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CMGE Technology Group Limited

中手游科技集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0302)

CONNECTED TRANSACTION FORMATION OF PARTNERSHIP

The Board is pleased to announce that on 2 December 2019, Shenzhen Zhongshouyou entered into the Partnership Agreement with CPC Management, SMAIGF and Shenzhen Shengxin in relation to the formation of the Partnership. The total capital contribution from all the partners of the Partnership shall be RMB300 million, of which RMB10.16 million shall be contributed by CPC Management (as the General Partner), RMB163 million shall be contributed by Shenzhen Zhongshouyou (as a Limited Partner), RMB120 million shall be contributed by SMAIGF (as a Limited Partner), and RMB6.84 million shall be contributed by Shenzhen Shengxin (as a Limited Partner). Subject to the approval by SMAIGF, the Executive Partner may accept capital contribution from any new Limited Partner or additional capital contribution from any existing Limited Partner within six months from the establishment of the Partnership (which can be extended for no more than six months upon approval at the partners meeting), to the extent that the total capital contribution of the Partnership shall not exceed its overall capital raising size (which, in principle, shall not exceed RMB500 million).

The Partnership intends to mainly make angel investments in the form of equity securities and/or convertible debt securities in such strategic emerging industries, future industries and other key developing industries that are supported and encouraged by the Shenzhen government. In addition to long-term investment return to the Group, the investments in such industries are expected to accelerate the development of these industries and avail the Group of opportunities to establish further business cooperation with enterprises in these industries to develop and enrich the Group's IP reserves, promote the Group's mobile games and achieve synergy effect to foster the business development of the Group.

Shenzhen Zhongshouyou is one of the PRC Operating Entities controlled by the Group through Contractual Arrangements and is a wholly-owned subsidiary of the Company under the Listing Rules. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, both SMAIGF and Shenzhen Shengxin and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

As at the date of this announcement, CPC Management is ultimately controlled by an immediate family member of Mr. Sin Hendrick, being one of the Directors. Therefore, CPC Management is an associate of Mr. Sin Hendrick and a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transaction contemplated under the Partnership Agreement constitutes a connected transaction of the Company under the Listing Rules. As one or more of the applicable percentage ratios in respect of the transaction are more than 0.1% but less than 5%, it is subject to the reporting and announcement requirements, but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

The Board is pleased to announce that on 2 December 2019, Shenzhen Zhongshouyou entered into the Partnership Agreement with CPC Management, SMAIGF and Shenzhen Shengxin in relation to the formation of the Partnership. The Partnership will not be accounted for as a subsidiary of the Company and its financial results will not be consolidated into the financial statements of the Group.

MAJOR TERMS OF THE PARTNERSHIP AGREEMENT

Date

2 December 2019

Parties

- (1) CPC Management (as the General Partner, Executive Partner and Manager)
- (2) Shenzhen Zhongshouyou (as a Limited Partner)
- (3) SMAIGF (as a Limited Partner)
- (4) Shenzhen Shengxin (as a Limited Partner)

Capital Contribution and Payments

Pursuant to the Partnership Agreement, the total capital contribution of each of the partners in the Partnership is as follows:

Partners	Capital Contribution (RMB in millions)	Approximate percentage of interest in the Partnership (%)
CPC Management	10.16	3.39
Shenzhen Zhongshouyou	163.00	54.33
SMAIGF	120.00	40.00
Shenzhen Shengxin	6.84	2.28
Total	300.00	100.00

The partners shall make capital contribution in accordance with the requirements set out in the capital contribution notice issued by the Executive Partner. CPC Management, Shenzhen Zhongshouyou and Shenzhen Shengxin shall make their respective capital contribution by one-off payment within two months upon establishment of the Partnership. The Executive Partner shall deliver the capital contribution notice to the partners (excluding SMAIGF) at least 10 working days in advance. SMAIGF shall only be obliged to make its capital contribution after CPC Management, Shenzhen Zhongshouyou and Shenzhen Shengxin have paid up more than 50% of the total amount of their capital contribution and the capital contribution made by SMAIGF shall be in the same proportion as that has already been made by CPC Management, Shenzhen Zhongshouyou and Shenzhen Shengxin. The Executive Partner shall deliver the capital contribution notice to SMAIGF at least 20 working days in advance. All capital contribution shall be paid by cash in RMB.

The relevant capital contribution to the Partnership was determined after arm's length negotiation among all the partners with reference to the capital requirements of the Partnership. Shenzhen Zhongshouyou intends to fund its capital contribution from its internal resources and general working capital.

Subject to the approval by SMAIGF, the Executive Partner may accept capital contribution from any new Limited Partner or additional capital contribution from any existing Limited Partner within six months from the establishment of the Partnership (which can be extended for no more than six months upon approval at the partners meeting), to the extent that the total capital contribution of the Partnership shall not exceed its overall capital raising size (which, in principle, shall not exceed RMB500 million), and SMAIGF shall not hold more than 40% interest in the Partnership.

Term

The Partnership shall have an investment period of four years from the date of its establishment (which can be extended subject to the approval at the partners meeting) and an exit period of three years upon expiry of the investment period. Subject to the approval at the partners meeting, the Partnership will enter into an extension period of two years upon expiry of the exit period for the purpose of fully exit from all the investment projects, provided that the entire term of the Partnership shall not be more than ten years.

Investment Targets and Strategy

The Partnership intends to mainly make angel investments in the form of equity securities and/or convertible debt securities in such strategic emerging industries, future industries and other key developing industries that are supported and encouraged by the Shenzhen government. The Partnership shall invest not less than 70% of its total paid-up capital to enterprises incorporated in Shenzhen. Unless approved by a partners meeting, the investment amount in a single enterprise or project by the Partnership shall not exceed 10% of its total capital contribution and the total number of the investment projects shall not be less than 20.

Management of the Partnership

Pursuant to the Partnership Agreement, CPC Management, as the General Partner, will act as the Executive Partner and Manager to provide daily operation and investment management services to the Partnership. During the term of the Partnership, the Partnership shall pay a management fee to the Manager on an annual basis which is calculated in the following manner:

- (1) during the investment period: 2.5% of the total paid-up capital of the Partnership (excluding the investment amount of any project from which the Partnership has completed exit);
- (2) during the exit period: 2.5% of the total investment amount by the Partnership on all projects that it has not completed exit (including the amount of capital commitment that the Partnership has agreed to contribute to any investment project and excluding the amount of investment in any project which has been divested by the Partnership); and
- (3) during the extension period (if any): none.

The Partnership shall establish an investment decision committee comprising three members who shall be nominated by the Executive Partner and approved by SMAIGF and the partners with more than two-thirds of the interest in the Partnership at the partners meeting. The investment decision committee shall be mainly responsible for (i) reviewing and determining investment in or exit from any investment project; (ii) reviewing and approving relevant investment agreements; and (iii) other matters as provided in the Partnership Agreement or authorised at the partners meetings. Members of the investment decision committee are not entitled to any remuneration from the Partnership. SMAIGF has the right to appoint an observer to the investment decision committee who can present at its meetings. SMAIGF has the right to conduct a compliance review of the proposed investment projects and veto any project that fails to meet the relevant policies, rules and regulations of the PRC governments (including, but not limited to, the relevant rules and regulations on angel investment guiding funds in Shenzhen).

Profit Distribution

The distributable profit of the Partnership shall be distributed in accordance with the following principle and order:

- (1) distribution shall first made to the Limited Partners in proportion to their respective paid-up capital contribution until the Limited Partners have recovered all of their respective paid-up capital contribution;
- (2) if there is any balance, further distribution shall be made to the General Partner until the General Partner has recovered all of its paid-up capital contribution; and
- (3) if there is any balance, 20% thereof shall be distributed to the General Partner and the remaining 80% shall be distributed to the Limited Partners in proportion to their respective paid-up capital contribution at the time of distribution.

Notwithstanding the above, after all the partners have recovered their respective paid-up capital contribution in the Partnership, SMAIGF shall, upon application made by the Executive Partner and subject to the compliance with the requirements under the *Interim Implementation Measures of Shenzhen Municipal Angel Investment Guiding Funds (Shencaiyyu [2018] No. 1011)* (《深圳市天使投資引導基金暫行實施辦法》(深財預[2018]1011號)), transfer all the profits derived from the investment projects in Shenzhen that it is entitled to receive to the General Partner.

Loss Sharing

Any loss of the Partnership shall be first assumed by the General Partner with its capital contribution. The shortfall shall be shared by the Limited Partners in proportion to their respective capital contribution. The Limited Partners shall be liable for the loss of the Partnership up to the amount of their respective capital contribution and the General Partner shall bear unlimited joint and several liability for the loss of the Partnership.

Transfer of Partnership Interests

The General Partner is not allowed to transfer all or any of its interest in the Partnership. Unless otherwise agreed by the Executive Partner and SMAIGF, a Limited Partner may not transfer any of its interest in the Partnership. SMAIGF is entitled to exit from the Partnership under certain circumstances as stipulated in the Partnership Agreement, including but not limited to, failure of the Partnership to conduct investment within one year from the completion of capital contribution by SMAIGF, any material change in the structure of the Executive Partner without approval at a partners meeting, and failure of the Partnership to comply with applicable laws and regulations.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PARTNERSHIP AGREEMENT

The Company is a leading IP-based game operator and publisher, focusing primarily on IPs relating to well-known cultural products and art works. As a private equity fund manager, CPC Management has relevant experience in equity investment in emerging technology and digital creative culture industries. CPC Management was recognised as “Top 20 Growth Venture Capital Investment Institutions in China for the Year of 2019 (2019年度中國成長型VC投資機構TOP20)” by China Venture Capital Research Institute (中國風險投資研究院), “Top 20 Best Investment Institutions in Internet/Mobile Internet Industry in China for the Year of 2018-2019 (2018-2019年度中國互聯網／移動互聯網產業最佳投資機構TOP20)” by Chinese Venture (融資中國), and “Top 100 Best Venture Capital Institutions in China for the Year of 2018 (2018年度中國最佳創業投資機構TOP100)” by CV Info (投中信息). The formation of the Partnership enables the Group to capitalise on project resources in strategic emerging industries, future industries and other key developing industries that are supported and encouraged by the Shenzhen government, and meanwhile, to leverage on the professional investment knowledge and experience of CPC Management in these areas. With SMAIGF as one of the Limited Partners, the Partnership enjoys the benefit of industrial guidance and promotion from the governmental guiding fund, which improves the efficiency of capital utilisation and enhances the brand influence of the Group. In addition to long-term investment return to the Group, the investments in such industries are expected to accelerate the development of these industries and avail the Group of opportunities to establish further business cooperation with enterprises in these industries to develop and enrich the Group’s IP reserves, promote the Group’s mobile games and achieve synergy effect to foster the business development of the Group. Based on the negotiations and discussions with other partners of the Partnership and considering the Partnership may invest in industries restricted for foreign investment in accordance with the *Special Administrative Measures (Negative List) for Foreign Investment Access*, the Company has decided to set up the Partnership through Shenzhen Zhongshouyou.

As of the date of this announcement, the partners are considering to seek further capital contribution to the Partnership from another policy guided investment fund as a Limited Partner. Subject to negotiations among the relevant parties, the management fee rate may be reduced from 2.5% to 2.0% if such capital contribution is confirmed and accepted in accordance with the terms of the Partnership Agreement. However, there is no guarantee that any new Limited Partner will be introduced into the Partnership or the management fee will be adjusted as at the date of this announcement.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Partnership Agreement are fair and reasonable, the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group, and in the interests of the Company and its shareholders as a whole. As CPC Management is ultimately controlled by an immediate family member of Mr. Sin Hendrick, and both Mr. Xiao Jian and Mr. Sin Hendrick hold directorships in CPC Management, Mr. Xiao and Mr. Sin have abstained from voting on the relevant Board resolutions to approve the establishment of the Partnership and the transactions contemplated thereunder.

INFORMATION ON THE PARTIES TO THE TRANSACTION

CPC Management is a company established in the PRC with limited liability, and a private equity fund manager registered with the Asset Management Association of China (中國證券投資基金業協會). It is principally engaged in the investment and management of funds.

Shenzhen Zhongshouyou is one of the PRC Operating Entities controlled by the Group through Contractual Arrangements. It is principally engaged in the mobile game publishing and operation businesses.

SMAIGF is a company established in the PRC with limited liability. It is a policy guided fund with the vision to encourage angel investment of social capital in the strategic emerging industries and promote transformation of traditional industries, and with aim to developing a world-class innovative and entrepreneurial city of Shenzhen. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, SMAIGF and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

Shenzhen Shengxin is a limited partnership established in the PRC. It is principally engaged in corporate consultation services. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Shenzhen Shengxin and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

LISTING RULES IMPLICATIONS

Shenzhen Zhongshouyou is one of the PRC Operating Entities controlled by the Group through Contractual Arrangements and is a wholly-owned subsidiary of the Company under the Listing Rules. As at the date of this announcement, CPC Management is ultimately controlled by an immediate family member of Mr. Sin Hendrick, being one of the Directors. Therefore, CPC Management is an associate of Mr. Sin Hendrick and a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transaction contemplated under the Partnership Agreement constitutes a connected transaction of the Company under the Listing Rules. As one or more of the applicable percentage ratios in respect of the transaction are more than 0.1% but less than 5%, it is subject to the reporting and announcement requirements, but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“Board”	the board of Directors
“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 and whose ordinary shares are listed on the Main Board of the Stock Exchange (stock code: 0302)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Contractual Arrangements”	the series of contractual arrangements entered into by Shengyue Software (Shenzhen) Company Limited (盛悦软件(深圳)有限公司), an indirect wholly-owned subsidiary of the Company, and the PRC Operating Entities, details of which are described in the section headed “Contractual Arrangements” in the listing document of the Company dated 19 October 2019
“CPC Management”	China Prosperity Capital (Shenzhen) Equity Investment Management Co., Ltd. (國宏嘉信(深圳)股權投資管理有限公司), a company established in the PRC with limited liability, and a private equity fund manager registered with the Asset Management Association of China (中國證券投資基金業協會)
“Director(s)”	the director(s) of the Company

“Executive Partner” or “Manager”	the general partner who has the fund manager qualifications and provides daily operation and investment management services to the Partnership
“General Partner”	the partner in the Partnership with unlimited joint and several liability under the Partnership Agreement
“Group”	the Company, its subsidiaries and its PRC Operating Entities
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Limited Partner”	the partners in the Partnership with limited liability up to the amount of their respective capital contribution under the Partnership Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Partnership”	China Prosperity Capital (Shenzhen) Shenzhen, Hong Kong, Macau Youth Angel Investment Enterprise (Limited Partnership) (國宏嘉信(深圳)深港澳青年天使創業投資企業(有限合夥)) (the final name of which is subject to the approval of the administrative department for industry and commerce), a limited partnership to be established in the PRC under the Partnership Agreement which will be registered with Asset Management Association of China (中國證券投資基金業協會)
“Partnership Agreement”	the partnership agreement dated 2 December 2019 entered into among CPC Management, Shenzhen Zhongshouyou, SMAIGF and Shenzhen Shengxin in relation to the establishment and management of the Partnership
“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Operating Entities”	Shenzhen Zhongshouyou, Chengdu Zhuoxing Technology Company Limited (成都卓星科技有限公司) and Shenzhen Douyue Internet Technology Company Limited (深圳市豆悅網絡科技有限公司), the financial results of which have been consolidated in the financial statements of the Group as if they were consolidated subsidiaries pursuant to the Contractual Arrangements
“RMB”	Renminbi, the lawful currency of the PRC
“Shenzhen Shengxin”	Shenzhen Shengxin Union Enterprise Management Partnership (Limited Partnership) (深圳聖忻聯合企業管理合夥企業(有限合夥)), a limited partnership established in the PRC

“Shenzhen Zhongshouyou”	Shenzhen Zhongshouyou Internet Technology Company Limited (深圳市中手游網絡科技有限公司), one of the PRC Operating Entities controlled by the Group through Contractual Arrangements
“SMAIGF”	Shenzhen Municipal Angel Investment Guiding Fund (深圳市天使投資引導基金有限公司), a company established in the PRC with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	percentage

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

Hong Kong
2 December 2019

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