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CMGE Technology Group Limited

中手游科技集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0302)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “**Board**”) of directors (the “**Directors**”) of CMGE Technology Group Limited (the “**Company**”, together with its subsidiaries and consolidated operating entities in the People’s Republic of China (the “**PRC**”), the “**Group**”) is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2020 (the “**Reporting Period**”).

FINANCIAL SUMMARY

	For the six months ended 30 June		Period- to-period %
	2020 RMB’000 (Unaudited)	2019 RMB’000 (Unaudited)	
Revenue	1,714,036	1,529,118	12.1
Profit for the period	276,061	249,879	10.5
Profit for the period attributable to owners of the parent	287,746	260,387	10.5
Adjusted net profit ⁽¹⁾	341,649	267,789	27.6

Note:

1. “Adjusted net profit” is not defined under the Hong Kong Financial Reporting Standards (“**HKFRS**”). It is defined by the Group as net profit attributable to owners of the parent excluding (i) equity-settled share-based expense and (ii) listing expenses which are not operating and recurring in nature. The adjusted net profit can more closely reflect the Group’s operating results, after excluding the above-mentioned non-operating items.

BUSINESS REVIEW AND OUTLOOK

Established in 2011, the Group is a leading mobile intellectual property (“IP”) based game operator and publisher in China. The Group was listed on the Nasdaq global market in September 2012 and was the first PRC mobile games company listed in a foreign capital market. The Group was subsequently privatised in late 2015 from Nasdaq and listed on the main board of The Stock Exchange of Hong Kong (the “**Stock Exchange**”) on 31 October 2019 (the “**Listing Date**”) (the “**Listing**”). In March 2020, the Company became an eligible security for “Southbound Trading” under “Shenzhen-Hong Kong Stock Connect”. The return of the Group from the U.S. capital market to the Hong Kong capital market was a significant demonstration of Shenzhen-Hong Kong cooperation and entrepreneurial cooperation in the Greater Bay Area. Building on the Group’s IP rights, the Group has been providing high-quality IP-based games to global players through in-house development and licensing. The Group has proactively developed an investment layout concerning IP and game developers to create an ecosystem of IP-based games.

The Group had the second largest IP reserve amongst all Chinese mobile game publishers after Tencent Games. Meanwhile, the Group is focusing on cooperating with popular international IP owners related to renowned cultural and artistic products and working with game developers based on these IPs to develop and publish mobile games worldwide. It has commenced game publishing and multi-dimensional pan-entertainment project strategic layout with famous IPs such as *One Piece* (航海王), *Naruto* (火影忍者), *Dragon Ball Z* (龍珠Z), *The World of Legend* (傳奇世界) and *Monopoly* (大富翁). The Group currently has a large IP reserve totaling 107 IPs, of which 39 were licensed IPs and 68 were self-owned IPs.

The emergence of “otaku economy (宅經濟)” due to the outbreak of COVID-19 epidemic in the first half of 2020 stimulated demand for the Group’s wide range of high-quality mobile games. Leveraging on its rich experience and cutting-edge vision in the mobile game industry, the Group continued to consolidate and enhance its close cooperation with IP owners, game developers and channel promoters. The Group’s revenue increased by approximately 12.1% period-to-period to RMB1,714.0 million for the six months ended 30 June 2020, and the Group’s adjusted net profit increased by approximately 27.6% period-to-period to RMB341.6 million for the six months ended 30 June 2020.

The following table sets forth the key performance indicators of the Group, namely (i) average monthly active users (“MAU”), (ii) average monthly paying users (“MPU”), (iii) average revenue per month per paying user (“ARPPU”), and (iv) total new registered users, for the periods indicated:

	For the six months ended 30 June	
	2020	2019
Average MAUs (<i>'000</i>)	15,053	13,990
Average MPUs (<i>'000</i>)	1,135	1,017
ARPPU (<i>RMB</i>)	251.7	250.6
Total new registered users (<i>'000</i>)	54,358	39,998

The outstanding publishing capabilities of the Group have been widely recognised within the industry. The Group has received several significant honors and awards in the industry, including (i) “Golden Plume Award” as Most Influential Mobile Game Publisher (金翎獎最具影響力移動遊戲發行商) for the years 2016 to 2019 awarded by Hanwei Xinheng Exhibition Co., Ltd. (漢威信恆展覽有限公司) (China Joy); (ii) Guangdong Top 500 Enterprise for the year 2020 (2020年廣東省企業500強) and Guangdong Top 100 Innovative Enterprises (廣東省創新企業100強) awarded by Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會); (iii) Shenzhen Top 500 for the year 2020 — Shenzhen Douyue (2020年深圳市500強 (深圳豆悅)) awarded by Enterprise Association of Shenzhen (深圳市企業聯合會) and Entrepreneur Association of Shenzhen (深圳市企業家協會); and (iv) Outstanding Enterprise of Guangdong Province for the year 2019 — Shenzhen Zhongshouyou (2019年廣東省優秀企業(深圳中手游)) awarded by Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會). Headquartered in Shenzhen, the Group has branch offices located in, among others, Hong Kong, Beijing, Shanghai, Guangzhou, Hainan Free Trade Port, Chengdu, Taipei, Tokyo and Seoul.

As at 30 June 2020, the Group has successfully launched a number of new games. In particular, the mobile game *Reborn!* (家庭教師) was ranked second on the free list of Apple Store in the first month of its launch. In the first month of launching the mobile game *Xuan Yuan Sword – the Origin* (軒轅劍–劍之源), the game ranked second on the free list of Apple Store. The Group’s self-developed web game, *Demon Rebirth* (魔域覺醒), also ranked first in terms of new game recommendation on the wan.360.cn game platform.

As at 30 June 2020, the Group was operating 80 online games. A number of these games maintained good revenue performance. For example, *Dragon Ball – Awakening* (龍珠覺醒), *One Piece – the Road of the Strong* (航海王強者之路), *Martyn Palace* (烈焰皇城), *The National Gunlord – The Frontier* (全民槍神:邊境王者), *Naruto – Ninja Master* (火影忍者–忍者大師), *The Story of the Flying Mortal H5* (凡人飛仙傳H5) and *Dragon Hunter H5* (神龍獵手H5) still contributed stable gross billing and profit to the Group. For the six months ended 30 June 2020, revenue generated from the Group’s game publishing business amounted to RMB1,489.1 million, representing a period-to-period increase of approximately 13.9%.

The performance of Group's wholly-owned subsidiary, Beijing Wenmai Hudong Technology Company Limited (“**Wenmai Hudong**”), self-developed *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) remained stable. As at 30 June 2020, it had been launched for 21 months, and still recorded the highest monthly gross billing of RMB107.7 million in the first half of the year, showing a remarkable popularity of this game. The performance of 2019 popular web game *War Song – the Creation* (熱血戰歌之創世) developed by the Group remained stable at 1.53 million MAU per month with monthly average gross billings of more than RMB20 million, which continued to contribute profit. The popular single-player personal computer (“PC”) game *Monopoly 10* (大富翁10) developed by Softstar Technology (Beijing) Company Limited (“**Beijing Softstar**”), a subsidiary of the Group, has achieved an accumulated sales volume of 468,000 sets on the Steam platform as at 30 June 2020, and the number of online users of this game on the Steam platform ranked among the top 50 in the world. In the first half of 2020, the Group's revenue generated from game development business amounted to RMB220.8 million, representing a period-to-period increase of approximately 1.1%.

The Group has also made good progress in IP licensing business, and has newly entered into licensing cooperation in games, films and television. For the six months ended 30 June 2020, the Group's revenue generated from IP licensing business amounted to RMB4.2 million, representing a period-to-period increase of approximately 16.7%.

The Group has also entered into in-depth exclusive cooperation with top domestic traffic platforms for a number of high-quality IP game titles, which fully demonstrated that the quality of the Group's games has been recognised by top traffic platforms. For example, the cooperation with Tencent Games on *Dynasty Warriors: Hegemony* (真·三國無雙霸) and *Monster List: Past and Present Lives* (妖怪名單之前世今生).

The Group continued investments in IP resources and developers propelled the Group's development and provided the Group with strong premium game supply capabilities. For the six months ended 30 June 2020, the Group had newly invested in a number of mobile game developers and related companies, and had entered into long-term cooperation with the Group in customised development and licensing of games, which has expanded the Group's game pipeline and support services.

Most notably, the Group invested in Love Games (Shanghai) Internet Technology Co., Ltd (樂府互娛(上海)網絡科技有限公司) (“**Love Games**”), a company established by Cheng Liangqi (程良奇), the chief producer of the game series of the *Youth Three Kingdoms* (少年三國志) and *Junior Monkey King* (少年西遊記). The team of Love Games has extensive experience in the game industry, and the core team has been working together for nearly 10 years. The Group will work with Love Games to deepen the layout of card game categories, and Cheng Liangqi will also serve as the chief product consultant of the Group. This investment strengthened the Group's producer base, enhanced the Group's production capacity and supply capacity of high-quality games, and contributed to the sustainable development of the Group's in-house development and publishing business.

The Group also invested in the developer of *Dynasty Warriors: Hegemony* (真·三國無雙霸), namely Shenzhen EZfun Technology Co., Ltd (易帆互動) (“EZfun”), and deeply explored a premium action role playing game (“ARPG”), of EZfun, namely *Dynasty Warriors*. This ARPG, a game of *Dynasty Warriors: Hegemony* (真·三國無雙霸) published by Tencent Games and adapted from the *Dynasty Warriors: 6* (真三國無雙6) IP licensed by Koei Tecmo (光榮特庫摩), was displayed at the Tencent New Product Launch Conference on 27 June 2020. The Group’s investment in EZfun, which has rich experience in the area of ARPG’s *Dynasty Warriors* games, aims to leverage its IP reserve and IP game ecosystem advantages to conduct in-depth development in the area of ARPG’s games with EZfun’s team, explore the blue ocean market of the *Dynasty Warriors* segment, and expand and consolidate the Group’s competitiveness in the mid-to-high-end mobile game market.

The Group also invested in Guangzhou Huanyu Jiuzhou Technology Co., Limited (“Huanyu Jiuzhou”), a company founded by Zhang Fumao (張福茂) which is specialised in the development of tower defense and simulation game (“SLG”) games. The Group intends to give full play to the advantages of Huanyu Jinzhou’s IP game ecosystem, and cooperate with the Huanyu Jiuzhou team to explore the blue ocean market of more segment. In the future, both parties will leverage their respective experience in game publishing and development to jointly launch a number of new mobile games. Currently, both parties are fully committed to creating a game, *Monster List: Past and Present Lives* (妖怪名單之前世今生), which has been exclusively distributed by Tencent Games. Huanyu Jiuzhou is a mobile game developer focusing on creating boutique games, and has cooperated with first-tier game publishers such as Tencent on a number of successful products. Zhang Fumao, the founder, is one of the pioneers entered into online game industry in China, leading a number of start-up teams to successfully launch the SLG game, *War of Seven Lords* (七雄爭霸), and the tower defense game, *Fight of Monarchs* (全民主公).

In addition, the Group has completed the Pre-A round investment in a cloud-based game technology service provider, Welink (蔚領時代). Welink was established in 2019, focusing on the research and development and technical services in the field of cloud games. With the most advanced technologies and cost solutions in the industry, Welink became a partner of Kingsoft Cloud’s game “Platform as a service (PAAS)” platform and Alibaba Cloud’s game solutions in the year of its establishment. In addition to the public cloud platform, Welink, the Group and other leading game manufacturers, such as mihayo (米哈遊), have also carried out in-depth cooperation to jointly launch high-quality cloud game services.

Through the above efforts, the Group continued to maintain healthy growth in terms of players, revenue and profit in the first half of 2020.

Outlook for the Second Half of 2020

In the second half of 2020, the Group plans to publish a number of new games, including *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射雕群俠傳之鐵血丹心), *Life and Death Sniper: Zombie Frontier* (生死狙擊之殭屍前線), *A Record of a Mortal's Journey to Immortality* (凡人修仙傳), *Hua Jiang Hu: Bei Mo Ting* (畫江湖之杯莫停), *Soul Land: God of Battle Arise* (斗羅大陸：鬥神再臨), *Legend of Immortal: Sharing the Sky* (星辰變：共攬蒼穹). Set forth below are the descriptions of some of the games proposed to be published by the Group:

***The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射雕群俠傳之鐵血丹心)**

Under the license of Louis Cha Leung-yung (金庸), the Group's first mobile game of a trilogy, *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射雕群俠傳之鐵血丹心) was officially launched in Apple Store on 20 August 2020. By virtue of the superior product quality and the persistent IP influence of the three classic IPs, namely *The New Legend Of The Condor Heroes* and the trilogy *The New Legend Of The Condor Heroes* (three major classic IP *The Legend Of The Condor Heroes* (射雕英雄傳), *Divine Condor, Errant Knight* (神雕俠侶) and *Heaven Sword, Dragon Sabre* (倚天屠龍記)), the Group ranked first on the Apple Store Free List for six consecutive days and ranked fifth on the best-selling list.

As the first Wuxia mobile game that obtained the complete authorisation of the trilogy of *The Legend Of The Condor Heroes*, the game presented to the players the world of martial arts in the form of games. Players can work with hundreds of fans from the works of *The Legend Of The Condor Heroes Heroes* (射雕英雄傳), *Divine Condor, Errant Knight* (神雕俠侶) and *Heaven Sword, Dragon Sabre* (倚天屠龍記), adding the “Battle of the Underworld” game such as single or multiple teams to gain a foothold, and the “full-fledged” model of 1V1 to 5V5. The “City War” system was also newly designed to set long-term goals for players and enhance interaction among them. This game has abundant of gameplay elements which enhance players' experience and greatly increase the playability of games, making the entire “*World of Condor Heroes*” more complete and real.

***Soul Land: God of Battle Arise* (斗羅大陸：鬥神再臨)**

Soul Land: God of Battle Arise (斗羅大陸：鬥神再臨), the first massively multiplayer online role-playing game (“MMORPG”) mobile game adapted from the IP of *Soul Land* (斗羅大陸) licensed by China Literature Limited, is planning to be launched during the second half of 2020. Since its adaptation into animation, the novel *Soul Land* (斗羅大陸) has achieved over one hundred million views with a large fan base. This game reproduces the setting of the original novel. The combination of different characters with unique techniques and intelligent gameplay provide players with clear core values and objectives of the game, outshining the other IP counterparts. *Soul Land: God of Battle Arise* (斗羅大陸：鬥神再臨) is expected to be one of the most important mobile games of the Group in the second half of 2020.

Self-developed Business

In terms of self-developed games, Wenmai Hudong, a wholly-owned subsidiary of the Group, plans to launch a number of MMORPG mobile games, including *Legend of Dragon City* (龍城傳奇) and *Code: Dragon* (代號:聖龍), as well as a mobile hypertext markup language 5 (“H5”) game, namely *The Lord of Sabuk* (沙城霸主), and a PC web game, namely *Code: Blood* (代號:血飲). Beijing Softstar, a subsidiary of the Group, plans to launch a number of new games, such as PC games, namely *Legend of Sword and Fairy 7* (仙劍奇俠傳7) and *Legend of Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野), together with its eponymous mobile game, as well as the Switch version of *Monopoly 10* (大富翁10). Among the games listed above, *Dragon City* (龍城傳奇) and *Code: Dragon* (代號:聖龍) will be published jointly with the Group, and *Legend of Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野) will be self-developed by the Group. Set below are the descriptions of some of the games self-developed by the Group.

***Legend of Dragon City* (龍城傳奇)**

Legend of Dragon City (龍城傳奇) is a next-generation new mobile game developed based on *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) developed by the same development team of *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) under Wenmai Hudong. The art performance of the game has been greatly improved, and a large-scale inter-server battle system has been added to create a strong game ecosystem.

***Code: Blood* (代號:血飲)**

Code: Blood (代號:血飲) is a next-generation new web game developed based on *War Song – the Creation* (熱血戰歌之創世) by the same development team of *War Song – the Creation* (熱血戰歌之創世) under Wenmai Hudong. The game incorporates an innovative talent system to provide players with a fresh and exciting experience in the battlefield.

***Legend of Sword and Fairy 7* (仙劍奇俠傳7)**

Legend of Sword and Fairy 7 (仙劍奇俠傳7) is a large-scale PC game developed by Beijing Softstar, a subsidiary of the Group. *Legend of Sword and Fairy 7* (仙劍奇俠傳7) is the ninth game released under the collection of *Legend of Sword and Fairy* (仙劍奇俠傳), a single-player game series developed domestically. The game will adhere to the tradition of the series and continue to bring fantasy, wonderful and soulful stories and better game experience to the Group’s players. By adopting the Unreal 4 Engine (虛幻4引擎) in its production, *Legend of Sword and Fairy 7* (仙劍奇俠傳7) will present beautiful and smooth scenes, so as to achieve a more game-oriented design concept.

Collaboration with top traffic platforms and publishers

One Piece: The Voyage (航海王熱血航線) and *The King of Fighters: All Stars* (全明星激鬥), popular IP-based games exclusively distributed by ByteDance (字節跳動), and *Dynasty Warriors: Hegemony* (真·三國無雙霸) and *Monster List: Past and Present Lives* (妖怪名單之前世今生), games exclusively distributed by Tencent Game, are planned to be officially launched in the second half of 2020.

***One Piece: The Voyage* (航海王熱血航線)**

One Piece: The Voyage (航海王熱血航線) is a new 3D mobile game under One Piece brand developed by Shanghai Langkun Digital Technology Co., Ltd. (“**Shanghai Langkun**”), a research and development company invested by the Group. It obtained the IP license from Toei Animation. The game restores a 3D immersive world for the players, and players can follow the main line of the original plot to review the story, recruit original partners, carry out 3D real-time battle, and showcase mind-blowing techniques. Besides, the players can freely explore the sea world, challenge the sea veterinary, collect treasures, and encounter various types of interesting random events.

***The King of Fighters: All Stars* (全明星激鬥)**

The King of Fighters: All Stars (全明星激鬥) is a 3D strategic card mobile game licensed with the original IP of SNK series and developed by Shanghai Langkun. With a large number of SNK classic characters and refined modeling to restore the popular classic characters, the game integrates the strategy of card games in terms of gameplay and combines with the redesigned fighters’ classic combo special effects. Players form teams with other real players and carry out real-time battles in rounds and unlimited combo, hoping to create a comprehensive 3D battle console-level battle game for players.

***Dynasty Warriors: Hegemony* (真·三國無雙霸)**

Dynasty Warriors: Hegemony (真·三國無雙霸) is an official Dynasty Warriors mobile game developed by EZfun, a research and development company invested by the Group, based on the formal license obtained from Koei Tecmo in Japan. The game exclusively restores the classic stunts and warrior characters of its corresponding console game, allowing players to regain the classic storyline of the chaos in Three Kingdoms Era. The game has a very large map and is designed with a self-defined geographic editing gameplay method, where players can participate in map editing, plan their battle layout, set the battle scenes and lead their teams to conquer the battlefield. The game also incorporates a new multi-player Player VS Environment (PVE) and Player VS Player (PVP) battle system, which allows players to quickly organise team battles and immerse experience of console gaming on their mobile phones.

***Monster List: Past and Present Lives* (妖怪名單之前世今生)**

Monster List: Past and Present Lives (妖怪名單之前世今生) is a tower defense mobile game adapted from an animation with the same title of Tencent Animation (騰訊動漫), *Monster List* (妖怪名單), which was developed by Huanyu Jiuzhou, a research and development company invested by the Group. The game adopts the popular core gameplay of evolving cards and tower defense battle, and also extends the design of the auto chess Player VS Player (PVP) combating model; at the same time, the game also supports the Group VS Environment (GVE) multi-player team, and supports players to match with and fight against each other through various means, providing free social platforms and environment. With the use of high-quality dynamic painting technology in terms of visual performance, coupled with the high-level reproduction of domestic IP, the game hopes to bring a brand-new experience to players in terms of artistic performance and gameplay.

Overseas Market

In the overseas market, the Group plans to launch a number of new games during the second half of 2020, including *Reborn!* (家庭教師), *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射雕群俠傳之鐵血丹心), *Soul Land: God of Battle Arise* (斗羅大陸:鬥神再臨), *Xuan Yuan Sword – the Origin* (軒轅劍:劍之源), *Last Hero* and *Hua Jiang Hu: Bei Mo Ting* (畫江湖之杯莫停), which will help boost the Group’s overseas revenue.

IP Licensing Business

In terms of IP licensing business, the Group will also benefit from revenue growth driven by the large-scale 25th anniversary events of *Legend of Sword and Fairy* series launched throughout the year 2020. In July 2020, Beijing Softstar has reached a cooperation with Beijing Perfect World Software Technology Development Co., Ltd. (完美世界(北京)軟件科技發展有限公司) (“**Perfect World**”) relating to *Legend of Sword and Fairy* IP development. In such cooperation, the first to sixth series, the prequel and the outreach series of *Legend of Sword and Fairy* will be used for the development of one massive multiplayer online (MMO) mobile game theme, Xianxia (仙俠). The game is jointly developed by Beijing Softstar and Perfect World, and has already entered the development stage, and will be published by Perfect World in the future.

Investment Business

The continuous expansion in investments on IP resources and outstanding game developers has given a strong support to the Group’s IP game ecosystem.

Social Responsibility

The Group will relentlessly commit to corporate social responsibility. During the early period of the COVID-19 outbreak, the Group, together with its employees, made a charitable donation of RMB1.4 million. In addition, the Group continued its “CMGE Dream Library (中手游築夢圖書館)” program. On 12 June 2020, the sixth “CMGE Dream Library”, which has been established by the Group and Wuxi Lingshan Charity Foundation (無錫靈山慈善基金會), was completed in Xinquan School located at Xinquan Street, Xinquan Town, Luxi County, Pingxiang, Jiangxi Province. The Group will continue to extend charity activities for children with special needs, so as to further achieve its charity culture and to take on more social responsibilities.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The following sets forth the unaudited condensed consolidated statement of profit or loss for the six months ended 30 June 2020 together with unaudited comparative figures for the six months ended 30 June 2019:

	Six months ended	
	30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	1,714,036	1,529,118
Cost of sales	<u>(1,182,578)</u>	<u>(1,000,660)</u>
Gross profit	531,458	528,458
Other income and gains	96,370	40,127
Selling and distribution expenses	(102,709)	(140,329)
Administrative expenses	(166,562)	(111,435)
Impairment losses on financial assets, net	(16,681)	(6,271)
Other expenses	(25,146)	(7,802)
Finance costs	(20,650)	(5,437)
Share of losses of a joint venture	(152)	(1,436)
Share of profits and losses of associates	<u>5,531</u>	<u>(2,946)</u>
Profit before tax	301,459	292,929
Income tax expense	<u>(25,398)</u>	<u>(43,050)</u>
Profit for the period	<u>276,061</u>	<u>249,879</u>
Attributable to owners of the parent	287,746	260,387
Attributable to non-controlling interests	<u>(11,685)</u>	<u>(10,508)</u>
Adjusted net profit ⁽¹⁾	<u>341,649</u>	<u>267,789</u>

Note:

1. Please refer to the note on page 1 of this announcement.

Adjusted net profit

The table below sets forth a quantitative reconciliation of the Group's adjusted net profit for the periods indicated:

	For the six months ended	
	30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the parent	287,746	260,387
<i>Add:</i>		
(i) Equity-settled share-based expense	53,903	—
(ii) Listing expenses	—	7,402
Adjusted net profit	<u>341,649</u>	<u>267,789</u>

The Group's adjusted net profit increased by approximately 27.6% from RMB267.8 million for the six months ended 30 June 2019 to RMB341.6 million for the six months ended 30 June 2020. As the adjusted net profit excluded non-operating items that may impact the Group's net profit for the period, i.e. equity-settled share-based expense and listing expenses, the increase in the Group's operating results for the six months ended 30 June 2020 more closely reflected the improvement in the Group's operating results in the six months period ended 30 June 2020 due to acquisitions of several popular IPs, further diversification the Group's game portfolio and the strong performance of the Group's games during the Reporting Period.

Revenue

The Group derived its revenue from (i) the provision of game publishing services in relation to games developed by third parties, (ii) the licensing and publication of its in-house developed games, and (iii) the licensing of its proprietary IP to third parties. The table below sets forth the Group's revenue by category for the periods indicated:

	For the six months ended 30 June			
	2020		2019	
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Game publishing	1,489,101	86.9	1,307,087	85.5
Game development	220,779	12.9	218,431	14.3
IP licensing	4,156	0.2	3,600	0.2
Total	<u>1,714,036</u>	<u>100.0</u>	<u>1,529,118</u>	<u>100.0</u>

The Group's revenue increased by approximately 12.1% from RMB1,529.1 million for the six months ended 30 June 2019 to RMB1,714.0 million for the six months ended 30 June 2020. This increase was primarily attributable to:

- (i) an increase in the Group's game publishing revenue by approximately 13.9% from RMB1,307.1 million for the six months ended 30 June 2019 to RMB1,489.1 million for the six months ended 30 June 2020, primarily as a result of the strong performance in the Reporting Period of the Group's games, particularly *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), *Xuan Yuan Sword – the Origin* (軒轅劍:劍之源), *Martyn Palace* (烈焰皇城), *The National Gunlord – The Frontier* (全民槍神:邊境王者), *One Piece – the Road of the Strong* (航海王強者之路), *The Story of the Flying Mortal H5* (凡人飛仙傳H5) and *Dragon Hunter H5* (神龍獵手H5);
- (ii) an increase in the Group's game development revenue by approximately 1.1% from RMB218.4 million for the six months ended 30 June 2019 to RMB220.8 million for the six months ended 30 June 2020, primarily as a result of the revenue contribution generated from the strong performance of the Group's self-developed games, namely *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) and *War Song – the Creation* (熱血戰歌之創世); and
- (iii) an increase in the Group's IP licensing revenue by approximately 16.7% from RMB3.6 million for the six months ended 30 June 2019 to RMB4.2 million for the six months ended 30 June 2020, primarily as a result of the licensing of several proprietary IPs to third parties in 2020, including the series of Legend of Sword and Fairy (仙劍奇俠傳系列) and the series of Monopoly (大富翁系列).

Cost of sales

The Group's cost of sales consists primarily of revenue sharing with publishing channels. The table below sets forth the Group's cost of sales by category, and its contribution to the total revenue of the Group as a percentage, for the periods indicated:

	For the six months ended 30 June			
	2020		2019	
	<i>RMB'000</i>	<i>% to</i>	<i>RMB'000</i>	<i>% to</i>
	<i>(Unaudited)</i>	<i>revenue</i>	<i>(Unaudited)</i>	<i>revenue</i>
Revenue sharing				
with publishing channels	1,110,840	64.9	940,429	61.5
Amortisation of game royalties	7,081	0.4	6,850	0.4
Amortisation of IP royalties	13,532	0.8	5,835	0.4
Revenue sharing with IP owners	17,915	1.0	12,794	0.8
Game development costs	15,400	0.9	15,672	1.0
Others ⁽¹⁾	17,810	1.0	19,080	1.2
Total	1,182,578	69.0	1,000,660	65.3

Note:

- (1) Other costs of sales include, among others, amortisation of software copyright, taxation and sundry expenses.

The Group's cost of sales increased by approximately 18.2% from RMB1,000.7 million for the six months ended 30 June 2019 to RMB1,182.6 million for the six months ended 30 June 2020. This increase was primarily attributable to the increase in the Group's revenue shared with publishing channels, in particular, *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), the Group's highest revenue-generating game in the Reporting Period, was published through publishing channels under cooperation.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by approximately 0.6% from RMB528.5 million for the six months ended 30 June 2019 to RMB531.5 million for the six months ended 30 June 2020. The Group's gross profit margin decreased from 34.6% for the six months ended 30 June 2019 to 31.0% for the six months ended 30 June 2020.

Other income and gains

The Group's other income and gains consist primarily of (i) government grants, (ii) fair value gains on financial assets at fair value through profit or loss, and (iii) gain on disposal of an investment in an associate. The table below sets forth the Group's other income and gains by category for the periods indicated:

	For the six months ended 30 June			
	2020		2019	
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Bank interest income	3,052	3.2	277	0.7
Government grants	12,642	13.1	7,053	17.6
Dividend income from financial assets at fair value through profit or loss	—	—	8,898	22.2
Fair value gains on financial assets at fair value through profit or loss	53,589	55.6	11,734	29.2
Gain on disposal of an investment in an associate	23,752	24.6	—	—
Fair value adjustment of contingent consideration	—	—	737	1.8
Gain on disposal of items of other intangible assets	—	—	3,062	7.6
Others	3,335	3.5	8,366	20.9
Total	96,370	100.0	40,127	100.0

The Group's other income and gains increased by approximately 140.4% from RMB40.1 million for the six months ended 30 June 2019 to RMB96.4 million for the six months ended 30 June 2020. This increase was primarily attributable to (i) an increase in the Group's fair value gains on financial assets at fair value through profit or loss, and (ii) the record of a gain on disposal of an investment in an associate.

Selling and distribution expenses

The Group's selling and distribution expenses consist primarily of (i) marketing expenses, and (ii) salaries and welfare for our sales and marketing team. The table below sets forth the Group's selling and distribution expenses by category, and its contribution to the total revenue of the Group as a percentage, for the periods indicated:

	For the six months ended 30 June			
	2020		2019	
	<i>RMB'000</i>	<i>% to</i>	<i>RMB'000</i>	<i>% to</i>
	<i>(Unaudited)</i>	<i>revenue</i>	<i>(Unaudited)</i>	<i>revenue</i>
Marketing expenses	85,055	4.9	127,576	8.3
Salaries and welfare	16,339	1.0	11,992	0.8
Office costs and utilities	913	0.1	539	0.1
Others	402	0.0	222	0.0
Total	102,709	6.0	140,329	9.2

The Group's selling and distribution expenses decreased by approximately 26.8% from RMB140.3 million for the six months ended 30 June 2019 to RMB102.7 million for the six months ended 30 June 2020. This decrease was primarily attributable to the reduce of the Group's marketing expenses because the sales and marketing activities of *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), the Group's highest revenue-generating game in the Reporting Period, was undertaken by the publishing channels under cooperation. This decrease was partially offset by the increase in salary and welfare expenses allocated to the Group's sales and marketing department (including the accrual of equity-settled share-based expense of RMB1.5 million to selected personnel of the Group's sales and marketing department) in the Reporting Period.

Administrative expenses

The Group's administrative expenses consist primarily of (i) salaries and welfare for management and administrative departments, and (ii) research and development expenses. The table below sets forth the Group's administrative expenses by category, and its contribution to the total revenue of the Group as a percentage, for the periods indicated:

	For the six months ended 30 June 2020		2019	
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>% to</i> <i>Revenue</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>% to</i> <i>Revenue</i>
Salaries and welfare	69,345	4.0	19,936	1.3
Office costs and utilities	16,382	1.0	16,892	1.1
Research and development expenses	79,637	4.6	66,264	4.3
Listing expenses	—	—	7,402	0.5
Others	1,198	0.1	941	0.1
Total	166,562	9.7	111,435	7.3

The Group's administrative expenses increased by approximately 49.6% from RMB111.4 million for the six months ended 30 June 2019 to RMB166.6 million for the six months ended 30 June 2020. This increase was primarily attributable to (i) an increase in salaries and welfare expenses allocated to management and administrative departments in the Reporting Period, including equity-settled share-based expense of RMB50.0 million; and (ii) an increase in salaries and welfare expenses allocated to the Group's research and development department in the Reporting Period, leading to an increase in the Group's research and development expenses.

Impairment losses on financial assets, net

The Group's impairment losses on financial assets represent impairment loss of trade receivables. The Group's impairment losses on financial assets increased by approximately 165.1% from RMB6.3 million for the six months ended 30 June 2019 to RMB16.7 million for the six months ended 30 June 2020 under the relevant management policies of the Group adopted in accordance with HKFRS 9.

Other expenses

The Group's other expenses consist primarily of fair value adjustment of contingent consideration. The Group's other expenses increased by approximately 221.8% from RMB7.8 million for the six months ended 30 June 2019 to RMB25.1 million for the six months ended 30 June 2020. This increase was primarily attributable to the recognition of a fair value increase of RMB14.5 million as compared to 31 December 2019 in respect of the consideration payable by the Group for the acquisition of Wenmai Hudong during the six months ended 30 June 2020. For details of the acquisition of Wenmai Hudong, please refer to the paragraph headed "Acquiring all of the equity interests in Wenmai Hudong" in page 172 of the Company's prospectus dated 19 October 2019 (the "Prospectus").

Finance costs

The Group's finance costs mainly consist of interest expenses arose from bank borrowings. The Group's finance costs increased by approximately 283.3% from RMB5.4 million for the six months ended 30 June 2019 to RMB20.7 million for the six months ended 30 June 2020. This increase was the result of an increase in the Group's bank borrowings during the Reporting Period.

Share of losses of a joint venture

As at 30 June 2020, the Group held a 60% equity interest in Shenzhen Boliang Technology Co., Ltd. (深圳博良科技有限公司), which is considered as a joint venture of the Group under applicable accounting policies.

The Group's share of losses of a joint venture decreased by approximately 85.7% from RMB1.4 million for the six months ended 30 June 2019 to RMB0.2 million for the six months ended 30 June 2020. This decrease was primarily attributable to a decrease in the loss recorded by Shenzhen Boliang Technology Co., Ltd. during the Reporting Period.

Share of profits and losses of associates

As at 30 June 2020, the Group held minority equity interests in certain associated companies. The Group's share of profits of associates amounted to RMB5.5 million for the six months ended 30 June 2020, in contrast of losses of RMB2.9 million recorded for the six months ended 30 June 2019. This share of profits was primarily attributable to the profits recorded by one of the Group's associates, namely Shanghai Fengguo Network Information (上海蜂巢網絡科技有限公司), during the Reporting Period.

Profit before tax

As a result of the foregoing, the Group's profit before tax increased by approximately 2.9% from RMB292.9 million for the six months ended 30 June 2019 to RMB301.5 million for the six months ended 30 June 2020.

Income tax expense

The Group's income tax expense decreased by approximately 41.1% from RMB43.1 million for the six months ended 30 June 2019 to RMB25.4 million for the six months ended 30 June 2020. This decrease was primarily attributable to the zero tax rate of two subsidiaries of the Group in 2020, resulting in a decrease in overall income tax expense in the Reporting Period.

Profit for the period

As a result of the foregoing, the Group's profit for the period increased by approximately 10.5% from RMB249.9 million for the six months ended 30 June 2019 to RMB276.1 million for the six months ended 30 June 2020.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a prudent treasury management policy to ensure that the Group maintains a healthy financial position.

The Group's total cash and cash equivalents decreased by 41.5% from RMB771.1 million as at 31 December 2019 to RMB451.1 million as at 30 June 2020. This decrease was primarily attributable to the additional time deposits placed during the six months ended 30 June 2020, which increased the pledged deposits and restricted cash from RMB406.3 million as at 31 December 2019 to RMB771.2 million as at 30 June 2020.

As at 30 June 2020, the current assets of the Group amounted to approximately RMB2,811.0 million, and the current liabilities of the Group amounted to approximately RMB1,377.5 million.

As at 30 June 2020, the current ratio (being the current assets divided by current liabilities as at the end of each period) of the Group was 2.04 times as compared with 2.01 times as at 31 December 2019, which were relatively stable as at 31 December 2019 and 30 June 2020.

As at 30 June 2020, the gearing ratio (being the total debt divided by total equity as at the end of each period) of the Group was 14.4% as compared with 11.9% as at 31 December 2019, which were relatively stable as at 31 December 2019 and 30 June 2020.

Indebtedness

During the Reporting Period, the Group obtained bank loans of RMB235.2 million and repaid bank loans of RMB102.2 million.

As at 30 June 2020, the Group had interest-bearing bank borrowings of RMB575.0 million, including (i) bank loans amounting to RMB175.2 million, secured by the pledge of the Group's time deposits in the sum of RMB381.7 million, (ii) a bank loan amounting to RMB67.4 million secured by the pledge of the Group's trade receivables in the sum of RMB134.9 million and (iii) a bank loan amounting to RMB7.8 million, secured by a corporate guarantee provided by Shenzhen Small & Medium Enterprises Credit Financing Guarantee Group Co., Ltd. (深圳市中小企業融資擔保有限公司). The Group's effective interest rates on its secured bank loans ranged from 4.95% to 7.00%, and the Group's unsecured bank loans from 4.95% to 6.00%.

As at 30 June 2020, the lease liabilities of the Group were RMB23.6 million (31 December 2019: RMB33.7 million).

Off-balance sheet commitments and arrangements

As at 30 June 2020, the Group did not enter into any off-balance sheet transactions.

Pledges of assets

Among the total bank borrowings of the Group as at 30 June 2020, approximately RMB250.4 million (31 December 2019: RMB104.2 million) were secured, which accounted for approximately 43.5% (31 December 2019: 23.6%) of the Group's total borrowings.

Contingent liabilities

As at 30 June 2020, save for the two legal proceedings as disclosed in the section headed "Business — Legal proceedings and compliance" in the Prospectus, the Group did not have any contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of the Group.

Capital expenditures

The Group's historical capital expenditures primarily included royalties paid to game developers and IP owners. The Group funded its capital expenditure requirements during the six months ended 30 June 2020 mainly with its internal resources and net proceeds from the Listing.

The Group's capital commitments as at 31 December 2019 and 30 June 2020 amounted to RMB41.3 million and RMB124.3 million, respectively. The Group's capital commitments as at 30 June 2020 was primarily for the purchase of IP, game licenses and capital contributions payable to certain investments included in financial assets at fair value through profit or loss.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Notes	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
REVENUE	5	1,714,036	1,529,118
Cost of sales		<u>(1,182,578)</u>	<u>(1,000,660)</u>
Gross profit		531,458	528,458
Other income and gains	5	96,370	40,127
Selling and distribution expenses		(102,709)	(140,329)
Administrative expenses		(166,562)	(111,435)
Impairment losses on financial assets, net		(16,681)	(6,271)
Other expenses		(25,146)	(7,802)
Finance costs		(20,650)	(5,437)
Share of profits and losses of:			
A joint venture		(152)	(1,436)
Associates		5,531	(2,946)
PROFIT BEFORE TAX	6	301,459	292,929
Income tax expense	7	(25,398)	(43,050)
PROFIT FOR THE PERIOD		<u>276,061</u>	<u>249,879</u>
Attributable to:			
Owners of the parent		287,746	260,387
Non-controlling interests		(11,685)	(10,508)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted			
– For profit for the period		<u>RMB12.35 cents</u>	<u>RMB14.47 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>276,061</u>	<u>249,879</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	24,381	498
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>24,381</u>	<u>498</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>24,381</u>	<u>498</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>300,442</u>	<u>250,377</u>
Attributable to:		
Owners of the parent	312,127	260,885
Non-controlling interests	<u>(11,685)</u>	<u>(10,508)</u>
	<u>300,442</u>	<u>250,377</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 <i>RMB'000</i> (Unaudited)	31 December 2019 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property and equipment		4,877	4,815
Right-of-use assets		24,067	34,138
Goodwill		1,118,617	1,118,617
Other intangible assets		128,397	154,973
Investment in a joint venture		8,656	2,008
Investments in associates		121,362	125,530
Financial assets at fair value through profit or loss		1,033,467	725,137
Deferred tax assets		13,492	8,175
Prepayments	11	326,297	453,972
Total non-current assets		2,779,232	2,627,365
CURRENT ASSETS			
Trade receivables	10	922,938	789,903
Prepayments, other receivables and other assets	11	516,338	384,211
Other current asset	11	145,130	209,286
Due from related parties		4,222	20,002
Pledged deposits and restricted cash		771,216	406,267
Cash and cash equivalents		451,120	771,090
Total current assets		2,810,964	2,580,759
CURRENT LIABILITIES			
Trade payables	12	245,175	169,756
Other payables and accruals		395,706	517,442
Interest-bearing bank borrowings		574,986	442,036
Tax payable		130,440	116,945
Due to related parties		18,576	20,800
Lease liabilities		12,615	16,633
Total current liabilities		1,377,498	1,283,612

	30 June 2020	31 December 2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
NET CURRENT ASSETS	<u>1,433,466</u>	<u>1,297,147</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>4,212,698</u>	<u>3,924,512</u>
NON-CURRENT LIABILITIES		
Deferred tax liabilities	35,154	32,422
Contingent consideration for business combination	175,584	163,414
Lease liabilities	<u>11,032</u>	<u>17,062</u>
Total non-current liabilities	<u>221,770</u>	<u>212,898</u>
Net assets	<u><u>3,990,928</u></u>	<u><u>3,711,614</u></u>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	1,641	1,641
Reserves	<u>3,893,436</u>	<u>3,602,437</u>
	3,895,077	3,604,078
Non-controlling interests	<u>95,851</u>	<u>107,536</u>
Total equity	<u><u>3,990,928</u></u>	<u><u>3,711,614</u></u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 20 March 2018 as an exempted company with limited liability under the Companies Law, Chapter 22 of the Cayman Islands. The registered address of the office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in mobile game publishing and game development in the Mainland China, Hong Kong, Taiwan and Korea, and investment business in the Mainland China.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's office buildings have been reduced or waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB150,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the mobile game publishing, game development and investment business.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance, does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

For the six months ended 30 June 2020

Segments	Game Publishing RMB'000 (Unaudited)	Game Development RMB'000 (Unaudited)	Licensing of Intellectual Property RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue (note 5)				
Sales to external customers	1,489,101	220,779	4,156	1,714,036
Intersegment sales	—	387,037	—	387,037
Elimination of intersegment sales	—	(387,037)	—	(387,037)
Total revenue from contracts with customers	<u>1,489,101</u>	<u>220,779</u>	<u>4,156</u>	<u>1,714,036</u>

For the six months ended 30 June 2019

Segments	Game Publishing RMB'000 (Unaudited)	Game Development RMB'000 (Unaudited)	Licensing of Intellectual Property RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue (note 5)				
Sales to external customers	1,307,087	218,431	3,600	1,529,118
Intersegment sales	—	634,704	—	634,704
Elimination of intersegment sales	—	(634,704)	—	(634,704)
Total revenue from contracts with customers	1,307,087	218,431	3,600	1,529,118

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Mainland China	1,710,577	1,526,971
Other countries and areas	3,459	2,147
	1,714,036	1,529,118

The revenue information above is based on the locations of the game publishing, game development and licensing of intellectual property.

(b) Non-current assets

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Mainland China	1,583,037	1,755,281
Other countries and areas	149,236	138,772
	1,732,273	1,894,053

The non-current assets information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

During the six months ended 30 June 2020, revenue of approximately RMB179,923,000 (unaudited) derived from respective single external customer accounted for more than 10% of total revenue.

During the six months ended 30 June 2019, there was no revenue derived from respective single external customer which accounted for more than 10% of total revenue.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

Revenue from contracts with customers

(a) Disaggregated revenue information

For the six months ended 30 June 2020

Segments	Game Publishing RMB'000 (Unaudited)	Game Development RMB'000 (Unaudited)	Licensing of Intellectual Property RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Types of goods or services				
Mobile game publishing services	1,489,101	—	—	1,489,101
Game development related services	—	220,779	—	220,779
Licensing of intellectual property	—	—	4,156	4,156
Total revenue from contracts with customers	<u>1,489,101</u>	<u>220,779</u>	<u>4,156</u>	<u>1,714,036</u>
Geographical markets				
Mainland China	1,485,642	220,779	4,156	1,710,577
Other countries and areas	3,459	—	—	3,459
Total revenue from contracts with customers	<u>1,489,101</u>	<u>220,779</u>	<u>4,156</u>	<u>1,714,036</u>
Timing of revenue recognition				
Services transferred over time	1,489,101	192,477	—	1,681,578
Services transferred at a point in time	—	28,302	4,156	32,458
Total revenue from contracts with customers	<u>1,489,101</u>	<u>220,779</u>	<u>4,156</u>	<u>1,714,036</u>

For the six months ended 30 June 2019

Segments	Game Publishing RMB'000 (Unaudited)	Game Development RMB'000 (Unaudited)	Licensing of Intellectual Property RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Types of goods or services				
Mobile game publishing services	1,307,087	—	—	1,307,087
Game development related services	—	218,431	—	218,431
Licensing of intellectual property	—	—	3,600	3,600
Total revenue from contracts with customers	<u>1,307,087</u>	<u>218,431</u>	<u>3,600</u>	<u>1,529,118</u>
Geographical markets				
Mainland China	1,304,940	218,431	3,600	1,526,971
Other countries and areas	<u>2,147</u>	<u>—</u>	<u>—</u>	<u>2,147</u>
Total revenue from contracts with customers	<u>1,307,087</u>	<u>218,431</u>	<u>3,600</u>	<u>1,529,118</u>
Timing of revenue recognition				
Services transferred over time	1,307,087	208,997	—	1,516,084
Services transferred at a point in time	<u>—</u>	<u>9,434</u>	<u>3,600</u>	<u>13,034</u>
Total revenue from contracts with customers	<u>1,307,087</u>	<u>218,431</u>	<u>3,600</u>	<u>1,529,118</u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of each reporting period and recognised from performance obligations satisfied in previous periods:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue recognised that was included in the contract liabilities balance at the beginning of period:		
Short-term advances received from publishing channels	3,752	10,607
Sales of game points in self-developed games	<u>16,015</u>	<u>8,240</u>
	<u>19,767</u>	<u>18,847</u>

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Publishing services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 to 90 days from the date of billing.

Game development related services

The performance obligation from the operation of self-developed games is satisfied over the estimated average playing period of these paying players ("Player Relation Period"). The performance obligation from game research and development services is satisfied over time if the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, otherwise at the point in time.

IP licensing services

The performance obligation is satisfied over the licence period (for a right to access) or at the point in time when the customer can first use the licensed intellectual property (for a right to use). Payment is generally due within 45 days from delivery.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) for the six months ended 30 June are as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Amounts expected to be recognised as revenue:		
Within one year	72,698	71,005
After one year	—	—

The amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

	Notes	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Other income			
Bank interest income	6	3,052	277
Dividend income from financial assets at fair value through profit or loss		—	8,898
Government grants - related to income*		12,642	7,053
Others		3,335	8,366
		19,029	24,594
Gains			
Gain on disposal of an investment in an associate	6	23,752	—
Fair value gains on financial assets at fair value through profit or loss		53,589	11,734
Fair value adjustment of contingent consideration		—	737
Gain on disposal of items of other intangible assets	6	—	3,062
		77,341	15,533
		96,370	40,127

* Various government grants have been received from local government authorities. There are no unfulfilled conditions and other contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Commissions charged by channels		1,110,840	940,429
Commissions charged by IPs		17,915	12,794
Game development cost		15,400	15,672
Promotion expenses		85,055	127,576
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries		89,492	51,263
Equity-settled share-based expense		53,903	—
Pension scheme contributions (defined contribution scheme)		1,925	8,715
		145,320	59,978
Depreciation of property and equipment		1,471	1,927
Depreciation of right-of-use assets		9,545	9,908
Amortisation of other intangible assets		34,895	27,144
Research and development costs		79,637	66,264
Lease payments not included in the measurement of lease liabilities		32	85
Foreign exchange differences, net		2,088	1,036
Impairment losses on financial assets, net:			
Impairment of trade receivables, net*		16,681	6,271
Write-off of prepayments, net**		6,729	—
Impairment of other intangible assets***		442	4,193
Bank interest income	5	(3,052)	(277)
(Gain)/loss on disposal of items of property and equipment		(14)	544
Gain on disposal of items of other intangible assets	5	—	(3,062)
Auditor's remuneration		900	132
Listing expenses		—	7,402
Loss on disposal of financial assets at fair value through profit or loss		—	1,858
Gain on disposal of an investment in an associate	5	(23,752)	—
Fair value adjustment of contingent consideration		14,508	(737)

* Impairment of trade receivables is included in impairment losses on financial assets in the consolidated statement of profit or loss.

** Write-off of prepayments is included in other expenses in the consolidated statement of profit or loss.

*** Impairment of other intangible assets is included in other expenses in the consolidated statement of profit or loss.

7. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the British Virgin Islands (the “BVI”) and the Cayman Islands, the Group is not subject to any income tax in the BVI and the Cayman Islands.

Hong Kong profits tax has been provided at the rate of 16.5% on the Group’s assembled profit derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law (the “PRC Tax Law”) effective on 1 January 2008, the PRC Corporate Income Tax (“CIT”) rate of the Group’s subsidiaries operating in Mainland China during the reporting period was 25% of their taxable profits.

Shenzhen Douyue Internet Technology Company Limited and Shenzhen Zhongshouyou Internet Technology Company Limited were accredited as “software enterprises” in 2016 under relevant PRC laws and regulations. Accordingly, Shenzhen Douyue Internet Technology Company Limited and Shenzhen Zhongshouyou Internet Technology Company Limited were entitled to a preferential CIT rate of 12.5% for the six months ended 30 June 2020 and 2019.

Beijing Wenmai Hudong Technology Company Limited was accredited as a high and new technology enterprise (“HNTE”) since 2016 and the certificate is valid for three years since its renewal in 2019. For the six months ended 30 June 2020 and 2019, Beijing Wenmai Hudong Technology Company Limited was entitled to a tax rate of 15%. The HNTE certificates need to be renewed every three years so as to enable Beijing Wenmai Hudong Technology Company Limited to enjoy the reduced tax rate of 15%.

Softstar Technology (Beijing) Company Limited was accredited as an HNTE since 2009 and the certificate is valid for three years since its renewal in 2018. For the six months ended 30 June 2020 and 2019, Softstar Technology (Beijing) Company Limited was entitled to a tax rate of 15%.

Horgos Zhongsheng Huyu Entertainment Technology Company Limited was established in Horgos Development Zone of Xinjiang and was exempt from PRC Tax Law from the first year of operation which was 2016 for a five-year period according to the applicable regulations promulgated by the State Council and relevant authorities. The applicable tax rate for Horgos Zhongsheng Huyu Entertainment Technology Company Limited was 0% for the six months ended 30 June 2020 and 2019.

Shengyue Software (Shenzhen) Company Limited was accredited as a “software enterprise” in 2019 under relevant PRC laws and regulations. Accordingly, Shengyue Software (Shenzhen) Company Limited was entitled to a preferential CIT rate of 0% for the six months ended 30 June 2020.

Beijing Zhongsheng Huyu Entertainment Technology Company Limited was accredited as a “software enterprise” in 2020 under relevant PRC laws and regulations. Accordingly, Beijing Zhongsheng Huyu Entertainment Technology Company Limited was entitled to a preferential CIT rate of 0% for the six months ended 30 June 2020.

The major components of the income tax expense for the period are as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current Tax Expense		
PRC	<u>27,983</u>	<u>43,704</u>
Deferred Tax Expense		
HK	—	2,184
PRC	<u>(2,585)</u>	<u>(2,838)</u>
Total	<u>(2,585)</u>	<u>(654)</u>
Total tax charge for the period	<u><u>25,398</u></u>	<u><u>43,050</u></u>

8. DIVIDENDS

The Board of Directors resolved not to pay any interim dividend to the shareholders in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,330,150,000 (30 June 2019: 1,800,000,000) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2020 and 2019.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	<u>287,746</u>	<u>260,387</u>
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u><u>2,330,150,000</u></u>	<u><u>1,800,000,000</u></u>

10. TRADE RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	960,617	810,907
Allowance for expected credit losses	(37,679)	(21,004)
	<u>922,938</u>	<u>789,903</u>

Trade receivables mainly represent amounts receivable from third-party publishing channels. The Group normally allows credit terms of 30 to 90 days to established channels and extends credit terms up to 270 days for major channels. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the billing date and net of the allowance for expected credit losses, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 90 days	358,457	352,190
90 to 180 days	199,974	219,646
180 days to 1 year	286,801	181,553
1 year to 2 years	77,706	36,514
	<u>922,938</u>	<u>789,903</u>

11. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current portion Prepayments*	326,297	453,972
Current portion Prepayments*	391,921	319,189
Deposits and other receivables	108,089	56,185
Contract costs**	16,328	8,837
	<u>516,338</u>	<u>384,211</u>
Other current asset***	145,130	209,286
	<u>987,765</u>	<u>1,047,469</u>

* Prepayments as at 30 June 2020 and 31 December 2019 included RMB110,000,000 and RMB100,000,000 paid for the conditional share purchase of Angel Fund (Asia) Investments Limited, respectively. The conditional share purchase agreement will expire in December 2020.

Prepayments as at 31 December 2019 included RMB163,000,000 prepaid for the capital contribution in accordance with the requirements set out in a partnership agreement. The fund had obtained all the related licences and approval documentations in February 2020 and was transferred to financial assets at fair value through profit or loss as at 30 June 2020.

** Contract costs relate to commissions charged by the platforms which meet contract acquisition cost criteria. They are capitalised as contract acquisition costs and amortised over the Player Relation Period, which is consistent with the pattern of recognition of the associated revenue. The Group had no impairment losses recognised on contract costs.

*** Other current asset as at 30 June 2020 and 31 December 2019 represented deposits of RMB145,130,000 and RMB209,286,000 in a financial institution for assets management, respectively.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 30 June 2020 and 31 December 2019, the loss allowance was assessed to be minimal.

12. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the reporting period, based on the invoice date, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	63,278	78,100
3 to 6 months	61,224	44,758
6 months to 1 year	88,593	28,748
1 year to 2 years	15,925	14,065
2 years to 3 years	12,772	1,977
over 3 years	3,383	2,108
Total	<u>245,175</u>	<u>169,756</u>

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS OR DISPOSAL

During the six months ended 30 June 2020, and up to the date of this announcement, the Group did not make any significant investment, or perform any material acquisition or disposal of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group will continue to focus on its existing business and will apply the net proceeds from the Listing as set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus. No concrete plan for future investments is in place for the Group as at the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2020, the Group did not purchase, sell or redeem any of the Company’s listed securities.

IMPORTANT EVENTS AFFECTING THE GROUP SINCE 30 JUNE 2020

A new strain of coronavirus, COVID-19, was identified in 2020. The Group has been closely monitoring the impact of COVID-19 pandemic. Meanwhile, no Group's employee has been diagnosed with COVID-19, and the COVID-19 outbreak has not currently had any significant impact on the Group's operations. The Group will continue to review its contingency measures as the COVID-19 outbreak situation evolves.

Save as disclosed above, no other important events affecting the Group has taken place since 30 June 2020 and up to the date of this announcement.

USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing were approximately HK\$1,347.1 million after deducting underwriting fees and expenses in connection with the Listing. The Company applied the net proceeds as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus, and there was no material change or delay in the use of proceeds.

The table below sets forth (i) the amount of net proceeds utilised by the Company from the Listing Date to 31 December 2019, and during the six months ended 30 June 2020; (ii) the amount of unutilised net proceeds of the Company as at 30 June 2020; and (iii) the expected timeline of the Company for the full utilisation of the remaining unutilised net proceeds:

No.	Purposes	Amount of the net proceeds	Amount utilised between the Listing Date and	Amount utilised during the six months ended	Amount of unutilised net proceeds as at	Expected timeline for the full utilisation of the remaining
			31 December 2019	30 June 2020	30 June 2020	proceeds
<i>(HK\$ in millions)</i>						
1.	Expanding and enhancing the Company's IP-based game publishing and development business	673.55 (50% of the total net proceeds)	209.65	85.02	378.88	Before 31 December 2021
2.	Conducting merger and acquisition activities of participants in the mobile game ecosystem	538.84 (40% of the total net proceeds)	200.64	84.18	254.02	Before 31 December 2021
3.	Working capital and general corporate purposes	134.71 (10% of the total net proceeds)	15.35	26.33	93.03	N/A
Total		1,347.10	425.64	195.53	725.93	

Given the impact of the global COVID-19 pandemic on the economy, the Company will continue to evaluate the situation and adopt a prudent and flexible approach when utilising its net proceeds from the Listing for the long-term benefit and development of the Group. The current expected timeline for using the unutilised net proceeds is based on the Directors' best estimation barring unforeseen circumstances, and would be subject to change based on the future development of market conditions. Should there be any material change in the intended usage of the net proceeds from the Listing, the Company will make appropriate announcements in due course.

DIVIDENDS

The Board did not propose payment of any interim dividend for the six months ended 30 June 2020 (30 June 2019: Nil).

CHANGE IN INFORMATION IN RESPECT OF DIRECTORS

Mr. Ma Yuntao resigned as a non-executive Director and a member of the Audit Committee with effect from 13 July 2020 as he wishes to commit more time to his fund management business.

The Board has appointed Mr. Ho Orlando Yaukai, an independent non-executive Director, as a member of the Audit Committee with effect from 13 July 2020.

Save as disclosed above, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the six months ended 30 June 2020 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2020, the Company had complied with the applicable code provisions of the Corporate Governance Code except for a deviation from code provision A.2.1 of the Corporate Governance Code. Pursuant to code provision A.2.1 of the Corporate Governance Code, the responsibilities of the chairman and the chief executive officer of a listed company should be segregated and should not be performed by the same individual. However, the Group does not have a separate chairman and chief executive officer and Mr. Xiao Jian currently performs these two roles. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board currently comprises two executive Directors (namely Mr. Xiao Jian and Mr. Sin Hendrick), one non-executive Director and three independent non-executive Directors, and therefore considers that it has a fairly strong independence element in its composition. The Board also considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider separating the roles of Chairman of the Board and Chief Executive Officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Company as a whole.

DIRECTORS' DEALING IN SECURITIES TRANSACTIONS

All Directors have confirmed, following specific enquiring by the Company, that they have fully complied with the required standard set out in the Corporate Governance Code as well as Model Code throughout the period from 1 January 2020 to 30 June 2020.

REVIEW OF UNAUDITED INTERIM FINANCIAL INFORMATION

The interim results for the six months ended 30 June 2020 have been reviewed by the Company's auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, and by the Company's audit committee. There is no disagreement between the Board and the Audit Committee regarding the accounting treatment adopted by the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The interim results announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.cmge.com>). The interim report will be despatched to the Shareholders and will be available on the websites of the Stock Exchange and the Company in due course.

By order of the Board
CMGE Technology Group Limited
Xiao Jian
Chairman

Hong Kong, 26 August 2020

As at the date of this announcement, the Board comprises Mr. Xiao Jian and Mr. Sin Hendrick as executive Directors; Mr. Tang Yanwen as non-executive Director; and Ms. Ng Yi Kum, Mr. Tang Liang and Mr. Ho Orlando Yaukai as independent non-executive Directors.