

CMGE
中手游

为热爱而生

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)

20
22
INTERIM
REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. XIAO Jian (*Chairman and Chief Executive Officer*)

Mr. SIN Hendrick *M.H.* (*Vice Chairman*)

Mr. FAN Yingjie

Non-executive Director

Mr. ZHANG Shengyan

Independent Non-executive Directors

Ms. NG Yi Kum

Mr. TANG Liang

Mr. HO Orlando Yaukai

AUDIT COMMITTEE

Ms. NG Yi Kum (*Chairlady*)

Mr. TANG Liang

Mr. HO Orlando Yaukai

REMUNERATION COMMITTEE

Mr. HO Orlando Yaukai (*Chairman*)

Mr. SIN Hendrick *M.H.*

Ms. NG Yi Kum

NOMINATION COMMITTEE

Mr. XIAO Jian (*Chairman*)

Mr. TANG Liang

Mr. HO Orlando Yaukai

CORPORATE GOVERNANCE COMMITTEE

Ms. NG Yi Kum (*Chairlady*)

Mr. SIN Hendrick *M.H.*

Mr. HO Orlando Yaukai

AUTHORISED REPRESENTATIVES

Mr. XIAO Jian

Mr. SIN Hendrick *M.H.*

COMPANY SECRETARY

Ms. LAI Yau Yan Gladys

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HONG KONG BRANCH SHARE REGISTRAR

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Hong Kong

PRINCIPAL BANKERS

China Guangfa Bank
Shenzhen Branch, Binhai Sub-branch

China Merchants Bank
Shenzhen Branch, Weisheng Building
Sub-branch

Guangdong Huaxing Bank
Shenzhen Branch

China Everbright Bank
Shenzhen Futian Branch

COMPANY'S WEBSITE

<http://www.cmge.com>

STOCK CODE

0302

FINANCIAL SUMMARY

| | For the six months ended 30 June | |
|---|----------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Revenue | 1,232,764 | 2,180,133 |
| (Loss)/profit for the period | (25,408) | 378,250 |
| (Loss)/profit for the period attributable to owners of the parent | (21,901) | 393,532 |
| Adjusted net (loss)/profit ⁽¹⁾ | (15,654) | 401,780 |
| Basic and diluted (loss)/earnings per Share (RMB) | (0.79) cents | 15.23 cents |
| Adjusted basic and diluted (loss)/earnings per Share (RMB) ⁽¹⁾ | (0.57) cents | 15.55 cents |

| | As at 30 June 2022 RMB'000 (Unaudited) | As at 31 December 2021 RMB'000 (Audited) |
|-------------------|--|--|
| | Total assets | 7,747,617 |
| Total liabilities | 1,895,632 | 2,047,857 |
| Total equity | 5,851,985 | 5,793,862 |

Note:

1. "Adjusted net (loss)/profit" is not defined under the HKFRS. It is defined by the Group as net (loss)/profit attributable to owners of the parent excluding equity-settled share-based expense which is not operating and recurring in nature. The adjusted net (loss)/profit can more closely reflect the Group's operating results, after excluding the above-mentioned non-operating item. "Adjusted basic and diluted (loss)/earnings per Share" are the Group's adjusted net (loss)/profit divided by the weighted average number of Shares in issue during the six months ended 30 June 2021 and 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has formed a core competitive IP game ecosystem of “IP resources – self-development and joint development – global publishing – proprietary IP operation – metaverse platform (IP資源—自主研發與聯合研發—全球發行—自有IP運營—元宇宙平台)” by leveraging its advantages and accumulation in the field of game publishing and research and development and its advantageous IP resources, and has established three major business segments, namely IP game development and global publishing, proprietary IP operation and metaverse platform. During the first half of 2022, the total research and development expenses of the Group amounted to RMB204.3 million, representing a period-on-period increase of 65.1%. There were a total of 11 self-developed products in operation, and 10 self-developed products to be put into operation. The Group has also expanded its overseas game publishing business. As of 30 June 2022, the Group has launched 5 games in several overseas regions, revenue generated from overseas regions of the Group amounted to RMB227.6 million, revenue from overseas regions accounted for 18.5% of the Group’s total revenue.

Given the adverse impact of the deferred launching of a number of the Group’s games as a result of postponement in obtaining licenses, for the six months ended 30 June 2022 (“Reporting Period”), the Group’s revenue was RMB1,232.8 million, representing a period-on-period decrease of 43.5%.

The following table sets forth the key performance indicators of the Group during the periods indicated, namely (i) the average MAUs; (ii) the average MPUs; (iii) the ARPPU; and (iv) the total new registered users:

| | For the six months ended 30 June | |
|--|----------------------------------|--------|
| | 2022 | 2021 |
| Average MAUs (thousands) | 12,780 | 19,084 |
| Average MPUs (thousands) | 941.4 | 1,442 |
| ARPPU (RMB) | 218.3 | 251.9 |
| Total new registered users (thousands) | 38,367 | 58,014 |

IP Game Development and Global Publishing

Overseas Markets

The Group launched a number of games in overseas markets during the six months ended 30 June 2022, and has achieved outstanding results. *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵰群俠傳之鐵血丹心), a game published by the Group, was launched in Thailand and Vietnam in January and June 2022, respectively. *Dynasty Warriors: Hegemony* (真·三國無雙霸), an ARPG developed by Shenzhen EZfun Interactive Technology Co., Ltd. (深圳易帆互動科技有限公司), a developer invested by the Group, was launched in Hong Kong, Macau, Taiwan, Singapore and Malaysia in January 2022, and ranked first on the Top Free Games List of Apple’s App Store and Google Play Store in the Hong Kong, Macau and Taiwan region and Singapore, first on the Best Selling Games List of Apple’s App Store in Hong Kong and Macau and second on the Best Selling Games List of Apple’s App Store in Taiwan during the month of its launch. It was officially launched in the Southeast Asia region, including Vietnam, Thailand, the Philippines and Indonesia, on 10 August 2022, and ranked first on the Top Free Games List of Apple’s App Store in Vietnam and the Philippines and third on the Best Selling Games List of Apple’s App Store in Vietnam. *Soul Land: God of Battle Arise* (斗羅大陸:鬥神再臨), a game published by the Group, was launched in Vietnam in March 2022, and ranked first on the Top Free Games List and fourth on the Best Selling Games List of Apple’s App Store in Vietnam during the month of its launch. For the six months ended 30 June 2022, the Group’s revenue from overseas regions amounted to RMB227.6 million, representing a period-on-period growth of 3.6%. The proportion of revenue generated from overseas regions in the Group’s total revenue reached 18.5%.

Self-Development and Self-Publishing

Games of the Group which have been launched before 2022, including the self-developed games *The World of Legend - Thunder Empire* (傳奇世界之雷霆霸業), *Legend of Dragon City* (龍城傳奇) and card and board games, the self-published games *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵰群俠傳之鐵血丹心) and *Soul Land: God of Battle Arise* (斗羅大陸:鬥神再臨), and games jointly published with third parties, including *One Piece: The Voyage* (航海王熱血航線), *Dynasty Warriors: Hegemony* (真·三國無雙霸), and other games that have been launched, continued to contribute to the Group's revenue and profits in the first half of 2022. The Group launched a new game called *A New Record of a Mortal's Journey to Immortality* (新凡人修仙傳) in January 2022, and received Mobile Hardcore Alliance's Star Recommendation of the Month in the month of its launch. The Group has planned to launch a number of new games in the first half of 2022. However, due to the postponement in obtaining licences as scheduled, the launch of several games, such as *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情), *Cultivation Fantasy* (我的御劍日記), *Rakshasa Street: Chosen One* (鎮魂街:天生為王), as well as self-developed games, including *World of Castellan* (城主天下), were deferred.

The Group continued to increase the investment in its research and development business and established a number of research and development teams, including Mantianxing Studio (滿天星工作室) and DaYu Studio (大禹工作室), with the number of research and development personnel reaching 632 during the first half of 2022; research and development investment was RMB204.3 million, representing a period-on-period increase of 65.1%. A number of self-developed mobile games of Wenmai Hudong, a wholly-owned subsidiary of the Group, has entered the stage of pre-launch preparation. Among these games, *Call for Pioneers* (召喚先鋒), an integrated strategy game with global themes, has obtained its licence and is scheduled for launch in December 2022. Testing for a similar type of mobile game, *Code: Soldiers* (代號:奇兵), will commence in the fourth quarter of 2022. Mobile game *World of Castellan* (城主天下) has entered the completion stage of final testing and will be launched officially after obtaining licence. Beijing

Softstar launched a self-developed game *Legend of Sword and Fairy 7* (仙劍奇俠傳七) in the second half of 2021 as of 30 June 2022, its PC version achieved a sales volume of over 450,000, its cloud gaming version achieved a sales volume of over 210,000, and its console version was launched in Hong Kong, Macau, Taiwan, Southeast Asia, Japan and North America in August 2022. As of 30 June 2022, *Monopoly 10* (大富翁10), a PC game self-developed by Beijing Softstar, recorded a global sales volume of over 1.23 million, and was launched on platforms such as Xbox One, Xbox Series S, Xbox Series X, PlayStation 4 and PlayStation 5 in July 2022. The standalone game *Legend of Sword and Fairy 4: Remake* (仙劍奇俠傳四:重製版) was kick-started by Softstar Technology (Shanghai) Co., Ltd. (軟星科技(上海)有限公司), a wholly-owned subsidiary of the Group, in the first half of 2022, and the project has entered the research and development stage.

Investment in Developers

As part of its IP game ecosystem, the Group is committed to investing in quality developers in the industry in order to supply the Group with competitive gaming products. During the first half of 2022, the Group completed its investment in Shanghai Zhoujing Network Technology Co., Ltd. (上海洲競網絡科技有限公司) ("Shanghai Zhoujing"), and has become its controlling shareholder holding 51% of its equity interests. Shanghai Zhoujing is currently developing in full swing the cross-PC, console and mobile-end game *Code: Basketball 3v3* (代號:籃球3v3), which will become an important game product type of the Group with long life cycle. The game will commence its official testing in the fourth quarter of 2022 and is expected to be launched officially in the first half of 2023. In the first half of the year, the Group invested in Hainan Hemera Information Technology Co., Ltd. (海南赫墨拉信息科技有限公司) ("Hainan Hemera"). *The Devil Forbiddor* (太古封魔錄), the mobile game developed by Hainan Hemera, recorded an impressive monthly gross billing over RMB200 million upon its launch, and *Ultraman: The Gathering* (奧特曼:集結), a mobile game developed by its core team, has obtained the official licensed IP of the original Ultraman series licensed by Tsuburaya Productions Co., Ltd. (日本圓谷株式會社) in Japan. It will be exclusively published by the Group and will be launched in the second half of 2022.

Proprietary IP Operation

Licensing Business

In the first half of 2022, revenue derived from the Group's IP licensing amounted to approximately RMB30.8 million. The Group established a strong presence for the cooperation of the *Legend of Sword and Fairy* (仙劍) IP throughout the industry chain, covering games, films and television, comics and animation, content literature, music, derivatives and real scene entertainment, and collaborated with top partners in related fields to jointly build the *Legend of Sword and Fairy* (仙劍) IP universe.

Following the successful launch of the game *Legend of Sword and Fairy 4 VR* (仙劍奇俠傳四VR), the Group continued its cooperation with Immersive World (沉浸世界) and launched the VR game *Legend of Sword and Fairy 1 VR* (仙劍奇俠傳一VR) on 15 July 2022 with brand new experience. The classic story of *Legend of Sword and Fairy*, together with the 360-degree close range view and surrounding sound from VR, bring a complete immersive experience for players. The Group will launch the story mobile card game *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情) in the second half of 2022, while the *Sword and Fairy World* (仙劍世界), a platform-based open world game self-developed by the Group, will commence testing soon. The large scale MMORPG mobile game, *Legend of Sword and Fairy • Yuanqi* (仙劍 • 緣起) developed by the Group and Alibaba's Lingxi Games (靈犀互娛) has also entered the final stage of testing.

The Sword and Fairy Chinese Traditional Festival Figures Series, first launched by the Group with Pop Mart (泡泡瑪特), was released globally in April 2022. Meanwhile, the Group collaborated with Good Smile Arts (良笑塑美), the Infinity Studio (開天工作室) under Shanghai Qiku Network Technology Co., Ltd. (上海起酷網絡科技有限公司), Bandai Namco Entertainment (Shanghai) Co., Ltd. (萬代南夢宮(上海)娛樂有限公司) and other well-known partners to jointly launch Chinese-style products, including Nendoroid Anu (黏土人阿奴), Nendoroid Long Kui (red and blue) (黏土人紅藍龍葵), statues of Xiao Ya Ji Lin Yueru (小雅集林月如), figure of Han Ling Sha (韓菱紗), statues of Yue Qing Shu (月清疏), figure and statues of Li Xiao Yao (李逍遙), statues of Chong Lou (重樓), and figures of female character weapons from *Legend of Sword and Fairy* (仙劍).

In January 2022, the Group has achieved huge success in its first launch of *Legend of Sword and Fairy* (仙劍奇俠傳) digital collections through the platform TheOne.Art (唯一藝術); and issued 40,000 NFT badges of *Legend of Sword and Fairy* (仙劍) characters which were sold out in a split second. In April 2022, the Group joined hands with Alifish (阿里魚), a digital collections e-commerce platform, to launch 80,000 *Legend of Sword and Fairy* (仙劍奇俠傳) skins for payment code of Alipay in digital collection format. It was the Group's first attempt to apply multi-theme application scenarios for its digital collections. In May 2022, the Group launched another batch of digital collections of *Legend of Sword and Fairy* (仙劍奇俠傳), of which 24,240 NFTs of digital supreme weapons from *Legend of Sword and Fairy 7* (仙劍奇俠傳七) were published through digital collection e-commerce platform Tencent Huanhe (騰訊幻核). Nearly 190,000 people participated in the lottery draw for the qualification of advance purchase, and these digital supreme weapons were sold out in a split second.

The shooting of *Legend of Sword and Fairy 1* (仙劍奇俠傳一), which was co-produced by the Group and Penguin Pictures (企鵝影視), has officially been commenced in November 2021; while in cooperation with iQiyi (愛奇藝), the shooting of *Legend of Sword and Fairy 4* (仙劍奇俠傳四) has been commenced in February 2022. The shooting of *Legend of Sword and Fairy 2* (仙劍奇俠傳二) was commenced in the first half of 2022. The Group joined Shandong Film and Television Production Co., Ltd. (山東影視製作股份有限公司), the producer of hit television dramas such as *Nirvana in Fire* (琅琊榜) and *The Disguiser* (偽裝者), in the production of *Legend of Sword and Fairy 6* (仙劍奇俠傳六), for which shooting will be commenced in the second half of 2022. In terms of animation, the Group will cooperate with Bilibili to produce the *Legend of Sword and Fairy 4* (仙劍奇俠傳四) animation and will cooperate with Penguin Pictures (企鵝影視) to shoot the animation series of *Legend of Sword and Fairy 1* (仙劍奇俠傳一) and *Legend of Sword and Fairy 3* (仙劍奇俠傳三). In July 2022, the Group successfully held the 27th Anniversary of *Legend of Sword and Fairy* (仙劍奇俠傳) through Weibo livestreaming, delivering extensive visual and audio experiences to players.

The Group's *Legend of Sword and Fairy* (仙劍) Real Scene Entertainment Project, Hangzhou Xiqi Xianjian Town (杭州西溪仙劍小鎮), has been officially established and is expected to commence trial run in the second half of 2022. Focusing on the future, the Group will create more high-quality content to reach young consumers interested in Chinese-style elements via various channels, and will continuously enhance the reputation of *Legend of Sword and Fairy* (仙劍奇俠傳) among young people and further enrich the users' interactive experience.

Metaverse Platform

Sword and Fairy World (仙劍世界): An open world game + entertainment and social networking metaverse platform

Sword and Fairy World (仙劍世界), a self-developed game by the Group's Mantianxing Studio (滿天星工作室), is China's first metaverse game featuring open world elements such as cross-PC, console, virtual reality device and mobile phone and the Chinese culture. It is also the first entertainment and social networking metaverse platform in China that features Chinese culture, offers in-depth virtual reality experience and allows players to play virtual characters with virtual reality equipment. Leveraging the research and development team's rich experience and knowledge in virtual reality technology and open world RPG technology, and blending users' original creative content and the extensive social networking functions, the game will provide players with a highly differentiated immersive experience. Brand merchants will also play a part in the game platform to provide a new and real spending scenario to players. In the World of *Legend of Sword and Fairy* (仙劍大世界), players can engage in their development and evolvement with different virtual identities, choose the ways of living, playing and socialising in the World of *Legend of Sword and Fairy* (仙劍大世界) based on their own philosophy, and explore the world of game as they wish and dream.

The Legend of Sword and Fairy (仙劍奇俠傳) is the most well-known fairy and hero themed IP in China. *Sword and Fairy World* (仙劍世界), as a metaverse game featuring open world elements, features an extensive open world content and MMO gameplay method. It combines Chinese-style elements and IP attributes of *The Legend of Sword and Fairy* (仙劍奇俠傳) and has achieved a very strong user stickiness. "*Sword and Fairy and the Magic Mirror*" (仙劍靈鏡), the celestial world developed from *Sword and Fairy World* (仙劍世界), is an entertainment and social networking metaverse platform which offers as an excellent gameplay extension to open world game players. "*Sword and Fairy and the Magic Mirror*" (仙劍靈鏡) presents to players a magic mirror depicting a relaxing pastoral environment with mountains and rivers, where players can build their own manor, garden and farmhouse; go fishing or canoeing or farming with friends; design the clothes, pets and leisure games that they like and share a fun time together while realising better creator returns. They can participate in parties and watch performances meticulously prepared by the platform. Chinese-style brand merchants can provide immersive consumption experience to players. Players will also have a chance to experience the fun of being in control of output in the real economy by linking to the manufacturing and agricultural industries.

The game *Sword and Fairy World* (仙劍世界) will commence first round of testing in the second half of 2022 and is scheduled for launch in the first half of 2023.

Award and Recognition

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

| Award/Recognition | Date of Award | Awarding Institution/Authority |
|--|---------------|--|
| Most Influential Enterprise of "Golden Diamond Award" 2021 (金鑽榜2021最具影響力企業) | January 2022 | Association of Game Industry of Guangdong (廣東省遊戲產業協會) |
| Social Responsibility of "Golden Diamond Award" 2021 (金鑽榜2021社會責任獎) | January 2022 | Association of Game Industry of Guangdong (廣東省遊戲產業協會) |
| Fastest Growing Overseas Listed Companies (最具成長海外上市公司) | January 2022 | National Business Daily (每日經濟新聞) |
| Guangdong Top 500 Enterprises 2021 (2021廣東企業500強) | January 2022 | Enterprise Association of Guangdong (廣東省企業聯合會) |
| Guangdong Top 100 Innovative Enterprises 2021 (2021廣東創新企業100強) | January 2022 | Enterprise Association of Guangdong (廣東省企業聯合會) |
| TOP 100 Internet Enterprises in 2021 (2021互聯網企業TOP 100) | February 2022 | China Internet Weekly published by the Chinese Academy of Sciences (中國科學院《互聯網週刊》) |
| TOP 50 Metaverse Potential Enterprises of 2021 (2021年度元宇宙潛力企業TOP 50) | March 2022 | China Internet Weekly 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) |
| Shenzhen Top 100 Cultural Enterprise (深圳文化企業100強) | April 2022 | Shenzhen Municipal Bureau of Culture, Radio, Television, Tourism and Sports (深圳市文化廣電旅遊體育局) |

MANAGEMENT DISCUSSION AND ANALYSIS

| Award/Recognition | Date of Award | Awarding Institution/Authority |
|--|---------------|--|
| Mobile Hardcore Alliance Most Popular Card Game of the Year in The 7th Black Stone Awards: <i>Soul Land: God of Battle Arise</i> (第七屆黑石獎硬核年度最受歡迎卡牌遊戲《斗羅大陸:鬥神再臨》) | January 2022 | Mobile Hardcore Alliance (硬核聯盟) |
| Mobile Hardcore Alliance Most Popular Mini-game of the Year in The 7th Black Stone Awards: <i>The National Gunlord – The Frontier</i> (第七屆黑石獎硬核年度最受歡迎小遊戲《全民槍神:邊境王者》) | January 2022 | Mobile Hardcore Alliance (硬核聯盟) |
| Mobile Hardcore Alliance Most Anticipated Game of the Year in The 7th Black Stone Awards: <i>Sword and Fairy: Wen Qing</i> (第七屆黑石獎硬核年度最受期待遊戲《新仙劍奇俠傳之揮劍問情》) | January 2022 | Mobile Hardcore Alliance (硬核聯盟) |
| Best Chinese Game of “Golden Diamond Award” 2021 for <i>The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart</i> (金鑽榜2021最佳國產遊戲《新射鵰群俠傳之鐵血丹心》) | January 2022 | Association of Game Industry of Guangdong (廣東省遊戲產業協會) |

Social Responsibility

The Group has always fulfilled its social responsibility in different dimensions. Having supported the “CMGE Dream Libraries (中手游築夢圖書館)” project for a long time to promote reading among the youth, the Group has steadily pushed forward the project by donating two libraries every year. The tenth “CMGE Dream Libraries (中手游築夢圖書館)” was set up in Zijin County, Heyuan City, Guangdong Province in June 2022, this was also the first “CMGE Dream Libraries (中手游築夢圖書館)” funded by online donation. On 10 March 2022, in order to support the fight against the pandemic in Hong Kong, the Group allocated RMB1.0 million equivalent for the first batch of funds to purchase anti-pandemic supplies locally, and contacted the social anti-pandemic organisations in Hong Kong for orderly distribution. The first batch of anti-pandemic funds would be mainly used for the vulnerable groups such as the elderly and children in Hong Kong who were lacking anti-pandemic supplies. The Group was also awarded as an “Outstanding Social Responsibility Performance Enterprise (社會責任表現相對突出的企業)” at the 2021 Game Responsibility Forum (2021遊戲責任論壇) hosted by People’s Daily Online (人民網).

In terms of protection for minors, the Group strictly follows the relevant national policies, all published games are embedded with a real-name authentication system, an anti-addiction system and age limit reminders. To strictly observe the new regulations of the National Press and Publication Administration on preventing addiction for minors, the Group only provides one hour of online gaming service to minors from 8:00 pm to 9:00 pm on Fridays, Saturdays, Sundays and statutory holidays, striving to ensure the healthy growth of minors.

All games under the Group have rules restricting the spending from minors. Players under the age of 12 are prohibited from making payments in the games under the Group; minors between the ages of 12 and 16 may not exceed RMB50 in a single recharge in the games under the Group, and the cumulative monthly recharge amount shall not exceed RMB200; minors between the ages of 16 and 18 may not exceed RMB100 in a single recharge in the games under the Group, and the cumulative monthly recharge amount shall not exceed RMB400. During the first half of 2022, minor players under the age of 18 accounted for approximately 0.0029% of the Group’s revenue from games in China.

OUTLOOK FOR THE SECOND HALF OF 2022

Major Games to be Published in China

In the second half of 2022, the Group will launch several major games in the Mainland China market.

The King of Fighters: All Stars (全明星激鬥) – a self-developed large-scale IP adaptation mobile game of the Group, is a 3D action card game with realistic graphics and the game content of which covers SNK well-known characters and various top-notch Japanese comic characters. Its game quality has reached excellence after over three years of refining. The game has successfully obtained licence and will be first launched in Mainland China in the second half of 2022 and subsequently launched in various countries and regions around the world.

Ultraman: The Gathering (奧特曼:集結) – developed by Hainan Hemera, a company strategically invested by the Group, and adapted from the official licensed IP of the original Ultraman series licensed by Tsuburaya Productions Co., Ltd. (日本圓谷株式會社) in Japan, the mobile game has obtained its licence after nearly two years of development and will be official launched in the second half of 2022. *Ultraman: The Gathering* (奧特曼:集結) received over 1 million user registrations during testing. It is expected that the game will achieve good results after launching.

Cultivation Fantasy (我的御劍日記) – a card-idling mobile game and the brainchild of the research and development team lead by Cheng Liangqi (程良奇), the famed producer of Love Games (Shanghai) Internet Technology Co., Ltd. (樂府互娛(上海)網絡科技有限公司), a company strategically invested by the Group. The game focuses on long-term player retention and has obtained its licence in August 2022. It is scheduled to be launched in the second half of 2022.

Call for Pioneers (召喚先鋒) – a 3D strategic card mobile game with global themes developed by Wenmai Hudong, a wholly-owned subsidiary of the Group, featuring a refreshing globalised cartoon artistic presentation. The game brings innovation to the core combat on the basis of the well-established card game playing method. *Call for Pioneers* (召喚先鋒) has obtained its licence and will be launched in the second half of 2022.

Monopoly 11 (大富翁11) – a PC game self-developed by the Group's wholly-owned subsidiary, Beijing Softstar, is expected to be launched on the NS and Steam platform.

Sword and Fairy: Wen Qing (新仙劍奇俠傳之揮劍問情) – produced by the original research and development team of 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 has obtained the official licence of the entire series of *Legend of Sword and Fairy* (仙劍奇俠傳) and will be launched in the second half of 2022.

Rakshasa Street: Chosen One (鎮魂街:天生為王) – a 3D ARPG mobile game with a Chinese artistic style, it has obtained the dual official licence of Rakshasa Street comics and animation and is expected to be launched in the second half of 2022.

World of Castellan (城主天下) – an integrated strategy mobile game developed by the Group's wholly-owned subsidiary Wenmai Hudong, it adopts a more innovative group combating gameplay method and in-depth social network features and is expected to be launched in the second half of 2022.

Overseas Market Publishing Schedule

The Group will continue to implement its comprehensive overseas gaming strategy and adhere to its integrated global publishing model. The Group will establish Hong Kong, Macau, Taiwan, Southeast Asia, Japan, Korea, Europe and the United States as its focused development regions to launch its game development and global publishing.

Dynasty Warriors: Hegemony (真·三國無雙霸) has been launched in Southeast Asia and Vietnam in August 2022 and will subsequently be launched in Korea in the second half of 2022. After launching in Vietnam, *Soul Land: God of Battle Arise* (斗羅大陸: 鬥神再臨) will also be launched in Korea in the second half of 2022. In the second half of 2022, the Group also plans to roll out *Ultimate Judge: Bao Qingtian* (神判包青天) mobile game in Thailand, *Cultivation Fantasy* (我的御劍日記) mobile game in Singapore, Malaysia, Hong Kong, Macau and Taiwan and a 3D card-idling mobile game *Don't Say Goodnight to Fairy Tales* (別對童話說晚安) in Hong Kong, Macau and Taiwan.

Intensive Testing and Launching for Self-developed Game Projects

The King of Fighters: All Stars (全明星激鬥), the mobile game self-developed by Mantianxing Studio (滿天星工作室) of the Group, has obtained its licence and will be officially launched in Mainland China in the second half of 2022. The console version of *Legend of Sword and Fairy 7* (仙劍奇俠傳七), which is developed by the Group's wholly-owned subsidiary Beijing Softstar, will be launched in Hong Kong, Macau, Taiwan, Southeast Asia, Japan, Europe and North America in August 2022. Beijing Softstar will continue to roll out the single-player game *Monopoly 11* (大富翁 11), which will be launched in the third quarter of 2022. Wenmai Hudong, a wholly-owned subsidiary of the Group, is developing a number of integrated strategy mobile games with global themes, including *World of Castellan* (城主天下), *Call for Pioneers* (召喚先鋒) and *Code: Soldiers* (代號: 奇兵), and is progressing smoothly. Among them, *Call for Pioneers* (召喚先鋒) has already obtained its licence and will be officially launched in the second half of 2022. *World of Castellan* (城主天下) has met its goals in the testing phase and will be scheduled for launch after obtaining licence. It is planned that *Code: Soldiers* (代號: 奇兵) will complete its development phase and enter the pre-launch testing stage in the fourth quarter in 2022. *Sword and Fairy World* (仙劍世界), a self-developed game by Mantianxing Studio (滿天星工作室) of the Group, will commence first round of testing in the second half of 2022 after nearly two years of development and is expected to be launched in 2023.

In the face of the professional development of 3x3 basketball and the rapid development of the eSports industry, the Group has captured the development opportunity in building a strong sporting nation. *Code: Basketball 3v3* (代號:籃球3v3), the cross-PC, console mobile-end eSport game under development by the Group's subsidiary Shanghai Zhoujing, will be the core on which to construct a "Street Basketball eSport Ecosystem" (街籃體育電競生態). The game is jointly produced by Mr. Zhao Yongshuo (趙勇碩), the father of *Street Basketball* (街頭籃球). The core team consists of the Chinese and Korean original team members of the *Street Basketball* (街頭籃球) project, which is experienced in the research and development of competitive sports games. *Street Basketball* (街頭籃球) has been running for 16 years since its launch in 2005 and has achieved a remarkable result of over 200 million accumulated registered users and a gross billing of RMB3.5 billion. The research team and the Group will strive to build *Code: Basketball 3v3* (代號:籃球3v3), a new generation street basketball-themed game, as a large-screen street basketball blockbuster game. The game will commence testing in 2022 and is expected to be launched in the first half of 2023.

Continue to Establish The Brand for Legend of Sword and Fairy (仙劍) IP

The Sword and Fairy's first community, the *Sword and Fairy Alliance* (仙劍聯盟), which comprises personal space, content co-creation, content monetisation and social networking, will commence testing in the second half of 2022, and will provide "Xianmi (仙米)" a platform for creation, communication and social networking. The Group will launch the story mobile card game *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情) in the second half of

2022. *Sword and Fairy World* (仙劍世界), the open world game self-developed by the Group, and *Legend of Sword and Fairy • Yuanqi* (仙劍·緣起), the large-scale MMORPG mobile game in cooperation with Alibaba's Lingxi Games (靈犀互娛), will also be launched in 2023. The first physical book of Legend of Sword and Fairy series, *Legend of Sword and Fairy 4* (仙劍奇俠傳四), jointly published by the Group and Moli Press of CITIC Press (中信出版·墨狸出版), will hit the shelf by 2022, while the novel of *Legend of Sword and Fairy* series Yao Tai Xue (瑤台雪) will also be released in the second half of 2022. The new edition of novel *Legend of Sword and Fairy 1* (仙劍奇俠傳一), the novel *Legend of Sword and Fairy 2* (仙劍奇俠傳二), Xian Xia Zhuan (仙霞傳) and Qiong Hua Hou Zhuan (瓊華後傳) are in the process of creation. In terms of IP derivatives, in the second half of 2022, the Group will launch the first virtual digital human Long Kui (龍葵) and its short video accounts on Kuaishou (快手) and Douyin (抖音) and so on, and roll out more collectible digital products of *Legend of Sword and Fairy* (仙劍), and many attractive derivative peripheral products. At the same time, Hangzhou Xiqi Xianjian Town (杭州西溪仙劍小鎮), the *Legend of Sword and Fairy* (仙劍) Real Scene Entertainment Project, will commence trial run during the second half of 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The following sets forth the unaudited condensed consolidated statement of profit or loss for the six months ended 30 June 2022 together with unaudited comparative figures for the six months ended 30 June 2021:

| | For the six months ended 30 June | |
|---|----------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Revenue | 1,232,764 | 2,180,133 |
| Cost of sales | (731,801) | (1,340,502) |
| Gross profit | 500,963 | 839,631 |
| Other income and gains, net | 29,740 | 34,098 |
| Selling and distribution expenses | (114,635) | (225,264) |
| Administrative expenses | (312,522) | (183,877) |
| Impairment losses of financial and contract assets, net | (9,168) | (18,738) |
| Other expenses | (90,678) | (9,653) |
| Finance costs | (16,340) | (11,271) |
| Share of losses of a joint venture | (54) | (3) |
| Share of profits and losses of associates | (6,678) | (2,307) |
| (Loss)/Profit before tax | (19,372) | 422,616 |
| Income tax expense | (6,036) | (44,366) |
| (Loss)/Profit for the period | (25,408) | 378,250 |
| Attributable to owners of the parent | (21,901) | 393,532 |
| Attributable to non-controlling interests | (3,507) | (15,282) |
| Adjusted net (loss)/profit⁽¹⁾ | (15,654) | 401,780 |

Note:

- "Adjusted net (loss)/profit" is not defined under the HKFRS. It is defined by the Group as net (loss)/profit attributable to owners of the parent excluding equity-settled share-based expense which is not operating and recurring in nature. The adjusted net (loss)/profit can more closely reflect the Group's operating results, after excluding the above-mentioned non-operating item.

Adjusted net (loss)/profit

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

| | For the six months ended 30 June | |
|---|----------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| (Loss)/Profit for the period attributable to owners of the parent | (21,901) | 393,532 |
| <i>Add:</i> | | |
| Equity-settled share-based expense | 6,247 | 8,248 |
| Adjusted net (loss)/profit | (15,654) | 401,780 |

Revenue

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

| | For the six months ended 30 June | | | |
|------------------|----------------------------------|--------------|--------------------------------|--------------|
| | 2022 RMB'000 (Unaudited) | | 2021 RMB'000 (Unaudited) | |
| | | % | | % |
| Game publishing | 1,019,941 | 82.7 | 1,525,296 | 70.0 |
| Game development | 182,064 | 14.8 | 567,036 | 26.0 |
| IP Licensing | 30,759 | 2.5 | 87,801 | 4.0 |
| Total | 1,232,764 | 100.0 | 2,180,133 | 100.0 |

The Group's revenue decreased by approximately 43.5% from RMB2,180.1 million for the six months ended 30 June 2021 to RMB1,232.8 million for the six months ended 30 June 2022. This decrease was primarily attributable to:

- (i) the Group's game publishing revenue decreased by approximately 33.1% from RMB1,525.3 million for the six months ended 30 June 2021 to RMB1,019.9 million for the six months ended 30 June 2022, mainly due to the postponement of obtaining licences as scheduled for various games planned to be published in the first half of 2022 by the Group such as *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情), *Rakshasa Street: Chosen One* (鎮魂街:天生為王) and *Cultivation Fantasy* (我的御劍日記) led to the delay in the launch of these games;

MANAGEMENT DISCUSSION AND ANALYSIS

- (ii) the Group's game development revenue decreased by approximately 67.9% from RMB567.0 million for the six months ended 30 June 2021 to RMB182.1 million for the six months ended 30 June 2022, primarily as a result of the decrease in the average monthly gross billing for *The World of Legend - Thunder Empire* (傳奇世界之雷霆霸業) and *Legend of Dragon City* (龍城傳奇), both developed by Wenmai Hudong, a wholly-owned subsidiary of the Group, and the slow-down in the growth of revenue from self-developed card and board games of the Group; and the postponement of obtaining licences as scheduled for various games planned to be published in the first half of 2022 by the Group, such as self-developed game *World of Castellan* (城主天下), led to the delay in the launch of these games; and
- (iii) the Group's IP licensing revenue decreased by approximately 65.0% from RMB87.8 million for the six months ended 30 June 2021 to RMB30.8 million for the six months ended 30 June 2022. IP licensing revenue is mainly generated from the products under the licence of *Legend of Sword and Fairy* (仙劍奇俠傳) series which is held by Beijing Softstar. IP licensing revenue decreased mainly because the Group's licensing business was not as large relatively in the first half of 2022.

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 revenue of the Group as a percentage, for the periods indicated:

| | For the six months ended 30 June | | | |
|---------------------------------|----------------------------------|--------------|------------------------|--------------|
| | 2022 | | 2021 | |
| | RMB'000 (Unaudited) | % to Revenue | RMB'000 (Unaudited) | % to Revenue |
| Commissions charged by channels | 590,119 | 47.9 | 1,147,316 | 52.6 |
| Commissions charged by IPs | 47,145 | 3.8 | 94,228 | 4.3 |
| Amortisation of IP royalties | 8,595 | 0.7 | 15,724 | 0.7 |
| Amortisation of game royalties | 11,010 | 0.9 | 15,433 | 0.7 |
| Game development costs | — | — | 12,600 | 0.6 |
| Others | 74,932 | 6.1 | 55,201 | 2.6 |
| Total | 731,801 | 59.4 | 1,340,502 | 61.5 |

The Group's cost of sales decreased by approximately 45.4% from RMB1,340.5 million for the six months ended 30 June 2021 to RMB731.8 million for the six months ended 30 June 2022. The decrease was primarily attributable to the decrease in the Group's overall revenue.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit decreased by approximately 40.3% from RMB839.6 million for the six months ended 30 June 2021 to RMB501.0 million for the six months ended 30 June 2022. The Group's gross profit margin increased from 38.5% for the six months ended 30 June 2021 to 40.6% for the six months ended 30 June 2022. The increase in gross profit margin was mainly due to the increase in the proportion of the revenue of overseas publishing business of the Group, the growth in the Group's revenue sharing in overseas regions; and the reduced operation and maintenance costs of the self-developed games in operation led to increase in gross profit margin of the research and development business.

Other income and gains

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

| | For the six months ended 30 June | | | |
|--|----------------------------------|--------------|------------------------|--------------|
| | 2022 | | 2021 | |
| | RMB'000 (Unaudited) | % | RMB'000 (Unaudited) | % |
| Bank interest income | 3,531 | 11.9 | 6,925 | 20.3 |
| Government grants | 17,477 | 58.8 | 10,599 | 31.1 |
| Fair value adjustment of contingent consideration | 3,949 | 13.3 | 2,670 | 7.8 |
| Fair value gains on financial assets at fair value through profit or loss | — | — | 10,790 | 31.6 |
| Exchange gain | 1,917 | 6.4 | 1,407 | 4.1 |
| Others | 2,866 | 9.6 | 1,707 | 5.1 |
| Total | 29,740 | 100.0 | 34,098 | 100.0 |

The Group's other income and gains decreased by approximately 12.8% from RMB34.1 million for the six months ended 30 June 2021 to RMB29.7 million for the six months ended 30 June 2022. The decrease was primarily attributable to the lower fair value gains on multiple financial assets at fair value through profit or loss as compared to the corresponding period in 2021; and the Group's interest income decreased as compared to the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

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

| | For the six months ended 30 June | | | |
|----------------------------|----------------------------------|--------------|------------------------|--------------|
| | 2022 | | 2021 | |
| | RMB'000 (Unaudited) | % to Revenue | RMB'000 (Unaudited) | % to Revenue |
| Marketing expenses | 91,220 | 7.4 | 194,115 | 8.9 |
| Salaries and benefits | 21,535 | 1.7 | 28,048 | 1.3 |
| Office costs and utilities | 1,279 | 0.1 | 2,426 | 0.1 |
| Others | 601 | 0.1 | 675 | 0.0 |
| Total | 114,635 | 9.3 | 225,264 | 10.3 |

The Group's selling and distribution expenses decreased by approximately 49.1% from RMB225.3 million for the six months ended 30 June 2021 to RMB114.6 million for the six months ended 30 June 2022. The decrease was primarily attributable to (i) the decrease in the Group's total revenue; (ii) the postponement of obtaining licences as schedules for various games planned to be published by the Group, resulting in lower promotion expenses; (iii) decrease in staff salaries due to decrease in sales personnel of the Group.

Administrative expenses

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

| | For the six months ended 30 June | | | |
|-----------------------------------|----------------------------------|--------------|------------------------|--------------|
| | 2022 | | 2021 | |
| | RMB'000 (Unaudited) | % to Revenue | RMB'000 (Unaudited) | % to Revenue |
| Salaries and benefits | 53,216 | 4.3 | 36,201 | 1.7 |
| Office costs and utilities | 54,154 | 4.4 | 23,114 | 1.0 |
| Research and development expenses | 204,309 | 16.6 | 123,770 | 5.7 |
| Others | 843 | 0.1 | 792 | 0.0 |
| Total | 312,522 | 25.4 | 183,877 | 8.4 |

The Group's administrative expenses increased by approximately 70.0% from RMB183.9 million for the six months ended 30 June 2021 to RMB312.5 million for the six months ended 30 June 2022. The increase was primarily attributable to an increase in the Group's investment in the research and development business. The research and development expenses increased by approximately 65.1% from RMB123.8 million for the six months ended 30 June 2021 to RMB204.3 million for the six months ended 30 June 2022.

Impairment losses of financial and contract assets, net

The Group's net impairment losses of financial and contract assets represent the impairment losses of trade receivables. The Group's impairment losses on financial and contract assets decreased by 51.1% from RMB18.7 million for the six months ended 30 June 2021 to RMB9.2 million for the six months ended 30 June 2022 under the relevant management policies of the Group adopted in accordance with HKFRS 9.

Other expenses

The Group's other expenses increased by approximately 839.4% from RMB9.7 million for the six months ended 30 June 2021 to RMB90.7 million for the six months ended 30 June 2022. The increase was primarily attributable to (i) fair value losses on financial assets at fair value through profit or loss of RMB 43.7 million for the six months ended 30 June 2022; and (ii) an increase in impairment losses on assets of approximately RMB31.5 million recognised for certain IP games with launching schedules being deferred and therefore with contracts being expired.

Finance costs

The Group's finance costs mainly consist of interest expenses, and increased by approximately 45.0% from RMB11.3 million for the six months ended 30 June 2021 to RMB16.3 million for the six months ended 30 June 2022, mainly due to the increase in interest expenses of the bank borrowings of the Group.

Share of losses of a joint venture

As at 30 June 2022, 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.

Share of profits and losses of associates

As at 30 June 2022, the Group held minority equity interests in several associates. The Group's share of profits and losses of associates increased from a loss of RMB2.3 million for the six months ended 30 June 2021 to a loss of RMB6.7 million for the six months ended 30 June 2022. It was primarily attributable to share of profit of RMB1.5 million of Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership) (深圳市志成千里投資企業(有限合夥)), share of loss of RMB2.6 million of Shanghai Fengguo Network Information (上海蜂巢網絡科技有限公司), and share of loss of RMB5.8 million of Hangzhou Huanwen Technology Co., Ltd. (杭州幻文科技有限公司).

Loss before tax

As a result of the foregoing, the Group's profit before tax experienced a change from RMB422.6 million for the six months ended 30 June 2021 to a loss of RMB19.4 million for the six months ended 30 June 2022.

Income tax expense

The Group's income tax expense decreased by 86.4% from RMB44.4 million for the six months ended 30 June 2021 to RMB6.0 million for the six months ended 30 June 2022. The decrease was mainly due to the decrease in profits before tax for the six months ended 30 June 2022.

Loss for the period

As a result of the foregoing, the Group's profit for the period experienced a change from RMB378.3 million for the six months ended 30 June 2021 to a loss of RMB25.4 million for the six months ended 30 June 2022.

LIQUIDITY AND FINANCIAL RESOURCES

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

The Group's total cash and cash equivalents decreased by approximately 45.5% from RMB818.5 million as at 31 December 2021 to RMB446.2 million as at 30 June 2022. This decrease was primarily attributable to (i) the increase in prepayments, other receivables and other assets of approximately RMB136.4 million, mainly for prepayments of loyalty fees made to IP owners and game developers, for entitlement to develop, publish and operate IP-based mobile games and developed games during the six months ended 30 June 2022; (ii) the decrease in trade payables of approximately RMB138.1 million due to the lesser amount of payables arisen from the current period and the settlement of a large portion of payables brought forward from the prior year; (iii) purchase of financial assets at fair value through profit or loss by approximately RMB456.3 million; and partially offset by, (iv) disposal of financial assets at fair value through profit or loss of approximately RMB230.4 million.

As at 30 June 2022, the current assets of the Group amounted to approximately RMB2,855.5 million, and the current liabilities of the Group amounted to approximately RMB1,808.4 million.

As at 30 June 2022, the current ratio (being the current assets divided by current liabilities as at the end of each period) of the Group was 1.6 times as compared with 1.9 times as at 31 December 2021, which ratio was relatively stable as at 31 December 2021 and 30 June 2022.

As at 30 June 2022, the gearing ratio (being the total debt divided by total equity as at the end of each period) of the Group was 13.7% as compared with 13.2% as at 31 December 2021, which ratio was relatively stable as at 31 December 2021 and 30 June 2022.

Indebtedness

During the Reporting Period, the Group obtained bank borrowings of RMB273.2 million and repaid bank borrowings of RMB250.1 million.

As at 30 June 2022, the Group had interest-bearing bank and other borrowings of RMB799.7 million (31 December 2021: RMB764.6 million), including (i) unsecured bank borrowings amounting to RMB629.7 million; and (ii) bank borrowings amounting to RMB170.0 million, secured by the pledge of the Group's time deposits in the sum of RMB211.8 million. The Group's effective interest rates on its secured bank borrowings were 4.50%, and the Group's effective interest rates on its unsecured bank borrowings ranged from 2.41% to 5.50%.

As at 30 June 2022, the lease liabilities of the Group were RMB41.6 million (31 December 2021: RMB25.1 million).

Off-balance sheet commitments and arrangements

As at 30 June 2022, the Group did not enter into any off-balance sheet transactions (31 December 2021: Nil).

Pledges of assets

Among the total bank and other borrowings of the Group as at 30 June 2022, approximately RMB170.0 million (31 December 2021: RMB170.0 million) were secured, which accounted for approximately 21.3% (31 December 2021: 22.2%) of the Group's total 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 six months ended 30 June 2022 mainly with its internal resources.

The Group's capital commitments as at 31 December 2021 and 30 June 2022 amounted to RMB305.1 million and RMB255.5 million, respectively. The Group's capital commitments as at 30 June 2022 was primarily for the purchase of IP and game licenses.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS OR DISPOSAL

Save as disclosed below, during the six months ended 30 June 2022, and up to the Latest Practicable Date, the Group did not make any significant investment, or perform any material acquisition or disposal of subsidiaries, associates and joint ventures.

In January 2022, the Group acquired 70% equity interest in Guangzhou Chuxin Technology Company Limited (廣州初歆科技有限公司), which was principally engaged in software, information and technology operation in the PRC, by capital injection of RMB30 million. The objective of the acquisition was to expand the Group's mobile game publishing business. The goodwill arisen amounted to approximately RMB9.6 million.

In June 2022, the Group acquired 51% equity interest in Hainan Guming Technology Company Limited (海南古茗科技有限公司), which was principally engaged in digital art related business in the PRC, by capital injection of RMB10 million. The acquisition was made with the objective to diversify the Group's business, and it resulted in a goodwill of approximately RMB2.6 million.

In June 2022, the Group acquired 51% equity interest in Shanghai Zhoujing, which was principally engaged in game development business in the PRC, by capital injection of RMB30 million. The acquisition was made with the objective to expand the Group's eSports business. The goodwill arose from the acquisition amounted to approximately RMB16.8 million.

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 subscription of new shares by Bilibili Inc. and other subscribers completed on 10 May 2021 (the "Subscription") as set out in the relevant announcements dated 29 April 2021 and 10 May 2021. No concrete plan for material investments or capital assets is in place for the Group as at the Latest Practicable Date.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2022, the Group did not purchase, sell or redeem any of the Company's listed securities.

IMPORTANT EVENTS AFFECTING THE GROUP SINCE 30 JUNE 2022

The Group has been closely monitoring the impact of the COVID-19 pandemic since 2020. 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 have taken place since 30 June 2022 and up to the Latest Practicable Date.

FOREIGN CURRENCY RISK

The Group has transactional currency exposures, which arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The Group currently does not engage in hedging activities designed or intended to manage foreign exchange rate risk. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

USE OF PROCEEDS FROM THE SUBSCRIPTION OF NEW SHARES BY BILIBILI INC. AND OTHER SUBSCRIBERS

The net proceeds from the Subscription was approximately HK\$849.15 million after deducting related fees and expenses in connection with the Subscription. The Company will apply the net proceeds as set out in the Company's announcements dated 29 April 2021 and 10 May 2021.

The table below sets forth (i) the amount of net proceeds utilised by the Company from the completion of the Subscription to 31 December 2021, and during the six months ended 30 June 2022; (ii) the amount of unutilised net proceeds of the Company as at 30 June 2022; and (iii) the expected timeline of the Company for the full utilisation of the remaining unutilised proceeds:

| No. | Purposes | Amount of the net proceeds (HK\$ in millions) | Amount utilised between the completion of the Subscription and 31 December 2021 (HK\$ in millions) | Amount utilised during the six months ended 30 June 2022 (HK\$ in millions) | Amount of unutilised net proceeds as at 30 June 2022 (HK\$ in millions) | Expected timeline for the full utilisation of the remaining proceeds |
|-----|---|---|--|---|---|--|
| 1. | Further enhance IP-based game publishing and development business through acquisitions and/or investments | 849.15 | 470.90 | 268.95 | 109.30 | Before 31 December 2022 |

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

DIVIDENDS

The Board did not propose payment of any interim dividend for the six months ended 30 June 2022 (30 June 2021: Nil).

CHANGE IN INFORMATION IN RESPECT OF DIRECTORS

Ms. Ng Yi Kum, an independent non-executive Director, did not offer herself for re-election at the annual general meeting of CT Vision S.L. (International) Holdings Limited ("CT Vision") (formerly known as CT Vision (International) Holdings Limited), a company listed on the Stock Exchange (stock code: 0994), and accordingly, has retired from the board of CT Vision with effect from 30 June 2022.

Save as disclosed above, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the six months ended 30 June 2022 and up to the Latest Practicable Date.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2022, the Company had complied with the applicable code provisions of the CG Code except for a deviation from code provision C.2.1 of the CG Code. Pursuant to code provision C.2.1 of the CG Code, the roles of the chairman and the chief executive officer of a listed company should be segregated and should not be performed by the same individual. However, the Group does not have a separate chairman and chief executive officer and Mr. Xiao Jian currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board currently comprises three executive Directors (namely Mr. Xiao Jian, Mr. Sin Hendrick M.H., and Mr. Fan Yingjie), one non-executive Director and three independent non-executive Directors, and therefore considers that it has a fairly strong independence element in its composition. The Board also considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider separating

the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Company as a whole.

DIRECTORS' DEALING IN SECURITIES TRANSACTIONS

All Directors have confirmed, following specific enquiring by the Company, that they have fully complied with the required standard set out in the CG Code as well as the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules throughout the period from 1 January 2022 to 30 June 2022.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors have confirmed that during the six months ended 30 June 2022, there had been no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed the Company's unaudited consolidated financial statements, the Company's interim results announcement for the Reporting Period dated 25 August 2022 and this interim report, including the accounting principles and practices adopted by the Group, and discussed with management regarding auditing, risk management and internal control, and financial reporting matters.

EMPLOYEES REMUNERATION AND RELATIONS

As at 30 June 2022, the Group had approximately 1,116 full-time employees (30 June 2021: 1,115). 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 have also been granted share options under the Post-IPO Share Option Scheme. The Group provides training programmes to employees, including new hire training for new employees and continuing technical training for the Group's research and development team and game operation team to enhance their skill and knowledge.

OTHER INFORMATION

POST-IPO SHARE OPTION SCHEME

Post-IPO Share Option Scheme

On 20 September 2019, the Post-IPO Share Option Scheme of the Company was approved and adopted by the Shareholders. The Post-IPO Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date. The terms of the Post-IPO Share Option Scheme are governed by Chapter 17 of the Listing Rules. The purpose of the Post-IPO Share Option Scheme is to incentivise and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. The following table discloses movements in the Company's share options outstanding during the six months ended 30 June 2022:

| Name of Grantees | Date of grant of share options | Closing price of the Shares immediately before the date on which the share options were granted (HK\$) | Number of Shares underlying options outstanding as at 1 January 2022 | Number of share options granted during the period | Number of share options exercised during the period | Weighted average price of Shares immediately before the date of exercise (HK\$) | Number of share options expired/lapsed/canceled during the period | Number of Shares underlying options outstanding as at 30 June 2022 | Exercise period of share options ⁽¹⁾⁽²⁾ | Exercise price of share option per Share (HK\$) |
|----------------------------|--------------------------------|--|--|---|---|---|---|--|--|---|
| Mr. XIAO Jian | 29 March 2021 ⁽²⁾ | 2.83 | 5,000,000 | — | — | — | (5,000,000) | — | 29 March 2021 to 28 March 2024 | 2.90 |
| Mr. SIN Hendrick <i>MH</i> | 29 March 2021 ⁽²⁾ | 2.83 | 3,000,000 | — | — | — | (3,000,000) | — | 29 March 2021 to 28 March 2024 | 2.90 |
| Mr. FAN Yingjie | 29 March 2021 ⁽²⁾ | 2.83 | 2,000,000 | — | — | — | — | 2,000,000 | 29 March 2021 to 28 March 2024 | 2.90 |
| Ms. NG Yi Kum | 29 March 2021 ⁽²⁾ | 2.83 | 150,000 | — | — | — | — | 150,000 | 29 March 2021 to 28 March 2024 | 2.90 |
| Mr. TANG Liang | 29 March 2021 ⁽²⁾ | 2.83 | 125,000 | — | — | — | — | 125,000 | 29 March 2021 to 28 March 2024 | 2.90 |
| Mr. HO Orlando Yaukai | 29 March 2021 ⁽²⁾ | 2.83 | 125,000 | — | — | — | — | 125,000 | 29 March 2021 to 28 March 2024 | 2.90 |
| Ms. LIANG Yan | 29 March 2021 ⁽²⁾ | 2.83 | 1,500,000 | — | — | — | — | 1,500,000 | 29 March 2021 to 28 March 2024 | 2.90 |
| Ms. LAI Yau Yan Gladys | 29 March 2021 ⁽²⁾ | 2.83 | 300,000 | — | — | — | — | 300,000 | 29 March 2021 to 28 March 2024 | 2.90 |
| Other Employees | 29 March 2021 ⁽²⁾ | 2.83 | 37,800,000 | — | — | — | (4,625,000) | 33,175,000 | 29 March 2021 to 28 March 2024 | 2.90 |
| Other Employees | 27 May 2022 ⁽³⁾ | 2.01 | — | 2,080,000 | — | — | — | 2,080,000 | 27 May 2022 to 28 March 2024 | 2.90 |
| Total | | | 50,000,000 | 2,080,000 | — | — | (12,625,000) | 39,455,000 | | |

Notes:

- (1) With regard to the vesting conditions of the share options, the share options are exercisable, subject to the performance targets as specified by the Board having been satisfied.
- (2) The share options are exercisable in installments from the commencement of the relevant vesting period until 28 March 2024: (a) one third of the options can be exercised from 29 March 2021 to 28 March 2024, (b) one third of the options can be exercised from 29 March 2022 to 28 March 2024 and (c) the remaining one third of the options can be exercised from 29 March 2023 to 28 March 2024.
- (3) The share options are exercisable in installments from the commencement of the relevant vesting period until 28 March 2024: (a) two thirds of the options can be exercised from 27 May 2022 to 28 March 2024 and (b) the remaining one third of the options can be exercised from 29 March 2023 to 28 March 2024.

Please refer to the Prospectus for full details of the terms and conditions of the Post-IPO Share Option Scheme.

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

As at 30 June 2022, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interest in the Shares

| Name of Directors/ Chief Executive | Nature of Interest | Number of Shares held /interested ⁽¹⁾ | Approximate percentage of interest in the Company ⁽²⁾ |
|---------------------------------------|---|--|---|
| Mr. Xiao | Founder of a discretionary trust, interest in a controlled corporation, beneficial interests and other ⁽³⁾ | 853,908,067(L) | 30.85% |
| Mr. Sin | Interest in a controlled corporation, beneficial interests and other ⁽⁴⁾ | 819,387,663(L) | 29.60% |
| Mr. FAN Yingjie | Beneficial interests ⁽⁵⁾ | 2,918,000(L) | 0.11% |
| Ms. NG Yi Kum | Beneficial interests ⁽⁶⁾ | 150,000(L) | 0.00% |
| Mr. TANG Liang | Beneficial interests ⁽⁷⁾ | 125,000(L) | 0.00% |
| Mr. HO Orlando Yaukai | Beneficial interests ⁽⁸⁾ | 125,000(L) | 0.00% |

Notes:

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) The percentages are calculated on the basis of 2,768,050,000 Shares in issue as at 30 June 2022.
- (3) As at 30 June 2022, Mr. Xiao was interested in 853,908,067 Shares, among which, Mr. Xiao, through Victory Aspire, a company wholly-owned by Antopex Limited, which is nominated by CMB Wing Lung (Trustee) Limited, the trustee of the Xiao Family Trust, (i) was deemed to be interested in 160,598,642 Shares held by his wholly-owned company, Zhongshouyou Brothers BVI; and (ii) was deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 64% by Zhongshouyou Brothers BVI).
- (4) As at 30 June 2022, Mr. Sin was interested in 819,387,663 Shares, among which, Mr. Sin (i) was deemed to be interested in 123,750,238 Shares held by his wholly-owned company, Silver Joyce; and (ii) was deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 36% by Silver Joyce).
- (5) As at 30 June 2022, Mr. Fan Yingjie was interested in 2,918,000 Shares, among which, Mr. FAN Yingjie (i) was the beneficial owner of 918,000 Shares; and (ii) was interested in share options for 2,000,000 Shares pursuant to the Post-IPO Share Option Scheme.
- (6) As at 30 June 2022, Ms. NG Yi Kum was interested in share options for 150,000 Shares pursuant to the Post-IPO Share Option Scheme.
- (7) As at 30 June 2022, Mr. TANG Liang was interested in share options for 125,000 Shares pursuant to the Post-IPO Share Option Scheme.
- (8) As at 30 June 2022, Mr. HO Orlando Yaukai was interested in share options for 125,000 Shares pursuant to the Post-IPO Share Option Scheme.

OTHER INFORMATION

(ii) Interest in associated corporations

| Name of Director | Name of associated corporation | Approximate percentage of shareholding |
|------------------|--------------------------------------|--|
| Mr. Xiao | Chengdu Zhuoxing ⁽¹⁾ | 9.20% |
| Mr. Xiao | Shenzhen Zhongshouyou ⁽¹⁾ | 9.20% |
| Mr. Xiao | Shenzhen Douyue ⁽¹⁾ | 9.20% |

Note:

(1) Mr. Xiao, through Zhongshouyou Brothers PRC, indirectly held 9.20% equity interests of the PRC Operating Entities.

Save as disclosed above, as at 30 June 2022, none of the Directors or the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2022, to the best knowledge of the Directors, the following persons had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

| Name of Shareholder | Nature of Interest | Number of Shares held ⁽¹⁾ | Approximate percentage of interest in the Company ⁽²⁾ |
|---------------------------------|--|--------------------------------------|--|
| Mr. Xiao | Founder of a discretionary trust, interest in a controlled corporation, beneficial owners and other ⁽³⁾ | 853,908,067(L) | 30.85% |
| CMB Wing Lung (Trustee) Limited | Trustee of a trust ⁽³⁾ | 853,908,067(L) | 30.85% |
| Antopex Limited | Nominee for another person ⁽³⁾ | 853,908,067(L) | 30.85% |
| Victory Aspire | Interest in a controlled corporation ⁽³⁾ | 853,908,067(L) | 30.85% |
| Zhongshouyou Brothers BVI | Beneficial owner ⁽³⁾ | 160,598,642(L) | 5.80% |
| | Interest in a controlled corporation ⁽³⁾ | 693,309,425(L) | 25.05% |
| Mr. Sin | Interest in a controlled corporation, beneficial owners and other ⁽⁴⁾ | 819,387,663(L) | 29.60% |
| Silver Joyce | Beneficial owner ⁽⁴⁾ | 123,750,238(L) | 4.47% |
| | Interest in a controlled corporation ⁽⁴⁾ | 693,309,425(L) | 25.05% |
| Fairview Ridge | Beneficial owner ⁽³⁾⁽⁴⁾ | 693,309,425(L) | 25.05% |
| Motion Game | Interest in a controlled corporation ⁽³⁾⁽⁴⁾ | 693,309,425(L) | 25.05% |
| Profound Power | Interest in a controlled corporation ⁽³⁾⁽⁴⁾ | 693,309,425(L) | 25.05% |
| Changpei Cayman | Interest in a controlled corporation ⁽³⁾⁽⁴⁾ | 693,309,425(L) | 25.05% |
| Ambitious Profit | Interest in a controlled corporation ⁽³⁾⁽⁴⁾ | 693,309,425(L) | 25.05% |
| Zhongrong Trust | Interest in a controlled corporation ⁽⁵⁾⁽⁶⁾ | 369,461,107(L) | 13.35% |
| Beijing Zhongrong Dingxin | Interest in a controlled corporation ⁽⁵⁾⁽⁶⁾ | 369,461,107(L) | 13.35% |
| Dazi Dingcheng | Interest in a controlled corporation ⁽⁵⁾⁽⁶⁾ | 369,461,107(L) | 13.35% |
| Shanghai Pegasus | Interest in a controlled corporation ⁽⁵⁾ | 293,327,517(L) | 10.60% |
| Pegasus Technology | Interest in a controlled corporation ⁽⁵⁾ | 293,327,517(L) | 10.60% |
| Pegasus BVI | Interest in a controlled corporation ⁽⁵⁾ | 293,327,517(L) | 10.60% |
| Pegasus HK | Beneficial owner ⁽⁵⁾ | 293,327,517(L) | 10.60% |
| Bilibili Inc. | Beneficial owner | 198,000,000(L) | 7.15% |

OTHER INFORMATION

Notes:

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) The percentages are calculated on the basis of 2,768,050,000 Shares in issue as at 30 June 2022.
- (3) Mr. Xiao, through Victory Aspire, a company wholly-owned by Antopex Limited, which is nominated by CMB Wing Lung (Trustee) Limited, the trustee of the Xiao Family Trust, (i) was deemed to be interested in 160,598,642 Shares held by his wholly-owned company, Zhongshouyou Brothers BVI, and (ii) was deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 64% by Zhongshouyou Brothers BVI). Ms. HUO Dongyan is the spouse of Mr. Xiao and was deemed to be interested in the 853,908,067 Shares Mr. Xiao is interested in.
- (4) Mr. Sin (i) was deemed to be interested in 123,750,238 Shares held by his wholly-owned company, Silver Joyce, and (ii) was deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 36% by Silver Joyce). Ms. SIN LO Siu Wai Sylvia is the spouse of Mr. Sin and was deemed to be interested in the 819,387,663 Shares Mr. Sin is interested in.
- (5) Pegasus Network HK Limited (譽格瑟斯網絡香港有限公司) ("Pegasus HK"), a Hong Kong company, is wholly-owned by Pegasus Technology Limited ("Pegasus BVI"), a BVI company, which is in turn wholly-owned by Shanghai Pegasus Technology Development Limited (上海譽歌科技發展有限公司) ("Pegasus Technology"), a PRC limited liability company. Pegasus Technology is owned as to 0.4% by an independent third party and 99.6% by Shanghai Pegasus Investment Centre (Limited Partnership) (上海譽格瑟斯投資中心(有限合夥)) ("Shanghai Pegasus"), a PRC limited partnership, the general partner of which is Dazi Dingcheng Capital Investment Co., Ltd. (達孜縣鼎誠資本投資有限公司) ("Dazi Dingcheng"), a limited liability company established in the PRC, which is wholly-owned by Beijing Zhongrong Dingxin Investment Management Co., Ltd. (北京中融鼎新投資管理有限公司) ("Beijing Zhongrong Dingxin") and in turn wholly-owned by Zhongrong International Trust Co., Ltd. (中融國際信託有限公司) ("Zhongrong Trust").
- (6) Yichong Technology HK Limited (一翀科技香港有限公司) ("Yichong HK"), a Hong Kong company, held 76,133,590 Shares, representing approximately 2.75% of the total issued Shares, as at 30 June 2022. Yichong HK is wholly-owned by Yichong Technology Limited, a BVI company, which is in turn wholly-owned by Shanghai Jichong Technology Development Limited (上海紀翀科技發展有限公司) ("Jichong Shanghai"), a PRC limited liability company. Jichong Shanghai is owned as to 0.4% by an independent third party and 99.6% by Yichong Investment, a PRC limited partnership, the general partner of which is Dazi Dingcheng, a limited liability company established in the PRC, which is wholly-owned by Beijing Zhongrong Dingxin and in turn wholly-owned by Zhongrong Trust.

Save as disclosed above, as at 30 June 2022, the Directors were not aware of any person (who were not directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein.

PARTNERSHIP STRUCTURE OF CHANGPEI CAYMAN

Changpei Cayman is an exempted limited partnership registered in the Cayman Islands holding 25.05% of the total issued Shares as at 30 June 2022. The general partner of Changpei Cayman is Ambitious Profit, a company incorporated in the Cayman Islands and indirectly owned as to 64% by Mr. Xiao through Zhongshouyou Brothers BVI, and 36% by Mr. Sin through Silver Joyce.

As at 30 June 2022, Changpei Cayman was held by Ambitious Profit, the general partner, as to 0.004%, and Zhejiang Shiji Huatong Group Limited, a listed company on the Shenzhen Stock Exchange (SZSE:002602), the limited partner, as to 99.996%.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF CMGE TECHNOLOGY GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 30 to 59 which comprise the condensed consolidated statement of financial position of CMGE Technology Group Limited and its subsidiaries as of 30 June 2022 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed consolidated financial statement"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements ("HKSRE") 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

OTHER MATTER

The comparatives in the condensed consolidated statement of profit or loss, the condensed consolidated statement of other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period ended 30 June 2022, and the related explanatory notes have not been reviewed in accordance with HKSRE 2410 or audited.

BDO Limited
Certified Public Accountants

Wong Kwok Wai
Practising Certificate Number P06047
Hong Kong, 25 August 2022

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | Notes | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
|--|-------|--------------------------------|--------------------------------|
| REVENUE | 6 | 1,232,764 | 2,180,133 |
| Cost of sales | | (731,801) | (1,340,502) |
| Gross profit | | 500,963 | 839,631 |
| Other income and gains, net | | 29,740 | 34,098 |
| Selling and distribution expenses | | (114,635) | (225,264) |
| Administrative expenses | | (312,522) | (183,877) |
| Impairment losses on financial and contract assets, net | | (9,168) | (18,738) |
| Other expenses | | (90,678) | (9,653) |
| Finance costs | 7 | (16,340) | (11,271) |
| Share of profits and losses of: | | | |
| A joint venture | | (54) | (3) |
| Associates | | (6,678) | (2,307) |
| (LOSS)/PROFIT BEFORE TAX | 8 | (19,372) | 422,616 |
| Income tax expense | 9 | (6,036) | (44,366) |
| (LOSS)/PROFIT FOR THE PERIOD | | (25,408) | 378,250 |
| Attributable to: | | | |
| Owners of the parent | | (21,901) | 393,532 |
| Non-controlling interests | | (3,507) | (15,282) |
| (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 11 | | |
| Basic and diluted | | | |
| – For (loss)/profit for the period | | RMB(0.79) cents | RMB15.23 cents |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
|---|--------------------------------|--------------------------------|
| (LOSS)/PROFIT FOR THE PERIOD | (25,408) | 378,250 |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | 1,095 | (432) |
| Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods | 1,095 | (432) |
| Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation from functional currency to presentation currency | 47,203 | (15,444) |
| Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods | 47,203 | (15,444) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX | 48,298 | (15,876) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 22,890 | 362,374 |
| Attributable to: | | |
| Owners of the parent | 26,397 | 377,656 |
| Non-controlling interests | (3,507) | (15,282) |
| | 22,890 | 362,374 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

| | Notes | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|---|-------|---|---|
| NON-CURRENT ASSETS | | | |
| Property and equipment | 12 | 9,248 | 8,747 |
| Right-of-use assets | | 40,056 | 24,180 |
| Goodwill | | 1,137,069 | 1,107,937 |
| Other intangible assets | | 512,282 | 536,513 |
| Investment in a joint venture | | 4,639 | 4,692 |
| Investments in associates | | 224,723 | 231,400 |
| Financial assets at fair value through profit or loss | 13 | 2,099,127 | 1,896,914 |
| Deferred tax assets | | 67,275 | 58,182 |
| Prepayments | 15 | 797,664 | 647,973 |
| Total non-current assets | | 4,892,083 | 4,516,538 |
| CURRENT ASSETS | | | |
| Trade and bills receivables | 14 | 1,109,158 | 1,052,446 |
| Prepayments, other receivables and other assets | 15 | 1,075,051 | 940,869 |
| Due from related parties | 22 | 12,368 | 11,064 |
| Pledged deposits | | 212,780 | 502,282 |
| Cash and cash equivalents | | 446,177 | 818,520 |
| Total current assets | | 2,855,534 | 3,325,181 |
| CURRENT LIABILITIES | | | |
| Trade payables | 16 | 240,358 | 378,488 |
| Other payables and accruals | | 428,368 | 488,966 |
| Contingent consideration for business combination | | 174,287 | — |
| Interest-bearing bank and other borrowings | | 799,718 | 764,601 |
| Tax payable | | 138,710 | 135,303 |
| Due to related parties | 22 | 6,450 | 4,215 |
| Lease liabilities | | 20,522 | 16,631 |
| Total current liabilities | | 1,808,413 | 1,788,204 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

| | Note | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|--|------|---|---|
| NET CURRENT ASSETS | | 1,047,121 | 1,536,977 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,939,204 | 6,053,515 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | 66,152 | 72,973 |
| Contingent consideration for business combination | | — | 178,236 |
| Lease liabilities | | 21,067 | 8,444 |
| Total non-current liabilities | | 87,219 | 259,653 |
| Net assets | | 5,851,985 | 5,793,862 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 18 | 1,925 | 1,925 |
| Reserves | | 5,824,763 | 5,791,937 |
| | | 5,826,688 | 5,793,862 |
| Non-controlling interests | | 25,297 | — |
| Total equity | | 5,851,985 | 5,793,862 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | Attributable to owners of the parent | | | | | | | | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|--|----------------------------|--------------------------------------|------------------------------------|---|-----------------------------|------------------|-----------|--------------------------------------|-------------------------|
| | Issued capital RMB'000 (Note 18) | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Share incentive reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | | | |
| | At 1 January 2022 (Audited) | 1,925 | 3,426,097* | 18,510* | 769,398* | (126,479)* | 1,704,411* | 5,793,862 | | |
| Loss for the period | — | — | — | — | — | (21,901) | (21,901) | (3,507) | (25,408) | |
| Other comprehensive income for the period: | | | | | | | | | | |
| Exchange differences on translation | — | — | — | — | 48,298 | — | 48,298 | — | 48,298 | |
| Total comprehensive income for the period | — | — | — | — | 48,298 | (21,901) | 26,397 | (3,507) | 22,890 | |
| Acquisition of subsidiaries | — | — | — | — | — | — | — | 28,425 | 28,425 | |
| Contribution from non-controlling interests | — | — | — | — | — | — | — | 379 | 379 | |
| Share-based compensation (Note 19) | — | — | — | 6,429 | — | — | 6,429 | — | 6,429 | |
| At 30 June 2022 (Unaudited) | 1,925 | 3,426,097* | 18,510* | 775,827* | (78,181)* | 1,682,510* | 5,826,688 | 25,297 | 5,851,985 | |

* These reserve accounts comprise the consolidated reserves of RMB5,791,937,000 and RMB5,824,763,000 in the interim condensed consolidated statements of financial position as of 31 December 2021 and 30 June 2022, respectively.

| | Attributable to owners of the parent | | | | | | | | Non-controlling interests RMB'000 | Total equity RMB'000 |
|--|--|----------------------------|--------------------------------------|------------------------------------|---|-----------------------------|------------------|-----------|--------------------------------------|-------------------------|
| | Issued capital RMB'000 (Note 18) | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Share incentive reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | | | |
| | At 1 January 2021 (Audited) | 1,759 | 2,918,282 | 18,510 | 751,397 | (78,150) | 1,092,641 | 4,704,439 | | |
| Profit for the period | — | — | — | — | — | 393,532 | 393,532 | (15,282) | 378,250 | |
| Other comprehensive loss for the period: | | | | | | | | | | |
| Exchange differences on translation | — | — | — | — | (15,876) | — | (15,876) | — | (15,876) | |
| Total comprehensive income for the period | — | — | — | — | (15,876) | 393,532 | 377,656 | (15,282) | 362,374 | |
| Issue of shares for the subscription of new shares | 166 | 705,881 | — | — | — | — | 706,047 | — | 706,047 | |
| Share-based compensation (Note 19) | — | — | — | 8,237 | — | — | 8,237 | — | 8,237 | |
| 2020 final dividend | — | (213,746) | — | — | — | — | (213,746) | — | (213,746) | |
| At 30 June 2021 (Unaudited) | 1,925 | 3,410,417 | 18,510 | 759,634 | (94,026) | 1,486,173 | 5,582,633 | 81,135 | 5,663,768 | |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | Notes | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
|--|-------|--------------------------------|--------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| (Loss)/profit before tax: | | (19,372) | 422,616 |
| Adjustments for: | | | |
| Finance costs | 7 | 16,340 | 11,271 |
| Share of profits and losses of a joint venture and associates | | 6,732 | 2,310 |
| Interest income | 8 | (3,531) | (6,925) |
| Fair value losses/(gains) on financial assets at fair value through profit or loss | 8 | 43,659 | (10,790) |
| Fair value adjustment of contingent consideration for business combination | 8 | (3,949) | (2,670) |
| Equity-settled share-based expense | 8 | 6,247 | 8,248 |
| Impairment of trade receivables, net | 8 | 9,168 | 18,738 |
| Write-off of prepayments, other receivables and other assets | 8 | 34,743 | 3,283 |
| Loss on disposal of items of property and equipment | 8 | 103 | 259 |
| Effect on early termination of lease | 8 | (267) | — |
| Depreciation of property and equipment | 8 | 2,220 | 1,555 |
| Depreciation of right-of-use assets | 8 | 8,605 | 10,284 |
| Amortisation of other intangible assets | 8 | 32,577 | 39,204 |
| Impairment of other intangible assets | 8 | 10,151 | 6,018 |
| | | 143,426 | 503,401 |
| Increase in trade and bills receivables | | (66,423) | (409,377) |
| Increase in prepayments, other receivables and other assets | | (136,387) | (33,662) |
| Increase in amounts due from related parties | | (1,304) | (1,189) |
| (Decrease)/increase in trade payables | | (138,130) | 81,333 |
| Decrease in other payables and accruals | | (31,913) | (64,154) |
| Increase/(decrease) in amounts due to related parties | | 2,235 | (3,648) |
| | | (228,496) | 72,704 |
| Cash (used in)/generated from operations | | (18,182) | (29,378) |
| Income tax paid | | | |
| Net cash flows (used in)/generated from operating activities | | (246,678) | 43,326 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | Note | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
|---|------|--------------------------------|--------------------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | 7,218 | 8,765 |
| Dividends received from financial assets at fair value through profit or loss | | 19,652 | — |
| Purchases of items of property and equipment | 12 | (2,898) | (2,918) |
| Additions to other intangible assets | | (220,358) | (256,668) |
| Proceeds from disposal of items of property and equipment | | 87 | 2 |
| Acquisition of subsidiaries | | 14,209 | (100,000) |
| Purchase of investments in associates | | (36,651) | (29,418) |
| Disposal of investments in associates | | 4,701 | 26,000 |
| Purchases of financial assets at fair value through profit or loss | | (456,320) | (191,940) |
| Disposal of financial assets at fair value through profit or loss | | 230,353 | — |
| Release of pledged deposits | | 300,000 | 300,202 |
| Net cash flows used in investing activities | | (140,007) | (245,975) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | — | 706,047 |
| New bank loans | | 273,196 | 298,072 |
| Repayment of bank loans | | (250,072) | (295,150) |
| Dividends paid | | — | (213,746) |
| Principal portion of lease payment | | (7,698) | (9,818) |
| Contribution from non-controlling interests | | 379 | — |
| Interest paid | | (16,181) | (10,949) |
| Net cash flows (used in)/generated from financing activities | | (376) | 474,456 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of period | | 818,520 | 794,888 |
| Effect of foreign exchange rate changes, net | | 14,718 | (6,875) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | 446,177 | 1,059,820 |

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 Act (as revised) of the Cayman Islands. The registered address of the office of the Company is P.O. Box 309, Uglan 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, game development and licensing of intellectual property in Mainland China, Hong Kong, Taiwan and Korea, and investment business in Mainland China.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2022 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2021.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial statements.

| | |
|-------------------------------|---|
| Annual Improvements to HKFRSs | <i>Annual Improvements to HKFRSs 2018-2020</i> |
| Amendments to HKFRS 3 | <i>Reference to the Conceptual Framework</i> |
| Amendments to HKFRS 16 | <i>Covid-19-Related Rent Concessions beyond 30 June 2021</i> |
| Amendments to HKAS 16 | <i>Property, Plant and Equipment - Proceeds before Intended Use</i> |
| Amendments to HKAS 37 | <i>Onerous Contracts - Cost of Fulfilling a Contract</i> |

The adoption of these new or amended HKFRSs did not have any material impact on the Group's accounting policies.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing the interim condensed consolidated financial statements, significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Group's consolidated financial statements for the year ended 31 December 2021.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
30 JUNE 2022

5. OPERATING SEGMENT INFORMATION

For the six months ended 30 June 2022

| Segments | Game publishing RMB'000 (Unaudited) | Game development RMB'000 (Unaudited) | Licensing of intellectual property RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|--|--|---|--|---------------------------------|
| Segment revenue (Note 6) | | | | |
| Sales to external customers | 1,019,941 | 182,064 | 30,759 | 1,232,764 |
| Intersegment sales | — | 131,536 | — | 131,536 |
| | 1,019,941 | 313,600 | 30,759 | 1,364,300 |
| Reconciliation: | | | | |
| Elimination of intersegment sales | | | | (131,536) |
| Total revenue from contracts with customers | | | | 1,232,764 |
| Segment results | 367,015 | 110,279 | 23,669 | 500,963 |
| Reconciliation: | | | | |
| Other income and gains, net | | | | 29,740 |
| Selling and distribution expenses | | | | (114,635) |
| Administrative expenses | | | | (312,522) |
| Impairment losses on financial and contract assets, net | | | | (9,168) |
| Other expenses | | | | (90,678) |
| Finance costs | | | | (16,340) |
| Share of profits and losses of: | | | | |
| A joint venture | | | | (54) |
| Associates | | | | (6,678) |
| LOSS BEFORE TAX | | | | (19,372) |

5. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2021

| Segments | Game publishing RMB'000 (Unaudited) | Game development RMB'000 (Unaudited) | Licensing of intellectual property RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|--|--|---|--|---------------------------------|
| Segment revenue (Note 6) | | | | |
| Sales to external customers | 1,525,296 | 567,036 | 87,801 | 2,180,133 |
| Intersegment sales | — | 321,299 | — | 321,299 |
| | 1,525,296 | 888,335 | 87,801 | 2,501,432 |
| Reconciliation: | | | | |
| Elimination of intersegment sales | | | | (321,299) |
| Total revenue from contracts with customers | | | | 2,180,133 |
| Segment results | 513,951 | 263,144 | 62,536 | 839,631 |
| Reconciliation: | | | | |
| Other income and gains, net | | | | 34,098 |
| Selling and distribution expenses | | | | (225,264) |
| Administrative expenses | | | | (183,877) |
| Impairment losses on financial and contract assets, net | | | | (18,738) |
| Other expenses | | | | (9,653) |
| Finance costs | | | | (11,271) |
| Share of profits and losses of: | | | | |
| A joint venture | | | | (3) |
| Associates | | | | (2,307) |
| PROFIT BEFORE TAX | | | | 422,616 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2022

6. REVENUE

An analysis of revenue is as follows:

During the six months ended 30 June 2022, the postponement of obtaining licences as scheduled for various games planned to be published led to a decrease in revenue.

Revenue from contracts with customers

Disaggregated revenue information

For the six months ended 30 June 2022

| Segments | Game publishing RMB'000 (Unaudited) | Game development RMB'000 (Unaudited) | Licensing of intellectual property RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|--|--|---|--|---------------------------------|
| Types of goods or services | | | | |
| Mobile game publishing services | 1,019,941 | — | — | 1,019,941 |
| Game development related services | — | 182,064 | — | 182,064 |
| Licensing of intellectual property | — | — | 30,759 | 30,759 |
| Total revenue from contracts with customers | 1,019,941 | 182,064 | 30,759 | 1,232,764 |
| Geographical markets | | | | |
| Mainland China | 797,867 | 180,535 | 26,795 | 1,005,197 |
| Other countries/regions | 222,074 | 1,529 | 3,964 | 227,567 |
| Total revenue from contracts with customers | 1,019,941 | 182,064 | 30,759 | 1,232,764 |
| Timing of revenue recognition | | | | |
| Services transferred over time | 1,019,941 | 182,064 | 3,964 | 1,205,969 |
| Services transferred at a point in time | — | — | 26,795 | 26,795 |
| Total revenue from contracts with customers | 1,019,941 | 182,064 | 30,759 | 1,232,764 |

6. REVENUE (Continued)

Revenue from contracts with customers (Continued)

Disaggregated revenue information (Continued)

For the six months ended 30 June 2021

| Segments | Game publishing RMB'000 (Unaudited) | Game development RMB'000 (Unaudited) | Licensing of intellectual property RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|---|--|--|---------------------------------|
| Types of goods or services | | | | |
| Mobile game publishing services | 1,525,296 | — | — | 1,525,296 |
| Game development related services | — | 567,036 | — | 567,036 |
| Licensing of intellectual property | — | — | 87,801 | 87,801 |
| Total revenue from contracts with customers | 1,525,296 | 567,036 | 87,801 | 2,180,133 |
| Geographical markets | | | | |
| Mainland China | 1,305,636 | 567,036 | 87,801 | 1,960,473 |
| Other countries/regions | 219,660 | — | — | 219,660 |
| Total revenue from contracts with customers | 1,525,296 | 567,036 | 87,801 | 2,180,133 |
| Timing of revenue recognition | | | | |
| Services transferred over time | 1,525,296 | 497,499 | 38,388 | 2,061,183 |
| Services transferred at a point in time | — | 69,537 | 49,413 | 118,950 |
| Total revenue from contracts with customers | 1,525,296 | 567,036 | 87,801 | 2,180,133 |

7. FINANCE COSTS

An analysis of finance costs is as follows:

| | For the six months ended 30 June | |
|---------------------------|----------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Interest expenses on: | | |
| Bank and other borrowings | 15,198 | 10,574 |
| Lease liabilities | 1,142 | 697 |
| | 16,340 | 11,271 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
30 JUNE 2022

8. [(LOSS)]/PROFIT BEFORE TAX

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

| | Notes | For the six months ended 30 June | |
|---|-------|----------------------------------|--------------------------------|
| | | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Commissions charged by channels and third-party game developers | (a) | 590,119 | 1,147,316 |
| Commissions charged by intellectual properties ("IP") owners | | 47,145 | 94,228 |
| Game development cost | | — | 12,600 |
| Promotion expenses | | 91,220 | 194,115 |
| Employee benefit expenses (including directors' and chief executive's remuneration): | | | |
| Wages and salaries | | 175,710 | 115,571 |
| Equity-settled share-based expense | | 6,247 | 8,248 |
| Pension scheme contributions (defined contribution scheme) | (b) | 23,820 | 12,428 |
| | | 205,777 | 136,247 |
| Depreciation of property and equipment | | 2,220 | 1,555 |
| Depreciation of right-of-use assets | | 8,605 | 10,284 |
| Amortisation of other intangible assets | (c) | 32,577 | 39,204 |
| Research and development costs | | 204,309 | 123,770 |
| Lease payments not included in the measurement of lease liabilities | | 3,814 | 977 |
| Foreign exchange differences, net | | (1,917) | (1,407) |
| Impairment losses on financial and contract assets, net: | | | |
| Impairment of trade receivables, net | | 9,168 | 18,738 |
| Write-off of prepayments, other receivables and other assets | (d) | 34,743 | 3,283 |
| Effect on early termination of lease | | (267) | — |
| Impairment of other intangible assets | (e) | 10,151 | 6,018 |
| Bank interest income | | (3,531) | (6,925) |
| Loss on disposal of items of property and equipment | | 103 | 259 |
| Auditor's remuneration | | 1,350 | 1,050 |
| Fair value losses/(gains) on financial assets at fair value through profit or loss | | 43,659 | (10,790) |
| Fair value adjustment of contingent consideration for business combination | | (3,949) | (2,670) |

8. (LOSS)/PROFIT BEFORE TAX *(Continued)*

Notes:

- (a) 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 is a limited partner of Changpei (Shanghai) Investment Centre (Limited Partnership) ("Changpei Shanghai"). Pursuant to the partnership agreement of Changpei Shanghai, the general partner shall have the exclusive and sole right of management of the affairs of the partnership and limited partners shall have no power to conduct the business of the partnership nor shall limited partners represent the partnership. Also, limited partners 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 Group, which amounted to RMB62,620,000 during the six months ended 30 June 2022 (2021: RMB415,399,000), and the balance of trade receivables from Shiji Huatong as at 30 June 2022 was RMB9,741,000 (31 December 2021: RMB18,880,000).
- (b) There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.
- (c) The amortisation of other intangible assets for the period is included in "Cost of sales" in the condensed consolidated statement of profit or loss.
- (d) Write-off of prepayments, other receivables and other assets is included in "Other expenses" in the condensed consolidated statement of profit or loss.
- (e) Impairment of other intangible assets is included in "Other expenses" in the condensed consolidated statement of profit or loss.

9. 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% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%). 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 Corporate Income Tax Law in the People's Republic of China ("PRC") 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 Co., Ltd. ("Shenzhen Douyue") and China Mobile Games and Entertainment Group Limited Shenzhen ("Shenzhen Zhongshouyou") were accredited as a high and new technology enterprise ("HNTE") in 2020 under relevant PRC laws and regulations. Accordingly, Shenzhen Douyue and Shenzhen Zhongshouyou were entitled to a preferential Corporate Income Tax ("CIT") rate of 15% from 2020 to 2022.

Beijing Wenmai Hudong Technology Company Limited ("Wenmai Hudong") was accredited as a HNTE and entitled to a tax rate of 15% when the certificate is valid for three years since its renewal in 2019. Wenmai Hudong needs to renew the HNTE certificate every three years so as to enjoy the reduced tax rate of 15%.

Softstar Technology (Beijing) Co., Ltd. ("Beijing Softstar") has been accredited as a HNTE since 2009 and was entitled to a tax rate of 15% when the certificate was valid for three years since its renewal in 2021.

Horgos Bell Mutual Entertainment Technology Co., Ltd. was established in the 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 2016 which was the first tax year with production and operation income and is entitled to a preferential CIT rate of 12.5% for five years thereafter from 2021 to 2025.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2022

9. INCOME TAX *(Continued)*

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

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

Horgos Wenmai Hudong Technology Company Limited 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 2020 which was the first tax year with production and operation income.

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 15% for the year ended 31 December 2021 and the year ending 31 December 2022.

Hainan Chuangyue Technology Company Limited (“Hainan Chuangyue”) and Hainan Zhanzhen 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% each for the year ended 31 December 2021 and the year ending 31 December 2022.

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

| | For the six months ended 30 June | |
|---------------------------------|----------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Current Tax Expense | | |
| PRC | 15,336 | 47,926 |
| Hong Kong | 6,615 | — |
| | 21,951 | 47,926 |
| Deferred Tax Credit | | |
| PRC | (15,915) | (3,560) |
| Total tax charge for the period | 6,036 | 44,366 |

10. DIVIDENDS

The Board of Directors resolved not to pay any interim dividend to the shareholders in respect of the six months ended 30 June 2022 (2021: Nil).

11. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amounts is based on the (loss)/profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,768,050,000 (2021: 2,584,242,818) in issue during the period.

The Group had no dilutive potential ordinary shares in issue during the six months ended 30 June 2022 and 2021.

The calculations of basic and diluted (loss)/earnings per share are based on:

| | For the six months ended 30 June | |
|--|----------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| <u>(Loss)/earnings</u> | | |
| (Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculation | (21,901) | 393,532 |

| | For the six months ended 30 June | |
|---|----------------------------------|---------------------|
| | 2022 (Unaudited) | 2021 (Unaudited) |
| <u>Shares</u> | | |
| Weighted average number of ordinary shares in issue during the period used in the basic and diluted (loss)/earnings per share calculation | 2,768,050,000 | 2,584,242,818 |

12. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired assets with a cost of RMB2,898,000 (2021: RMB2,918,000).

Assets with a net book value of RMB190,000 were disposed by the Group during the six months ended 30 June 2022 (2021: RMB261,000), resulting in a net loss on disposal of RMB103,000 (2021: net loss of RMB259,000).

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|--|---|---|
| Listed equity investments, at fair value | 186,165 | 195,267 |
| NEEQ quoted equity investment, at fair value | — | 31,220 |
| Unlisted equity investments, at fair value | 1,382,179 | 1,586,350 |
| Convertible loans, at fair value | 530,783 | 84,077 |
| | <u>2,099,127</u> | <u>1,896,914</u> |

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 RMB50,095,000 (31 December 2021: RMB65,679,000) as at 30 June 2022.

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 RMB212,607,000 (31 December 2021: RMB210,554,000) as at 30 June 2022.

In February 2020, Guohong Jiaxin (Shenzhen) Angel Venture Capital Enterprise (L.P.) (“Angel Venture”) has been set up after obtaining all the related licenses and approval documentations. The fair value of the investment in Angel Venture was RMB178,000,000 (31 December 2021: RMB188,321,000) as at 30 June 2022.

The Group holds 26%, 25.65% and 38.08% limited partnership interests in Angel Fund, CPC Fund, and Angel Venture, 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 Angel Venture and they are treated as financial instruments at fair value through profit or loss.

As at 31 December 2021, unlisted equity investments included certain investments in a third party investment company amounting to RMB226,639,000. This investment was fully recovered in March 2022.

14. TRADE AND BILLS RECEIVABLES

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|--------------------------|---|---|
| Trade receivables | 1,202,566 | 1,138,216 |
| Allowance for impairment | (105,648) | (96,480) |
| Trade receivables, net | 1,096,918 | 1,041,736 |
| Bills receivable | 12,240 | 10,710 |
| | <u>1,109,158</u> | <u>1,052,446</u> |

Trade receivables mainly represent amounts receivable from third-party publishing channels and other counterparties. The Group normally allows credit terms 180 days for established channels and other counterparties and extends credit terms up to 270 days for major channels and other major counterparties. 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:

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|----------------------|---|---|
| Within 6 months | 789,437 | 620,678 |
| 6 months to 1 year | 153,226 | 262,384 |
| 1 year to 18 months | 106,521 | 121,238 |
| 18 months to 2 years | 42,892 | 34,839 |
| Over 2 years | 4,842 | 2,597 |
| | <u>1,096,918</u> | <u>1,041,736</u> |

15. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|--------------------------------|---|---|
| Non-current portion | | |
| Prepayments | 797,664 | 647,973 |
| Current portion | | |
| Prepayments | 613,829 | 508,816 |
| Deposits and other receivables | 416,836 | 374,709 |
| Contract costs | 44,386 | 57,344 |
| | 1,075,051 | 940,869 |
| | 1,872,715 | 1,588,842 |

16. 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:

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|--------------------|---|---|
| Within 3 months | 141,429 | 158,004 |
| 3 to 6 months | 70,994 | 133,083 |
| 6 months to 1 year | 6,557 | 83,273 |
| 1 year to 2 years | 16,729 | 2,586 |
| Over 2 years | 4,649 | 1,542 |
| Total | 240,358 | 378,488 |

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

17. BUSINESS COMBINATIONS

- (a) In January 2022, the Group acquired 70% equity interest in Guangzhou Chuxin Technology Company Limited (廣州初歆科技有限公司) (“Guangzhou Chuxin”) by capital injection of RMB30,000,000. Guangzhou Chuxin is principally engaging in software, information and technology operation in the PRC. The acquisition was made with the objective to expand the Group’s mobile game publishing business and has been accounted for using the acquisition method. The fair value of the identifiable assets and liabilities of the Guangzhou Chuxin as at the date of acquisition was as follows:

| | RMB'000 (Unaudited) |
|---|------------------------|
| Fair value: | |
| Intangible assets | 2,800 |
| Other receivables | 315 |
| Cash and cash equivalents | 11,621 |
| Trade and other payables and accruals | (639) |
| Net identifiable assets | 14,097 |
| Deposit paid by the Group before acquisition completion | (15,000) |
| Net liabilities before capital injection | (903) |
| Capital injection | 30,000 |
| Net assets after capital injection | 29,097 |
| Non-controlling interests | 8,729 |
| Fair value of net identifiable liabilities assumed | 903 |
| Goodwill | 9,632 |
| Cash and cash equivalents acquired and net inflows | 11,621 |

Goodwill arose in the above business combination as the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

The fair value of other receivables is approximately the book value and is considered as fully recoverable.

No acquisition-related costs had been incurred in relation to the acquisition.

Guangzhou Chuxin contributed total revenue of RMB233,000 and contributed net loss of RMB5,697,000 to the Group from its acquisition date during the reporting period. Had Guangzhou Chuxin been consolidated from 1 January 2022, the interim condensed consolidated statement of profit or loss would have shown pro-forma revenue of RMB1,232,764,000 and loss for the period of RMB25,603,000.

17. BUSINESS COMBINATIONS *(Continued)*

- (b) In June 2022, the Group acquired 51% equity interest in Hainan Guming Technology Company Limited (海南古茗科技有限公司) ("Hainan Guming") by capital injection of RMB10,000,000. Hainan Guming is principally engaging in digital art related business in the PRC. The acquisition was made with the objective to diversifying the Group's business and has been accounted for using the acquisition method. The fair value of the identifiable assets and liabilities of Hainan Guming as at the date of acquisition was as follows:

| | RMB'000 (Unaudited) |
|--|------------------------|
| Fair value: | |
| Net identifiable assets acquired - Intangible assets | 4,400 |
| Capital injection | 10,000 |
| Net assets after capital injection | 14,400 |
| Non-controlling interests | 7,056 |
| Less: fair value of net identifiable assets acquired | (4,400) |
| Goodwill | 2,656 |

Goodwill arose in the above business combination as the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

No acquisition-related costs had been incurred in relation to the acquisition.

Hainan Guming contributed total revenue of Nil and contributed net loss of RMB1,121,000 to the Group from its acquisition date during the reporting period. Had Hainan Guming been consolidated from 1 January 2022, the interim condensed consolidated statement of profit or loss would have shown pro-forma revenue of RMB1,232,764,000 and loss for the period of RMB25,408,000.

17. BUSINESS COMBINATIONS *(Continued)*

- (c) In June 2022, the Group acquired 51% equity interest in Shanghai Zhoujing Network Technology Co., Ltd. (上海洲競網絡科技有限公司) ("Shanghai Zhoujing") by capital injection of RMB30,000,000. Shanghai Zhoujing principally engaged in game development business in the PRC. The acquisition was made with the objective to expand the Group's eSports business and has been accounted for using the acquisition method. The fair value of the identifiable assets and liabilities of Shanghai Zhoujing as at the date of acquisition was as follows:

| | RMB'000 (Unaudited) |
|---|------------------------|
| Fair value: | |
| Other receivables | 1,596 |
| Cash and cash equivalents | 2,588 |
| Trade and other payables and accruals | (380) |
| Tax payables | (8) |
| Net identifiable assets | 3,796 |
| Deposit paid by the Group before acquisition completion | (8,000) |
| Net liabilities before capital injection | (4,204) |
| Capital injection | 30,000 |
| Net assets after capital injection | 25,796 |
| Non-controlling interests | 12,640 |
| Fair value of net liabilities assumed | 4,204 |
| Goodwill | 16,844 |
| Cash and cash equivalents acquired and net inflows | 2,588 |

Goodwill arose in the above business combination as the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

The fair value of other receivables is approximately the book value and is considered as fully recoverable.

No acquisition-related costs had been incurred in relation to the acquisition.

Shanghai Zhoujing contributed total revenue of Nil and contributed net loss of Nil to the Group from its acquisition date during the reporting period. Has Shanghai Zhoujing been consolidated from 1 January 2022, the interim condensed consolidated statement of profit or loss would have shown pro-forma revenue of RMB1,232,764,000 and loss for the period of RMB29,592,000.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2022

18. SHARE CAPITAL

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|---|---|---|
| Issued and fully paid: | | |
| 2,768,050,000 (2021: 2,768,050,000) ordinary shares | 1,925 | 1,925 |

19. SHARE-BASED COMPENSATION

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group.

On 29 March 2021, the Company granted options to subscribe for a total of 50,000,000 ordinary shares to certain employees of the Group to incentivise and reward the eligible persons for their contribution to the Group.

On 27 May 2022, the Company granted options to subscribe for a total of 2,080,000 ordinary shares to certain employees of the Group to incentivise and reward the eligible persons for their contribution to the Group.

The Group recognised a share-based compensation expense of RMB6,247,000 (2021: RMB8,248,000) calculated based on fair value which ranging from HK\$0.32 to HK\$0.96 per option (2021: HK\$0.94 to HK\$0.96) during the six months ended 30 June 2022.

20. CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as of 30 June 2022.

21. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|-----------------------------------|---|---|
| Contracted, but not provided for: | | |
| Purchase of IP and game licenses | 255,543 | 305,116 |

22. RELATED PARTY TRANSACTIONS

(a) Name of related party

| | Relationship with the Group |
|---|-----------------------------|
| Shanghai Fengguo Network Information | Associate |
| Shenzhen Sparks Interactive Entertainment Co., Ltd. | Associate |
| Shenzhen Boliang Technology Co., Ltd. | Joint venture |
| Mr. Fan Yingjie | Executive director |

(b) Transactions with related parties

In addition to the transactions detailed elsewhere in the interim condensed consolidated financial statements, the Group had the following material related party transactions during the reporting period:

| | For the six months ended 30 June | |
|---|----------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Publishing services provided to Shanghai Fengguo Network Information | 502 | 1,341 |
| Promotion services received from Shanghai Fengguo Network Information | — | 970 |
| Licensing of intellectual property received from Softstar Entertainment Inc.* | — | 786 |
| Promotion services received from Softstar Entertainment Inc.* | — | 486 |

* Softstar Entertainment Inc. used to be the non-controlling shareholder that held 49% equity interest in the Group's subsidiary Beijing Softstar. In August 2021, the Group decided to acquire 49% equity interest in Beijing Softstar from Softstar Entertainment Inc. and the acquisition was completed in November 2021. Hence, Softstar Entertainment Inc. has no longer been recognised as a related party since November 2021. The licensing of intellectual property and promotion services amounting to RMB786,000 and RMB486,000, respectively, received by the Group from Softstar Entertainment Inc. from January 2021 to June 2021 were recognised as related party transactions.

(c) Outstanding balances with related parties

As disclosed in the condensed consolidated statement of financial position, the Group had outstanding balances with related parties at 30 June 2022 and 31 December 2021.

Amounts due from related parties

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|--|---|---|
| Mr. Fan Yingjie** | 9,850 | 9,850 |
| Shenzhen Boliang Technology Co., Ltd.* | 1,200 | 1,200 |
| Shanghai Fengguo Network Information* | 1,318 | 14 |
| | 12,368 | 11,064 |

* These balances are trade in nature, unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.

** The balance is non-trade in nature, unsecured, interest-free and repayable on demand.

22. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Outstanding balances with related parties *(Continued)*

Amounts due to related parties

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|--|---|---|
| Shenzhen Sparks Interactive Entertainment Co., Ltd.* | 2,405 | — |
| Shanghai Fengguo Network Information* | 4,045 | 4,215 |
| | <u>6,450</u> | <u>4,215</u> |

* These balances are trade in nature.

The amounts due to related parties are unsecured, interest-free and repayable on credit terms similar to those offered by the major suppliers of the Group.

(d) Compensation of key management personnel of the Group:

| | For the six months ended 30 June | |
|---|----------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Salaries, allowances and benefits in kind | 10,697 | 6,630 |
| Equity-settled share-based expense | 2,092 | 3,687 |
| Pension scheme contributions | 230 | 201 |
| | <u>13,019</u> | <u>10,518</u> |

23. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|--|---|---|
| Financial assets at fair value through profit or loss: | | |
| Financial assets at fair value through profit or loss | 2,099,127 | 1,896,914 |
| Financial assets at amortised cost: | | |
| Trade and bills receivables | 1,109,158 | 1,052,446 |
| Due from related parties | 12,368 | 11,064 |
| Financial assets included in prepayments, other receivables and other assets | 416,836 | 374,709 |
| Pledged deposits | 212,780 | 502,282 |
| Cash and cash equivalents | 446,177 | 818,520 |
| | 2,197,319 | 2,759,021 |
| | 4,296,446 | 4,655,935 |

Financial liabilities

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|---|---|---|
| Financial liabilities at fair value through profit or loss: | | |
| Contingent consideration for business combination | 174,287 | 178,236 |
| Financial liabilities at amortised cost: | | |
| Trade payables | 240,358 | 378,488 |
| Due to related parties | 6,450 | 4,215 |
| Financial liabilities included in other payables and accruals | 200,874 | 268,526 |
| Interest-bearing bank and other borrowings | 799,718 | 764,601 |
| | 1,247,400 | 1,415,830 |
| Other financial liabilities: | | |
| Lease liabilities | 41,589 | 25,075 |
| | 1,463,276 | 1,619,141 |

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2021 and 30 June 2022, the fair values of the Group's financial assets or liabilities approximated to their respective carrying amounts.

Management has assessed that the carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, amounts due from related parties, financial assets included in prepayments, other receivables and other assets, trade payables, amounts due to related parties, financial liabilities included in other payables and accruals, interest-bearing bank and other borrowings, and lease liabilities are reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of listed equity investments are based on quoted market prices. The fair values of the unlisted equity investments have been estimated by using various applicable valuation techniques, including the discounted cash flow approach, adjusted net assets value method and other option pricing models. The fair value of contingent consideration payable is estimated by using the discounted cash flow model and Monte Carlo simulation model.

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments as at 30 June 2022 and 31 December 2021:

| | Valuation technique | Significant unobservable inputs | Range | Relationship between fair value and the inputs |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | Discounted cash flow method | Long term growth rate | 3% (31 December 2021: 3%) | Increase/(decrease) in growth rate would result in increase/(decrease) in fair value |
| | | Long term operating margin | 17% to 65% (31 December 2021: 5% to 61%) | Increase/(decrease) in operating margin would result in increase/(decrease) in fair value |
| | | Weighted average cost of capital (WACC) | 17% to 24% (31 December 2021: 17% to 23%) | Increase/(decrease) in WACC would result in (decrease)/increase in fair value |
| | Adjusted net assets value method with equity allocation model | Volatility | 30.13% - 34.14% (31 December 2021: 24.73% to 25.31%) | Increase/(decrease) in volatility would result in increase/(decrease) in fair value |
| | | Risk free rate | 2.2% - 2.6% (31 December 2021: 2.2% to 2.58%) | Increase/(decrease) in risk free rate would result in (decrease)/increase in fair value |
| | Binomial method | Volatility | 50.36% to 105.99% (31 December 2021: 55.2%) | Increase/(decrease) in volatility would result increase/(decrease) in fair value |
| | | Discount rate | 10.93% to 19.83% (31 December 2021: 21.02%) | Increase/(decrease) in discount rate would result in (decrease)/increase in fair value |

| | Valuation technique | Significant unobservable inputs | Range | Relationship between fair value and the inputs |
|--|---|---------------------------------|-----------------------------------|--|
| Financial liabilities at fair value through profit or loss | Discounted cash flow method with the Monte Carlo simulation model | Volatility | 50% (31 December 2021: 43%) | Increase/(decrease) in volatility would result in increase/(decrease) in fair value |
| | | Discount rate | 4.45% (31 December 2021: 4.8%) | Increase/(decrease) in discount rate would result in (decrease)/increase in fair value |

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

| | Fair value measurement using | | | Total RMB'000 |
|--|--|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| As at 30 June 2022 (Unaudited) Financial assets at fair value through profit or loss | 186,165 | 435,112 | 1,477,850 | 2,099,127 |
| As at 31 December 2021 (Audited) Financial assets at fair value through profit or loss | 195,267 | 443,306 | 1,258,341 | 1,896,914 |

Liabilities measured at fair value:

| | Fair value measurement using | | | Total RMB'000 |
|--|--|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| As at 30 June 2022 (Unaudited) Contingent consideration for business combination | — | — | 174,287 | 174,287 |
| As at 31 December 2021 (Audited) Contingent consideration for business combination | — | — | 178,236 | 178,236 |

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

The movements in fair value measurements within level 3 during the reporting period are as follows:

| | Financial assets at fair value through profit or loss | | Contingent consideration for business combination | |
|--|--|---|--|---|
| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
| Opening balances | 1,258,341 | 922,412 | (178,236) | (177,692) |
| Gain/(Loss) recognised in profit or loss | (12,172) | 31,578 | 3,949 | (544) |
| Purchases | 456,320 | 531,675 | — | — |
| Disposals | (226,639) | (66,653) | — | — |
| Transfer in from prepayment | 2,000 | — | — | — |
| Transfer to level 2 | — | (160,671) | — | — |
| Closing balances | 1,477,850 | 1,258,341 | (174,287) | (178,236) |

25. EVENTS AFTER THE REPORTING PERIOD

As at the date of approval of these interim condensed consolidated financial statements, there are no significant events after the reporting period.

26. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 25 August 2022.

DEFINITIONS

In this interim report, unless the context otherwise requires, the following words and expressions shall have the following meanings:

| | |
|-----------------------|---|
| "Ambitious Profit" | Ambitious Profit Investment Limited, an exempted company incorporated in the Cayman Islands with limited liability on 5 January 2018 and one of the Controlling Shareholders |
| "ARPG" | action role playing game |
| "ARPPU" | average revenue per month per paying user, which represents the Group's revenue recognised for a particular game, a particular type of game or all of its games, as applicable, in the period divided by the number of paying users of the game, the type of game or all of its games, as applicable, in such period |
| "Audit Committee" | the audit committee of the Company |
| "Auditor" | BDO Limited, the independent auditor of the Company |
| "Beijing Orient L.P." | Beijing Orient Zhike Equity Investment Centre (Limited Partnership) (北京東方智科股權投資中心(有限合夥)), one of the Substantial Shareholders and an investment fund established on 22 May 2015 in the form of a limited partnership under the laws of the PRC, and is controlled by its executive general partner ultimately controlled by Mr. Ma Yuntao (馬雲濤) |
| "Beijing Softstar" | Softstar Technology (Beijing) Co., Ltd. (軟星科技(北京)有限公司), a company established in the PRC on 19 September 2000, which is an indirect wholly owned subsidiary of the Company. Beijing Softstar is an insignificant subsidiary (as defined under the Listing Rules) for the period ended 30 June 2022 and up to the Latest Practicable Date. |
| "Board" | the board of Directors |
| "BVI" | the British Virgin Islands |
| "CG Code" | the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules |
| "Changpei Cayman" | Changpei Investment Centre, L.P., an exempted limited partnership registered in the Cayman Islands on 2 March 2018 and one of the Controlling Shareholders |
| "Changpei Shanghai" | Changpei (Shanghai) Investment Centre (Limited Partnership) (長霽(上海)投資中心(有限合夥)), a limited partnership registered in the PRC on 2 June 2015 |
| "Chengdu Zhuoxing" | Chengdu Zhuo Xing Technology Co., Ltd. (成都卓星科技有限公司), a company established in the PRC on 24 June 2013 and wholly-owned by Shenzhen Lanyue, and is one of the PRC Operating Entities controlled by the Group through the Contractual Arrangements |

| | |
|----------------------------------|--|
| “CMGE Mobile Tech” | China Mobile Game Technology Company Limited (中手游移動科技有限公司), a limited liability company established under the laws of the PRC on 14 October 2015, which is held as to 44.67% by Changpei Shanghai, 22.33% by Beijing Orient L.P., 18.90% by Shanghai Pegasus, 9.20% by Zhongshouyou Brothers PRC and 4.90% by Yichong Investment |
| “Company” | CMGE Technology Group Limited (中手游科技集团有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 20 March 2018, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 0302) |
| “Contractual Arrangements” | the series of contractual arrangements entered into by Shengyue Software (Shenzhen) Co., Ltd. (盛悦軟件(深圳)有限公司) and the PRC Operating Entities |
| “Controlling Shareholder(s)” | has the meaning ascribed to it/them under the Listing Rules |
| “Corporate Governance Committee” | the corporate governance committee of the Company |
| “Director(s)” | the director(s) of the Company |
| “Fairview Ridge” | Fairview Ridge Investment Limited, a company incorporated in the BVI with limited liability on 6 March 2018 and one of the Controlling Shareholders |
| “Group” | the Company, its subsidiaries and the PRC Operating Entities |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “HKFRS” | Hong Kong Financial Reporting Standards, as issued by the Hong Kong Institute of Certified Public Accountants |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “IP” | intellectual property |
| “Latest Practicable Date” | 31 August 2022, being the latest practicable date prior to the printing of this interim report for the purpose of ascertaining certain information for inclusion there in |
| “Listing Date” | 31 October 2019, being the date on which the Shares of the Company became listed and commenced trading on the Main Board of the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “MAUs” | monthly active users, which refers to the number of active users in the relevant calendar month; average MAUs for a particular period is the average of the MAUs in each month during that period |

DEFINITIONS

| | |
|--------------------------------|--|
| "MMORPG" | massive multiplayer online role-playing game, in which a vast number of players play their selected game character in the virtual world, and interact with each other |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| "Motion Game" | Motion Game Company Limited (動力遊戲娛樂有限公司), a company incorporated in Hong Kong with limited liability on 20 July 2017 and one of the Controlling Shareholders |
| "MPUs" | monthly paying users, which refers to the number of paying users in the relevant calendar month; average MPUs for a particular period is the average of the MPUs in each month during that period |
| "Mr. Sin" | Mr. SIN Hendrick (洗漢迪) <i>M.H.</i> , the executive Director and vice chairman of the Company, and one of the Controlling Shareholders |
| "Mr. Xiao" | Mr. XIAO Jian (肖健), the executive Director, chairman and chief executive officer of the Company, and one of the Controlling Shareholders |
| "Nomination Committee" | the nomination committee of the Company |
| "PC" | personal computer |
| "Post-IPO Share Option Scheme" | the post-IPO share option scheme of the Company approved and adopted by the Shareholders on 20 September 2019 |
| "PRC" or "China" | the People's Republic of China excluding, for the purpose of this report only, Hong Kong, the Macau Special Administrative Region and Taiwan |
| "PRC Operating Entities" | Chengdu Zhuoxing, Shenzhen Zhongshouyou, Shenzhen Douyue, Hainan Chuangyue Technology Company Limited (海南創躍科技有限公司), Shangrao Interactive Network Technology Co., Ltd. (上饒市逗號互動網絡科技有限公司), Yichun Dongdian Huyu Internet Technology Company Limited (宜春市動點互娛網絡科技有限公司), Hainan Zhanshen Internet Technology Company Limited (海南戰神網絡科技有限公司), Shenzhen Fansheng Network Technology Co., Ltd. (深圳市凡盛網絡科技有限公司), Shanghai Fanying Network Technology Co., Ltd. (上海凡影網絡科技有限公司), Guangzhou Chuxin Technology Company Limited (廣州初歆科技有限公司), Hainan Guming Technology Company Limited (海南古茗科技有限公司) and Shanghai Zhoujing Network Technology Co., Ltd. (上海洲競網絡科技有限公司) |
| "Profound Power" | Profound Power Investment Limited, a company incorporated in BVI with limited liability on 8 March 2018 and one of the Controlling Shareholders |
| "Prospectus" | the Company's prospectus dated 19 October 2019 issued for Listing purpose |

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| “Remuneration Committee” | the remuneration committee of the Company |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “RPG” | role-playing game |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Share(s)” | ordinary share(s) of the Company with nominal value of US\$0.0001 each in the share capital of the Company |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Shenzhen Douyue” | Shenzhen Douyue Network Technology Co., Ltd. (深圳市豆悅網絡科技有限公司), a company established in the PRC on 21 November 2014 and wholly-owned by Shenzhen Lanyue, and is one of the PRC Operating Entities controlled by the Group through the Contractual Arrangements |
| “Shenzhen Lanyue” | Shenzhen Lanyue Internet Technology Company Limited (深圳市嵐悅網絡科技有限公司), a company established in the PRC on 7 June 2013 and the registered shareholder of the PRC Operating Entities |
| “Shenzhen Zhongshouyou” | China Mobile Games and Entertainment Group Limited Shenzhen (深圳市中手遊網絡科技有限公司), a company established in the PRC on 10 July 2015 and wholly-owned by Shenzhen Lanyue, and is one of the PRC Operating Entities controlled by the Group through the Contractual Arrangements |
| “Silver Joyce” | Silver Joyce International Limited, a company incorporated in the BVI on 5 July 2012 and wholly-owned by Mr. Sin, which is one of the Controlling Shareholders |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “subsidiary(ies)” | has the meaning ascribed to it/them under the Listing Rules |
| “Substantial Shareholder(s)” | has the meaning ascribed to it/them under the Listing Rules |
| “US\$” | U.S. dollars, the lawful currency of the United States of America |
| “Victory Aspire” | Victory Aspire Group Limited (勝志集團有限公司), a limited company incorporated in the BVI on 28 May 2019, which is wholly-owned by Antopex Limited, the nominee for CMB Wing Lung (Trustee) Limited acting as trustee for the Xiao Family Trust |
| “Wenmai Hudong” | Beijing Wenmai Hudong Technology Company Limited (北京文脈互動科技有限公司), a company established in the PRC on 12 December 2014, which is an indirect wholly-owned subsidiary of the Company |

DEFINITIONS

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| "Xiao Family Trust" | the ZSY Trust, a discretionary trust set up by Mr. Xiao, as settlor, and CMB Wing Lung (Trustee) Limited, as trustee, for the benefit of Mr. Xiao and his spouse |
| "Yichong Investment" | Shanghai Yichong Investment Centre (Limited Partnership) (上海一翀投資中心(有限合夥)), one of the Shareholders and a limited partnership established in the PRC on 20 April 2015, the general partner of which is Dazi Dingcheng |
| "Zhongshouyou Brothers BVI" | Zhongshouyou Brothers Limited (中手游兄弟有限公司), a company incorporated in the BVI on 2 January 2018 and wholly-owned by Victory Aspire for the Xiao Family Trust, which is one of the Controlling Shareholders |
| "Zhongshouyou Brothers PRC" | Shaoxing Shangyu Zhongshouyou Brothers Investment Partnership (Limited Partnership) (紹興市上虞中手游兄弟投資合夥企業(有限合夥)), a limited partnership established on 23 November 2015 under the laws of the PRC, a shareholder of CMGE Mobile Tech |