

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



CMGE Technology Group Limited

中手游科技集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0302)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the “**Board**”) of directors (the “**Directors**”) of CMGE Technology Group Limited (the “**Company**”, together with its subsidiaries and consolidated operating entities in the People’s Republic of China, the “**Group**”) is pleased to announce the consolidated annual results of the Group for the year ended 31 December 2019.

2019 FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Year-on-year change
	2019	2018	
	RMB’000	RMB’000	%
Revenue	3,036,301	1,596,204	90.2
Gross profit	1,083,198	532,470	103.4
Profit for the year	243,213	315,973	(23.0)
Adjusted net profit ⁽¹⁾	611,007	335,465	82.1
Earnings per Share (RMB)	13.15 cents	17.28 cents	(23.9)
Adjusted earnings per Share (RMB) ⁽¹⁾	32.34 cents	18.64 cents	73.5

Note:

1. “Adjusted net profit” is not defined under the Hong Kong Financial Reporting Standards (“**HKFRS**”). It is defined by the Group as net profit attributable to owners of the parent excluding (i) equity-settled share-based expense; and (ii) listing expenses relating to the listing (the “**Listing**”) of the Company’s shares (the “**Shares**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 31 October 2019. The adjusted net profit more closely reflects the Group’s operating results, after excluding the above-mentioned non-operating items. “Adjusted earnings per Share” are the Group’s adjusted net profit divided by the weighted average number of Shares during 2019, as adjusted by the Shares issued as a result of the Listing.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.0355 (equivalent to RMB0.0313 based on the average exchange rate of 2019) per Share for the year ended 31 December 2019 out of the Company’s share premium account, subject to approval of the Company’s shareholders (the “**Shareholders**”) at the forthcoming annual general meeting to be held on Friday, 29 May 2020 (the “**AGM**”).

CHAIRMAN’S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present the first annual results of the Group for the year ended 31 December 2019.

The year of 2019 was a vigorous and fruitful year for the Group. Based on the excellent track record of the Group, the Company successfully listed its Shares on the Stock Exchange on 31 October 2019. This marked the beginning of a new chapter for the Company and injected greater momentum and confidence into the long-term development of the Group in the future. One recent development was that in March 2020, the Company became an eligible security for “Southbound Trading” under “Shenzhen-Hong Kong Stock Connect”. This stock connect arrangements opened the door to a much wider pool of potential investors in the Company.

REVIEW OF 2019

The Group achieved significant growth in 2019. The Group’s revenue increased by approximately 90.2% year-on-year to RMB3,036.3 million for the year ended 31 December 2019, and the Group’s adjusted net profit increased by approximately 82.1% year-on-year to RMB611.0 million for the year ended 31 December 2019. As at 31 December 2019, the Group had 1.2 million average monthly paying users (“MPUs”), and recorded an average paying user conversion rate of 7.5%, both of which are believed to be higher than the industry average.

In 2019, leveraging on its rich experience and cutting-edge vision in the mobile game industry, the Group continued to consolidate and enhance its close cooperation with intellectual property rights (“IP”) owners, game developers and channel promoters, and successfully launched a number of popular games thanks to the continuous improvement and enhancement of its game publishing capabilities. *Dragon Ball – Awakening* (龍珠覺醒) ranked first in the Top Free Games List of Apple’s App Store on the first day of its launch on 26 February 2019, and became a recommended game of the week on Apple’s App Store in the first week of its launch. This game was also recognised as a star product (明星產品) by Mobile Hardcore Alliance (硬核聯盟) and as one of the 2019 Top 10 Most Popular Mobile Games (二零一九年度十大最受歡迎移動遊戲) at the China Game Industry Annual Conference (中國遊戲產業年會). In addition, in 2019, the Group launched 33 new games, including *The National Gunlord – The Frontier* (全民槍神:邊境王者), *Martyn Palace* (烈焰皇城), *Dragon Hunter H5* (神龍獵手H5), *Zero World* (消零世界) and *The Gate to Adventures* (冒

險之門)。A number of older games, such as *One Piece – the Road of the Strong* (航海王強者之路), *Naruto – Ninja Master* (火影忍者–忍者大師) and *The Story of the Flying Mortal H5* (凡人飛仙傳H5), continued to contribute stable gross billings and revenue to the Group. In 2019, revenue derived from the Group’s game publishing business reached RMB2,553.2 million, representing a year-on-year increase of approximately 82.3%.

In 2019, the Group continued to invest in its in-house game development capabilities, and successfully launched a number of self-developed games, which achieved good performance. Most notably, *World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), a game developed in-house by the Company’s wholly-owned subsidiary, Beijing Wenmai Hudong Technology Company Limited (北京文脈互動科技有限公司) (“**Wenmai Hudong**”), recorded peak gross billing in a single month of over RMB200 million, and nearly 1.3 million average monthly active users (“MAUs”). This game’s stable long-term retention rate made it a popular product in the “Legend” mobile game category in 2019. In addition, *War Song – the Creation* (熱血戰歌之創世), another web game developed in-house by Wenmai Hudong, recorded peak gross billing in a single month of over RMB56 million, and over 2 million average MAUs. This game became a popular game in the “Legend” web game category in 2019. Further, Softstar Technology (Beijing) Company Limited (軟星科技(北京)有限公司) (“**Beijing Softstar**”), a subsidiary of the Company, developed a popular single-player PC game *Monopoly 10* (大富翁10), which was published by a third party partner of the Group on the STEAM platform and was the best domestically-developed game in terms of sales volume on the STEAM platform in October and November 2019. In 2019, revenue derived from the Group’s game development business reached RMB421.3 million, representing a year-on-year increase of approximately 136.8%.

In 2019, the Group also made good progress in its IP licensing business, and entered into new licensing cooperation in areas such as games, films and television during the year. In 2019, revenue derived from the Group’s IP licensing business reached RMB61.9 million, representing a year-on-year increase of approximately 247.8%. The Group’s IP licensing business has become a new revenue and profit growth driver of the Group.

In 2019, the Group entered into in-depth exclusive licensing cooperation with top social network platforms in China for a number of its popular IP games. For example, the Group cooperated with ByteDance (字節跳動) on *One Piece: The Voyage* (航海王熱血航線) and *The King of Fighters: All Stars* (全明星激鬥), and with Tencent on *The National Gunlord – The Frontier* (全民槍神:邊境王者).

In 2019, the Group continued to prioritise its investments in IPs and developers with a view to supporting the IP resources required for the Group’s development, and to attract and retain star producers and research and development talents. This strategy provided the Group with strong high-quality game supply capabilities. Shenzhen Zhongshouyou Internet Technology Company Limited (深圳市中手游網絡科技有限公司) (“**Shenzhen Zhongshouyou**”), a consolidated operating entity of the Group, as a limited partner, formed a limited partnership, namely China Prosperity Capital (Shenzhen) Shenzhen, Hong Kong, Macao 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 “**Partnership**”) with 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) (“**CPC Management**”), as the general partner, and Shenzhen Municipal Angel Investment Guiding Fund (深圳市天使投資引導基金有限公司) (“**SMAIGF**”) and 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)) (“**Shenzhen Shengxin**”), as the other limited partners, with a capital contribution of RMB300.0 million in aggregate. The Partnership intends to mainly make investments in the form of equity securities and/or convertible debt securities in 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 returns to the Group, the Group’s investment in the Partnership is expected to accelerate the development of the industries invested by the Partnership, 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 effects to foster the business development of the Group.

In 2019, the Group actively implemented its overseas game publishing plan to accelerate the expansion of its global business. The Group tested several games extensively, including *Age of Myth Genesis* (創世之爭), *Dynasty Warriors: Hegemony* (真•三國無雙：霸) and *The King of Fighters: All Stars* (全明星激鬥). The Group intends to promote these games on a large scale in 2020, and this is expected to greatly increase the scale and proportion of its revenue derived from overseas.

Through these efforts, in 2019, the Group maintained steady growth in terms of players, revenue and profit, and achieved record monthly gross billings for several of its games.

PROSPECTS

2020 will be a year of rapid and vigorous development for the Group. In 2020, it is expected that the Group will potentially publish on a large-scale basis 38 new games, including *Xuan Yuan Sword – the Origin* (軒轅劍:劍之源), *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射雕群俠傳:鐵血丹心), *Dynasty Warriors: Hegemony* (真·三國無雙:霸), *Life and Death Sniper: Zombie Frontier* (生死狙擊之殭屍前線), *Soul Land* (斗羅大陸), *A Record of a Mortal’s Journey to Immortality* (凡人修仙傳), *Incredible True Chasers* (不思議修真) and *Big Sailing Era 6* (大航海時代VI). Meanwhile, in terms of self-developed games, the Group intends to launch nine new games, including *Thunder Empire 2* (雷霆霸業2), *Legend of the Holy Dragon* (聖龍傳奇), *Zork Reborn* (魔域重生), *Legend of Sword and Fairy 7* (仙劍奇俠傳7) and *Legend of Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野). The Group’s IP licensing business is also expected to benefit from a series of large-scale themed events of the 25th anniversary of *Legend of Sword and Fairy* (仙劍奇俠傳) in 2020, and will achieve better revenue growth in 2020. In addition, ByteDance (字節跳動), as an exclusive licensee of the Group, will officially publish two popular IP games of the Group, namely *One Piece: The Voyage* (航海王熱血航線) and *The King of Fighters: All Stars* (全明星激鬥). In terms of overseas markets, it is expected that the launch of various games, including *Age of Myth Genesis* (創世之爭), *Dynasty Warriors: Hegemony* (真·三國無雙:霸) and *The King of Fighters: All Stars* (全明星激鬥), will significantly increase the scale and proportion of the Group’s revenue derived from overseas. In 2020, the Group will continue to invest in IP resources, outstanding game developers and star producers to provide strong support for the Group’s IP game ecosystem.

CORPORATE SOCIAL RESPONSIBILITY

The Group attaches great importance to corporate social responsibility. Focusing on youth welfare and social welfare undertakings, the Group, together with China Population Welfare Foundation (中國人口福利基金會) and Lingshan Foundation (靈山基金會), launched the “CMGE Dream Library (中手游築夢圖書館)” programme, and has completed five “CMGE Dream Libraries” in (i) Chengping Primary School (承平小學) in Yunan County, Yunfu City, Guangdong Province; (ii) Shangquyang Primary School (上曲陽小學) in Zhengding County, Shijiazhuang City, Hebei Province; (iii) Zhonghe School (中和學校) in Meihekou City, Jilin Province; (iv) Qianjin Primary School (前進小學自由分校) in Chunwan Town, Yangchun City, Guangdong Province; and (v) Dongbai School (東柏學校) in Jishan County, Yuncheng City, Shanxi Province. In the future, two new “CMGE Dream Libraries” will be completed each year, enabling the children of these schools to read well and study well.

During the early stages of the outbreak of novel coronavirus pneumonia in Wuhan, the Group also donated a total of RMB1.4 million to Hubei Charity Federation (湖北慈善總會) and five first-tier healthcare institutions in Hubei to help the Hubei region overcome the novel coronavirus pneumonia epidemic. At the same time, driven by the Group's public welfare culture and mission to undertake greater social responsibility, the Group proactively carried out public welfare activities for children with special needs.

As a result of the Group's effort in the community and society, in 2019, the Group was awarded (i) the "Best Employer Enterprise in Guangdong Province (廣東省最佳僱主企業)" and a "Guangdong Top 500 Enterprise (廣東省企業500強)" by Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會); (ii) a "Top 300 Internet Enterprises in China (中國互聯網300強)" and a "Top 50 Most Influential Enterprises in Cultural and Creative Industry (新文創影響力企業50強)" by the Internet Weekly of Chinese Academy of Sciences (中國科學院《互聯網週刊》) and the Informatisation Research Centre of Chinese Academy of Social Sciences (中國社會科學院信息化研究中心); and (iii) a "Top 10 Game Enterprises of China Game Industry Annual Conference (中國遊戲產業年會遊戲十強)" by China Audio-video and Digital Publishing Association (中國音像與數字出版協會).

CONCLUSION

Practice makes perfect and success depends on forethought. The Group will continue to push forward its strategy of IP-based games, adhere to the vision of becoming a popular game brand for global players, uphold the mission of providing the best-to-play games for global players, impress more global players with its excellent games and further strive to practice social responsibility. We will never forget why we started, and will keep our passion alive!

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to the Shareholders and partners of the Group for your trust and support. I would also like to thank all the Group's employees and management team for their hard work and contributions in the past years. The Group will continue to work hard, achieve better results, and bring higher returns to its Shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW AND OUTLOOK

Review of 2019

Building on the Group's consistent IP strategies, the Group achieved rapid development in 2019. According to Analysys (易觀智庫), the Group had the second largest IP reserve amongst all Chinese mobile game publishers after Tencent Game as at 31 December 2019, and the Group launched the largest number of IP-based mobile games in 2019. As at 31 December 2019, the Group had a vast IP reserve comprising 31 licensed IPs and 68 proprietary IPs. As a result of the acquisition of a 51% equity interest in Beijing Softstar, a former subsidiary of Softstar Entertainment Inc. (大宇資訊股份有限公司) ("**Taiwan Softstar**"), the Group possesses five series of popular IPs, namely *Legend of Sword and Fairy* (仙劍奇俠傳), *Xuan Yuan Sword* (軒轅劍), *Monopoly* (大富翁), *Stardom* (明星志願) and *Empire of Angels* (天使帝國), and had gained access to popular IPs owned by Taiwan Softstar.

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

	For the year ended 31 December			
	2019		2018	
	Revenue	Gross	Revenue	Gross
	RMB'000	billings	RMB'000	billings
		RMB'000		RMB'000
IP-based games				
• licensed and proprietary IP held by the Group	1,561,002	1,995,479	490,215	1,005,107
• IP held by game developers	54,219	115,012	141,092	234,184
Non-IP based games	1,421,080	1,654,613	964,897	1,153,237
Total	3,036,301	3,765,104	1,596,204	2,392,528

Leveraging on the Group's established advantage in its IP reserves and driven by its IP strategies, during the year ended 31 December 2019, revenue generated from the Group's IP-based games amounted to RMB1,615.2 million, representing an increase of approximately 155.9% as compared to the previous year.

Apart from proprietary IPs held by the Group, the Group also licensed from third parties a large number of selected IPs, many of which are well-known cultural products and art works that have an extensive and engaging fan base, including *One Piece* (航海王), *Dragon Ball Z* (龍珠Z), *Naruto* (火影忍者), *The World of Legend* (傳奇世界), *SNK All Stars Fight* (SNK全明星大亂鬥), *Reborn!* (家庭教師), *Soul Land* (斗羅大陸) and *Fighter of Destiny* (擇天記). Building on the Group's popular IPs, the Group expects to launch in 2020 various mobile application games, H5 games and mini programme games, including *One Piece – The Voyage* (航海王熱血航線), *The King of Fighters: All Stars* (全明星激鬥), *Legend of Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野), *Hua Jiang Hu: Bei Mo Ting* (畫江湖之杯莫停), *Xuan Yuan Sword – the Origin* (軒轅劍:劍之源), *Dynasty Warriors: Hegemony* (真·三國無雙:霸), *Legend of Sword and Fairy 7* (仙劍奇俠傳7), and *Big Sailing Era 6* (大航海時代VI).

The Group’s business is flourishing and there was a significant increase in the number of registered users in 2019. For the period between 1 January 2016 and 31 December 2019, the Group launched 107 games, among which, 73 games are still active as at the date of this announcement. The Group believes its business flourished in 2019 after assessing four key performance indicators, namely (i) average MAUs, (ii) average MPUs, (iii) average revenue per month per paying user (“ARPPU”), and (iv) total new registered users. These indicators are largely affected by the number of games in operation in the relevant period and their popularity.

The following table sets forth the key performance indicators of the Group for the years indicated:

	For the year ended 31 December	
	2019	2018
Average MAUs	15,930,745	11,058,128
Average MPUs	1,200,298	774,532
ARPPU (RMB)	210.8	171.7
Total new registered users	85,712,733	66,849,648

The Group had 310 million registered users in total between 1 January 2016 and 31 December 2019. There were 85.7 million newly registered users of the Group’s games in 2019, representing an increase of approximately 28.4% from 66.8 million newly registered users in 2018.

The Group is able to obtain online game pre-approvals for its games to support its pipeline. It is important for game publishers to obtain pre-approvals from government departments responsible for publication administration and the National Press and Publication Administration (國家新聞出版署) prior to publishing their domestically developed games, failing which the game publishers may be shut down or subjected to fines and other liabilities, and the relevant online materials being deleted. The assessment and pre-approval of domestically developed online games was suspended from April to December 2018. After the lifting of this suspension in December 2018, the Group obtained pre-approvals for 23 of its games in 2019, significantly more than the pre-approvals obtained by other market players in China. In the first quarter of 2020, the Group has further obtained pre-approvals for five of its games. The number of pre-approvals the Group has obtained has secured a stable pipeline for the Group’s business in 2020.

The Group has a diversified, commercially successful and extensive mobile game portfolio. In 2019, the Group newly launched 33 games of a wide variety of genres. As at 31 December 2019, 80 games were available for download on application stores and publishing platforms, 11 of which had lifecycles of over three years. Among the newly launched games in 2019, (i) 24 were mid-core to hardcore games, including *Dragon Ball – Awakening* (龍珠覺醒), a collectible card game (CCG) based on a licensed IP of the eponymous Japanese manga, which was ranked first in the Top Free Games List of Apple’s App Store on the first day of its launch, and became a recommended game of the week on Apple’s App Store in the first week of its launch;

(ii) seven were H5 games and mini programme games, including *The National Gunlord – The Frontier* (全民槍神：邊境王者), a game cooperated with Tencent; (iii) one was a PC web game, *War Song – the Creation* (熱血戰歌之創世), which was a popular game in the “Legend” web game category in 2019, and recorded peak gross billing in a single month of over RMB56 million, and over 2 million average MAUs; and (iv) one was a single-player PC game, *Monopoly 10* (大富翁10), which was developed by Beijing Softstar and published by a third party partner of the Group on the STEAM platform on 24 October 2019, and was the best domestically developed game in terms of sales volume on the STEAM platform in October and November 2019.

Building on the Group’s extensive game portfolio and the excellence of market reactions, the Group’s revenue increased by approximately 90.2% year-on-year to RMB3,036.3 million for the year ended 31 December 2019. It is expected that 38 new games, including the Group’s self-developed games, are potentially launched by the Group in 2020. The Group’s successful and extensive game portfolio ensures the Group’s overall success is not dependent on any single game.

The Group has a strong in-house game development capability. In 2019, the Group launched four self-developed games, three of which were developed by Wenmai Hudong, a subsidiary focusing on the development of “Legend” themed games and hardcore massive multiplayer online role-playing games (MMORPG) games, including *War Song – the Creation* (熱血戰歌之創世), and one of which was developed by Beijing Softstar, a subsidiary which developed *Monopoly 10* (大富翁10), a successful single-player PC game. Both Wenmai Hudong and Beijing Softstar have successfully developed and launched IP-based games, seven of these self-developed games were available for download or play as at 31 December 2019, including *World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), which recorded peak gross billing in a single month of over RMB200 million and nearly 1.3 million average MAUs. The Group will continue to strengthen its in-house game development capability, and it is expected that nine self-developed new games are potentially launched in 2020.

The Group has one of the largest publishing networks for mobile games in China, and is able to publish on major game platforms across China. Apart from major domestic and international application stores, third-party open platforms, and application stores operated by mobile phone manufacturers, the Group also published its games through social network platforms. Through these social network platforms, the Group is able to reach a wider and more diverse user base, which allows the Group to further expand its distribution coverage to promote its games more effectively. For example, *The National Gunlord - The Frontier* (全民槍神：邊境王者), the first 3D real-time first person shooting (FPS) games competition mini programme game in the world, was launched on the WeChat mini programme platform in March 2019 and on the QQ mini programme platform in May 2019. The Group has also entered into exclusive licensing agreements with ByteDance (字節跳動) for two of its games, namely *The King of Fighters: All Stars* (全明星激鬥) and *One Piece: The Voyage* (航海王熱血航線), and has entered into a substantive negotiation phase with social network platforms for two other games. Through these collaborations with major game platforms, the Group is able to promote its games to a large and diverse user base.

The Group has strategically invested in IPs and developers to provide strong support for the Group’s IP game ecosystem. The Group formed the Partnership with CPC Management, SMAIGF and Shenzhen Shengxin to mainly make investments in the form of equity securities and/or convertible debt securities in strategic emerging industries, future industries and other key developing industries that are supported and encouraged by the Shenzhen government. The Partnership has enabled the Group to gain access to opportunities of establishing 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 effects fostering the business development of the Group.

Also, as at the date of this announcement, the Group held 25.7% limited partnership interests in China Prosperity Capital Mobile Internet Fund, L.P. (“**CPC Fund**”), which investment portfolio primarily focuses on the mobile internet and technology industries in the Greater China region, in particular the culture and entertainment industry, such as internet literature, dramas and movies, motion pictures, manga and animations, amongst others. The Group invested in CPC Fund with a view to tapping into the fast developing mobile internet industry outside the Group’s principal business of game publishing and receiving investment returns. Investing through CPC Fund also allows the Group to establish relationships in its portfolio companies, including IP-incubating platforms and vertical platforms.

In addition, as at 31 December 2019, the Group had directly invested in 14 game developers. As part of such portfolio investments, the Group had also invested in three game developing companies by way of convertible loans in the ordinary course of its business to maintain relationships with a potential pool of game developers while having the flexibility to become their shareholders. According to the terms and conditions of these convertible loans, the Group is entitled to convert the convertible loans into equity capital of the relevant game developing companies at the Group’s own discretion before the maturity of the relevant convertible loans. As at the date of this announcement, the Group is in substantive discussion with Shenzhen Sparks Interactive Entertainment Co., Ltd. (深圳市火花幻境互動娛樂有限公司), the game developer of a popular game of the Group, *The National Gunlord – The Frontier* (全民槍神:邊境王者), on the conversion of a convertible loan extended to them into equity capital.

Further, in December 2019, the Group, together with around 50 market players in China, including Shiji Huatong (世紀華通) (SZSE:002602) and 37 Interactive Entertainment (37互娛) (SZSE:002555), formed a National Legend Industry Alliance (國民傳奇產業聯盟), and established a National Legend Industry Park (國民傳奇產業園) in Yichun, Jiangxi to focus on development of a popular IP, “Legend”. The Group’s chairman, Mr. Xiao Jian, is the vice chairman of the first council of the industry alliance. It is expected that the Group will continue to benefit from its leadership role and involvement in the development and exploitation of the popular “Legend” IP.

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

Award/Recognition	Year of Award	Awarding Institution/Authority
“Golden Diamond List” as Most Influential Enterprise of 2019 (金鑽榜2019最具影響力企業)	2020	Association of Game Industry of Guangdong (廣東省遊戲產業協會)
“Golden Finger Award” as Outstanding Enterprise in the Chinese Game Industry of 2019 (金手指獎中國遊戲行業2019年度優秀企業)	2019	China Culture & Entertainment Industry Association (中國文化娛樂行業協會)
“Golden Plume Award” as Most Influential Mobile Game Publisher (金翎獎最具影響力移動遊戲發行商)	2019	Hanwei Xinheng Exhibition Co., Ltd. (漢威信恆展覽有限公司)
China’s Top Ten Game Operators (中國十大遊戲運營商)	2019	China Audio-video and Digital Publishing Association (中國音像與數字出版協會)
Top 100 Chinese Internet Companies in 2019 (2019年中國互聯網企業100強)	2019	Internet Society of China (中國互聯網協會), Ministry of Industry and Information Technology Cyber Security Industry Development Centre (工業和信息化部網絡安全產業發展中心)
Guangdong Top 500 Enterprise (廣東省企業500強)	2019	Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會)
Top 100 Innovative Enterprises in Guangdong Province (廣東省創新企業100強)	2019	Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會)
Top 100 Service Providers in Guangdong Province (廣東省服務業100強)	2019	Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會)
Best Employer Enterprise in Guangdong Province (廣東省最佳僱主企業)	2019	Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會)
Rank 67 among the Top 300 Internet Enterprises in China (中國互聯網300強第67位)	2019	Internet Weekly of Chinese Academy of Sciences (中國科學院《互聯網週刊》) and the Informatisation Research Centre of Chinese Academy of Social Sciences (中國社會科學院信息化研究中心)
Top 50 Most Influential Enterprises in Cultural and Creative Industry (新文創影響力企業50強)	2019	Internet Weekly of Chinese Academy of Sciences (中國科學院《互聯網週刊》) and the Informatisation Research Centre of Chinese Academy of Social Sciences (中國社會科學院信息化研究中心)
Top 10 China Super Promising IP Contest in 2019 - Legend of Sword and Fairy (Derivatives & Marketing, Film and Television) (2019年中國超級潛力IP評選Top10仙劍奇俠傳(衍生品&營銷方向、影視化方向))	2019	Securities Times China (證券時報) and Mango Excellent Media Co., Ltd. (芒果超媒股份有限公司)
Top 10 China Super Promising IP Contest in 2019 - Monopoly (Derivatives & Marketing) (2019年中國超級潛力IP評選Top10大富翁(衍生品&營銷方向))	2019	Securities Times China (證券時報) and Mango Excellent Media Co., Ltd. (芒果超媒股份有限公司)
Top 10 China Super Promising IP Contest in 2019 - Xuan Yuan Sword (Reality Entertainment & Performing Arts) (2019年中國超級潛力IP評選Top10軒轅劍(實景娛樂&演藝方向))	2019	Securities Times China (證券時報) and Mango Excellent Media Co., Ltd. (芒果超媒股份有限公司)
5th Blackstone Most Talked about Game Company Award (第五屆黑石獎硬核最受關注遊戲公司)	2019	Mobile Hardcore Alliance (硬核聯盟)
Most Watched Company of the Year (遊戲年度最受關注企業)	2019	Ocean Engine (巨量引擎)
Industry Intensive Advertising Award (行業精耕廣告主獎)	2019	Tencent Advertising (騰訊廣告)

Outlook for 2020

The Group will, driven by its IP strategies, continue to explore valuable IP resources which have a significant fan base, market acceptance and commercial value on a global basis with a focus on IPs with Chinese cultural characteristics and IPs with extensive global influence so as to help game developers to attract and retain players more efficiently and effectively. At the same time, the Group will continue to provide high quality IP-based games and continue to expand its cross-border cooperations in IP, so as to leverage the competitive advantages represented by its IP reserves, in-house game development capability and distribution networks. The Group will also continue to seek merger and acquisition opportunities that can generate synergies to accelerate business growth and breakthroughs. At the same time, the Group will continue to expand its overseas gaming business. A number of games are planned to be launched overseas in 2020, including *Age of Myth Genesis* (創世之爭), *Dynasty Warriors: Hegemony* (真·三國無雙:霸) and *The King of Fighters: All Stars* (全明星激鬥). It is expected that the Group will record a significant increase in the scale and proportion of its revenue derived from overseas.

According to the Global App Store and Google Play Revenue Rankings of Chinese Mobile Game Publishers in January 2020 (2020年1月中國手遊發行商全球App Store和Google Play收入排行榜) published by Sensor Tower in January 2020, the top 30 mobile game publishers contributed more than US\$1.56 billion in revenue in aggregate, representing approximately 28.2% of the total mobile game revenue globally. On 14 December 2019, the Beijing Municipal Propaganda Department (北京市委宣傳部) promulgated *Several Opinions on Promoting the Healthy Development of Beijing Game Industry* (關於推動北京遊戲產業健康發展的若干意見), which mentioned several measures to promote the healthy development of the game industry, and indicated a positive signal from the Chinese government to support the continual development of the gaming industry. At the same time, with the advent of the 5G era, future intelligent technologies such as human-computer interaction, interactive communication and immersive experiences are likely to be innovatively applied in the game field. The Group will pay close attention to the development opportunities represented by the cloud game industry under 5G applications, and improve its technology level for IP development. These technology revolutions are expected to lead the industry into a new period of growth. Coupled with a large number of popular IPs, 5G cloud gaming technology and supporting policies, the Group believes it will continue to achieve successful business performance in the future.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The following table sets forth the comparative figures for the years ended 31 December 2018 and 2019:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Revenue	3,036,301	1,596,204
Cost of sales	(1,953,103)	(1,063,734)
Gross profit	1,083,198	532,470
Other income and gains	95,404	123,674
Selling and distribution expenses	(230,321)	(148,054)
Administrative expenses	(577,451)	(147,672)
Other expenses	(20,551)	(7,948)
Finance costs	(15,072)	(10,053)
Share of losses of a joint venture	(2,116)	(4,257)
Share of profits of associates	10,532	17,887
Profit before tax	343,623	356,047
Income tax expense	(100,410)	(40,074)
Profit for the year	243,213	315,973
Attributable to owners of the parent	248,348	311,045
Attributable to non-controlling interests	(5,135)	4,928
Adjusted net profit ⁽¹⁾	611,007	335,465

Note:

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

Adjusted net profit

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

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Profit for the year attributable to owners of the parent	248,348	311,045
Add:		
(i) Equity-settled share-based expense	328,088	—
(ii) Listing expenses	34,571	24,420
Adjusted net profit	611,007	335,465

The Group's adjusted net profit increased by approximately 82.1% from RMB335.5 million for the year ended 31 December 2018 to RMB611.0 million for the year ended 31 December 2019. As the adjusted net profit excluded non-operating items that may impact the Group's net profit for the year, i.e. equity-settled share-based expense and listing expenses, the increase in the Group's operating results for the year ended 31 December 2019 more closely reflected the improvement in the Group's operating results in 2019 due to acquisitions of several popular IPs, further diversification the Group's game portfolio and the strong performance of the Group's games in 2019.

Revenue

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

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Game publishing	2,553,189	84.1	1,400,454	87.7
Game development	421,254	13.9	177,946	11.1
IP licensing	61,858	2.0	17,804	1.2
Total	<u>3,036,301</u>	<u>100.0</u>	<u>1,596,204</u>	<u>100.0</u>

The Group's revenue increased by approximately 90.2% from RMB1,596.2 million for the year ended 31 December 2018 to RMB3,036.3 million for the year ended 31 December 2019. This increase was primarily attributable to:

- (i) an increase in the Group's game publishing revenue by approximately 82.3% from RMB1,400.5 million for the year ended 31 December 2018 to RMB2,553.2 million for the year ended 31 December 2019, primarily as a result of the strong performance in 2019 of the Group's games, particularly *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), *Martyn Palace* (烈焰皇城), *Dragon Ball – Awakening* (龍珠覺醒), *One Piece – the Road of the Strong* (航海王強者之路), *The Story of the Flying Mortal H5* (凡人飛仙傳H5) and *Dragon Hunter H5* (神龍獵手H5);
- (ii) an increase in the Group's game development revenue by approximately 136.8% from RMB177.9 million for the year ended 31 December 2018 to RMB421.3 million for the year ended 31 December 2019, primarily as a result of (a) the consolidation of the financial results of Wenmai Hudong and Beijing Softstar starting from May 2018 and August 2018, respectively, (b) the continuous growth in performance of the Group's self-developed game, *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) in 2019, and (c) the strong performance of the Group's newly launched self-development game, *War Song – the Creation* (熱血戰歌之創世) in 2019; and
- (iii) an increase in the Group's IP licensing revenue by approximately 247.8% from RMB17.8 million for the year ended 31 December 2018 to RMB61.9 million for the year ended 31 December 2019, primarily as a result of the licensing of several proprietary IPs to third parties in 2019, including *Legend of Sword and Fairy* (仙劍奇俠傳) and *Monopoly* (大富翁).

Cost of sales

The Group's cost of sales consists primarily of (i) revenue sharing with publishing channels, (ii) amortisation of royalties from games and IPs held by third-party game developers and the Group, (iii) revenue sharing with IP owners, and (iv) game development costs. The table below sets forth the Group's cost of sales by category, and its contribution to the total revenue of the Group as a percentage, for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	% to Revenue	RMB'000	% to Revenue
Revenue sharing with publishing channels	1,841,842	60.7	985,714	61.8
Amortisation of game royalties	15,327	0.5	13,495	0.8
Amortisation of IP royalties	12,714	0.4	4,660	0.3
Revenue sharing with IP owners	21,885	0.7	28,206	1.8
Game development costs	27,120	0.9	13,328	0.8
Others ⁽¹⁾	34,215	1.1	18,331	1.1
Total	<u>1,953,103</u>	<u>64.3</u>	<u>1,063,734</u>	<u>66.6</u>

Note:

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

The Group's cost of sales increased by approximately 83.6% from RMB1,063.7 million for the year ended 31 December 2018 to RMB1,953.1 million for the year ended 31 December 2019. This increase was primarily attributable to (i) an increase in the Group's revenue shared with publishing channels, which was in line with the Group's overall increase in revenue; and (ii) the amortisation of intangible assets resulting from the Group's acquisition of Wenmai Hudong in May 2018 and Beijing Softstar in August 2018.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by approximately 103.4% from RMB532.5 million for the year ended 31 December 2018 to RMB1,083.2 million for the year ended 31 December 2019. The Group's gross profit margin increased from 33.4% for the year ended 31 December 2018 to 35.7% for the year ended 31 December 2019.

Other income and gains

The Group's other income and gains consist primarily of (i) bank interest income, (ii) government grants, (iii) gains on disposal of financial assets at fair value through profit or loss, (iv) dividend income from financial assets at fair value through profit or loss, (v) fair value gains on financial assets at fair value through profit or loss, (vi) gain on deemed disposal of an investment in an associate, (vii) fair value adjustment of contingent consideration, (viii) foreign exchange gains, and (ix) gain on disposal of other intangible assets. The table below sets forth the Group's other income and gains by category for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Bank interest income	6,001	6.3	1,228	1.0
Government grants	12,428	13.0	4,241	3.4
Gains on disposal of financial assets at fair value through profit or loss	—	—	2,308	1.9
Dividend income from financial assets at fair value through profit or loss	12,588	13.2	—	—
Fair value gains on financial assets at fair value through profit or loss	12,772	13.4	86,055	69.6
Gain on deemed disposal of an investment in an associate	38,443	40.3	—	—
Fair value adjustment of contingent consideration	—	—	17,498	14.1
Foreign exchange gains	—	—	6,739	5.5
Gain on disposal of other intangible assets	3,062	3.2	—	—
Others	10,110	10.6	5,605	4.5
Total	95,404	100.0	123,674	100.0

The Group's other income and gains decreased by approximately 22.9% from RMB123.7 million for the year ended 31 December 2018 to RMB95.4 million for the year ended 31 December 2019. This decrease was primarily attributable to a decrease in fair value gains on financial assets at fair value through profit or loss, which was partially offset by an increase in dividend income from financial assets at fair value through profit or loss as a result of the receipt of dividends distributed by China Prosperity Capital Mobile Internet Fund, L.P. and Fontaine Capital Fund, L.P.

Selling and distribution expenses

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

	For the year ended 31 December			
	2019	% to	2018	% to
	RMB'000	Revenue	RMB'000	Revenue
Marketing expenses	183,414	6.0	109,988	6.9
Salaries and welfare	43,513	1.4	35,462	2.2
Office costs and utilities	2,968	0.1	1,825	0.1
Others	426	0.1	779	0.1
Total	230,321	7.6	148,054	9.3

The Group's selling and distribution expenses increased by approximately 55.5% from RMB148.1 million for the year ended 31 December 2018 to RMB230.3 million for the year ended 31 December 2019. This increase was primarily attributable to the incurring of more marketing expenses in promoting and advertising the Group's highest revenue-generating game in 2019, *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), on various popular media and social networks.

Administrative expenses

The Group's administrative expenses consist primarily of (i) salaries and welfare, (ii) office costs and utilities, (iii) research and development expenses, and (iv) listing 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 years indicated:

	For the year ended 31 December			
	2019	% to	2018	% to
	RMB'000	Revenue	RMB'000	Revenue
Salaries and welfare	343,407	11.3	32,158	2.0
Office costs and utilities	35,944	1.2	29,117	1.8
Research and development expenses	160,829	5.3	59,719	3.7
Listing expenses	34,571	1.1	24,420	1.5
Others	2,700	0.1	2,258	0.3
Total	577,451	19.0	147,672	9.3

The Group's administrative expenses increased by approximately 291.0% from RMB147.7 million for the year ended 31 December 2018 to RMB577.5 million for the year ended 31 December 2019. This increase was primarily attributable to (i) an increase in salaries and welfare expenses allocated to management and administrative departments in 2019, including the accrual of equity-settled share-based expense to certain selected employees of the Group of RMB304.4 million, in recognition of their contribution to the Group's business in past years and the achievement of the successful Listing in October 2019, and (ii) an increase in the Group's research and development expenses due to its acquisition of Wenmai Hudong in May 2018, the consolidation of the financial statements of Beijing Softstar after it became the Group's subsidiary in August 2018, and the occurrence of equity-settled share-based expense of RMB14.7 million allocated to research and development departments in 2019.

Other expenses

The Group's other expenses consist primarily of asset impairment losses. The Group's other expenses increased by approximately 160.8% from RMB7.9 million for the year ended 31 December 2018 to RMB20.6 million for the year ended 31 December 2019. This increase was primarily attributable to the record of an impairment loss of trade receivables under the relevant management policies of the Group adopted in accordance with HKFRS 9. For further details, see note 11 to the consolidated financial statements in this announcement.

Finance costs

The Group's finance costs mainly consist of interest expenses. The Group's finance costs increased by approximately 49.5% from RMB10.1 million for the year ended 31 December 2018 to RMB15.1 million for the year ended 31 December 2019. This increase was the result of an increase in the Group's bank borrowings.

Share of losses of a joint venture

As at 31 December 2019, the Group held a 60% equity interest in Shenzhen Boliang Technology Co., Ltd. (深圳博良科技有限公司), which is considered as a joint venture of the Group under applicable accounting policies.

The Group's share of losses of a joint venture decreased by approximately 51.2% from RMB4.3 million for the year ended 31 December 2018 to RMB2.1 million for the year ended 31 December 2019. This decrease was primarily attributable to a decrease in the loss recorded by Shenzhen Boliang Technology Co., Ltd. during 2019.

Share of profits of associates

As at 31 December 2019, the Group held minority equity interests in certain associated companies. The Group's share of profits of associates decreased by approximately 41.3% from RMB17.9 million for the year ended 31 December 2018 to RMB10.5 million for the year ended 31 December 2019. This decrease was primarily attributable to a loss recorded by one of the Group's associates, Shanghai Langkun Digital Technology Co., Ltd. (上海朗鵬數碼科技有限公司) in 2019.

Profit before tax

As a result of the foregoing, the Group's profit before tax decreased by approximately 3.5% from RMB356.0 million for the year ended 31 December 2018 to RMB343.6 million for the year ended 31 December 2019.

Income tax expense

The Group's income tax expense increased by approximately 150.4% from RMB40.1 million for the year ended 31 December 2018 to RMB100.4 million for the year ended 31 December 2019. This increase was primarily attributable to a significant increase in the Group's adjusted net profit in 2019.

Profit for the year

As a result of the foregoing, the Group's profit for the year decreased by approximately 23.0% from RMB316.0 million for the year ended 31 December 2018 to RMB243.2 million for the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2019, the Group funded its cash requirements principally from cash generated from its operating activities and financing activities. The Group had cash and cash equivalents of RMB144.4 million and RMB771.1 million as at 31 December 2018 and 2019, respectively. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash which are not restricted as to use.

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

Financing activities

On 31 October 2019, the Company issued 461,000,000 Shares at an offer price of HK\$2.83 per share on the Stock Exchange by a global offering. On 4 November 2019, the Company further issued 69,150,000 Shares pursuant to the full exercise of the over-allotment option at an offer price of HK\$2.83 per share. Upon completion of the global offering, the Company raised net proceeds of approximately HK\$1,347.1 million.

Cash flow

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

	For the year ended	
	31 December	
	2019	2018
	RMB'000	RMB'000
Net cash flows from operating activities	310,398	59,631
Net cash flows used in investing activities	(1,318,944)	(428,363)
Net cash flows from financing activities	1,634,595	264,888
Net increase/(decrease) in cash and cash equivalents	626,049	(103,844)
Cash and cash equivalents at beginning of year	144,445	245,762
Effect of foreign exchange rate changes, net	596	2,527
Cash and cash equivalents at end of the year	771,090	144,445

Net cash flows from operating activities

For the year ended 31 December 2019, the Group recorded net cash from its operating activities of RMB310.4 million, which was primarily attributable to the Group's profit before taxation of RMB343.6 million, primarily adjusted by (i) equity-settled share-based expense of RMB328.1 million, (ii) amortisation of other intangible assets of RMB51.5 million, (iii) gain on deemed disposal of an investment in an associate of RMB38.4 million, (iv) fair value gains on financial assets at fair value through profit or loss of RMB12.8 million, and (v) depreciation of right-of-use assets of RMB18.2 million. Movements in working capital contributed to net cash outflow of RMB395.4 million, consisting of (a) an increase in trade receivables of RMB332.1 million, (b) an increase in prepayments, other receivables and other assets of RMB133.7 million, (c) an increase in amounts due from related parties of RMB9.5 million, (d) an increase in trade payables of RMB58.5 million, (e) an increase in other payables and accruals of RMB94.8 million, (f) a decrease in amounts due to related parties of RMB50.5 million, and (g) income tax paid of RMB22.9 million.

Net cash flows used in investing activities

For the year ended 31 December 2019, the Group recorded net cash used in investing activities of RMB1,318.9 million, which was primarily attributable to (i) purchases of financial assets at fair value through profit or loss of RMB183.1 million, (ii) additions to other intangible assets of RMB241.3 million, (iii) increase in pledged time deposits of RMB406.3 million, (iv) acquisition of subsidiaries, namely Wenmai Hudong and Beijing Softstar, of RMB221.0 million, (v) the deposit of RMB209.3 million to a financial institution for assets management purposes, and (vi) payments for acquisition of an angel investments fund of RMB163.0 million.

Net cash flows from financing activities

For the year ended 31 December 2019, the Group recorded net cash flows from financing activities of RMB1,634.6 million, which was primarily attributable to (i) proceeds from issue of Shares of RMB1,350.5 million, and (ii) new bank loans obtained by the Group of RMB490.6 million, partially offsetted by, among others, (a) share issue expenses of RMB78.0 million, and (ii) repayment of bank loans of RMB100.0 million.

Indebtedness

During the year ended 31 December 2019, the Group obtained bank loans of RMB490.6 million and repaid bank loans of RMB100.0 million.

As at 31 December 2019, the Group had interest-bearing bank borrowings of RMB442.0 million, including (i) a bank loan amounting to RMB95.2 million, secured by the pledge of the Group's time deposits in the sum of RMB100.0 million, and (ii) a bank loan amounting to RMB9.0 million, secured by a corporate guarantee provided by Shenzhen Small & Medium Enterprises Credit Financing Guarantee Group Co., Ltd. (深圳市中小企業融資擔保有限公司). The effective interest rates on the Group's secured bank loans ranged from 4.79% to 6.26%, and the Group's unsecured bank loans from 4.95% to 7.00%.

As at 31 December 2019, the lease liabilities of the Group were RMB33.7 million.

Contingent Liabilities

As at 31 December 2019, save for the two legal proceedings as disclosed in the section headed “Business — Legal proceedings and compliance” in the Company’s prospectus dated 19 October 2019 (the “**Prospectus**”), the Group did not have any contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of the Group.

As at 31 December 2019, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities.

Off-balance sheet commitments and arrangements

As at 31 December 2019, the Group did not enter into any off-balance sheet transactions.

KEY FINANCIAL METRICS

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

	For the year ended/ as at 31 December	
	2019	2018
Current ratio (times) ⁽¹⁾	2.0	1.3
Gearing ratio ⁽²⁾	11.9%	2.8%
Gross profit margin	35.7%	33.4%

Notes:

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

CAPITAL EXPENDITURES

The Group’s historical capital expenditures primarily included royalties paid to game developers and IP owners. The Group funded its capital expenditure requirements during the year ended 31 December 2019 mainly with its internal resources.

The Group’s capital commitments as at 31 December 2018 and 2019 amounted to RMB10.1 million and RMB41.3 million, respectively. The Group’s capital commitments as at 31 December 2019 was for the purchase of IP and game licenses.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

During the period between 31 October 2019 (the “**Listing Date**”) and 31 December 2019, and up to the date of this announcement, the Group did not make any significant investment, or perform any material acquisition or disposal of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2019, the Group did not purchase, sell or redeem any of the Company’s listed securities.

Corporate Governance Code

During the period between the Listing Date and 31 December 2019, the Company complied with the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), except for a deviation from code provision A.2.1 of the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities of the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Group does not have a separate chairman and chief executive officer and Mr. Xiao Jian currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board currently comprises two executive Directors (including Mr. Xiao Jian), two non-executive Directors and three independent non-executive Directors, and therefore has a fairly strong independence element in its composition. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider separating the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Company as a whole.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct regarding dealings in the securities of the Company by the Directors, senior management members, and employees who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company’s securities. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the period between the Listing Date and 31 December 2019. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management members or relevant employees of the Group for the period between the Listing Date and 31 December 2019.

Employees remuneration and relations

As at 31 December 2019, the Group had 819 full-time employees (2018: 776). The success of the Group depends on its ability to attract, retain and motivate qualified personnel. As part of the Group’s human resources strategy, the Group offers employees competitive salaries, performance based promotion systems and other incentives. Some of the Group’s employees also received restricted share units (RSU) under the Company’s pre-IPO restricted share unit schemes (the “**Pre-IPO RSU Schemes**”). The Group provides training programmes to employees, including new hire training for new employees and continuing technical training for our research and development team and game operation team to enhance their skill and knowledge.

Remuneration policy

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

Audit Committee

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

The Audit Committee, together with the Auditor, has reviewed the Group’s consolidated financial statements for the year ended 31 December 2019. There is no disagreement between the Board and the Audit Committee regarding the accounting treatment adopted by the Company.

Important Events Affecting the Group since 31 December 2019

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

Save as disclosed above, no other important events affecting the Group has taken place since 31 December 2019 and up to the date of this announcement.

Annual General Meeting

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

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 26 May 2020 to Friday, 29 May 2020 (both days inclusive) during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered shareholders shall ensure that all transfer documents accompanied by the relevant Share certificates must be lodged with the Company's Hong Kong branch registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 25 May 2020.

Final Dividend and Closure of register of members

After due consideration of Shareholders' as well as the Company's long-term interests, the Board recommended the payment of a final dividend of HK\$0.0355 (equivalent to RMB0.0313 based on the average exchange rate of 2019) per Share for the year ended 31 December 2019 out of the Company's share premium account, subject to the approval of Shareholders at the AGM. The final dividend, if approved by the Shareholders at the AGM, will be paid on or before Tuesday, 30 June 2020 to Shareholders whose name appear on the register of members of the Company as at the close of business on Friday, 12 June 2020. The aggregated amount of the dividends to be distributed by the Company for the year ended 31 December 2019 is proposed to be approximately HK\$82.7 million, based on 2,330,150,000 Shares, being the total number of Shares as at 31 December 2019.

For the purpose of determining entitlement to a final dividend, the register of members of the Company will be closed from Monday, 8 June 2020 to Friday, 12 June 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to the payment of a final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 5 June 2020.

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the year ended	
		31 December	
		2019	2018
		RMB'000	RMB'000
REVENUE	4	3,036,301	1,596,204
Cost of sales		(1,953,103)	(1,063,734)
		<hr/>	<hr/>
Gross profit		1,083,198	532,470
Other income and gains	4	95,404	123,674
Selling and distribution expenses		(230,321)	(148,054)
Administrative expenses		(577,451)	(147,672)
Other expenses		(20,551)	(7,948)
Finance costs		(15,072)	(10,053)
Share of profits and losses of:			
A joint venture		(2,116)	(4,257)
Associates		10,532	17,887
		<hr/>	<hr/>
PROFIT BEFORE TAX	5	343,623	356,047
Income tax expense	6	(100,410)	(40,074)
		<hr/>	<hr/>
PROFIT FOR THE YEAR		243,213	315,973
		<hr/>	<hr/>
Attributable to:			
Owners of the parent		248,348	311,045
Non-controlling interests		(5,135)	4,928
		<hr/>	<hr/>
EARNINGS PER SHARE			
ATTRIBUTABLE TO			
ORDINARY EQUITY			
HOLDERS OF THE PARENT	8		
Basic and diluted			
– For profit for the year		RMB13.15 cents	RMB17.28 cents
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended	
	31 December	
	2019	2018
	RMB'000	RMB'000
PROFIT FOR THE YEAR	<u>243,213</u>	<u>315,973</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(1,923)	2,479
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(1,923)</u>	<u>2,479</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	<u>(1,923)</u>	<u>2,479</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>241,290</u>	<u>318,452</u>
Attributable to:		
Owners of the parent	246,425	313,524
Non-controlling interests	<u>(5,135)</u>	<u>4,928</u>
	<u>241,290</u>	<u>318,452</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December	
		2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property and equipment		4,815	6,245
Right-of-use assets		34,138	21,095
Goodwill	9	1,118,617	1,118,617
Other intangible assets		154,973	117,545
Investment in a joint venture		2,008	4,124
Investments in associates		125,530	167,804
Financial assets at fair value through profit or loss	10	725,137	538,701
Deferred tax assets		8,175	10,651
Prepayments	12	453,972	68,381
Total non-current assets		2,627,365	2,053,163
CURRENT ASSETS			
Trade receivables	11	789,903	472,431
Prepayments, other receivables and other assets	12	384,211	332,648
Other current asset	12	209,286	—
Due from related parties		20,002	10,517
Pledged deposits		406,267	—
Cash and cash equivalents		771,090	144,445
Total current assets		2,580,759	960,041

		As at 31 December	
	Note	2019	2018
		RMB'000	RMB'000
CURRENT LIABILITIES			
Trade payables	13	169,756	111,230
Other payables and accruals		517,442	463,645
Interest-bearing bank borrowings		442,036	51,422
Tax payable		116,945	41,212
Due to related parties		20,800	71,277
Lease liabilities		16,633	16,424
		<hr/>	<hr/>
Total current liabilities		1,283,612	755,210
		<hr/>	<hr/>
NET CURRENT ASSETS		1,297,147	204,831
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,924,512	2,257,994
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		32,422	30,081
Payable for business combination		—	92,324
Contingent consideration for business combination		163,414	268,189
Lease liabilities		17,062	4,671
		<hr/>	<hr/>
Total non-current liabilities		212,898	395,265
		<hr/>	<hr/>
Net assets		3,711,614	1,862,729
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		1,641	—
Reserves		3,602,437	1,750,058
		<hr/>	<hr/>
		3,604,078	1,750,058
Non-controlling interests		107,536	112,671
		<hr/>	<hr/>
Total equity		3,711,614	1,862,729
		<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Pursuant to the Accountants' Report of the Group in connection with the listing of the Shares of the Company on the Stock Exchange dated 31 October 2019, all HKFRSs effective for the accounting period commencing from 1 January 2019 set out below had been consistently applied by the Group in the preparation of the consolidated financial statements, which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contract</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

3. OPERATING SEGMENT INFORMATION

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

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

For the year ended 31 December 2019

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
Segment revenue (note 4)				
Sales to external customers	2,553,189	421,254	61,858	3,036,301
Intersegment sales	—	939,779	—	939,779
Elimination of intersegment sales	—	(939,779)	—	(939,779)
Total revenue from contracts with customers	<u>2,553,189</u>	<u>421,254</u>	<u>61,858</u>	<u>3,036,301</u>

For the year ended 31 December 2018

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
Segment revenue (note 4)				
Sales to external customers	1,400,454	177,946	17,804	1,596,204
Intersegment sales	—	68,112	—	68,112
Elimination of intersegment sales	—	(68,112)	—	(68,112)
Total revenue from contracts with customers	1,400,454	177,946	17,804	1,596,204

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
Mainland China	3,022,957	1,585,667
Other countries and areas	13,344	10,537
	3,036,301	1,596,204

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

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
Mainland China	1,755,281	1,491,138
Other countries and areas	138,772	12,673
	1,894,053	1,503,811

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

Information about major customers

During the year ended 31 December 2018, revenues of approximately RMB392,823,000 and RMB201,040,000 were derived from two respective single external customer where revenue from each of them accounted for more than 10% of the total revenue.

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

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2019

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

For the year ended 31 December 2018

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
Type of goods or services				
Mobile game publishing services	1,400,454	—	—	1,400,454
Game development related services	—	177,946	—	177,946
Licensing of intellectual property	—	—	17,804	17,804
Total revenue from contracts with customers	<u>1,400,454</u>	<u>177,946</u>	<u>17,804</u>	<u>1,596,204</u>
Geographical markets				
Mainland China	1,389,917	177,946	17,804	1,585,667
Other countries and areas	<u>10,537</u>	—	—	<u>10,537</u>
Total revenue from contracts with customers	<u>1,400,454</u>	<u>177,946</u>	<u>17,804</u>	<u>1,596,204</u>
Timing of revenue recognition				
Services transferred over time	1,400,454	154,361	—	1,554,815
Services transferred at a point in time	—	23,585	17,804	41,389
Total revenue from contracts with customers	<u>1,400,454</u>	<u>177,946</u>	<u>17,804</u>	<u>1,596,204</u>

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

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of year:		
Short-term advances received from publishing channels	10,762	18,010
Sales of game points in self-developed games	<u>8,240</u>	—
	<u>19,002</u>	<u>18,010</u>

(b) Performance obligations

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

Publishing services

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

Game development related services

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

IP licensing services

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

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

	2019	2018
	RMB'000	RMB'000
Amounts expected to be recognised as revenue:		
Within one year	72,039	57,112
After one year	—	—

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

	2019 RMB'000	2018 RMB'000
Other income		
Bank interest income	6,001	1,228
Dividend income from financial assets at fair value through profit or loss	12,588	—
Government grants - related to income*	12,428	4,241
Foreign exchange differences, net	—	6,739
Others	10,110	5,605
	<u>41,127</u>	<u>17,813</u>
Gains		
Gains on disposal of financial assets at fair value through profit or loss	—	2,308
Gain on deemed disposal of an investment in an associate	38,443	—
Fair value gains on financial assets at fair value through profit or loss	12,772	86,055
Fair value adjustment of contingent consideration	—	17,498
Gain on disposal of other intangible assets	3,062	—
	<u>54,277</u>	<u>105,861</u>
	<u>95,404</u>	<u>123,674</u>

* Various government grants have been received from local government authorities in the People's Republic of China (the "PRC"). There are no unfulfilled conditions and other contingencies relating to these grants.

5. PROFIT BEFORE TAX

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

	2019	2018
	RMB'000	RMB'000
Commissions charged by channels	1,841,842	985,714
Commissions charged by IPs	21,885	28,206
Game development cost	27,120	13,328
Promotion expenses	183,414	109,988
Employee benefit expense (excluding directors' and chief executives' remuneration):		
Wages and salaries	153,109	73,488
Equity-settled share-based expense	74,152	—
Pension scheme contributions (defined contribution scheme)	16,639	12,493
	243,900	85,981
Depreciation of property and equipment	3,989	2,653
Depreciation of right-of-use assets	18,154	15,326
Amortisation of other intangible assets	51,525	32,956
Research and development costs	160,829	59,719
Lease payments not included in the measurement of lease liabilities	79	18
Foreign exchange differences, net	165	(6,739)
Impairment of trade receivables, net*	14,626	5,177
(Reversal)/write-off of prepayments, net**	(696)	4,733
Impairment of other intangible assets ***	4,192	—
Bank interest income	(6,001)	(1,228)
Loss on disposal of items of property and equipment	544	300
Remeasurement loss of a previously-held investment in a joint venture	—	7,679
Auditor's remuneration	3,000	200
Listing expenses	34,571	24,420
Losses/(gains) on disposal of financial assets at fair value through profit or loss	384	(2,308)
Gain on deemed disposal of an investment in an associate	(38,443)	—
Fair value adjustment of contingent consideration	1,490	(17,498)

* Impairment of trade receivables is included in other expenses in the consolidated statement of profit or loss.

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

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

6. INCOME TAX

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

Pursuant to the rules and regulations of the British Virgin Islands (the “**BVI**”) and 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% on the Group’s assembled profit derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

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

Chengdu Zhuoxing Technology Company Limited (成都卓星科技有限公司) (the “**Chengdu Zhuoxing**”) was accredited as a “software enterprise” in 2014 under relevant PRC laws and regulations. Accordingly, Chengdu Zhuoxing was entitled to a preferential Corporate Income Tax (“**CIT**”) rate of 12.5% for the year ended 31 December 2018. For the year ended 31 December 2019, Chengdu Zhuoxing was subject to CIT at the standard rate of 25%.

Shenzhen Douyue Internet Technology Company Limited (深圳市豆悦網絡科技有限公司) (the “**Shenzhen Douyue**”) and Shenzhen Zhongshouyou were accredited as “software enterprises” in 2016 under relevant PRC laws and regulations. Accordingly, Shenzhen Douyue and Shenzhen Zhongshouyou were entitled to a preferential CIT rate of 12.5% for the years ended 31 December 2019 and 2018.

Wenmai Hudong was accredited as a high and new technology enterprise (the “**HNTE**”) since 2016 and the certificate is valid for three years. For the years ended 31 December 2019 and 2018, Wenmai Hudong was entitled to a tax rate of 15%. The HNTE certificates need to be renewed every three years so as to enable Wenmai Hudong to enjoy the reduced tax rate of 15%.

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

Horgos Zhongsheng Huyu Entertainment Technology Company Limited (霍爾果斯鐘聲互娛科技有限公司) (the “**Zhongsheng Huyu**”) was established in Horgos Development Zone of Xinjiang and was exempt from PRC Tax Law from the first year of operation which was 2016 for a five-year period according to the applicable regulations promulgated by the State Council and relevant authorities. The applicable tax rate for Zhongsheng Huyu was 0% for the years ended 31 December 2019 and 2018.

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

	2019	2018
	RMB'000	RMB'000
Current Tax Expense		
HK	866	—
PRC	94,727	36,880
	<hr/>	<hr/>
Total	95,593	36,880
	<hr/>	<hr/>
Deferred Tax Expense		
HK	2,184	—
PRC	2,633	3,194
	<hr/>	<hr/>
Total	4,817	3,194
	<hr/>	<hr/>
Total tax charge for the year	100,410	40,074
	<hr/> <hr/>	<hr/> <hr/>

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

	2019		2018	
	RMB'000	%	RMB'000	%
Profit before tax	343,623		356,047	
	<hr/>		<hr/>	
Tax at the statutory tax rate	85,906	25	89,012	25
Effect of different applicable tax rates for specific jurisdictions or enacted by local authority	2,758	1	(48,450)	(14)
Profits and losses attributable to a joint venture and associates	(1,130)	(0)	(2,663)	(1)
Super deduction for research and development expenses	(10,365)	(3)	(5,341)	(2)
Expenses not deductible for tax	3,059	1	5,602	2
Utilisation of previously unrecognised tax losses	—	—	(4,555)	(1)
Tax losses not recognised	20,182	6	6,469	2
	<hr/>		<hr/>	
Tax charge at the Group's effective rate	100,410	29	40,074	11
	<hr/> <hr/>		<hr/> <hr/>	

The share of tax attributable to a joint venture and associates amounting to nil (2018: nil) and RMB3,020,000 (2018: RMB1,523,000), respectively, is included in “Share of profits and losses of a joint venture and associates” in the consolidated statement of profit or loss.

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

As at 31 December 2019, no deferred tax (2018: nil) has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB148,806,000 (2018: RMB86,064,000).

7. DIVIDENDS

At a meeting held by the board on 26 March 2020, the board proposed a final dividend in respect of the year ended 31 December 2019 of HK\$0.0355 per ordinary share of the Company, totalling approximately HK\$82,720,325 based on the latest number of 2,330,150,000 ordinary shares of the Company in issue. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,889,295,068 (2018: 1,800,000,000) in issue during the year, as adjusted to reflect the rights issued during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

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

	2019	2018
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	<u>248,348</u>	<u>311,045</u>
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u><u>1,889,295,068</u></u>	<u><u>1,800,000,000</u></u>

9. GOODWILL

	RMB'000
At 1 January 2018:	
Cost	324,842
Accumulated impairment	<u>—</u>
Net carrying amount	<u>324,842</u>
Cost at 1 January 2018, net of accumulated impairment	324,842
Acquisition of subsidiaries	793,775
Impairment during the year	<u>—</u>
At 31 December 2018	<u><u>1,118,617</u></u>
At 31 December 2018:	
Cost	1,118,617
Accumulated impairment	<u>—</u>
Net carrying amount	<u><u>1,118,617</u></u>
Cost at 1 January 2019, net of accumulated impairment	1,118,617
Impairment during the year	<u>—</u>
Cost and net carrying amount at 31 December 2019	<u><u>1,118,617</u></u>
At 31 December 2019:	
Cost	1,118,617
Accumulated impairment	<u>—</u>
Net carrying amount	<u><u>1,118,617</u></u>

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

The respective recoverable amount and the carrying value of the CGUs as at 31 December 2018 and 2019 are as follows:

Mobile game publishing CGU:

	2019	2018
	RMB'000	RMB'000
Recoverable amount	2,410,000	1,570,000
Carrying value including allocated goodwill	562,829	424,888

Game development of Wenmai Hudong CGU:

	2019	2018
	RMB'000	RMB'000
Recoverable amount	996,943	881,791
Carrying value including allocated goodwill	721,650	731,312

Game development of Beijing Softstar CGU:

	2019	2018
	RMB'000	RMB'000
Recoverable amount	283,223	266,183
Carrying value including allocated goodwill	260,500	246,563

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

Mobile game publishing CGU:

	2019	2018
Growth rates (during the five-year period)	3%-8%	3%-10%
Gross margin	31%	35%-36%
Pre-tax discount rate	16%	17%
Terminal growth rate	3%	3%

Game development of Wenmai Hudong CGU:

	2019	2018
Growth rates (during the five-year period)	3%-9%	3%-136%
Gross margin	17%	16%-18%
Pre-tax discount rate	20%	19%
Terminal growth rate	3%	3%

Game development of Beijing Softstar CGU:

	2019	2018
Growth rates (during the five-year period)*	3%-653%	3%-1,001%
Gross margin	18%	17%-19%
Pre-tax discount rate	21%	21%
Terminal growth rate	3%	3%

Assumptions were used in the value-in-use calculation of the CGUs for 31 December 2019 and 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

* The expected growth rate in the first forecasted year as at 31 December 2019 and 2018 was 653% and 1,001%, respectively. The Group expected significant growth in the first year due to the expected revenue from new launched mobile games and the synergy arising from the acquisition. Revenue in the second to fifth years were expected to increase gradually and therefore the growth rate returned to a lower range.

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

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

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

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	RMB'000	RMB'000
Listed equity investments, at fair value	222,022	64,700
NEEQ quoted equity investment, at fair value	72,869	71,682
Unlisted equity investments, at fair value	414,512	342,497
Convertible loans, at fair value	15,734	59,822
	725,137	538,701

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

11. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	810,907	481,478
Allowance for expected credit losses	(21,004)	(9,047)
	<u>789,903</u>	<u>472,431</u>

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

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

	2019 RMB'000	2018 RMB'000
Trade receivables	810,907	481,478
Allowance for expected credit loss	(21,004)	(9,047)
Total trade receivables, net	<u>789,903</u>	<u>472,431</u>
Within 90 days	352,190	224,150
90 to 180 days	219,646	148,963
180 days to 1 year	181,553	85,603
1 year to 2 years	36,514	13,715
	<u>789,903</u>	<u>472,431</u>

The movements in the allowance for expected credit losses on trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	9,047	4,426
Provision for expected credit losses (note 5)	14,626	5,177
Amount written off as uncollectible	(2,669)	(556)
At end of year	<u>21,004</u>	<u>9,047</u>

The Group applies the simplified approach to provide for expected credit losses under HKFRS 9, and the provision rates are based on days past due for groupings of various customer segments with similar loss patterns. For certain trade receivables for which the counterparty failed to make demanded repayment, the Group has made 100% provision (“**default receivables**”). Except for default receivables, the Group used a calculation which reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Given there were no significant changes in the historical and forecasts of future conditions, the expected loss rate remained substantially the same during the reporting period.

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

As at 31 December 2019

	Amount RMB’000	Expected loss rate	Impairment RMB’000
Default receivables	3,960	100%	3,960
Other trade receivables aged:			
Current	580,165	0.5%	2,902
Past due less than 3 months	127,145	3%	3,814
Past due 3 to 6 months	54,424	5%	2,721
Past due 6 to 12 months	41,784	10%	4,178
Past due 1 to 2 years	3,429	100%	3,429
	<u>810,907</u>		<u>21,004</u>

As at 31 December 2018

	Amount RMB’000	Expected loss rate	Impairment RMB’000
Default receivables	4,146	100%	4,146
Other trade receivables aged:			
Current	418,574	0.5%	2,093
Past due less than 3 months	44,648	3%	1,340
Past due 3 to 6 months	3,461	5%	173
Past due 6 to 12 months	10,393	10%	1,039
Past due 1 to 2 years	256	100%	256
	<u>481,478</u>		<u>9,047</u>

12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Non-current portion		
Prepayments*	<u>453,972</u>	<u>68,381</u>
Current portion		
Prepayments*	319,189	272,115
Deposits and other receivables	56,185	48,066
Prepaid listing expenses	—	6,484
Contract costs**	<u>8,837</u>	<u>5,983</u>
	<u>384,211</u>	<u>332,648</u>
Other current asset***	<u>209,286</u>	<u>—</u>
	<u>1,047,469</u>	<u>401,029</u>

* Prepayments as at 31 December 2019 and 2018 included RMB100,000,000 paid for the conditional share purchase of Angel Fund (Asia) Investments Limited. The conditional share purchase agreement will expire in December 2020.

Prepayments as at 31 December 2019 included RMB163,000,000 paid for the capital contribution in accordance with the requirements set out in a partnership agreement. The fund had obtained all the related licences and approval documentations in February 2020.

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

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

*** Other current asset as at 31 December 2019 included a deposit of RMB209,286,000 in a financial institution for assets management.

13. TRADE PAYABLES

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

	2019	2018
	RMB'000	RMB'000
Within 3 months	78,100	55,020
3 to 6 months	44,758	29,060
6 months to 1 year	28,748	15,384
1 year to 2 years	14,065	7,094
2 years to 3 years	1,977	3,756
over 3 years	2,108	916
Total	<u>169,756</u>	<u>111,230</u>

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

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

Hong Kong, 26 March 2020

As at the date of this announcement, the Board 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.