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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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 “**Group**”) is pleased to announce the audited consolidated annual results of the Group for the year ended 31 December 2020.

2020 FINANCIAL HIGHLIGHTS

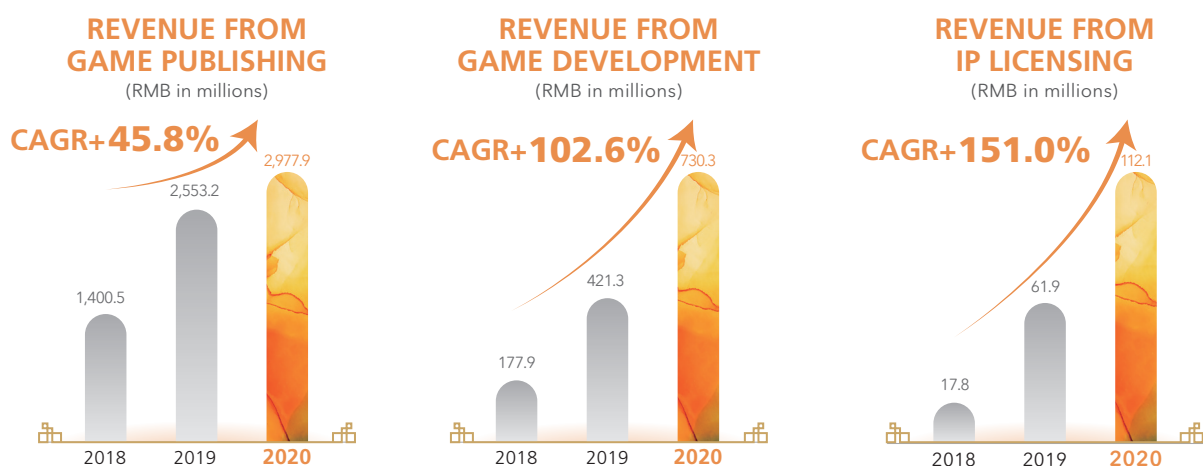
| | For the year ended | | Year-on-year change |
|---|---------------------|-------------|------------------------|
| | 31 December 2020 | 2019 | |
| | RMB’000 | RMB’000 | % |
| Revenue | 3,820,326 | 3,036,301 | 25.8 |
| Gross profit | 1,223,264 | 1,083,198 | 12.9 |
| Profit for the year | 690,200 | 243,213 | 183.8 |
| Adjusted net profit ⁽¹⁾ | 806,950 | 611,007 | 32.1 |
| Earnings per Share (RMB) | 29.92 cents | 13.15 cents | |
| Adjusted earnings per Share (RMB) ⁽¹⁾ | 34.43 cents | 32.34 cents | |
| Dividend per Share (HK\$) | 9.28 cents | 3.55 cents | |

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 relating to the listing (the “**Listing**”) of the Company’s shares (the “**Shares**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 31 October 2019. The adjusted net profit more closely reflects the Group’s operating results, after excluding the above-mentioned non-operating items. “Adjusted earnings per Share” are the Group’s adjusted net profit divided by the weighted average number of Shares during 2020.



The increase in the Group’s revenue was driven by its strong game publishing, game development and IP licensing businesses.



FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.0928 (equivalent to RMB0.0825 based on the average exchange rate of 2020) per Share for the year ended 31 December 2020 out of the Company’s share premium account, subject to approval of the Company’s shareholders (the “Shareholders”) at the forthcoming annual general meeting to be held on Tuesday, 25 May 2021 (the “AGM”).

CHAIRMAN’S STATEMENT

Dear Shareholders,

In 2020, the COVID-19 pandemic posed severe challenges upon the global social and economic environment. The sudden pandemic has brought attention to the “otaku economy (宅經濟)”. Driven by the “otaku economy”, the gaming industry experienced a boom. According to a report issued by Newzoo, a globally well-known statistics analytic organization, as of the end of 2020, global game player population reached 2.7 billion, representing an increase of 4.9% as compared to that of the previous year, and revenue derived from the global gaming market reached USD174.9 billion for the year 2020, representing a year-on-year increase of 19.6%.

2020 marked the 10th anniversary of the Group. The Group consistently adheres to its six major development strategies, namely “IP focus, high-quality, integrated research and operation, ecosystem, globalization and branding” (IP化、精品化、研運一體化、生態化、全球化和品牌化), to establish a highly competitive IP-based game ecosystem and achieve outstanding results. In 2020, the revenue of the Group increased by 25.8% year-on-year to RMB3,820.3 million; the adjusted net profit of the Group increased by 32.1% year-on-year to RMB807.0 million; the total number of newly registered users of the Group increased by 18.6% year-on-year to 101.6 million; the average monthly active users (“MAUs”) of the Group increased by 16.0% year-on-year to 18.5 million; and the average monthly paying users (“MPUs”) of the Group increased by 17.8% year-on-year to 1.4 million. As at 31 December 2020, the Group operated a total of 81 games.

In 2020, the Group achieved impressive results in terms of global publishing and self-development of intellectual property (“IP”) based games. The Group successfully launched multiple new self-published games. Among these, the mobile game *Reborn!* (家庭教師) ranked second on the Top Free Games List of Apple’s App Store in Mainland China in the first month of its launch; and *Xuan Yuan Sword – the Origin* (軒轅劍:劍之源) ranked second on the Top Free Games List of Apple’s App Store in Mainland China in the first month of its launch. Further, *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵰群俠傳之鐵血丹心) ranked first and fifth in the Top Free Games List and Best Selling Games List of Apple’s App Store in the first month of its launch in Mainland China respectively according to the statistics from App Annie, an authoritative third party institution. This game also attracted much attention and was praised among the industry, receiving awards such as “Favorite Mobile Game among Players” at the Golden Plume Award 2020 (2020年度金翎獎「玩家最喜愛的移動遊戲」), Annual Mobile Game and Online Game Award at the 5th Golden Gyro Award (第五屆金陀螺獎「風雲移動遊戲網遊獎」), Chinese Game Industry Outstanding Mobile Game at the Golden Finger Award 2020 (2020年

度中國遊戲行業「金手指」獎「中國遊戲行業優秀手機遊戲」) and “Best New Game” at the Mi Developer Conference (小米開發者大會「最佳新遊獎」). The Group also launched the 3D mini shooter game *Life and Death Sniper: Zombie Frontier* (生死狙擊之殭屍前線), the H5 game *Away from keyboard* version of *A Record of a Mortal’s Journey to Immortality* (凡人修仙傳掛機版) and other new games, all of which performed well in the market. In addition, benefitting from the outstanding operating abilities of the Group, a number of games that were launched in previous years, such as *One Piece – the Road of the Strong* (航海王強者之路), *Dragon Ball – Awakening* (龍珠覺醒), *The National Gunlord – The Frontier* (全民槍神:邊境王者) and *The Story of the Flying Mortal H5* (凡人飛仙傳H5), still show strong vitality, and consistently contribute stable revenue to the Group.

In terms of extensive cooperation with domestic top traffic platforms, *Monster List: Past and Present Lives* (妖怪名單之前世今生), a top domestic comic IP-based card and tower defence mobile game that was jointly developed by the Group and Guangzhou Huanyu Jiuzhou Technology Co., Ltd. (廣州寰宇九州科技有限公司) (“**Huanyu Jiuzhou**”) and exclusively published by Tencent Games, was launched on 25 September 2020. The game ranked second in the Top Free Games List of Apple’s App Store on the first day of its launch.

Not only have the quality games launched by the Group been successful in Mainland China, they have also performed well in Hong Kong, Macau and Taiwan. The mobile game *Reborn!* (家庭教師) ranked first on the Top Free Games List of Apple’s App Store in all three regions on the first day of its launch. *Xuan Yuan Sword – the Origin* (軒轅劍:劍之源) was ranked third and first on the Top Free Games List of Apple’s App Store and Best Selling Games List of Google Play Store in Taiwan, respectively, on the first week of its launch. *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵰群俠傳之鐵血丹心) ranked first on the Top Free Games List of Apple’s App Store in Hong Kong, Macau and Taiwan on the first day of its launch. According to the statistics from App Annie, an authoritative third party institution, the game ranked first on the Best Selling Games List of both Apple’s App Store and Google Play Store in Hong Kong, Macau and Taiwan.

The Group continued to invest and produce quality self-developed games. In 2020, the Group’s revenue derived from its game development business increased by 73.4% year-on-year to RMB730.3 million. Research and development expenses increased by 29.7% year-on-year from RMB160.8 million in 2019 to RMB208.6 million in 2020. Despite having been published for more than two years, *World of Legend-Thunder Empire* (傳奇世界之雷霆霸業), a game developed in-house by the Group’s wholly-owned subsidiary, Beijing Wenmai Hudong Technology Company Limited (北京文脈互動科技有限公司) (“**Wenmai Hudong**”), maintained its popularity and competitiveness. In 2020, it had an average MAUs amounting to over 1 million, while peak gross billing reached RMB107.7 million. The total sales volume of

Monopoly 10 (大富翁10), a game on the STEAM platform developed by the Group's subsidiary, Softstar Technology (Beijing) Co., Ltd. (軟星科技(北京)有限公司) (“**Beijing Softstar**”), reached 700,000 copies as of 28 February 2021. *Joy of Mahjong* (歡樂真人麻將), a game developed in-house by the Group's card and board game workshop, ranked second in the Best Selling Mahjong, Card and Board Games List on Huawei, OPPO, VIVO and other channels, with an average monthly gross billing of RMB20 million. In terms of new games, the Group launched multiple self-developed games in 2020. Among them, *Legend of Dragon City* (龍城傳奇), a game developed by the original development team of *World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) from Wenmai Hudong, has gained great popularity in the market of its launch. The PC web game developed by Wenmai Hudong, *Demon Rebirth* (魔域覺醒), ranked first in terms of new game recommendations on the wan.360.cn game platform and PC version *Legend of Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野), developed by the Group's subsidiary, Softstar Technology (Shanghai) Co., Ltd. (軟星科技(上海)有限公司) (“**Shanghai Softstar**”), was listed as a recommended game on the STEAM platform in the month it launched, and its mobile game version was officially launched in March 2021. On its first day of launch, the game ranked first in terms of popularity on the TapTap platform, a game community platform under XD Games, and became a popular game recommended on Apple's App Store.

In addition, the Group has strengthened its focus on IP operation, with a continued focus on enriching its IP universes, increasing its IP's popularity and developing the merchandise of its IPs. In 2020, the Group officially began the development of the literature content of the *Legend of Sword and Fairy Universe* (仙劍大宇宙) in order to establish a full and rich worldview of the Legend of Sword and Fairy. Meanwhile, as 2020 marked the 25th Anniversary of the launch of the *Legend of Sword and Fairy* game series, the Group began its “Legend of Sword and Fairy 25th Anniversary” events series, where the Group collaborated with Chinese Music Festival (國風音樂盛典) held by Miman Culture Media (米漫傳媒) and the Most Beautiful Night 2020 (2020年晚會最美的夜) held by Bilibili on that New Year's Eve. The Group also held a number of online and offline concerts, the event series was listed in the Hot Topic List of Weibo four times, receiving over a hundred million views and ranked first in the Hot Topic List of Weibo. The Group also announced the theme song of *Legend of Sword and Fairy 7* (仙劍奇俠傳7) in December 2020, which the theme song ranked first in all three music platforms under TME for almost a month. In July 2020, the Group officially launched the Tmall shop for the Legend of Sword and Fairy, and generated Legend of Sword and Fairy merchandise sales of over RMB5 million in 2020. The Group entered into new licensing cooperation in areas such as games, films and television in 2020. For the year ended 31 December 2020, revenue derived from the Group's IP licensing business and IP game operating right licences reached RMB112.1 million, representing a year-on-year increase of approximately 81.3%. In July 2020, Beijing Softstar, a subsidiary of the Group, entered into 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**”) in relation to the development of a mobile game based on the *Legend of Sword and Fairy* IP. The game will be jointly developed by Beijing Softstar and Perfect World and published by Perfect World.

In 2020, the Group invested in a number of mobile game developers and related enterprises, and entered into long-term cooperation with them in terms of customized game development and licensed publishing, expanding the Group’s game portfolio and support services. Companies that the Group has invested in include Love Games (Shanghai) Internet Technology Co., Ltd. (樂府互娛(上海)網絡科技有限公司) (“**Love Games**”), 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 Group and Love Games jointly deepened their card game strategy, while Cheng Liangqi also participated as the chief product consultant of the Group. The Group also invested in Shenzhen EZfun Interactive Technology Co., Ltd. (深圳易帆互動科技有限公司) (“**EZfun**”), the developer of *Dynasty Warriors: Hegemony* (真·三國無雙霸), where the Group focused on quality *Dynasty Warriors* type action role-playing game (ARPG), aiming to expand and consolidate the Group’s competitiveness in the intermediate and hardcore mobile game market. The Group invested in Huanyu Jiuzhou founded by famed producer Zhang Fumao (張福茂). The Group will cooperate with Huanyu Jiuzhou’s team to explore the blue ocean market of tower defence and simulation game (SLG) genres they specialize in, as well as other genres. The Group invested in Shenzhen Heyao Network Technology Co., Ltd. (深圳市赫耀網絡科技有限公司) (“**Shenzhen Heyao**”), which is led by the producer of *The Devil Forbidder* (太古封魔錄), Li Wendong (李文東), in January 2021. Both parties will cooperate to produce quality games under the vertical 3D massively multiplayer online role-playing game (MMORPG) genre. The above investments will enhance the Group’s ability to produce and supply quality games and facilitate the sustainable development of the research and development and publishing business of the Group. Moreover, the Group has completed its Pre-A series investment in Beijing Weiling Times Technology Co., Ltd. (北京蔚領時代科技有限公司) (“**Weiling Times**”), a cloud gaming technology service provider. The cloud demo of *Legend of Sword and Fairy 7* (仙劍奇俠傳7) jointly launched by both parties in 2020 was endorsed and vigorously promoted by multiple cloud gaming platforms. Weiling Times, established in 2019, is a company focused on research and development and technology services in the cloud gaming industry. With leading technology and cost controlling solutions compared to its peers, upon its establishment, Weiling Times became a “Platform as a service (PAAS)” platform for Kingsoft Cloud Gaming and a partner of Alibaba Cloud Gaming Solutions. Apart from public cloud platforms, Weiling Times has commenced comprehensive cooperation with leading game producers, such as miHoYo, to launch high quality cloud gaming services. In 2020, with its hard work as mentioned above, the Group has established industry leading competitive advantages in genres such

as the Legend of Mir type, card, Dynasty Warriors type ARPG, Three Kingdoms strategy, PC single player, vertical 3D MMORPG, 3D shooters and Mahjong.

The Group completed a top-up placing on 4 December 2020, and the net proceeds received by the Company amounted to approximately HK\$536.78 million. The Group intends to apply the net proceeds to further enhance its IP-based game publishing and development business.

The Group has always emphasized corporate social responsibility. While combating COVID-19, the Group and its employees made a charitable donation of over RMB1.45 million. The Group has been working on the “CMGE Dream Libraries (中手游築夢圖書館)” project for nearly 4 years in cooperation with Wuxi Lingshan Foundation (無錫靈山基金會), where the Group constructed seven “CMGE Dream Libraries (中手游築夢圖書館)” in (i) Xinquan Township, Luxi County, Pingxiang City, Jiangxi Province (江西省萍鄉市蘆溪縣新泉鄉); (ii) Huoqiu County, Lu’an City, Anhui Province (安徽省六安市霍邱縣); (iii) Yunan County, Yunfu City, Guangdong Province (廣東省雲浮市郁南縣); (iv) Zhengding County, Shijiazhuang City, Hebei Province (河北省石家莊市正定縣); (v) Mehekou City, Jilin Province (吉林省梅河口市); (vi) Yangchun City, Guangdong Province (廣東省陽春市); and (vii) Jishan County, Shanxi Province (山西省稷山縣). The Group will also continue to extend caring services to special children groups, further practice charity as the Group’s culture and shoulder more social responsibility.

The Group also participated in formulating four standards, namely Entity Standards for on Online Game Jargon (《網絡遊戲術語》團體標準), Regulations on Age Limit Notification in Games (《遊戲適齡提示規範》), Regulations on Content Internal Approval for the Gaming Industry (《遊戲企業內容自審流程規範》) and Regulations on Parent Monitoring Platforms (《家長監護平台規範》), contributing to the promotion and implementation of the standardization of the industry.

Given its outstanding performance in terms of economic, social, industry, cultural and scientific contributions, the Group was selected as one of the “2019-2020 Top Twenty Socially Responsible Enterprises in the Gaming Industry in China” (2019-2020中國遊戲企業社會責任二十佳企業) in the 2020 Game Responsibility Forum (2020遊戲責任論壇) directed by China Audio-Video and Digital Publishing Association (中國音像與數字出版協會) and held by People’s Daily Online (人民網), and was also selected as one of the “TOP 10 Best Performing Gaming Enterprises in Social Responsibility” (社會責任履行狀況良好TOP 10遊戲企業) in the Corporate Social Responsibility Report on the Gaming Industry of China 2020” (《2020年中國遊戲產業企業社會責任調查報告》) prepared by CNG(伽馬).

Outlook for 2021

The Group will continue to focus on creating quality games and relentlessly deepen its highly competitive IP-based games ecosystem.

The Group's game publishing business in Mainland China is expected to undergo consistent and stable growth. In 2021, after launching *Legend of Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野), the Group also plans to publish multiple new games, including *Soul Land: God of Battle Arise* (斗羅大陸: 鬥神再臨), *Rakshasa Street: Chosen One* (鎮魂街:天生為王), *Swallowed Star: Dawn* (吞噬星空:黎明), *Cultivation Fantasy* (我的御劍日記), *New Romance of the Three Kingdoms: The Legend of Cao Cao* (新三國志曹操傳), *Drawing Swords: My Individual Team* (亮劍:我的獨立團), *Hua Jiang Hu: Bei Mo Ting* (畫江湖之杯莫停), *Code: Mountainous Seas* (代號:山海), *Code: Fairy Tale* (代號:童話), *Imperial Command* (號令皇城) and *Legend of the Immortals: Sharing the Sky* (星辰變:共攬蒼穹).

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 3D adventure mobile game adapted from the IP of *Soul Land* (斗羅大陸) licensed by China Literature Limited (閱文集團), is planned to be launched during the first half of 2021. Since its adaptation into animation, the novel *Soul Land* (斗羅大陸) has achieved over ten billion views with a large fan base. This mobile game reproduces the setting of the original novel. The combination of different characters with unique techniques and intelligent gameplay provides players with clear core values and objectives for the game, outshining its 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 and China Literature Limited (閱文集團) in the first half of 2021.

Rakshasa Street: Chosen One (鎮魂街:天生為王)

The first 3D ARPG action mobile game adapted from the IP of top Chinese comic, *Rakshasa Street* (鎮魂街), which has a rich IP derived work. The comic of *Rakshasa Street* (鎮魂街) has a total hit rate of nearly 5 billion. Its animation receives a rating of 9.1 on the Bilibili platform, with almost 8 million viewers and a total number of views of over 600 million, having wide influence within the Animation, Comic, Game and Novel (ACGN) circle.

The mobile game *Rakshasa Street: Chosen One* (鎮魂街:天生為王) has developed an original core experience where both the character and its guardian spirit fight at the same time, giving players the ultimate in intense and immersive team battles. In addition, on top of the comic style that *Rakshasa Street: Chosen One* (鎮魂街:天生為王) is based on, the game also incorporates fashionable elements to create a mysterious and distinctive game world. The game started pre-orders on the TapTap platform in December 2020, and ranked second in the pre-order list on the day it hit the shelves.

***Swallowed Star: Dawn* (吞噬星空:黎明)**

Based on the famous novel *Swallowed Star* (吞噬星空) on Qidian (起點) and officially licensed by China Literature Limited (閱文集團), this game is an oriental science fiction card game that combines cyberpunk and post-apocalyptic wasteland themes. The animation of *Swallowed Star* (吞噬星空) is produced by the top animation production team from Hangzhou Xuanji Technology Co., Ltd. (杭州玄機科技股份有限公司). Currently, 15 episodes have been released on the Tencent Video Platform with close to 600 million views, showing a strong fan base compared to other mainstream domestic animation IPs.

The mobile game of *Swallowed Star: Dawn* (吞噬星空:黎明) follows the setting of the original novel. With its high-quality and realistic character models, delicate and magnificent scenes, combined with spectacular and exciting skill animation, this game, being the only existing licensed mobile game of the IP, will be another well-polished masterpiece produced by the Group.

***Cultivation Fantasy* (我的御劍日記)**

Cultivation Fantasy (我的御劍日記) is an idle mobile card game and the brainchild of the core research and development team, which was led by Cheng Liangqi (程良奇), the famed producer of Love Games, a company strategically invested by the Group.

The game is based on the world of cultivating immortals and focuses on long-term player retention. *Cultivation Fantasy* (我的御劍日記) is scheduled to launch this year, and it is expected that the game will be an important product with stable long-term operation for the Group.

In 2021, the self-publishing business in Hong Kong, Macau, Taiwan and overseas markets will be a strong growth point for the Group's results. In January 2021, the Group launched *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵰群俠傳之鐵血丹心) in Hong Kong, Macau and Taiwan, and it ranked first on the Top Free Games List of Apple's App Store in Hong Kong, Macau and Taiwan on the first day of its launch. According to the statistics from App Annie, an authoritative third party institution, the game's launch in Hong Kong, Macau and Taiwan, it ranked first in the sales rankings of both Apple's App Store and Google Play Store in all three locations in the first month of its launch and was recommended multiple times on both Apple's App Store and Google Play Store. In 2021, the Group plans to successively launch various new games in Hong Kong, Macau, Taiwan and the foreign market, including *Soul Land: God of Battle Arise* (斗羅大陸:鬥神再臨), *Rakshasa Street: Chosen One* (鎮魂街:天生為王), *Dynasty Warriors: Hegemony* (真·三國無雙霸), *Legend of Sword and Fairy 7* (仙劍奇俠傳7), *Valonia & Puzzles* (瓦諾尼亞與謎題), *Ultimate Judge: Bao Qingtian* (包青天), *Doomsday Chariots* (末世戰車), *Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野) and *Hua Jiang Hu: Bei Mo Ting* (畫江湖之杯莫停).

The Group will continue to invest in the business of developing games itself and expects continuous rapid growth in revenue derived from such business. In 2021, the Group launched the mobile game version of the new game *Sword and Fairy-the Magnificence* (仙劍奇俠傳:九野), which was self-developed by the Group's subsidiary, Shanghai Softstar. The Group plans to continue to launch a number of new in-house developed games, including a number of MMORPG mobile games such as *Code: Dawn* (代號:開天), a number of H5 games such as *The Lord of Sabuk* (沙城霸主) and *Code: Blood* (代號:血飲), and a number of PC page games such as *Code: State* (代號:國度), which will be self-developed by Wenmai Hudong, a wholly-owned subsidiary of the Group. In 2021, Wenmai Hudong will establish a new research and development team to pursue projects other than The Legend of Mir type games, such as the research and development of card and simulation games. Beijing Softstar, a subsidiary, will launch the self-developed PC game *Legend of Sword and Fairy 7* (仙劍奇俠傳7) and the Switch version of *Monopoly 10* (大富翁10) within this year. Shanghai Softstar, a subsidiary, will also launch a next generation card game, which is expected to be launched in the first half of 2022. The Group will continue to increase its investment in research and development in 2021 to enhance the Group's competitiveness in research and development by establishing research and development workshops in collaboration with experienced research and development producers. It is expected that in 2021, the number of research and development personnel of the Group will nearly be doubled as compared to that in 2020, reaching approximately 800.

It is expected that products cooperating with top traffic platforms and developers will substantially increase the revenue of the Group. The IP-based games *One Piece: The Voyage* (航海王熱血航線) and *The King of Fighters: All Stars* (全明星激鬥), which are exclusively published by Beijing Nuverse Information Technology Co., Ltd. (北京朝夕光年信息技術有限公司) (“**Nuverse**”) under ByteDance Ltd. (字節跳動有限公司) (“**ByteDance**”), are available for pre-order on Apple's App Store, and are expected to be launched in the first half of 2021. In terms of *The King of Fighters: All Stars* (全明星激鬥), the parties will also cooperate to launch the game in multiple countries and regions around the world in the future. *Dynasty Warriors: Hegemony* (真·三國無雙霸), an official *Dynasty Warriors* mobile game developed by EZfun, a research and development company invested in by the Group, and exclusively published by Tencent Games, has begun pre-orders and was pre-ordered by over 4 million players on Tencent Gaming Platform, and is expected to officially launch during 2021.

In terms of IP operation, the popularity and influence of the Group's proprietary IP will further increase. Over the years, the *Legend of Sword and Fairy* series has gained a lot of popularity in respect of its games, movies and dramas, animations and merchandise. In 2021, the Group will launch multiple animations, movies and dramas projects, including comics, animated series and animated movies. In the future, the Group will extend dissemination on new media platforms, such as Douyin (抖音), Kuaishou (快手) and Bilibili.

The Group will further strengthen its IP upstream environment and IP development and adaptation ability. In 2021, the Group will continue to invest in IP resources, famed producers and quality developers, in order to provide strong support for the Group's ecosystem of IP-based games. The Group will also continue to strengthen its self-developing structure by focusing on vertical runways for quality development teams. The Group will actively enhance its integrated self-development and operation abilities through shareholding, acquisitions and mergers.

All members of the Group will uphold the Group's mission of "creating quality products with passion" (用熱愛鑄造精品), fully committing to becoming a company full of passion and creativity, so that the Group will grow at an even faster rate in the next ten years! We believe that the passionate employees of the Group, with their ultimate craftsmanship and unlimited imagination, will create many quality games that amaze both players and the world, becoming a responsible practitioner and a promoter of cultural values. Thanks to Shareholders and investors for your consistent support!

By order of the Board

XIAO Jian

Chairman

Hong Kong, 24 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW AND OUTLOOK

Review of 2020

Record high revenue from IP-based games. As of 31 December 2020, the Group had a vast IP reserve of a total of 110 IPs, comprising 42 licensed IPs and 68 proprietary IPs. Statistics from Analysys (易觀智庫) shows that, as of 31 December 2020, the Group had the largest amount of IP reserve among game group companies in the PRC (with principal business as gaming) and launched the largest amount of mobile IP-based games among game companies in the PRC. The Group's commitment to its six major development strategies, namely "IP focus, high-quality, integrated research and operation, ecosystem, globalization and branding" (IP化、精品化、研運一體化、生態化、全球化和品牌化), as well as the Group's effort in creating a highly competitive IP-based game ecosystem, are the material reasons for its rapid growth in 2020.

The table below sets forth the Group's revenue and gross billings derived from its IP-based games and non-IP based games for the years indicated:

| | For the year ended 31 December | | | |
|--|--------------------------------|------------------|------------------|------------------|
| | 2020 | | 2019 | |
| | Revenue | Gross billings | Revenue | Gross billings |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| IP-based games | | | | |
| (i) licensed and proprietary IPs held by the Group | 2,215,988 | 2,501,967 | 1,561,002 | 1,995,479 |
| (ii) IPs held by game developers | 423,520 | 555,892 | 54,219 | 115,012 |
| Non-IP based games | 1,180,818 | 1,420,155 | 1,421,080 | 1,654,613 |
| Total | 3,820,326 | 4,478,014 | 3,036,301 | 3,765,104 |

The Group is committed to creating a highly competitive IP-based game ecosystem. During the year ended 31 December 2020, revenue generated from the Group's IP-based games amounted to RMB2,639.5 million, representing a year-on-year increase of approximately 63.4% and 69.1% of the total revenue. Apart from proprietary IPs, the Group also obtained the licenses for many selected authorized IPs from third parties. Newly licensed IPs obtained in 2020 included *Swallowed Star* (吞噬星空), *Rakshasa Street* (鎮魂街), *Soul Land* (斗羅大陸), *the Condor Trilogy* (射鵰三部曲); *Romance of the Three Kingdoms: The Legend of Cao Cao* (三國志曹操傳); *Drawing Sword* (亮劍), etc. Building on the Group's licensed and proprietary IPs, the Group expects to launch various popular mobile games in 2021, including *Soul Land: God of Battle Arise* (斗羅大陸: 鬥神再臨), *Rakshasa Street: Chosen One* (鎮魂街: 天生為王), *Swallowed Star: Dawn* (吞噬星空: 黎明), *Legend of Sword and Fairy 7* (仙劍奇俠傳7), *New Romance of the Three Kingdoms: Legend of Cao Cao* (新三國志曹操傳) and *Drawing Sword: My Individual Team* (亮劍: 我的獨立團).

A significant increase in the number of registered users in 2020.

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

| | For the year ended | |
|---|---------------------------|--------|
| | 31 December | |
| | 2020 | 2019 |
| Average MAUs (<i>thousands</i>) | 18,483 | 15,931 |
| Average MPUs (<i>thousands</i>) | 1,414 | 1,200 |
| ARPPU (<i>RMB</i>) | 228.8 | 210.8 |
| Total new registered users (<i>thousands</i>) | 101,624 | 85,713 |

With the Group’s distinguished game operation ability and continuously launching new games that are popular among players in the market, the Group had approximately 101.6 million newly registered users in 2020, representing a year-on-year increase of approximately 18.6% as compared to 85.7 million newly registered users in 2019. As of 31 December 2020, the accumulated registered users of the Group reached 410.0 million.

The Group has an extensive mobile game portfolio which drives the stable growth of its game publishing business. In 2020, the Group newly launched 38 games of a wide variety of genres and gameplay. As at 31 December 2020, 81 games were available for download on application stores and publishing platforms. Among newly launched games during the year, *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵰群俠傳之鐵血丹心) performed well, ranking first and fifth on the Top Free Games List and Best Selling Games List of Apple’s App Store in Mainland China in the first month of its launch according to the statistics from App Annie, an authoritative third party institution, while also ranked first in the Top Free Games List of Apple’s App Store on the first day of its launch in Hong Kong, Macau and Taiwan. According to the statistics from App Annie, the game ranked first in the Best Selling Games List of both Apple’s App Store and Google Play Store in the first month of its launch in Hong Kong, Macau and Taiwan. The mobile game of *Reborn!* (家庭教師) ranked second on the Top Free Games List of Apple’s App Store in Mainland China in the first month of its launch, and ranked first on the Download List of Apple’s APP Store on the first day of its launch in Hong Kong, Macau and Taiwan. *Xuan Yuan Sword – the Origin* (軒轅劍:劍之源) ranked second on the Top Free Games List of Apple’s App Store in Mainland China in the first month of its launch.

Multiple games launched by the Group in prior years, such as *One Piece – the Road of the Strong* (航海王強者之路), *Dragon Ball – Awakening* (龍珠覺醒), *The National Gunlord–The Frontier* (全民槍神:邊境王者) and *The Story of the Flying Mortal H5* (凡人飛仙傳H5), continued to generate robust revenue. Benefited from the outstanding operation ability, as at 31 December 2020, 15 of the Group’s games in operation had a lifecycle of over three years.

As a result of the Group's extensive game portfolio and market performance, for the year ended 31 December 2020, revenue derived from the Group's game publishing business reached RMB2,977.9 million, representing a year-on-year increase of 16.6%.

Game development business is one of the fastest growing businesses in the Group. *World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), a mobile game developed in-house by the Group's wholly-owned subsidiary, Wenmai Hudong, which possessed with stable and strong research and development ability, maintained over a million average MAUs despite being launched for over two years and recorded peak gross billing in a single month of RMB107.7 million in the year during the reporting period indicated, achieving outstanding performance. In 2020, the new generation mobile game *Legend of Dragon City* (龍城傳奇) developed by the original development team of *World of Legend-Thunder Empire* (傳奇世界之雷霆霸業), has gained great popularity in the market of its launch. The PC web game developed by Wenmai Hudong, *Demon Rebirth* (魔域覺醒), ranked first in terms of new game recommendation on the wan.360.cn game platform after its launch. The total sales volume of *Monopoly 10* (大富翁10), a game developed by Beijing Softstar, a subsidiary of the Group, on the STEAM platform has reached 700,000 copies as of 28 February 2021. The PC version of *Legend of Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野) was listed as a recommended game on the STEAM platform in the month of its launch. *Joy of Mahjong* (歡樂真人麻將), a game developed internally by the Group's card and board game workshop, ranked second in the Best Selling Mahjong, Card and Board Games List on Huawei, OPPO, VIVO and other channels after its launch in 2020, with an average monthly gross billing of RMB20 million.

With the continuous and stable performance of the Group's various self-developed games launched in previous years, as well as the outstanding performance of its newly launched self-developed games, for the year ended 31 December 2020, revenue derived from the Group's game development business reached RMB730.3 million, representing a year-on-year increase of 73.4%.

The Group maintained smooth cooperation with top domestic traffic platforms. *Monster List: Past and Present Lives* (妖怪名單之前世今生), a domestic comic IP-based card and tower defense mobile game that was jointly developed by the Group and exclusively published by Tencent Games, was launched on 25 September 2020. The game ranked second in the Top Free Games List of Apple's App Store on the first day after its launch. The IP-based games *One Piece: The Voyage* (航海王熱血航線) and *The King of Fighters: All Stars* (全明星激鬥), which are exclusively published by Nuverse under ByteDance, have performed multiple beta tests and are available for pre-order. They are expected to officially launch in the first half of 2021. The Group and Nuverse collaborated in launching the mobile game *King of Fighters: All Stars* (全明星激鬥), in multiple countries and regions around the globe, with the aim of enhancing the revenue of the Group. *Dynasty Warriors: Hegemony*

(真·三國無雙霸), an official Dynasty Warriors mobile game exclusively published by Tencent Games, and developed by EZfun, a research and development company invested by the Group, has begun pre-ordered on Tencent Gaming Platform and is already pre-ordered by over 4 million of players. It is expected to officially launch in the year of 2021.

The Group's IP operation and licensing business achieved excellent results. In terms of IP operation, the Group strengthened its effort on proprietary IP operation, with a continued focus on enriching the IP's universe, increasing the IP's popularity and developing the merchandise of the IP. 2020 is the 25th anniversary of the Legend of Sword and Fairy game series. The Group officially began development of the literature of the *Legend of Sword and Fairy Universe* (仙劍大宇宙) and establish a complete and rich worldview of the Legend of Sword and Fairy. In July of the same year, the Tmall shop of Legend of Sword and Fairy officially began operation, which generated merchandise sales amounted to over RMB5 million in 2020. Benefited from the large scale events related to the 25th anniversary of the Legend of Sword and Fairy in 2020 throughout the year, revenue derived from the Group's IP licensing business substantially increased. For the year ended 31 December 2020, revenue derived from the Group's IP licensing business and IP game operating right licences reached RMB112.1 million, representing a year-on-year increase of 81.3%.

The Group's strategic investments in developers will be a strong backbone for the Group's IP-based games ecosystem. Integrated research and operation is the development strategy that the Group has always adhered to, and it has continuously improved its business capabilities in the whole process of research and development, distribution and operation. The Group has been actively constructing the research and development ecology of the Group. As of 31 December 2020, the Group directly invested in over 20 game developers including quality developers namely Shenzhen Sparks Interactive Entertainment Co., Ltd. (深圳市火花幻境互動娛樂有限公司), Shanghai Fengguo Network Technology Co., Ltd. (上海蜂果網絡科技有限公司), Shanghai Langkun Tech. Co., Ltd (上海朗鵬數碼科技有限公司), Chengdu Jumeng Tianxia Technology Co., Ltd.(成都聚夢天下科技有限公司). In 2020, the Group invested in three developers, namely Love Games, EZfun and Huanyu Jiuzhou. Among them, there were a number of production teams with more than RMB1 billion successful projects experiences. The above investments have enhanced the Group's production and supply ability in the card, Dynasty Warriors type ARPG, tower defense and SLG game market, facilitating the sustainable development of the Group's research and development and publishing businesses. Furthermore, the Group has paid attention to the trend of cloud games since 2019, the Group has completed the Pre-A series investment in Weiling Times, a cloud gaming technology service provider. The cloud demo of *Legend of Sword and Fairy 7* (仙劍奇俠傳7) jointly

launched by both parties was acclaimed in the market. The good cooperation between the Group and the invested developers also led to the continuous improvement of the results of the companies being invested. With the changing market environment, domestic game developers with quality content have become more attractive to the capital market. The Group's investment in Love Games received a strategic investment from Tencent, and Weiling Times received a new round of financing from Zhejiang Chuangxiang Cultural Industry Equity Investment Fund (浙江創想文化產業股權投資基金) and Shanghai miHoYo (上海米哈遊), which demonstrated that the Group's long-standing strategy of investing in quality developers has paid off.

In addition to investing in game developers, the Group also maintained close ties with pan-entertainment industries such as IP rights and IP platforms, communications industry and other emerging technology industries through China Prosperity Capital Mobile Internet Fund, L.P. (國宏嘉信資本) and Fontaine Capital Fund L.P. to establish opportunities for further collaborations or achieve synergies.

As a result of the above factors, the Group's fair value gains on financial assets at fair value through profit or loss increased to RMB295.9 million in 2020 as compared to that in 2019.

The Group received the following awards and recognitions for the quality and popularity of its games and services during the year:

| Award/Recognition | Year of Award | Awarding Institution/Authority |
|---|----------------------|--|
| Guangdong Top 500 Enterprise 2020 (2020廣東企業500強) | 2021 | 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) |
| Top 100 Innovative Enterprises in Guangdong 2020 (2020廣東創新企業100強) | 2021 | 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) |
| Quamnet Outstanding Enterprise Awards 2020 — Best TMT Company (華富財經傑出企業大獎2020 —最佳TMT公司) | 2021 | Quamnet (華富財經網) |
| Shenzhen Top 500 Enterprise 2020 (2020深圳500強企業) | 2020 | Enterprise Association of China (中國企業聯合會), Entrepreneur Association of China (中國企業家協會), 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) |
| Top Twenty Socially Responsible Enterprises in the Gaming Industry (中國遊戲企業社會責任二十佳) | 2020 | People's Daily Online (人民網) |
| TOP 10 Best Performing Gaming Enterprises in Social Responsibility (社會責任履行狀況良好TOP 10遊戲企業) | 2020 | CNG's Corporate Social Responsibility Report on the Gaming Industry of China 2020 (伽馬《2020年中國遊戲 產業企業社會責任調查報告》) |
| “Golden Diamond Award” as Most Influential Enterprise of 2020 (金鑽獎2020最具影響力企業) | 2020 | Association of Game Industry of Guangdong (廣東省遊戲產業協會) |
| “Golden Plume Award” as Most Influential Mobile Game Publisher (金翎獎最具影響力 移動遊戲發行商) | 2020 | Beijing Hanwei Xinheng Culture and Communication Co., Ltd. (北京漢威信恒文化傳播有限公司) |
| “Golden i Award” as Best Innovative Enterprise in the Gaming Industry 2020 (金i獎2020年度遊戲行業創新型企業) | 2020 | China Internet Week published by the Chinese Academy of Sciences (中國科學院《互聯網週刊》), IT Research Centre under Chinese Academy of Social Sciences (中國社會科學院信息化研究中心), eNet Research Centre (eNet研究院) and Deben Consultation (Beijing) Co., Ltd. (德本諮詢(北京)有限公司) |
| “Golden Finger Award” as Outstanding Enterprise in the Chinese Game Industry of 2020 (2020年度中國遊戲行業 「金手指」獎:2020年度中國遊戲行業優秀企業) | 2020 | China Culture & Entertainment Industry Association (中國文化娛樂行業協會) |
| “Voyager Award” as Top 10 Foreign Cultural Export Enterprise 2020 (揚帆獎2020十佳海外文化輸出廠商) | 2020 | Independent Voyage Union (獨立出海聯合體) |
| “Golden i Award” as IT Enterprise with the Highest Investment Value 2020 (金i獎2020最具投資 價值科技企業) | 2020 | China Internet Week published by the Chinese Academy of Sciences (中國科學院《互聯網週刊》), IT Research Centre under Chinese Academy of Social Sciences (中國社會科學院信息化研究中心), eNet Research Centre (eNet研究院) and Deben Consultation (Beijing) Co., Ltd. (德本諮詢(北京)有限公司) |
| 2020 Cailian Press Investment Summit • New Economic Peak Forum: Listed Company with the Highest Investment Value in the New Economy of the PRC in 2020 (2020年財聯社投資峰會 • 新經濟 高峰論壇:2020中國新經濟「最具投資價值上市公司」) | 2020 | cailianpress.com (財聯社) |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The following table sets forth the comparative figures for the years ended 31 December 2019 and 2020:

| | For the year ended 31 December | |
|---|-----------------------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Revenue | 3,820,326 | 3,036,301 |
| Cost of sales | (2,597,062) | (1,953,103) |
| Gross profit | 1,223,264 | 1,083,198 |
| Other income and gains | 389,172 | 95,404 |
| Selling and distribution expenses | (341,497) | (230,321) |
| Administrative expenses | (403,593) | (577,451) |
| Impairment losses on financial and contract assets, net | (52,290) | (13,929) |
| Other expenses | (50,450) | (6,622) |
| Finance costs | (35,228) | (15,072) |
| Share of profits/(losses) of a joint venture | 15 | (2,116) |
| Share of profits and losses of associates | (12,591) | 10,532 |
| Profit before tax | 716,802 | 343,623 |
| Income tax expense | (26,602) | (100,410) |
| Profit for the year | 690,200 | 243,213 |
| Attributable to owners of the parent | 701,319 | 248,348 |
| Attributable to non-controlling interests | (11,119) | (5,135) |
| Adjusted net profit | 806,950 | 611,007 |

Adjusted net profit

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

| | For the year ended 31 December | |
|---|-----------------------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Profit for the year attributable to owners of the parent | 701,319 | 248,348 |
| Add: | | |
| (i) Equity-settled share-based expense | 105,631 | 328,088 |
| (ii) Listing expenses | — | 34,571 |
| Adjusted net profit | 806,950 | 611,007 |

Revenue

The Group's revenue increased by approximately 25.8% from RMB3,036.3 million for the year ended 31 December 2019 to RMB3,820.3 million for the year ended 31 December 2020.

Revenue by category:

| | For the year ended 31 December | | | |
|------------------------------------|--------------------------------|--------------|------------------|--------------|
| | 2020 | | 2019 | |
| | RMB'000 | % | RMB'000 | % |
| Game publishing | 2,977,901 | 78.0 | 2,553,189 | 84.1 |
| Game development | 730,301 | 19.1 | 421,254 | 13.9 |
| Licensing of intellectual property | 112,124 | 2.9 | 61,858 | 2.0 |
| Total | 3,820,326 | 100.0 | 3,036,301 | 100.0 |

- (i) An increase in the Group's game publishing revenue by approximately 16.6% from RMB2,553.2 million for the year ended 31 December 2019 to RMB2,977.9 million for the year ended 31 December 2020, primarily as a result of the games published in previous years, such as *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), *One Piece – the Road of the Strong* (航海王強者之路), *The National Gunlord – The Frontier* (全民槍神:邊境王者) and *The Story of the Flying Mortal H5* (凡人飛仙傳H5), demonstrating great vitality, particularly *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) with its strong and continuously sound performance. *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵰群俠傳之鐵血丹心), the game newly published by the Group during the year, was widely loved and welcomed by its players after its launch, which drove the revenue of the Group to a new height.

Due to the impact of COVID-19, the IP editorial supervision progress of the Group's cooperations with top traffic platforms in the country in regard to *One Piece: The Voyage* (航海王熱血航線), *The King of Fighters: All Stars* (全明星激鬥), and *Dynasty Warriors: Hegemony* (真·三國無雙霸) were delayed, and the launch of the games has been postponed to the year of 2021. All three games have now completed their development and entered the final testing stage before launch, with impressive testing figures. Among which, *One Piece: The Voyage* (航海王熱血航線) recorded an outstanding performance in paid and closed beta test in November 2020 of over 70% day 1 of retention ratio and 40% of the day 7 retention ratio. The game is now available for pre-order on the Apple's App Store and final beta test was commenced on 25 February 2021.

- (ii) An increase in the Group's game development revenue by approximately 73.4% from RMB421.3 million for the year ended 31 December 2019 to RMB730.3 million for the year ended 31 December 2020, with its proportion in the total revenue further increased to 19.1%, primarily as a result of the stable performance of *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業)

developed by Wenmai Hudong, a wholly-owned subsidiary of the Group, and the strong market performance of *Legend of Dragon City* (龍城傳奇), which was a new generation game developed by the same development team and launched during 2020.

- (iii) An increase in the Group's licensing of intellectual property revenue by approximately 81.3% from RMB61.9 million for the year ended 31 December 2019 to RMB112.1 million for the year ended 31 December 2020, primarily as a result of the Group licensing of several proprietary IPs to third parties, including *Xuan Yuan Sword series* (軒轅劍系列) and *Legend of Sword and Fairy series* (仙劍奇俠傳系列).

Cost of sales

The Group's cost of sales consists primarily of (i) commissions charged by channels; (ii) amortisation of royalties from games and famous IPs held by third-party game developers and the Group; (iii) commissions charged by IPs; and (iv) game development costs. 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 years indicated:

| | For the year ended 31 December | | | |
|-------------------------------------|--------------------------------|--------------|------------------|--------------|
| | 2020 | | 2019 | |
| | RMB'000 | % to Revenue | RMB'000 | % to Revenue |
| Commissions charged by channels | 2,430,032 | 63.6 | 1,841,842 | 60.7 |
| Amortisation of game royalties | 24,777 | 0.6 | 15,327 | 0.5 |
| Amortisation of software copyrights | 28,042 | 0.7 | 28,042 | 0.9 |
| Amortisation of IP royalties | 25,771 | 0.7 | 12,714 | 0.4 |
| Commissions charged by IPs | 40,483 | 1.1 | 21,885 | 0.7 |
| Game development costs | 15,400 | 0.4 | 27,120 | 0.9 |
| Others | 32,557 | 0.9 | 6,173 | 0.2 |
| Total | 2,597,062 | 68.0 | 1,953,103 | 64.3 |

The Group's cost of sales increased by 33.0% from RMB1,953.1 million for the year ended 31 December 2019 to RMB2,597.1 million for the year ended 31 December 2020. This increase was primarily attributable to (i) an increase in the Group's revenue; and (ii) *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), the game with the highest revenue during the reporting period, was published by cooperative publishing channels during its stable operation, resulting in an increase in the Group's revenue sharing with publishing channels.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by 12.9% from RMB1,083.2 million for the year ended 31 December 2019 to RMB1,223.3 million for the year ended 31 December 2020. The Group's gross profit margin decreased from 35.7% for the year ended 31 December 2019 to 32.0% for the year ended 31 December 2020.

Other income and gains

The Group's other income and gains consist primarily of (i) fair value gains on financial assets at fair value through profit or loss; and (ii) gains on disposal of investments in associates. The table below sets forth the Group's other income and gains by category for the years indicated:

| | For the year ended 31 December | | | |
|--|---------------------------------------|---------------------|----------------------|---------------------|
| | 2020 | | 2019 | |
| | RMB'000 | % | RMB'000 | % |
| Bank interest income | 21,202 | 5.4 | 6,001 | 6.3 |
| Government grants | 22,008 | 5.7 | 12,428 | 13.0 |
| Other interest income from financial assets | 11,063 | 2.8 | — | — |
| Dividend income from financial assets at fair value through profit or loss | — | — | 12,588 | 13.2 |
| Fair value gains on financial assets at fair value through profit or loss | 295,899 | 76.0 | 12,772 | 13.4 |
| Gains on disposal of investments in associates | 33,471 | 8.6 | 38,443 | 40.3 |
| Gains on disposal of financial assets at fair value through profit or loss | 84 | 0.1 | — | — |
| Gain on disposal of items of other intangible assets | — | — | 3,062 | 3.2 |
| Others | 5,445 | 1.4 | 10,110 | 10.6 |
| Total | <u>389,172</u> | <u>100.0</u> | <u>95,404</u> | <u>100.0</u> |

The Group's other income and gains increased by 307.9% from RMB95.4 million for the year ended 31 December 2019 to RMB389.2 million for the year ended 31 December 2020. The increase was mainly due to: (i) the Group's investment in Love Games received a strategic investment from Tencent, and Weiling Times received a new round of financing from Zhejiang Chuangxiang Cultural Industry Equity Investment Fund (浙江創想文化產業股權投資基金) and Shanghai miHoYo (上海

米哈遊), (ii) various projects invested by China Prosperity Capital Mobile Internet Fund L.P. and Fontaine Capital Fund L.P., which were invested by the Group as limited partner, recorded increase in fair value, (iii) various research and development companies invested by the Group recorded increase in fair value due to its on-going growth in performance, and (iv) the disposal of the equity or part of the equity in associates recorded gains.

Selling and distribution expenses

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 years indicated:

| | For the year ended 31 December | | | |
|----------------------------|--------------------------------|--------------|----------------|--------------|
| | 2020 | | 2019 | |
| | RMB'000 | % to Revenue | RMB'000 | % to Revenue |
| Marketing expenses | 297,471 | 7.8 | 183,414 | 6.0 |
| Salaries and welfare | 40,261 | 1.0 | 43,513 | 1.4 |
| Office costs and utilities | 3,131 | 0.1 | 2,968 | 0.1 |
| Others | 634 | 0.0 | 426 | 0.1 |
| Total | 341,497 | 8.9 | 230,321 | 7.6 |

The Group's selling and distribution expenses increased by 48.3% from RMB230.3 million for the year ended 31 December 2019 to RMB341.5 million for the year ended 31 December 2020. This increase was primarily attributable to (i) an increase in the Group's total revenue; and (ii) the large scale promotion in relation to the Group publishing *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵬群俠傳之鐵血丹心) in the second half of 2020.

Administrative expenses

The Group's administrative expenses consist primarily of (i) research and development expenses, and (ii) salaries and welfare. 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 years indicated:

| | For the year ended 31 December | | | |
|-----------------------------------|--------------------------------|--------------|----------------|--------------|
| | 2020 | | 2019 | |
| | RMB'000 | % to Revenue | RMB'000 | % to Revenue |
| Research and development expenses | 208,630 | 5.5 | 160,829 | 5.3 |
| Salaries and welfare | 151,998 | 4.0 | 343,407 | 11.3 |
| Office costs and utilities | 38,878 | 1.0 | 35,944 | 1.2 |
| Listing expenses | — | — | 34,571 | 1.1 |
| Others | 4,087 | 0.1 | 2,700 | 0.1 |
| Total | 403,593 | 10.6 | 577,451 | 19.0 |

The Group's administrative expenses decreased by 30.1% from RMB577.5 million for the year ended 31 December 2019 to RMB403.6 million for the year ended 31 December 2020. Despite the Group has increased its investment in research and development, resulting in an increase of 29.7% in research and development expenses from RMB160.8 million for the year ended 31 December 2019 to RMB208.6 million for the year ended 31 December 2020, the equity-settled share-based expense allocated to the management and administrative departments decreased during the reporting period, resulting in a decrease of 55.7% in salaries and welfare from RMB343.4 million for the year ended 31 December 2019 to RMB152.0 million for the year ended 31 December 2020.

Impairment losses on financial and contract assets, net

The Group's impairment losses on assets represent the impairment loss of trade receivables. The Group's impairment losses on financial assets increased by 275.4% from RMB13.9 million for the year ended 31 December 2019 to RMB52.3 million for the year ended 31 December 2020 under the relevant management policies of the Group adopted in accordance with HKFRS 9. For further details, please see note 11 to this announcement.

Other expenses

The Group's other expenses increased by 661.9% from RMB6.6 million for the year ended 31 December 2019 to RMB50.5 million for the year ended 31 December 2020. The increase was primarily attributable to (i) the increase by RMB15.9 million in the fair value adjustment recognized in respect of the consideration payable by the Group for acquisition of Wenmai Hudong in the year ended 31 December 2020 as compared to that of the year ended 31 December 2019; (ii) the increase in the impairment loss on assets of RMB9.8 million recognized in relation to the termination of a number of games; (iii) the recognition of an impairment of goodwill of RMB10.7 million for the year ended 31 December 2020; and (iv) the increase of RMB6.8 million in exchange losses.

Finance costs

The Group's finance costs mainly consist of interest expenses, which increased by approximately 133.7% from RMB15.1 million for the year ended 31 December 2019 to RMB35.2 million for the year ended 31 December 2020, mainly due to the increase in interest-bearing bank borrowings during the year.

Share of profits of a joint venture

As at 31 December 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 profits of a joint venture rebounded from a loss of RMB2.1 million for the year ended 31 December 2019 to a profit of RMB15 thousand for the year ended 31 December 2020, primarily attributable to the turnaround from loss to profit for Shenzhen Boliang Technology Co., Ltd. during the reporting period.

Share of profits and losses of associates

The Group's share of profits and losses of associates changed from a profit of RMB10.5 million for the year ended 31 December 2019 to a loss of RMB12.6 million for the year ended 31 December 2020.

Profit before tax

As a result of the foregoing, the Group's profit before tax increased by 108.6% from RMB343.6 million for the year ended 31 December 2019 to RMB716.8 million for the year ended 31 December 2020.

Income tax expense

The Group's income tax expense decreased by 73.5% from RMB100.4 million for the year ended 31 December 2019 to RMB26.6 million for the year ended 31 December 2020, mainly because (i) a deferred tax credit of RMB20.5 million was provided for the year ended 31 December 2020; and (ii) certain subsidiaries in Mainland China were able to enjoy a preferential Corporate Income Tax rate for the year ended 31 December 2020.

Profit for the year

As a result of the foregoing, the Group's profit for the year increased by 183.8% from RMB243.2 million for the year ended 31 December 2019 to RMB690.2 million for the year ended 31 December 2020.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2020, the Group funded its cash requirements principally from cash generated from its operating activities and financing activities. The Group had cash and cash equivalents of RMB771.1 million and RMB794.9 million as at 31 December 2019 and 2020, respectively. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash which are not restricted as to use.

The Group generally deposits its excess cash in its interest-bearing bank accounts and current accounts. The Group believes that its liquidity requirements will be satisfied by using a combination of (i) cash generated from its operating activities; (ii) bank loans; (iii) other funds raised from the capital markets from time to time; and (iv) the net proceeds received from the Listing and a top-up placing. The Group currently does not have any plans for material additional external financing.

Financing activities

On 4 December 2020, the Company issued 180,000,000 Shares in connection with a top-up placing (the "**Top-up Placing**") at a price of HK\$3.02 per share. Upon completion of the Top-up Placing, the Company raised net proceeds of approximately HK\$536.8 million.

Cash flow

The table below sets forth a summary of the Group's cash flows for the years indicated:

| | For the year ended | |
|--|--------------------|----------------|
| | 31 December | |
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| Net cash flows from operating activities | 623,520 | 310,398 |
| Net cash flows used in investing activities | (884,682) | (1,318,944) |
| Net cash flows from financing activities | 329,680 | 1,634,595 |
| Net increase in cash and cash equivalents | 68,518 | 626,049 |
| Cash and cash equivalents at beginning of year | 771,090 | 144,445 |
| Effect of foreign exchange rate changes, net | (44,720) | 596 |
| Cash and cash equivalents at end of the year | <u>794,888</u> | <u>771,090</u> |

Net cash flows from operating activities

For the year ended 31 December 2020, the Group recorded net cash from its operating activities of RMB623.5 million, which was primarily attributable to the Group's profit before taxation of RMB716.8 million, primarily adjusted by (i) equity-settled share-based expense of RMB105.6 million; (ii) amortisation of other intangible assets of RMB79.4 million; (iii) gains on disposal of investments in associates of RMB33.5 million; (iv) fair value gains on financial assets at fair value through profit or loss of RMB295.9 million; and (v) depreciation of right-of-use assets of RMB21.9 million. Movements in working capital contributed a net cash outflow of RMB116.1 million, consisting of (a) an increase in trade receivables of RMB144.8 million; (b) an increase in prepayments, other receivables and other assets of RMB130.1 million; (c) an decrease in amounts due from related parties of RMB6.7 million; (d) an increase in trade payables of RMB109.3 million; (e) an increase in other payables and accruals of RMB80.7 million; (f) a decrease in amounts due to related parties of RMB1.5 million; and (g) income tax paid of RMB36.4 million.

Net cash flows used in investing activities

For the year ended 31 December 2020, the Group recorded net cash used in investing activities of RMB884.7 million, which was primarily attributable to (i) purchases of financial assets at fair value through profit or loss of RMB370.6 million; (ii) additions to other intangible assets of RMB120.6 million; (iii) increase in pledged time deposits of RMB392.9 million; (iv) acquisition of subsidiaries, namely Wenmai Hudong and Beijing Softstar, of RMB200.0 million; and (v) decrease in deposit in a financial institution for asset management of RMB209.3 million.

Net cash flows from financing activities

For the year ended 31 December 2020, the Group recorded net cash flows from financing activities of RMB329.7 million, which was primarily attributable to (i) proceeds from issue of Shares of RMB459.4 million; and (ii) new bank and other loans obtained by the Group of RMB451.4 million, partially offset by, among others, (iii) share issue expenses of RMB10.0 million; (iv) dividends paid of RMB75.4 million; and (v) repayment of bank loans of RMB442.0 million.

Indebtedness

For the year ended 31 December 2020, the Group obtained bank and other loans of RMB451.4 million and repaid bank loans of RMB442.0 million.

As at 31 December 2020, the Group had interest-bearing bank and other borrowings of RMB451.4 million (2019: RMB442.0 million), including (i) bank loans amounting to RMB307.2 million, secured by the pledge of the Group's time deposits in the sum of RMB347.6 million, and (ii) a loan amounting to RMB25.0 million, secured by a computer software copyright. The effective interest rates on the Group's secured bank and other loans ranged from 4.35% to 4.96%, and the Group's unsecured bank loans from 4.50% to 5.00%.

As at 31 December 2020, the lease liabilities of the Group were RMB27.6 million (2019: RMB33.7 million).

Off-balance sheet commitments and arrangements

As at 31 December 2020, the Group did not enter into any off-balance sheet transactions (2019: Nil).

KEY FINANCIAL METRICS

The table below sets forth the Group's key financial metrics for the years indicated:

| | For the year ended/ as at 31 December | |
|--------------------------------------|--|-------|
| | 2020 | 2019 |
| Current ratio (times) ⁽¹⁾ | 2.1 | 2.0 |
| Gearing ratio ⁽²⁾ | 9.4% | 11.9% |
| Gross profit margin | 32.0% | 35.7% |

Notes:

- (1) Current ratio is the Group's current assets divided by its current liabilities as at the end of each financial year.
- (2) Gearing ratio is total debt divided by total equity as at the end of each financial year. Total debt equals to the Group's total interest-bearing bank borrowings.

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 year ended 31 December 2020 mainly with its internal resources.

The Group's capital commitments as at 31 December 2019 and 2020 amounted to RMB41.3 million and RMB43.7 million, respectively. The Group's capital commitments as at 31 December 2020 were for the purchase of IP and game licenses.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS OR DISPOSAL

During the year ended 31 December 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 venture.

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.

USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing was 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 31 October 2019 (the “**Listing Date**”) to 31 December 2019, and during the year ended 31 December 2020; (ii) the amount of unutilised net proceeds of the Company as at 31 December 2020; and (iii) the expected timeline of the Company for the full utilisation of the remaining proceeds:

| No. Purposes | Amount of the net proceeds (HK\$ in millions) | Amount utilised | Amount | Amount of | Expected |
|--|--|---|---|--|---|
| | | between the Listing Date and 31 December 2019 (HK\$ in millions) | utilised during the year ended 31 December 2020 (HK\$ in millions) | unutilised net proceeds as at 31 December 2020 (HK\$ in millions) | timeline for the full utilisation of the remaining proceeds |
| 1. Expanding and enhancing the Company’s IP-based game publishing and development business | 673.55 (50% of the total net proceeds) | 209.65 | 269.54 | 194.36 | 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 | 338.20 | — | Before 31 December 2021 |
| 3. Working capital and general corporate purposes | 134.71 (10% of the total net proceeds) | 15.35 | 112.70 | 6.66 | N/A |
| Total | 1,347.10 | 425.64 | 720.44 | 201.02 | |

USE OF PROCEEDS FROM THE TOP-UP PLACING

The net proceeds from the Top-up Placing was approximately HK\$536.78 million after deducting related fees and expenses in connection with the Top-up Placing. The Company applied the net proceeds as set out in the Company’s announcements dated 24 November 2020 and 4 December 2020, 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 completion of the Top-up Placing to 31 December 2020; (ii) the amount of unutilised net proceeds of the Company as at 31 December 2020; and (iii) the expected timeline of the Company for the full utilisation of the remaining unutilised net proceeds:

| No. Purposes | Amount | Amount | Amount | Expected timeline for the full utilisation of the remaining proceeds |
|--|---------------------|--|---|--|
| | of the net proceeds | utilised between the completion of the Top-up Placing and 31 December 2020 | of unutilised net proceeds as at 31 December 2020 | |
| | (HK\$ in millions) | (HK\$ in millions) | (HK\$ in millions) | |
| 1. Further enhance IP-based game publishing and development business through acquisitions and/or investments | 536.78 | — | 536.78 | Before 31 December 2021 |

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 and the Top-up Placing for the long-term benefit and development of the Group. The current expected timelines for using the unutilised net proceeds from the Listing and the Top-up Placing are 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 and the Top-up Placing, the Company will make appropriate announcements in due course.

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2020, the Group did not purchase, sell or redeem any of the Company's listed securities.

Corporate Governance Code

During the year ended 31 December 2020, the Company complied with the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for a deviation from code provision A.2.1 of the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities of the chairman and the chief executive officer 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 three executive Directors (including Mr. Xiao Jian) and three independent non-executive Directors, and therefore has a fairly strong independence element in its composition. The Board 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.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct regarding dealings in the securities of the Company by the Directors, senior management members, and employees who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company’s securities.

Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the year ended 31 December 2020. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management members or relevant employees of the Group for the year ended 31 December 2020.

Employees’ remuneration and relations

As at 31 December 2020, the Group had 1,000 full-time employees (2019: 819). The success of the Group depends on its ability to attract, retain and motivate qualified personnel. As part of the Group’s human resources strategy, the Group offers employees competitive salaries, performance based promotion systems and other incentives. Some of the Group’s employees also received restricted share units (RSU) under the Company’s pre-IPO restricted share unit schemes (the “**Pre-IPO RSU Schemes**”). The Group provides training programmes to employees, including new hire training for new employees and continuing technical training for its research and development team and game operation team to enhance their skill and knowledge.

Remuneration policy

A remuneration committee has been set up to assist the Board to develop and administer a formal and transparent procedure for setting policy on the remuneration of directors and senior management, evaluating the performance of directors and senior management, reviewing and approving the terms of incentive schemes (including the Pre-IPO RSU Schemes and the Post-IPO Share Option Scheme) and directors' service contracts, and recommending to the Board the remuneration packages for all Directors and senior management. Emoluments of Directors shall be determined by the Board in accordance with the Company's remuneration policy, and with reference to Directors' experience, working performance and position as well as the market conditions.

Audit Committee

The Company has established the audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. As at the date of this announcement, the Audit Committee comprises Ms. Ng Yi Kum, Mr. Tang Liang and Mr. Ho Orlando Yaukai. Ms. Ng Yi Kum is the chairlady of the Audit Committee.

The Audit Committee, together with the Auditor, has reviewed the Group's consolidated financial statements for the year ended 31 December 2020. There is no disagreement between the Board and the Audit Committee regarding the accounting treatment adopted by the Company.

Important Events Affecting the Group since 31 December 2020

A new strain of coronavirus, COVID-19, was identified in 2020. The Group has been closely monitoring the impact of COVID-19. 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 31 December 2020 and up to the date of this announcement.

Annual General Meeting

The notice of the AGM will be published on the websites of the Stock Exchange and the Company and despatched to the Shareholders in due course.

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 20 May 2021 to Tuesday, 25 May 2021 (both days inclusive) during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered shareholders shall ensure that all transfer documents accompanied by the relevant Share certificates must be lodged with the Company's Hong Kong branch registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 18 May 2021.

Final Dividend and Closure of register of members

After due consideration of Shareholders' as well as the Company's long-term interests, the Board recommended the payment of a final dividend of HK\$0.0928 (equivalent to RMB0.0825 based on the average exchange rate of 2020) per Share for the year ended 31 December 2020 out of the Company's share premium account, subject to the approval of Shareholders at the AGM. The final dividend, if approved by the Shareholders at the AGM, will be paid on or before Wednesday, 30 June 2021 to Shareholders whose name appear on the register of members of the Company as at the close of business on Friday, 11 June 2021. The aggregated amount of the dividends to be distributed by the Company for the year ended 31 December 2020 is proposed to be approximately HK\$232.9 million, based on 2,510,150,000 Shares, being the total number of Shares as at 31 December 2020.

For the purpose of determining entitlement to a final dividend, the register of members of the Company will be closed from Monday, 7 June 2021 to Friday, 11 June 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to the payment of a final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 4 June 2021.

Publication of Annual Results and Annual Report on the Websites of the Stock Exchange and the Company

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Notes | For the year ended 31 December | |
|--|-------|-----------------------------------|-----------------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| REVENUE | 4 | 3,820,326 | 3,036,301 |
| Cost of sales | | <u>(2,597,062)</u> | <u>(1,953,103)</u> |
| Gross profit | | 1,223,264 | 1,083,198 |
| Other income and gains | 4 | 389,172 | 95,404 |
| Selling and distribution expenses | | (341,497) | (230,321) |
| Administrative expenses | | (403,593) | (577,451) |
| Impairment losses on financial and contract assets, net | | (52,290) | (13,929) |
| Other expenses | | (50,450) | (6,622) |
| Finance costs | | (35,228) | (15,072) |
| Share of profits and losses of: | | | |
| A joint venture | | 15 | (2,116) |
| Associates | | (12,591) | 10,532 |
| PROFIT BEFORE TAX | 5 | 716,802 | 343,623 |
| Income tax expense | 6 | (26,602) | (100,410) |
| PROFIT FOR THE YEAR | | <u>690,200</u> | <u>243,213</u> |
| Attributable to: | | | |
| Owners of the parent | | 701,319 | 248,348 |
| Non-controlling interests | | (11,119) | (5,135) |
| | | <u>690,200</u> | <u>243,213</u> |
| EARNINGS PER SHARE | | | |
| ATTRIBUTABLE TO ORDINARY | | | |
| EQUITY HOLDERS OF | | | |
| THE PARENT | 8 | | |
| Basic and diluted | | | |
| – For profit for the year | | <u>RMB29.92 cents</u> | <u>RMB13.15 cents</u> |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | For the year ended | |
|--|------------------------|-----------------------|
| | 31 December | |
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| PROFIT FOR THE YEAR | <u>690,200</u> | <u>243,213</u> |
| OTHER COMPREHENSIVE LOSS | | |
| Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | (8,502) | 11,284 |
| Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods | <u>(8,502)</u> | <u>11,284</u> |
| Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | (66,519) | (13,207) |
| Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods | <u>(66,519)</u> | <u>(13,207)</u> |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX | <u>(75,021)</u> | <u>(1,923)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>615,179</u> | <u>241,290</u> |
| Attributable to: | | |
| Owners of the parent | 626,298 | 246,425 |
| Non-controlling interests | <u>(11,119)</u> | <u>(5,135)</u> |
| | <u>615,179</u> | <u>241,290</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | As at 31 December | |
|--|-------|-------------------|-----------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| NON-CURRENT ASSETS | | | |
| Property and equipment | | 5,847 | 4,815 |
| Right-of-use assets | | 27,732 | 34,138 |
| Goodwill | 9 | 1,107,937 | 1,118,617 |
| Other intangible assets | | 154,555 | 154,973 |
| Investment in a joint venture | | 8,823 | 2,008 |
| Investments in associates | | 96,544 | 125,530 |
| Financial assets at fair value through profit or loss | 10 | 1,539,312 | 725,137 |
| Deferred tax assets | | 49,262 | 8,175 |
| Prepayments | 12 | 330,766 | 453,972 |
| | | 3,320,778 | 2,627,365 |
| TOTAL non-current assets | | | |
| CURRENT ASSETS | | | |
| Trade receivables | 11 | 882,644 | 789,903 |
| Prepayments, other receivables and other assets | 12 | 519,806 | 384,211 |
| Other current asset | 12 | — | 209,286 |
| Due from related parties | | 13,319 | 20,002 |
| Pledged deposits | | 799,164 | 406,267 |
| Cash and cash equivalents | | 794,888 | 771,090 |
| | | 3,009,821 | 2,580,759 |
| TOTAL current assets | | | |
| CURRENT LIABILITIES | | | |
| Trade payables | 13 | 268,720 | 169,756 |
| Other payables and accruals | | 572,121 | 517,442 |
| Interest-bearing bank and other borrowings | | 451,350 | 442,036 |
| Tax payable | | 137,632 | 116,945 |
| Due to related parties | | 19,298 | 20,800 |
| Lease liabilities | | 14,718 | 16,633 |
| | | 1,463,839 | 1,283,612 |
| TOTAL current liabilities | | | |

| | As at 31 December | |
|--|--------------------------|-----------|
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| NET CURRENT ASSETS | 1,545,982 | 1,297,147 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 4,866,760 | 3,924,512 |
| NON-CURRENT LIABILITIES | | |
| Deferred tax liabilities | 53,014 | 32,422 |
| Contingent consideration for business combination | — | 163,414 |
| Lease liabilities | 12,890 | 17,062 |
| Total non-current liabilities | 65,904 | 212,898 |
| Net assets | 4,800,856 | 3,711,614 |
| EQUITY | | |
| Equity attributable to owners of the parent | | |
| Issued capital | 1,759 | 1,641 |
| Reserves | 4,702,680 | 3,602,437 |
| | 4,704,439 | 3,604,078 |
| Non-controlling interests | 96,417 | 107,536 |
| Total equity | 4,800,856 | 3,711,614 |

NOTES TO FINANCIAL STATEMENTS

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 Mainland China, Hong Kong, Taiwan and Korea, and the investment business in Mainland China.

In the opinion of the directors, the controlling shareholders of the Company are Mr. Xiao Jian and Mr. Sin Hendrick.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and contingent consideration for business combination which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|--|---|
| 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</i> (early adopted) |
| Amendments to HKAS 1 and HKAS 8 | <i>Definition of Material</i> |

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | <i>Reference to the Conceptual Framework</i> ² |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | <i>Interest Rate Benchmark Reform - Phase 2</i> ¹ |
| Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴ |
| HKFRS 17 | <i>Insurance Contracts</i> ³ |
| Amendments to HKFRS 17 | <i>Insurance Contracts</i> ^{3, 6} |
| Amendments to HKAS 1 | <i>Classification of Liabilities as Current or Non-current</i> ^{3, 5} |
| Amendments to HKAS 16 | <i>Property, Plant and Equipment: Proceeds before Intended Use</i> ² |
| Amendments to HKAS 37 | <i>Onerous Contracts - Cost of Fulfilling a Contract</i> ² |
| <i>Annual Improvements to HKFRSs 2018-2020</i> | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ² |

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in mobile game publishing, game development and the 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 year ended 31 December 2020

| Segments | Game publishing RMB'000 | Game development RMB'000 | Licensing of intellectual property RMB'000 | Total RMB'000 |
|---|------------------------------------|-------------------------------------|---|--------------------------|
| Segment revenue (note 4) | | | | |
| Sales to external customers | 2,977,901 | 730,301 | 112,124 | 3,820,326 |
| Intersegment sales | — | 775,924 | — | 775,924 |
| | <u>2,977,901</u> | <u>1,506,225</u> | <u>112,124</u> | <u>4,596,250</u> |
| Reconciliation: | | | | |
| Elimination of intersegment sales | | | | <u>(775,924)</u> |
| Total revenue from contracts with customers | | | | <u><u>3,820,326</u></u> |

For the year ended 31 December 2019

| Segments | Game publishing RMB'000 | Game development RMB'000 | Licensing of intellectual property RMB'000 | Total RMB'000 |
|---|------------------------------------|-------------------------------------|---|--------------------------|
| Segment revenue (note 4) | | | | |
| Sales to external customers | 2,553,189 | 421,254 | 61,858 | 3,036,301 |
| Intersegment sales | — | 939,779 | — | 939,779 |
| | <u>2,553,189</u> | <u>1,361,033</u> | <u>61,858</u> | <u>3,976,080</u> |
| Reconciliation: | | | | |
| Elimination of intersegment sales | | | | <u>(939,779)</u> |
| Total revenue from contracts with customers | | | | <u><u>3,036,301</u></u> |

Geographical information

(a) Revenue from external customers

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------------|-------------------------|-------------------------|
| Mainland China | 3,814,097 | 3,022,957 |
| Other countries/regions | <u>6,229</u> | <u>13,344</u> |
| | <u><u>3,820,326</u></u> | <u><u>3,036,301</u></u> |

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

(b) Non-current assets

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------------|------------------|------------------|
| Mainland China | 1,591,324 | 1,755,281 |
| Other countries/regions | 140,880 | 138,772 |
| | <u>1,732,204</u> | <u>1,894,053</u> |

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

Information about major customers

During the year ended 31 December 2020, revenue of approximately RMB470,200,000 was derived from an individual single external customer which individual accounted for more than 10% of the total revenue.

During the year ended 31 December 2019, there was no revenue derived from a single external customer that accounted for more than 10% of total revenue.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2020

| Segments | Game publishing RMB'000 | Game development RMB'000 | Licensing of intellectual property RMB'000 | Total RMB'000 |
|---|-------------------------------|--------------------------------|---|------------------|
| Types of goods or services | | | | |
| Mobile game publishing services | 2,977,901 | — | — | 2,977,901 |
| Game development related services | — | 730,301 | — | 730,301 |
| Licensing of intellectual property | — | — | 112,124 | 112,124 |
| Total revenue from contracts with customers | <u>2,977,901</u> | <u>730,301</u> | <u>112,124</u> | <u>3,820,326</u> |
| Geographical markets | | | | |
| Mainland China | 2,971,672 | 730,301 | 112,124 | 3,814,097 |
| Other countries/regions | 6,229 | — | — | 6,229 |
| Total revenue from contracts with customers | <u>2,977,901</u> | <u>730,301</u> | <u>112,124</u> | <u>3,820,326</u> |
| Timing of revenue recognition | | | | |
| Services transferred over time | 2,977,901 | 701,999 | 43,610 | 3,723,510 |
| Services transferred at a point in time | — | 28,302 | 68,514 | 96,816 |
| Total revenue from contracts with customers | <u>2,977,901</u> | <u>730,301</u> | <u>112,124</u> | <u>3,820,326</u> |

For the year ended 31 December 2019

| Segments | Game publishing RMB'000 | Game development RMB'000 | Licensing of intellectual property RMB'000 | Total RMB'000 |
|---|----------------------------|-----------------------------|---|------------------|
| Types of goods or services | | | | |
| Mobile game publishing services | 2,553,189 | — | — | 2,553,189 |
| Game development related services | — | 421,254 | — | 421,254 |
| Licensing of intellectual property | — | — | 61,858 | 61,858 |
| Total revenue from contracts with customers | <u>2,553,189</u> | <u>421,254</u> | <u>61,858</u> | <u>3,036,301</u> |
| Geographical markets | | | | |
| Mainland China | 2,545,883 | 421,254 | 55,820 | 3,022,957 |
| Other countries/regions | <u>7,306</u> | <u>—</u> | <u>6,038</u> | <u>13,344</u> |
| Total revenue from contracts with customers | <u>2,553,189</u> | <u>421,254</u> | <u>61,858</u> | <u>3,036,301</u> |
| Timing of revenue recognition | | | | |
| Services transferred over time | 2,553,189 | 382,575 | — | 2,935,764 |
| Services transferred at a point in time | <u>—</u> | <u>38,679</u> | <u>61,858</u> | <u>100,537</u> |
| Total revenue from contracts with customers | <u>2,553,189</u> | <u>421,254</u> | <u>61,858</u> | <u>3,036,301</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:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Revenue recognised that was included in the contract liabilities balance at the beginning of year: | | |
| Short-term advances received from publishing channels | 7,814 | 10,762 |
| Sales of game points in self-developed games | <u>16,015</u> | <u>8,240</u> |
| | <u>23,829</u> | <u>19,002</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 180 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 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.

Intellectual property licensing services

The performance obligation is satisfied over the license 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 180 days from delivery.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

| | 2020 | 2019 |
|---|----------------|---------|
| | RMB'000 | RMB'000 |
| Amounts expected to be recognised as revenue: | | |
| Within one year | 131,732 | 72,039 |

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.

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------------|----------------------|
| Other income | | |
| Bank interest income | 21,202 | 6,001 |
| Dividend income from financial assets at fair value through profit or loss | — | 12,588 |
| Government grants - related to income* | 22,008 | 12,428 |
| Other interest income from financial assets at fair value through profit or loss | 11,063 | — |
| Others | 5,445 | 10,110 |
| | <u>59,718</u> | <u>41,127</u> |
| Gains | | |
| Gains on disposal of financial assets at fair value through profit or loss | 84 | — |
| Gains on disposal of investments in associates | 33,471 | 38,443 |
| Fair value gains on financial assets at fair value through profit or loss | 295,899 | 12,772 |
| Gain on disposal of items of other intangible assets | — | 3,062 |
| | <u>329,454</u> | <u>54,277</u> |
| | <u><u>389,172</u></u> | <u><u>95,404</u></u> |

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

5. PROFIT BEFORE TAX

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Commissions charged by channels* | 2,430,032 | 1,841,842 |
| Commissions charged by IPs | 40,483 | 21,885 |
| Game development cost | 15,400 | 27,120 |
| Promotion expenses | 297,471 | 183,414 |
| Employee benefit expense (excluding directors' and chief executive's remuneration): | | |
| Wages and salaries | 208,879 | 153,109 |
| Equity-settled share-based expense | 23,874 | 74,152 |
| Pension scheme contributions (defined contribution scheme) | 1,933 | 16,639 |
| | <u>234,686</u> | <u>243,900</u> |
| Depreciation of property and equipment | 2,875 | 3,989 |
| Depreciation of right-of-use assets | 21,907 | 18,154 |
| Amortisation of patents and licences** | 79,436 | 51,525 |
| Research and development costs | 208,630 | 160,829 |
| Lease payments not included in the measurement of lease liabilities | 114 | 79 |
| Foreign exchange differences, net | 6,948 | 165 |
| Impairment of financial and contract assets, net: | | |
| Impairment of trade receivables, net | 52,043 | 14,626 |
| Write-off/(reversal of write-off) of prepayments, net*** | 13,960 | (696) |
| Impairment of goodwill**** | 10,680 | — |
| Impairment of other intangible assets ***** | 430 | 4,192 |
| Bank interest income | (21,202) | (6,001) |
| Loss on disposal of items of property and equipment | 56 | 544 |
| Auditor's remuneration | 4,500 | 3,000 |
| Listing expenses | — | 34,571 |
| (Gains)/losses on disposal of financial assets at fair value through profit or loss | (84) | 384 |
| Gains on disposal of investments in associates | (33,471) | (38,443) |
| Fair value adjustment of contingent consideration | 17,424 | 1,490 |

* On 28 May 2020, all of the five limited partners of Changpei (Shanghai) Investment Centre (Limited Partnership) (“Changpei Shanghai”, a limited partnership registered in the PRC), transferred (i) their limited partnership interests in Changpei Investment Centre, L.P. (“Changpei Cayman”, an exempted limited partnership registered in the Cayman Islands), by selling their respective BVI holding vehicles of these interests; and (ii) their limited partnership interests in Changpei Shanghai, to Zhejiang Shiji Huatong Group Limited (“Shiji Huatong”), a listed company on the Shenzhen Stock Exchange (SZSE:002602), and a wholly-owned subsidiary of Shiji Huatong at an aggregate consideration of RMB1,953.9 million. Pursuant to the partnership agreement of Changpei Shanghai, general partner shall have the exclusive and sole right of management of the affairs of the partnerships and limited partner shall have no power to conduct the business of the partnership nor shall limited partner represent the partnership. Also, limited partner shall not participate in the management or control of the investment business

of the partnership. Therefore, as Shiji Huatong neither has any voting rights in the Company through its holding vehicles nor has significant influence on the Company, the Directors of the Company believe that Shiji Huatong is an independent third party with the Group. Shiji Huatong provided channel services to the Company, which amounted to RMB504,173,000 during the periods from 28 May 2020 to 31 December 2020, and the balance of trade receivables from Shiji Huatong as at 31 December 2020 was RMB25,026,000.

** The amortisation of patents and licences and the amortisation of deferred development costs for the year are included in “Cost of sales” 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 goodwill and other intangible assets are included in “Other expenses” in the consolidated statement of profit or loss.

6. INCOME TAX

The Group is subject to income tax on an entity basis on profits 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 Cayman Islands (the “**Cayman**”), the Group is not subject to any income tax in the BVI and Cayman.

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. 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 rate of the Group’s subsidiaries operating in Mainland China during the reporting period was 25% of their taxable profits.

Shenzhen Douyue Network Technology Company Limited (“**Shenzhen Douyue**”) and China Mobile Games and Entertainment Group Limited Shenzhen (“**Shenzhen Zhongshouyou**”) were accredited as “software enterprises” in 2016 under relevant PRC laws and regulations. Accordingly, Shenzhen Douyue and Shenzhen Zhongshouyou were entitled to tax exemption from 1 January 2016 to 31 December 2017 and entitled to a preferential Corporate Income Tax (“**CIT**”) rate of 12.5% from 1 January 2018 to 31 December 2020.

Wenmai Hudong was accredited as a high and new technology enterprise (the “**HNTE**”) and the certificate is valid for three years since its renewal in 2019. For the years ended 31 December 2020 and 31 December 2019, Wenmai Hudong was entitled to a tax rate of 15%. The HNTE certificate need to be renewed every three years so as to enable Wenmai Hudong to enjoy the reduced tax rate of 15%.

Beijing Softstar has been accredited as an HNTE since 2009 and the certificate is valid for three years since its renewal in 2018. For the years ended 31 December 2020 and 31 December 2019, Beijing Softstar was entitled to a tax rate of 15%.

Horgos Bell Mutual Entertainment Technology Co., Ltd. (“**Zhongsheng Huyu**”) was established in Horgos Development Zone of Xinjiang in 2016. According to the applicable regulations promulgated by the State Council and relevant authorities, it was entitled to tax exemption for five years from the first year of operation in 2016. It was entitled to tax exemption from 1 January 2016 to 31 December 2020.

Beijing Zhongsheng Huyu Entertainment Technology Company Limited was accredited as a “software enterprise” in 2020 under relevant PRC laws and regulations. But according to the relevant policies, it was entitled to tax exemption from 1 January 2019 to 31 December 2020 and entitled to a preferential CIT rate of 12.5% from 1 January 2021 to 31 December 2023.

Shengyue Software (Shenzhen) Company Limited was accredited as a “software enterprise” in 2019 under relevant PRC laws and regulations. Accordingly, it was entitled to tax exemption from 1 January 2019 to 31 December 2020 and entitled to a preferential CIT rate of 12.5% from 1 January 2021 to 31 December 2023.

Horgos Wenmai Hudong Technology Company Limited (“**Horgos Wenmai**”) was established in the Horgos Development Zone of Xinjiang in 2020. According to the applicable regulations promulgated by the State Council and relevant authorities, it was entitled to tax exemption for five years from the first year of operation which was 2020. It was entitled to tax exemption from 1 January 2020 to 31 December 2024.

Tibet Jichuang Internet Technology Co., Ltd. (“**Tibet Jichuang**”) was established in Lhasa Tibet. According to the applicable regulations promulgated by the State Council and relevant authorities, the applicable tax rate for Tibet Jichuang was 9% for the year ended 31 December 2020.

Hainan Chuangyue Technology Company Limited (“**Hainan Chuangyue**”) and Hainan Zhanshen Internet Technology Company Limited (“**Hainan Zhanshen**”) were established in the Hainan Free Trade Port. According to the applicable regulations promulgated by the State Council and relevant authorities, the applicable tax rate for Hainan Chuangyue and Hainan Zhanshen was 15% for the year ended 31 December 2020.

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

| | 2020 | 2019 |
|-------------------------------|-----------------|---------|
| | RMB'000 | RMB'000 |
| Current tax expense | | |
| Current – HK | — | 866 |
| Current – PRC | 47,054 | 94,727 |
| Charge for the year | 58,247 | 94,727 |
| Over provision in prior years | (11,193) | — |
| Current – Elsewhere | 42 | — |
| Total | 47,096 | 95,593 |
| Deferred tax expense | | |
| HK | — | 2,184 |
| PRC | (20,494) | 2,633 |
| Total | (20,494) | 4,817 |
| Total tax charge for the year | 26,602 | 100,410 |

A reconciliation of the tax expense applicable to profit before tax at the statutory rate of Mainland China (i.e., 25%) where the main operating entity is domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

| | 2020 | | 2019 | |
|---|----------------|------|----------------|-----|
| | RMB'000 | % | RMB'000 | % |
| Profit before tax | <u>716,802</u> | | <u>343,623</u> | |
| Tax at the statutory tax rate | 179,200 | 25 | 85,906 | 25 |
| Effect of different applicable tax rates for specific jurisdictions or enacted by local authority | (117,530) | (16) | 2,758 | 1 |
| Profits and losses attributable to a joint venture and associates | 3,959 | 1 | (1,130) | (0) |
| Super deduction for research and development expenses | (18,606) | (3) | (10,365) | (3) |
| Expenses not deductible for tax | 5,344 | 1 | 3,059 | 1 |
| Effect on opening deferred tax of increase in rates | (3,234) | — | — | — |
| Adjustments in respect of current tax of previous periods | (11,193) | (2) | — | — |
| Utilisation of previously unrecognised tax losses | (20,774) | (3) | — | — |
| Tax losses not recognised | <u>9,436</u> | 1 | <u>20,182</u> | 6 |
| Tax charge at the Group's effective rate | <u>26,602</u> | 4 | <u>100,410</u> | 29 |

The share of tax attributable to a joint venture and associates amounting to nil (2019: Nil) and RMB2,232,000 (2019: RMB3,020,000), respectively, is included in “Share of profits and losses of a joint venture and associates” in the consolidated statement of profit or loss.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% and may be reduced to 5% if certain criteria could be met under the Double Taxation Arrangement (Hong Kong). The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2020, no deferred tax (2019: Nil) has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB220,244,000 (2019: RMB148,806,000).

7. DIVIDENDS

At a meeting held by the board on 24 March 2021, the board proposed a final dividend in respect of the year ended 31 December 2020 of HK\$0.0928 (2019: HK\$0.0355) per ordinary share of the Company, totalling approximately HK\$232,942,000 (2019: HK\$82,720,000) based on the latest number of ordinary shares of 2,510,150,000 (2019: 2,330,150,000) of the Company in issue. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. 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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,343,920,492 (2019: 1,889,295,068) in issue during the year, as adjusted to reflect the rights issued during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

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

| | 2020 | 2019 |
|---|-----------------------------|----------------------|
| | RMB'000 | RMB'000 |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | 701,319 | 248,348 |
| | 2020 | 2019 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | <u>2,343,920,492</u> | <u>1,889,295,068</u> |

9. GOODWILL

| | RMB'000 |
|---|------------------|
| At 1 January 2019: | |
| Cost | 1,118,617 |
| Accumulated impairment | — |
| | <hr/> |
| Net carrying amount | 1,118,617 |
| | <hr/> |
| Cost at 1 January 2019, net of accumulated impairment | 1,118,617 |
| Impairment during the year | — |
| | <hr/> |
| At 31 December 2019 | <u>1,118,617</u> |
| At 31 December 2019: | |
| Cost | 1,118,617 |
| Accumulated impairment | — |
| | <hr/> |
| Net carrying amount | <u>1,118,617</u> |
| | <hr/> |
| Cost at 1 January 2020, net of accumulated impairment | 1,118,617 |
| Impairment during the year | (10,680) |
| | <hr/> |
| Cost and net carrying amount at 31 December 2020 | <u>1,107,937</u> |
| | <hr/> |
| At 31 December 2020: | |
| Cost | 1,118,617 |
| Accumulated impairment | (10,680) |
| | <hr/> |
| Net carrying amount | <u>1,107,937</u> |
| | <hr/> |

Goodwill is allocated to mobile game publishing cash-generating unit, the game development of Wenmai Hudong cash-generating unit and the game development of Beijing Softstar cash-generating unit (collectively referred to as, the “CGUs”) for impairment testing. The recoverable amounts of the CGUs have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The growth rate beyond the five-year period had been projected as 3.0%.

The respective recoverable amounts and the carrying values of the CGUs as at 31 December 2020 and 2019 are as follows:

Mobile game publishing CGU:

| | 2020 | 2019 |
|---|------------------|-----------|
| | RMB'000 | RMB'000 |
| Recoverable amount | 2,508,127 | 2,410,000 |
| Carrying value including allocated goodwill | 751,043 | 562,829 |

Game development of Wenmai Hudong CGU:

| | 2020 | 2019 |
|---|----------------|---------|
| | RMB'000 | RMB'000 |
| Recoverable amount | 779,342 | 996,943 |
| Carrying value including allocated goodwill | 703,099 | 721,650 |

Game development of Beijing Softstar CGU:

| | 2020 | 2019 |
|---|----------------|---------|
| | RMB'000 | RMB'000 |
| Recoverable amount | 177,151 | 283,223 |
| Carrying value including allocated goodwill | 198,092 | 260,500 |

The pre-tax discount rates applied to the cash flow projections, the forecasted growth rates and gross margin used to extrapolate cash flow projections and terminal growth rates are follows:

Mobile game publishing CGU:

| | 2020 | 2019 |
|--|---------------|-------|
| Growth rates (during the five-year period) | 3%-15% | 3%-8% |
| Gross margin | 30% | 31% |
| Pre-tax discount rate | 16% | 16% |
| Terminal growth rate | 3% | 3% |

Game development of Wenmai Hudong CGU:

| | 2020 | 2019 |
|--|--------------|-------|
| Growth rates (during the five-year period) | 3%-4% | 3%-9% |
| Gross margin | 16% | 17% |
| Pre-tax discount rate | 22% | 20% |
| Terminal growth rate | 3% | 3% |

Game development of Beijing Softstar CGU:

| | 2020 | 2019 |
|---|-----------|---------|
| Growth rates (during the five-year period)* | 3%-4,361% | 3%-653% |
| Gross margin | 28% | 18% |
| Pre-tax discount rate | 21% | 21% |
| Terminal growth rate | 3% | 3% |

Assumptions were used in the value-in-use calculation of the CGUs for 31 December 2020 and 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue growth rate — The revenue growth rate is based on the average growth achieved in the past years and the expected revenue from newly launched games.

* The expected growth rates of the game development of Beijing Softstar CGU in the first forecasted year as at 31 December 2020 and 2019 were 4,361% and 653%, respectively. The Group expected a significant growth in the first year due to the expected revenue from the newly launched mobile game license for which was obtained in December 2020. Revenue in the second to fifth years was expected to increase gradually and therefore the growth rate will return to a lower range.

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the past years and the expectation for market development.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development and the discount rate are consistent with external information sources.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2020 | 2019 |
|---|------------------|----------------|
| | RMB'000 | RMB'000 |
| Listed equity investments, at fair value | 220,828 | 222,022 |
| NEEQ quoted equity investments, at fair value | 69,486 | 72,869 |
| Unlisted equity investments, at fair value | 1,230,112 | 414,512 |
| Convertible loans, at fair value | 18,886 | 15,734 |
| | <u>1,539,312</u> | <u>725,137</u> |

The above equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.

In May 2018, the Group acquired 26% of the issued shares of Angel Fund (Asia) Investments Limited (“**Angel Fund**”) from Angel (Partners) Investments Limited with the consideration of 1,270,963 issued shares of Ridgeview Well Investment Limited, the then sole shareholder of the Company. Angel Fund held 9,740,562 shares, representing 20.368% of the total issued shares of Softstar Entertainment Inc, which is a company listed on the Taiwan Stock Exchange (TAIPEI: 6111). The fair value of the investment in Angel Fund was RMB55,874,000 (2019: RMB56,478,000) as at 31 December 2020.

In April 2018, CMGE Group Limited transferred the investment in China Prosperity Capital Mobile Internet Fund L.P (“**CPC Fund**”) to the Group. In June 2018, the Group injected cash of US\$8,300,000 (equivalent to RMB54,442,000) to CPC Fund. The Group acted as a limited partner and held 25.65% of its limited partnership interests. The fair value of the investment in CPC Fund was RMB224,387,000 (2019: RMB213,600,000) as at 31 December 2020.

In February 2020, Guohong Jiaxin (Shenzhen) Angel Venture Capital Enterprise (L.P.) has been set up after obtaining all the related licenses and approval documentations. The fair value of the investment in Guohong Jiaxin (Shenzhen) Angel Venture Capital Enterprise (L.P.) was RMB160,671,000 as at 31 December 2020.

The Group holds 26%, 25.65% and 38.08% limited partnership interests in Angel Fund, CPC Fund and Guohong Jiaxin (Shenzhen) Angel Venture Capital Enterprise (L.P.), respectively. Pursuant to the relevant partnership agreements of these three funds, the Group is entitled to investment return, but has no right or power to participate in the management or control of the funds. Therefore, the Group has neither control nor significant influence on Angel Fund, CPC Fund and Guohong Jiaxin (Shenzhen) Angel Venture Capital Enterprise (L.P.), and they are treated as financial instruments at fair value through profit or loss.

11. TRADE RECEIVABLES

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------|-----------------|-----------------|
| Trade receivables | 954,790 | 810,907 |
| Impairment | (72,146) | (21,004) |
| | <u>882,644</u> | <u>789,903</u> |

Trade receivables mainly represent amounts receivable from third-party publishing channels. The Group normally allows credit terms of 180 days for 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 loss allowance, is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|----------------------|-----------------|-----------------|
| Within 6 months | 605,207 | 577,264 |
| 6 months to 1 year | 214,856 | 175,033 |
| 1 year to 18 months | 49,285 | 37,606 |
| 18 months to 2 years | 13,296 | — |
| | <u>882,644</u> | <u>789,903</u> |

The movements in the loss allowance for impairment of trade receivables are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------------------------|-----------------|-----------------|
| At beginning of year | 21,004 | 9,047 |
| Impairment losses (note 5) | 52,043 | 14,626 |
| Amount written off as uncollectible | (901) | (2,669) |
| | <u>72,146</u> | <u>21,004</u> |

The Group applies the simplified approach in calculating expected credit losses under HKFRS 9, and the provision rates are based on days past due for groupings of various customer segments with similar loss patterns. For certain trade receivables for which the counterparty failed to make demanded repayment, the Group has made a 100% provision (“**default receivables**”). Except for default receivables, the Group used the calculation which reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information during the reporting period about the credit risk exposure on the Group’s trade receivables using a provision matrix:

As at 31 December 2020

| | Amount RMB’000 | Expected credit loss rate | Impairment RMB’000 |
|----------------------------------|---------------------------------|--|-------------------------------------|
| Default receivables | 3,270 | 100% | 3,270 |
| Other trade receivables aged: | | | |
| Current | 620,725 | 2.5% | 15,518 |
| Past due for less than 6 months | 229,547 | 6.4% | 14,691 |
| Past due for 6 months to 1 year | 60,547 | 18.6% | 11,262 |
| Past due for 1 year to 18 months | 32,430 | 59% | 19,134 |
| Past due for over 18 months | 8,271 | 100% | 8,271 |
| | <u>954,790</u> | | <u>72,146</u> |

As at 31 December 2019

| | Amount RMB’000 | Expected credit loss rate | Impairment RMB’000 |
|----------------------------------|---------------------------------|--|-------------------------------------|
| Default receivables | 3,960 | 100% | 3,960 |
| Other trade receivables aged: | | | |
| Current | 580,165 | 0.5% | 2,902 |
| Past due for less than 6 months | 181,569 | 3.6% | 6,535 |
| Past due for 6 months to 1 year | 41,784 | 10% | 4,178 |
| Past due for 1 year to 18 months | 2,683 | 100% | 2,683 |
| Past due for over 18 months | 746 | 100% | 746 |
| | <u>810,907</u> | | <u>21,004</u> |

12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------------------|-----------------------|-------------------------|
| Non-current portion | | |
| Prepayments* | <u>330,766</u> | <u>453,972</u> |
| Current portion | | |
| Prepayments | 375,258 | 319,189 |
| Deposits and other receivables | 112,422 | 56,185 |
| Contract costs** | <u>32,126</u> | <u>8,837</u> |
| | <u>519,806</u> | <u>384,211</u> |
| Other current asset*** | <u>—</u> | <u>209,286</u> |
| | <u>850,572</u> | <u>1,047,469</u> |

* Prepayments as at 31 December 2020 included RMB110,000,000 (2019: RMB100,000,000) paid for the conditional share purchase of Angel Fund (Asia) Investments Limited.

Prepayments as at 31 December 2019 included RMB163,000,000 paid for the capital contribution in accordance with the requirements set out in a partnership agreement. The fund has been set up after obtaining all the related licenses and approval documentations in February 2020 and was classified as financial assets at fair value through profit or loss.

** Contract costs relate to commissions charged by the platforms which meet the 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 31 December 2019 included a deposit of RMB209,286,000 in a financial institution for asset management.

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 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

13. TRADE PAYABLES

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

| | 2020 | 2019 |
|--------------------|-----------------------|-----------------------|
| | RMB'000 | RMB'000 |
| Within 3 months | 105,156 | 78,100 |
| 3 to 6 months | 51,958 | 44,758 |
| 6 months to 1 year | 53,843 | 28,748 |
| 1 year to 2 years | 54,360 | 14,065 |
| 2 years to 3 years | 562 | 1,977 |
| over 3 years | 2,841 | 2,108 |
| Total | <u>268,720</u> | <u>169,756</u> |

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

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

Hong Kong, 24 March 2021

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