable Date*
- (3) *Shipsape Holdings Limited was wholly owned by Mr. Jeffrey Lyndon Ko, an executive Director, as at the Latest Practicable Date*
- (4) *Certain figures and percentage figures included in the above table have been subject to rounding adjustments*

As illustrated in the table above, the full utilisation of the Refreshed General Mandate would dilute the shareholding interest of the existing public Shareholders. Nevertheless, having considered (i) the reasons for and benefits of the Refreshed General Mandate as discussed above; and (ii) the shareholding interests of all the existing Shareholders will be diluted in proportion to their respective shareholdings upon any utilisation of the Refreshed General Mandate, we consider that such potential dilution in shareholding interest of the existing public Shareholders is acceptable.

C. The Distribution Transactions

1. Information on Tencent Group

Tencent Group

Tencent, through its subsidiaries, principally provides value-added services, online advertising, FinTech and business services. Tencent Computer is a subsidiary of Tencent and is principally engaged in the business of provision of value-added services in the PRC.

According to Tencent's recent annual and interim reports, the operation of online and mobile game businesses in the PRC and internationally is one of Tencent Group's major businesses, and it recorded total games revenues, mainly derived from sales of in-game virtual items, of approximately RMB170.7 billion and RMB92.8 billion respectively in 2022 and the first half of 2023. Tencent Group's domestic mobile and PC games monthly and daily active user accounts increased year-on-year in the first half of 2023. Tencent Group's major communications and social networks platforms include Weixin, Wechat and QQ. As at 30 June 2023, the combined monthly active user accounts of WeChat, and the mobile device monthly active user accounts of QQ, continued to grow steady and reached approximately 1,327 million and 571 million respectively.

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2. Background to and reasons for the Distribution Transactions

The Group has been cooperating with Tencent Group in game development, licensing and publishing and distribution for many years. For example, the Group engages Tencent Group for distribution of its games, and obtains new users for its games through PRC social network platforms of Tencent Group, such as Weixin and QQ. In addition, Tencent Group and the Group jointly develop customised games from time to time. The domestic version of Ni No Kuni: Cross Worlds (二之國：交錯世界), a fantasy adventure RPG mobile game, and Delta Force: Hawk Ops (三角洲行動), a multi-play first-person tactical shooting game, are jointly developed and/or operated by the two groups and expected to be launched in near future.

According to the letter from the Board, Tencent Group owns a large amount of well-received game products and game platforms, and the Group has been dedicated to the production and operation of popular games. It is expected that Tencent Group and the Group could leverage on each other's competitive advantages in products and platforms to improve the popularity of each other's games and increase the number of platform users. In addition, through its cooperation with Tencent Group, the Group is able to distribute the games to a wider spectrum of potential customers.

The existing game cooperation between the two groups, including the Distribution Transactions, are governed under the 2021 Game Cooperation Framework Agreement, with a term of three years from 1 January 2021 to 31 December 2023. In view of the upcoming expiry and the long-term strategic cooperation with Tencent Group, on 10 November 2023, Shenzhen iDreamSky and Tencent Computer entered into the 2024 Game Cooperation Framework Agreement to govern and continue the aforementioned game cooperation for a term of another three years from 1 January 2024 to 31 December 2026.

3. Principal terms of the 2024 Game Cooperation Framework Agreement

The principal terms for the 2024 Game Cooperation Framework Agreement are summarised below. For further details, please refer to the section headed "3. Renewal of the Game Cooperation Framework Agreement" in the letter from the Board.

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General information

On 10 November 2023, Shenzhen iDreamSky entered into the 2024 Game Cooperation Framework Agreement with Tencent Computer, pursuant to which the Group and Tencent Group agreed to (i) license games of the Group to be published and operated on the platforms of Tencent Group (i.e. the Distribution Transactions); and (ii) license games of Tencent Group to be distributed and operated on the Group's platforms. The precise manner, scope, relevant commission rate, applicable payment channel and other details of the arrangement of cooperation subject concerned shall be agreed between the relevant parties separately.

As only the Distribution Transactions and the corresponding Proposed Annual Caps are subject to the Independent Shareholders' approval requirement under the Listing Rules, our commentary and analysis below focus on the terms relating to the Distribution Transactions.

Fee arrangement

Under the Distribution Transactions, the 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.

As advised by the management of the Group, in respect of the Distribution Transactions, Tencent Group is responsible for the operation of the Group's games, which includes determining payment channels, providing customer services, service specifications and pricing. The Group is responsible for the content development of the Group's games, version updates and iteration, and daily technical maintenance. Tencent Group pays the Group licensing fees, based on (i) a fixed amount (which is usually agreed by the parties after negotiation and taking into account, among others, the research and development cost of game developers for the specific game), and/or (ii) a prescribed percentage, ranging from 20% to 40 % of gross billings of the relevant games, after deducting certain costs and fees (including channel fees). For our further assessment on the fee arrangement, please refer to the sub-section below headed "Our assessment of the terms of the Distribution Transactions".

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Internal control measures

In order to ensure that the terms of the Distribution Transactions are fair and reasonable, no less favourable to the terms that the Group offered to independent third parties and/or independent third parties offered to the Group, and are carried out on normal commercial terms, the Group has adopted the following internal control procedures, as summarised from the letter from the Board:

- (a) the Company will endeavor to seek cooperation with at least two other Independent Third Parties to the extent practicable in the commercial field, and compare the commercial terms provided by such Independent Third Parties with those provided by Tencent Group. In particular, the relevant game development manager and the business manager of the Company will solicit quotes from at least two Independent Third Parties and submit a report summarising the key cooperation terms provided by such Independent Third Parties to the game development director and general manager of the Company, for review. It will be submitted to the Company's operation and management team (including the Company's chief executive officer, chief technology officer, chief financial officer, chief human resources officer and directors of each game studio, etc.) for approval. When it is unable to obtain quotes from at least two Independent Third Parties, due to the nature of the game industry and various commercial reasons, such as the difference in game genres that third party companies are adept in and the difference in customer bases of different game genres, the Company will compare the commercial terms provided by Tencent Group with the terms provided by at least one Independent Third Party, with reference to the business terms and cooperation models of similar types of business of other companies in the industry, and demonstrate from multiple perspectives (including but not limited to the historical successful cases of similar game operation, the unique technologies required to operate different types of games, the revenue sharing model and sharing ratio) whether it is the best option to cooperate with Tencent Group;
- (b) the Board and various internal departments of the Company (including finance, legal and compliance, business operation, and internal audit departments) will be jointly responsible for evaluating the terms of the Distribution Transactions, in particular, the fairness and reasonableness of the pricing policies under each transaction;
- (c) all members of the Group will be required to report to the finance department of the Company, which will closely monitor, the actual transaction amounts relating to the Distribution Transactions on a monthly basis. If the actual transaction amount reaches 85% of the relevant annual caps of the Distribution Transactions at any time, the matter shall promptly be escalated to the chief financial officer, who will seek advice from the

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audit committee of the Company and the Board for appropriate measures, including but not limited to revising the relevant annual caps in accordance with the requirements of the Listing Rules, if necessary;

- (d) the Company will arrange for regular training for its employees (including the business operation, finance, legal and compliance departments) to strengthen their familiarity with the Listing Rules and enhance their awareness of the compliance with the relevant internal control procedures relating to the Distribution Transactions;
- (e) the Company's internal audit team will monitor the effectiveness and adequacy of the internal control measures, and will make recommendation and report to the audit committee of the Company on a regular basis; and
- (f) the independent non-executive Directors and auditor of the Company will conduct annual review of the Distribution Transactions and provide annual confirmation, in accordance with the Listing Rules, as further discussed in the section below headed "C.5. Reporting requirements and conditions of the Distribution Transactions".

We are advised by the management of the Group that there are no common staff, senior management or director between the Group and Tencent Group, and that no representatives of Tencent Group and any of its associates will be involved in the above internal approval process. Since the exact terms of the underlying transactions will only be agreed upon the entering into of the underlying agreements, we consider that the above internal control measures, in particular the regular review and reporting by the relevant internal departments of the Company as regards the terms, are important for the conduct of the Distribution Transactions.

Our assessment of the terms of the Distribution Transactions

We have discussed with the management of the Group and reviewed a list of the Distribution Transactions under the 2021 Game Cooperation Framework Agreement. Management of the Group has confirmed to us that it has provided to us an exhaustive list of contracts during the period from 1 January 2022 to 30 June 2023 (the "**Review Period**"). We obtained and reviewed five sample contracts for specific games, which were selected on a random basis from all contracts that were effective during the Review Period. According to our discussions with the management of the Group, in general, (i) licensing fees payable by Tencent Group to the Group are calculated primarily based on a prescribed percentage of (a) gross billings of the relevant games, or (b) gross billings of the relevant games after deduction of certain costs and expenses, such as commissions to payment and distribution channels, as well as marketing and promotion expenses, plus an agreed amount of upfront license fee for certain games, and (ii) fee payments are usually settled on a monthly basis.

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As confirmed by the management of the Group, save for Tencent Group, the Group did not engage any third parties for distribution or publishing of its games during the Review Period. Therefore, no comparison against similar transaction and cooperation terms with other third parties could be performed. To substantiate the reasonableness of the pricing policy, we have looked into the PRC game industry report contained in the listing documents recently published by Hong Kong listed game developers and/or publishers that the fees shared by game developers (who holds the intellectual property of the relevant games) in the industry are in a typical range of 10% to 45% of the gross billings, and in certain circumstances, with an additional lump sum license fee. We note that the general sharing percentages that Group is entitled to receive from Tencent Group based on gross billings of the relevant games are well within the above industry range. We also note that the Group receives a fixed upfront license fee from Tencent Group, on top of the revenue/profit sharing, in relation to one of its self-developed games distributed on Tencent Group's platforms.

4. The Proposed Annual Caps

Set out below are the historical transaction amounts and the relevant annual caps in relation to the Distribution Transactions for the two years ended 31 December 2021 and 2022, and for the nine months ended 30 September 2023:

(i) *Review of historical figures*

	For the year ended		For the nine
	31 December		months ended
	2021	2022	30 September
	RMB'000	RMB'000	RMB'000
Licensing fees payable by Tencent Group to the Group (<i>Note 1</i>)	33,905	44,214	68,496
Relevant annual cap (<i>Note 2</i>)	114,573	147,608 (<i>Note 3</i>)	146,567 (<i>Note 3</i>)
Utilisation rate	29.6%	30.0%	46.7%

Notes:

- (1) *Being the sum of the historical transaction amounts derived from the Distribution Transactions under the 2021 Game Cooperation Framework Agreement*
- (2) *Being the sum of the relevant annual caps in relation to the Distribution Transactions under the 2021 Game Cooperation Framework Agreement for the two years ended 31 December 2021 and 2022, and for the nine months ended 30 September 2023*

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- (3) *The relevant annual caps in relation to the Distribution Transactions under the 2021 Game Cooperation Framework Agreement have been revised subsequently in August 2021, in view of, among others, the enhanced cooperation with Tencent Group*

As shown in the above table, the historical licensing fees increased by approximately 30.4% from approximately RMB33.9 million in 2021 to approximately RMB44.2 million in 2022, with a utilisation rate of roughly 30% for both years. In the first nine months of 2023, the licensing fees amounted to approximately RMB68.5 million, with utilisation rate rising to approximately 46.7%. We are advised by the management of the Group that (i) the increases in fees payable to the Group during the periods under review were mainly due to the increase in the number and gross billings of the Group's games distributed on the platforms of Tencent Group, and (ii) in particular, revenue generated by the Group's self-developed core game Calabiyau (卡拉彼丘), the PC version of which was only recently launched in August 2023 and well received by players in the PRC, contributed to the significant increase in licensing fees from Tencent Group and therefore the utilisation rate in 2023.

(ii) Assessment of the Proposed Annual Caps

Set out below are the Proposed Annual Caps in relation to the Distribution Transactions for the three years ending 31 December 2024, 2025 and 2026:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Licensing fees payable by Tencent			
Group to the Group	303,400	354,900	298,400

The Proposed Annual Caps for the years 2024, 2025 and 2026 represent increases of approximately 107.0%, 142.1% and 103.6% respectively, compared to the sum of the relevant annual caps set for the year 2023 under the 2021 Game Cooperation Framework Agreement, mainly due to the expected steady growth of certain existing games including the newly launched and well-received Calabiyau (卡拉彼丘) as mentioned above, and the gradual launch of new games of the Group, including Ni No Kuni: Cross Worlds (二之國：交錯世界) and Delta Force: Hawk Ops (三角洲行動). On the other hand, the lifecycles of certain games are expected to end in the coming years, which in turn result in the decrease in the Proposed Annual Caps in 2026.

As set out from the letter from the Board, when determining the Proposed Annual Caps, the Company has taken into account various factors, including (i) the historical transaction amounts for the Distribution Transactions, as discussed in the section above, and (ii) the projected number, scale and lifecycles of the games of the Group to be distributed on Tencent Group's platforms.

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In assessing the reasonableness of the Proposed Annual Caps, we have obtained the underlying calculations relating to the projections for the licencing fees payable by Tencent Group to the Group under the Distribution Transactions in the coming years, and have discussed with the Group the bases and assumptions underlying such projections. We note that the Proposed Annual Caps are arrived at principally based on (i) the projected gross billings from the games of the Group currently and expected to be distributed on Tencent Group's platforms, which in turn are estimated mainly with reference to the historical monthly gross billings and lifecycles of comparable games in the industry that have substantial similarity with the Group's games. As advised by the management of the Group, the historical operating data of the domestic PC version of Calabiyau (卡拉彼丘) since its commercial launch are as follows: the average weekly active users reached 0.7 million, the average monthly active users reached over 0.3 million, the users' average daily online timespan was over 120 minutes, and the average revenue per paying user was over RMB200. The historical operating data, including monthly active users, users' spending patterns and reactivity on marketing activities, churn rate and game life-cycle, of a comparable competitive shooting game and other selected mobile and PC games has been referenced to, when projecting the gross billings of the Group's self-developed core game Calabiyau (卡拉彼丘) (including PC and mobile versions) from 2024 to 2026; and (ii) costs and expenses to be incurred and charged by Tencent Group, such as platforms charges and commissions to payment channels. As discussed in the above section headed "C.3. Principal terms for the 2024 Game Cooperation Framework Agreement", the Company has adopted a revenue/profit sharing model and an assumed prescribed percentage in estimating the licencing fees payable by Tencent Group to the Group, which are consistent with the historical fee arrangement and the sharing ratio for the specific games with Tencent Group during the Review Period.

Based on our independent research, a recovery in the game industry was noted. According to China Audio-video and Digital Publishing Association (中國音像與數字出版協會), an organisation formed by enterprises and institutions that are engaged in the production and operation of audio-visual and digital publishing industries in the PRC (as retrieved from its website at <http://www.cadpa.org.cn/3277/202307/41611.html>), the total sales of the PRC game industry reached approximately RMB144.3 billion in the first half of 2023, representing a growth of approximately 22.2% compared to the second half of 2022, and it was expected that there will be a strong rebound in the second half of 2023. We also note from industry reports contained in listing documents recently published by certain Hong Kong listed game developers and/or publishers that online game market in China, in terms of user spending, increased from approximately RMB210.4 billion in 2018 to approximately RMB288.3 billion in 2022, at a compound annual growth rate of approximately 8.2%, and is expected to reach approximately RMB392.1 billion in 2027, representing a compound annual growth rate of approximately 6.3% from 2022 to 2027. The recovery and the expected growth in the PRC game industry may in turn further increase the game gross billings and hence support enhanced game cooperation between the Group and Tencent Group in the upcoming years.

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Our general view

As discussed earlier, Tencent Group has a vast base of domestic mobile and PC games monthly and daily active user accounts, game products and game platforms, it has been playing an important role in distributing the Group's game to a wider spectrum of potential customers. In recent years, the Group has been reducing the operation of its non-core games and focusing on the publishing and self-development of high-quality games, and has launched or expect to launch two to three new games of the Group on the platforms of Tencent Group in near future as mentioned above. These suggested that future cooperation between the Group and Tencent Group are expected to increase, bringing additional licensing fees to the Group. On the other hand, it would be difficult for the management of the Group to estimate future transactions with Tencent Group with a high level of certainty, as the gross billings of the Group's games are subject to various factors, including how such games will be received by the market and the spending behaviour of users, that are beyond the controls of two groups. This is also evidenced by the revision of the relevant annual caps subsequently in August 2021 mainly due to the enhanced cooperation between the two groups. Given the above, we consider it reasonable for the Company to use the abovementioned factors in determining the Proposed Annual Caps, and it is in the interests of the Group and the Shareholders to facilitate the Distribution Transactions in a way that can accommodate the potential growth of the Group's business. Provided that the Distribution Transactions are subject to annual review by the independent non-executive Directors and auditor of the Company (as summarised below), as required under the Listing Rules and other internal control measures (as summarised in the section headed above "C.3. Principal terms of the 2024 Game Cooperation Framework Agreement") to safeguard the Group's interest, the Group would have desirable flexibility in conducting its business if the Proposed Annual Caps are tailored to future business activities.

5. Reporting requirements and conditions of the Distribution Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Distribution Transactions are subject to the following annual review requirements:

- (i) the independent non-executive Directors must review the Distribution Transactions every year and confirm in the annual report and accounts that the Distribution Transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) on normal commercial terms or better; and

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- (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) the Company must engage its auditor to report on the Distribution Transactions every year. The Company's auditor must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Distribution Transactions:
 - (a) have not been approved by the Board;
 - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the Distribution Transactions involve the provision of goods or services by the Group;
 - (c) were not entered into, in all material respects, in accordance with the relevant agreements governing the Distribution Transactions; and
 - (d) have exceeded the related Proposed Annual Caps;
- (iii) the Company must allow, and ensure that the counterparties to the Distribution Transactions allow, the Company's auditor sufficient access to their records for the purpose of the reporting on the Distribution Transactions as set out in paragraph (ii);
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditor of the Company cannot confirm the matters as required.

In light of the reporting requirements and conditions attached to the Distribution Transactions, in particular, (i) the restriction of the value of the Distribution Transactions by way of the Proposed Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditor of the Company of the terms of the Distribution Transactions (including the Proposed Annual Caps), and given the Company's internal control measures as discussed earlier, we are of the view that appropriate measures will be in place to govern the conduct of the Distribution Transactions and assist in safeguarding the interests of the Shareholders.

LETTER FROM SOMERLEY

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that:

- (i) the proposed granting of the Refreshed General Mandate is fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole; and
- (ii) the Distribution Transactions (including the Proposed Annual Caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the proposed granting of the Refreshed General Mandate and the Distribution Transactions (including the Proposed Annual Caps).

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
John Wong
Director

Mr. John Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and as a responsible officer of Somerley, which is licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over fifteen years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes the particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interest in Shares and underlying Shares

Name of Director	Capacity/nature of interest	Number of Shares held ⁽⁷⁾	Approximate percentage of interest in the Company ⁽¹⁾⁽⁶⁾
Mr. Chen Xiangyu ("Mr. Chen") ⁽²⁾	Interest of controlled corporation	236,599,922 (L)	15.03%
	Beneficial owner	26,720,800 (L)	1.70%
Mr. Guan Song ("Mr. Guan") ⁽³⁾	Interest of controlled corporation	19,016,020 (L)	1.21%
	Beneficial owner	14,978,000 (L)	0.95%
Mr. Jeffrey Lyndon Ko ("Mr. Ko") ⁽⁴⁾	Interest of controlled corporation	13,965,000 (L)	0.89%
Mr. Yang Jialiang ("Mr. Yang") ⁽⁵⁾	Beneficial owner	912,000 (L)	0.06%

Notes:

- (1) The percentages are calculated on the basis of 1,574,575,545 Shares in issue as at the Latest Practicable Date.
- (2) Brilliant Seed Limited is wholly-owned by Mr. Chen, who is therefore deemed to be interested in the Shares held by Brilliant Seed Limited.
- (3) Bubble Sky Limited is wholly-owned by Mr. Guan, who is therefore deemed to be interested in the Shares held by Bubble Sky Limited.
- (4) Shipshape Holdings Limited is wholly-owned by Mr. Ko, who is therefore deemed to be interested in the Shares held by Shipshape Holdings Limited.
- (5) Mr. Yang owns 210,000 Shares. Besides, he was granted 490,000 RSUs under the pre-IPO RSU Scheme adopted by the Company on 18 May 2018, representing 490,000 Shares, as well as 212,000 share options under the New Share Option Scheme adopted by the Company on 30 June 2023, representing 212,000 Shares, both of which were granted but not yet vested.
- (6) The percentage figures have been subject to rounding adjustments. Accordingly, figures shown in totals may not be an arithmetic aggregation of the figures preceding them.
- (7) The letter “L” denotes the person’s long position in such Shares.

(ii) Interest in associated corporations

Name of Director	Name of associated corporation	Capacity/nature of interest	Amount of registered capital (RMB)	Percentage of shareholding in the associated corporation
Mr. Chen	Shenzhen Mengyu Technology Co., Ltd. (深圳市夢域科技有限公司)	Beneficial owner	500,000	5.00%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which

they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity/nature of interest	Number of Shares held ⁽⁶⁾	Approximate percentage of interest in the Company ⁽¹⁾⁽⁵⁾
Brilliant Seed Limited ⁽²⁾	Beneficial owner	236,599,922 (L)	15.03%
Mr. Chen ⁽²⁾	Interest of controlled corporation	236,599,922 (L)	15.03%
	Beneficial owner	26,720,800 (L)	1.70%
Tencent Mobility Limited ⁽³⁾	Beneficial owner	249,141,192 (L)	15.82%
Tencent Holdings Limited ⁽³⁾	Interest of controlled corporation	249,141,192 (L)	15.82%
iDreamSky Technology Limited ⁽⁴⁾	Beneficial owner	120,842,927 (L)	7.67%
Dream Investment Holdings Limited ⁽⁴⁾	Interest of controlled corporation	120,842,927 (L)	7.67%
Dream Technology Holdings Limited ⁽⁴⁾	Interest of controlled corporation	120,842,927 (L)	7.67%

Notes:

- (1) The percentages are calculated on the basis of 1,574,575,545 Shares in issue as at the Latest Practicable Date.
- (2) Brilliant Seed Limited is wholly owned by Mr. Chen. Under the SFO, Mr. Chen is deemed to be interested in the Shares held by Brilliant Seed Limited.
- (3) Tencent Mobility Limited is a wholly owned subsidiary of Tencent Holdings Limited. Under the SFO, Tencent Holdings Limited is deemed to be interested in the Shares held by Tencent Mobility Limited.
- (4) iDreamSky Technology Limited is wholly owned by Dream Investment Holdings Limited, which is an exempted company incorporated with limited liabilities in the Cayman Islands and is in turn wholly owned by Dream Technology Holdings Limited. None of the shareholders of Dream Technology Holdings Limited hold one-third or more of the shareholding of Dream Technology Holdings Limited. Under the SFO, Dream Investment Holdings Limited and Dream Technology Holdings Limited are deemed to be interested in the Shares held by iDreamSky Technology Limited.
- (5) The percentage figures have been subject to rounding adjustments. Accordingly, figures shown in totals may not be an arithmetic aggregation of the figures preceding them.
- (6) The letter “L” denotes the person’s long position in such Shares.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the Company has not been notified by any persons (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of SFO.

4. DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS OF CONTRACTS OF SIGNIFICANCE

There was no contract or arrangement subsisting as at the Latest Practicable Date, in which any of the Directors was materially interested and which was significant in relation to the businesses of the Group.

Save as disclosed herein, none of the Directors, directly or indirectly, has had any interest in any assets which had since 31 December 2022 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

5. RIGHTS AND INTEREST OF DIRECTORS ON COMPETING BUSINESSES

The executive Director, Mr. Chen Xiangyu, is the founder and the largest Shareholder of the Company holding approximately 16.72% interest in the total issued share capital of the Company as at the Latest Practicable Date. Mr. Chen has held interests as a limited partner in certain venture capital funds and/or angel investment funds which may from time to time invest in technology companies, and his economic interest in such funds was insignificant.

The non-executive Director, Mr. Yang Ming, holds directorship in certain companies principally or partially engaged in development and/or distribution of online and/or mobile games. On the basis that Mr. Yang Ming is not involved in the daily management and operation of our Company and such companies, the directorship held by the Mr. Yang Ming would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their associates has any competing interests in the businesses which compete or are likely to compete, directly or indirectly, with the Group or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing service contract or proposed service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

7. LITIGATION

As at the Latest Practicable Date, none of the members of the Group were engaged in any litigation or arbitration of material importance, and as far as the Directors know, there was no litigation or claim of material importance pending or threatened by or against the members of the Group.

8. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022 (being the date to which the latest published audited financial statements of the Company have been made up) and up to the Latest Practicable Date.

9. QUALIFICATION AND CONSENT OF EXPERT

Somerley is a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, Somerley:

- (a) neither had any shareholding in any member of the Group nor had any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group; and
- (b) did not have any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Company have been made up.

10. DOCUMENTS ON DISPLAY

The 2024 Game Cooperation Framework Agreement will be displayed on the website of the Stock Exchange at www.hkex.com.hk and on the website of the Company at www.idreamsky.com from the date of this circular up to the date of the EGM be convened.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of iDreamSky Technology Holdings Limited (the “**Company**”) will be held at Earth Room, 16/F, Unit 3, Block A, Kexing Science Park, Nanshan District, Shenzhen, China on Thursday, 28 December 2023 at 10:30 a.m. for the following purposes.

ORDINARY RESOLUTIONS

1. To consider and, if thought fit, pass the following resolution as an ordinary resolution:

(A) “**THAT:**

- (i) the issue mandate and extension mandate granted to the Directors at the annual general meeting of the Company held on 30 June 2023 (the “**2022 Annual General Meeting**”) be and are hereby revoked (without prejudice to any valid exercise of the Existing General Mandate prior to the passing of this resolution);
- (ii) subject to paragraph (iv) below, pursuant to the Rules Governing the Listing of the Securities of the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue or otherwise deal with additional Shares in the share capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares in the Company, which might require the exercise of such powers be and the same as hereby generally and unconditionally approved;
- (iii) the approval in paragraph (ii) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers during or after the end of the Relevant Period;

NOTICE OF EXTRAORDINARY GENERAL MEETING

(iv) the number of Shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (ii) above, otherwise than pursuant to:

- (1) a Rights Issue (as defined below);
- (2) the exercise of any options granted under any share option scheme of the Company adopted from time to time in accordance with the Listing Rules;
- (3) any scrip dividend or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the memorandum and articles of association of the Company in force from time to time; or
- (4) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any existing convertible notes issued by the Company or any existing securities of the Company which carry rights to subscribe for or are convertible into Shares, shall not exceed the sum of:
 - (a) 20% of the issued share capital of the Company as at the date of passing of this resolution; and
 - (b) (if the Board is authorized by resolution 1(B)) the total number of shares of the Company repurchased by the Company pursuant to the repurchase mandate passed at the 2022 Annual General Meeting (up to a maximum of 10% of the issued share capital of the Company as at the date of the 2022 Annual General Meeting),

and the approval shall be limited accordingly; and

(v) for the purposes of this resolution:

“**Relevant Period**” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of the Company;
- (2) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Act or other applicable laws or the memorandum and articles of association of the Company to be held; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (3) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution;

“**Rights Issue**” means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares in the Company open for a period fixed by the Directors to holders of Shares in the Company on the Company’s register of members on a fixed record date in proportion to their then holdings of Shares in the Company (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”

(B) “**THAT:**

subject to the approval of resolution 1(A) as set out in this notice of EGM, extend the general mandate granted to the Directors under the resolution 1(A) as set out in this notice of EGM, by ways of adding the number of Shares equal to the total number of Shares repurchased by the Company pursuant to the repurchase mandate passed on the 2022 Annual General Meeting, to the number of Shares to be allotted or agreed to be allotted by the Directors of the Company, conditionally or unconditionally, pursuant to the general mandate, and such extended number shall not exceed 10% of the issued share capital of the Company as at the date of the 2022 Annual General Meeting (such aggregate number shall be adjusted if the number of all or any Shares of the Company becomes higher or lower upon this resolution is passed).”

2. To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“**THAT:**

- (A) the Distribution Transactions contemplated under the game cooperation framework agreement dated 10 November 2023 entered into between the Company and Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司) (the “**Game Cooperation Framework Agreement**”), details of which are more particularly described in the circular of the Company dated 11 December 2023, be and are hereby confirmed, ratified and approved;
- (B) the proposed annual caps for the Distribution Transactions contemplated under the Game Cooperation Framework Agreement be and are hereby approved; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

(C) any one executive Director of the Company be and is hereby authorized to do all such further acts or things, negotiate, approve, agree, sign, initial, ratify and/or execute all such further documents and take all steps deemed by him to be necessary, desirable or expedient.”

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

Shenzhen, PRC, 11 December 2023

Notes:

1. Any member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend, speak and vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the office of the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
3. To ascertain the shareholders’ entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 21 December 2023 to Thursday, 28 December 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 20 December 2023.
4. Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the meeting will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.
5. In respect of the resolution numbered 1 above, the Directors wish to state that they have no immediate plans to issue any new Shares referred therein. Approval for the Refreshed General Mandate is being sought from the shareholders for the purposes of the Listing Rules.
6. As at the date of this notice, the Board comprises Mr. Chen Xiangyu as the chairman of the Board and executive Director, Mr. Guan Song, Mr. Jeffrey Lyndon Ko and Mr. Yang Jialiang as executive Directors, Mr. Zhang Han and Mr. Yang Ming as non-executive Directors, and Ms. Yu Bin, Mr. Li Xintian, Mr. Zhang Weining and Mr. Mao Rui as independent non-executive Directors.