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

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

**CONTINUING CONNECTED TRANSACTION –
GAME COOPERATION FRAMEWORK AGREEMENT
(1) EXCEEDING PROPOSED ANNUAL CAP FOR 2018
AND**

(2) REVISION OF PROPOSED ANNUAL CAPS FOR 2019 AND 2020

BACKGROUND

Reference is made to the prospectus of iDreamSky Technology Holdings Limited (the “**Company**”) dated November 26, 2018 (the “**Prospectus**”) in relation to, among other things, the framework agreement dated November 21, 2018 entered into between Shenzhen iDreamSky and Tencent Computer (the “**Game Cooperation Framework Agreement**”). Unless otherwise defined, terms used herein shall have the same meaning as those defined in the Prospectus.

On November 21, 2018, Shenzhen iDreamSky entered into the Game Cooperation Framework Agreement, pursuant to which the Group and Tencent Computer agreed to (i) license games of the Group and/or games licensed to the Group by third parties, and engage Tencent Group for distribution or publishing of such games; (ii) license the games of Tencent Group for distribution and operation on the Group’s platforms; and (iii) cooperate on other gaming-related matters, including but not limited to (a) engagement by Tencent Group of the Group to develop customized games, (b) the license by Tencent Group of its IPs to the Group for development of games, and (c) joint development of games by the Group and Tencent Group.

The distribution fees and/or licensing fees payable by the Group or Tencent Group (as the case may be) for distribution and/or licensing of the Group's (or the games licensed by the Group to third parties) or Tencent Group's games to the others' platforms by the Group shall be calculated on any of the following bases: (i) fixed amount of distribution fees and/or licensing fees; (ii) revenue/profit sharing between the parties; (iii) prepaid revenue/profit sharing between the parties; and/or (iv) product bonus.

The fee payable and/or revenue to be shared by the Group to Tencent Group and the fee payable and/or revenue to be shared 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. To the extent commercially practicable, the Company will seek to solicit cooperation with other independent third parties and compare the commercial terms offered by those parties with those offered by Tencent Group.

The term of the Game Cooperation Framework Agreement commenced from December 6, 2018 (i.e. the Listing Date) and will expire on December 31, 2020.

EXCEEDING THE PROPOSED ANNUAL CAP FOR THE TRANSACTIONS CONTEMPLATED UNDER THE GAME COOPERATION FRAMEWORK AGREEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

As disclosed in the Prospectus, among the proposed annual caps for each type of transactions contemplated under the Game Cooperation Framework Agreement, the proposed annual cap for the distribution fee payable by the Group to Tencent Group (i.e. where the Group engages Tencent Group for distribution of the Group's games) for the year ended December 31, 2018 was determined to be RMB20,000,000 (the **"2018 Distribution Fee Cap"**).

In the course of finalizing the annual results of the Group for the year ended December 31, 2018, the Board became aware that the actual distribution fee paid by the Group to Tencent Group for the transactions under the Game Cooperation Framework Agreement for the year ended December 31, 2018 amounted to RMB23,189,000 (the **"2018 Actual Distribution Fee"**), which exceeded the 2018 Distribution Fee Cap by RMB3,189,000.

As disclosed in the Prospectus, the proposed annual caps for the distribution fee payable by the Group to Tencent Group (i.e. where the Group shall engage Tencent Group for distribution of the Group's games) under the Game Cooperation Framework Agreement were determined after arm's length discussion with reference to the historical transaction amount for the six months ended June 30, 2018, with subsequent annual growth rate of approximately 20% for the two years for the ending December 31, 2020, which was determined with reference to the year-on-year increase of approximately 19% of the revenue of the Company for the year ended December 31, 2017. The growth rate was determined by the Directors 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 from 2015 to 2017.

For the avoidance of doubt, save as disclosed above, the proposed annual caps for other types of transactions contemplated under the Game Cooperation Framework Agreement for the year ended December 31, 2018 as disclosed in the Prospectus had not been exceeded.

During the second half of 2018, the Group published a number of new popular games, whilst Tencent Group offered to its customers (including the Group) discount to the distribution fee for distribution of games of its platforms in around October 2018. With a view of enhancing the popularity of these new games and leveraging on the discounts offered by Tencent Group, the relevant business operation department of the Company decided that it would be beneficial to the Group to further strengthen its efforts in distributing and promoting these games on Tencent Group's platforms. Such enhanced distribution efforts were in line with the Group's promotional strategy and consistent with the growth of the Group's game revenue in 2018. The distribution fees paid by the Group to Tencent Group for the distribution of games for the six months ended June 30, 2018 was approximately RMB9,238 million, representing approximately 0.97% of the Group's game revenue for the same period; whereas the 2018 Actual Distribution Fee represented approximately 1.11% of the Group's game revenue for the year ended December 31, 2018. As the decision to strengthen the distribution efforts was made prior to the Listing (i.e. before the Game Cooperation Framework Agreement took effect), the relevant business operation department inadvertently omitted to seek prior advice from the Company's finance and legal departments with respect to the potential impact on the 2018 Distribution Fee Cap. As a result of the foregoing, the distribution fees paid by the Group to Tencent Group for distribution of games under the Game Cooperation Framework Agreement significantly increased in around the fourth quarter of 2018. This oversight was not discovered until after the close of the financial year when the Company was in the process of finalizing its annual results ended December 31, 2018 and carrying out the annual review of its continuing connected transactions for such period.

REVISION OF THE PROPOSED ANNUAL CAPS FOR THE TRANSACTIONS CONTEMPLATED UNDER THE GAME COOPERATION FRAMEWORK AGREEMENT FOR THE YEARS ENDING DECEMBER 31, 2019 AND 2020

As the 2018 Actual Distribution Fee has exceeded the 2018 Distribution Fee Cap, pursuant to Rule 14A.54(1) of the Listing Rules, the Company is required to re-comply with the announcement and shareholders' requirements under Chapter 14A of the Listing Rules.

Taking into account (i) the increase in the historical transaction amount for the year ended December 31, 2018; (ii) the new business opportunity for extending the Group's engagement of Tencent Group to distribute its games; (iii) the year-on-year increase of approximately 35% of the revenue of the Company for the year ended December 31, 2018; (iv) the expected growth and development of the Company's business and estimated revenue that may be generated from distribution of the Group's games through Tencent Group's platforms with reference to the historical transaction amounts, the Board has proposed to revise the annual caps of the distribution fee payable by the Group to Tencent Group for the years ended December 31, 2019 and 2020 under the Game Cooperation Framework Agreement (the "**Revised Annual Caps**"):

Original proposed annual caps for the years ended/ ending December 31,			Actual transaction amount for the year ended December 31,	Revised Annual Caps for the years ending December 31,	
2018	2019	2020	2018	2019	2020
(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Distribution fees payable by the Group to Tencent Group (i.e. where the Group shall engage Tencent Group for distribution of the Group's games)					
<u>20,000</u>	<u>24,000</u>	<u>28,800</u>	<u>23,189</u>	<u>30,000</u>	<u>39,000</u>

The proposed Revised Annual Caps were determined between the Group and Tencent Group after arm's length negotiation. Save for the Revised Annual Caps, the other terms of the Game Cooperation Framework Agreement remain unchanged.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Tencent Group owns a large amount of top-rated game products and game platforms, and the Group has been dedicated to the production, publishing 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 games owned by each other and increase the number of platform users and leverage on each other's game development capabilities. In addition, as a one-stop game publishing solution to game developers, the Group is able to leverage on the Game Cooperation Framework Agreement and distribute the games licensed to the Group from global game developers through its cooperation with Tencent.

ENHANCED INTERNAL CONTROL MEASURES

The Company was newly listed on December 6, 2018. It has adopted and implemented a management system on connected transactions, and the Board and various internal departments of the Company are responsible for the control and daily management in respect of the continuing connected transactions.

In view of the above and to ensure the Company's compliance with the applicable Listing Rules requirements going forward, the Company will take the steps to further strengthen its internal control in respect of its continuing connected transactions:

- (a) 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 the framework agreements for the continuing connected transactions, in particular, the fairness and reasonableness of the pricing policies and proposed annual caps under each transaction;
- (b) all members of the Group will be required to report to, and the finance department of the Company will closely monitor, the actual transaction amounts relating to its continuing connected transactions 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;
- (c) 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 and 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;

- (d) the Company will arrange for regular training for its employees, including the business operation, finance, legal and compliance departments, to strengthen their familiarity of the Listing Rules and enhance their awareness of the compliance with the relevant internal control procedures relating to the Group's continuing connected 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 continuing connected transactions under the framework agreements and provide annual confirmation to ensure that, in accordance with the Listing Rules, the transactions are conducted on normal commercial terms and in accordance with the pricing policy.

The Board considers that the exceeding of the 2018 Distribution Fee Cap was an isolated event, and the Company will take steps to strengthen its internal control and compliance system to prevent recurrence of a similar event in the future.

INFORMATION ON THE PARTIES

The Group is a digital entertainment platform with a leading position in game publishing market in China, and adopts a free-to-play model for all of its games and has also expanded service offerings to other digital entertainment areas, such as e-sports, comics and video. Shenzhen iDreamSky is a PRC Consolidated Affiliated Entity of the Company and is principally engaged in publication and operation of games through mobile apps and websites.

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

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tencent is a substantial shareholder of the Company holding through its wholly-owned subsidiaries approximately 18.59% of the total issued shares of the Company, and Tencent Computer is a consolidated affiliated entity of Tencent. Therefore, Tencent Computer is a connected person of the Company, and the 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 2018 Actual Distribution Fee has exceeded the 2018 Distribution Fee Cap, pursuant to Rule 14A.54(1) of the Listing Rules, the Company is required re-comply with the announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Game Cooperation Framework Agreement is more than 5%, the Game Cooperation Framework Agreement and the transactions contemplated thereunder are subject to announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors (excluding the independent non-executive Directors whose view will be disclosed in the circular) are of the view that the terms of the Game Cooperation Framework Agreement were determined after arm's length negotiation and are on normal commercial terms in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and its Shareholders as a whole, and the Revised Annual Caps are also fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. Ma Xiaoyi, a non-executive Director, currently holds senior management role at Tencent, and has therefore abstained from voting on the relevant Board resolutions approving the Game Cooperation Framework Agreement and the transactions contemplated thereunder (including the Revised Annual Caps for the years ending December 31, 2019 and 2020). Save as disclosed above, none of the other Directors has or is considered to have material interests in the transactions contemplated under the Game Cooperation Framework Agreement.

The Company will seek approval from its independent Shareholders for the Game Cooperation Framework Agreement and the transactions contemplated thereunder (including the Revised Annual Caps for the years ending December 31, 2019 and 2020) at a general meeting of the Company. Tencent and its associates will abstain from voting in relation to the relevant resolution. The independent non-executive Directors have formed the independent board committee of the Company (the “**Independent Board Committee**”) for the purposes of advising the independent Shareholders in respect of the Game Cooperation Framework Agreement and the transactions contemplated thereunder (including the Revised Annual Caps for the years ending December 31, 2019 and 2020) and whose views and recommendation will be included in the circular to be dispatched by the Company.

GENERAL

As it is expected that additional time is required for the Company to prepare and finalize the information to be included in the circular, a circular containing, among other things, (i) details of the transactions contemplated under the Game Cooperation Framework Agreement; (ii) a letter of recommendation from the Independent Board Committee to the independent Shareholders; and (iii) a letter of recommendation from the independent financial adviser to the Independent Board Committee and independent Shareholders, is expected to be dispatched to Shareholders by no later than April 30, 2019.

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

Shenzhen, the PRC, March 28, 2019

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Chen Xiangyu as Chairman and Executive Director, Mr. Guan Song, Mr. Jeffrey Lyndon Ko and Mr. Lei Junwen as Executive Directors, Mr. Ma Xiaoyi and Mr. Du Feng as Non-executive Directors, and Ms. Yu Bin, Mr. Li Xintian and Mr. Zhang Weining as Independent Non-executive Directors.