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## CMGE Technology Group Limited

中手游科技集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0302)

### ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

The board (the “Board”) of directors (the “Directors”) of CMGE Technology Group Limited (the “Company”, together with its subsidiaries and consolidated operating entities in the People’s Republic of China (the “PRC”), the “Group”) is pleased to announce the consolidated annual results of the Group for the year ended 31 December 2022.

#### 2022 FINANCIAL HIGHLIGHTS

	For the year ended	
	31 December	
	2022	2021
	RMB’000	RMB’000
Revenue	2,713,892	3,956,570
Gross profit	1,111,695	1,473,490
(Loss)/profit for the year	(216,880)	593,943
Adjusted net (loss)/profit <sup>(1)</sup>	(196,134)	630,028
Basic (loss)/earnings per Share (RMB)	(7.42) cents	22.85 cents
Diluted (loss)/earnings per Share (RMB)	(7.42) cents	22.84 cents
Adjusted basic (loss)/earnings per Share (RMB) <sup>(1)</sup>	(7.09) cents	23.54 cents
Adjusted diluted (loss)/earnings per Share (RMB) <sup>(1)</sup>	(7.09) cents	23.52 cents

Note:

1. “Adjusted net (loss)/profit” is not defined under the Hong Kong Financial Reporting Standards (“HKFRS”). It is defined by the Group as net (loss)/profit attributable to owners of the parent excluding equity-settled share-based expense. The adjusted net (loss)/profit more closely reflects the Group’s operating results, after excluding the above-mentioned non-operating item. “Adjusted basic (loss)/earnings per Share” and “Adjusted diluted (loss)/earnings per Share” are the Group’s adjusted net (loss)/profit divided by the weighted average number of Shares and potentially dilutive weighted average number of Shares, respectively, in issue during the year.

## CHAIRMAN’S STATEMENT

### Dear Shareholders,

In 2022, the Office of the Central Cyberspace Affairs Commission (中央網信辦), the National Development and Reform Commission (國家發改委), the Ministry of Industry and Information Technology (工信部) and the State Administration for Market Regulation (市場監管總局) held a symposium on promoting the healthy and sustainable development of internet enterprises, which recognised the important role of internet enterprises in improving the efficiency of resource allocation, promoting technological innovation and industrial transformation, optimising social public services, and facilitating the domestic and international cycles. In the meantime, the spiritual culture among the public has been increasingly enhanced, and games have become a part of such spiritual culture, the enhancement on the quality of games for the whole society, the grow up of players, the continuous facilitation of emerging technologies and the continuous deepening of cultural communication all pave the way for a future for the game industry with full of hopes. Leveraging its advantages and accumulation in the field of game publishing and research and development, the Group precisely seize the development opportunity in digital economy, strengthen the ability in technological innovation, and by integrating its own advantageous intellectual property (“IP”) resources, the Group established its three major business segments, namely IP game development and global publishing, proprietary IP operation and Chinese-style metaverse platform, and created the core competitive IP game ecosystem of “IP resources – self-development and joint development – global publishing – proprietary IP operation – Chinese-style metaverse platform (IP資源 - 自主研發與聯合研發 - 全球發行 - 自有IP運營 - 國風元宇宙平台)”.

Under the influence of the COVID-19 pandemic and the licence policy, some research and development projects experienced postponement in different extents, the launch of new game products have also been affected. Revenue of the Group for the year of 2022 was RMB2,713.9 million, representing a year-on-year decrease of 31.4%. The results turned from profit to loss, with a net loss of RMB216.9 million in 2022. The net loss was mainly due to the impairment provisions made by the Group corresponding to the operating performance of the Group’s certain investee companies being below expectation in 2022 and other non-operating expenses totally RMB193.4 million; and the non-operating impairment of financial and contract assets of RMB137.0 million. Except for the impact of the above-mentioned non-operating impairments and non-operating other expenses, the Group’s operating segments have continued to generate profit for the year ended 31 December 2022. In facing

such uncertainties, the Group was committed to enhance the revenue contribution of products in stable operating period in 2022 in order to enhance the stability of results; in the meantime, the Group ensures the inputs in research and development, in order to ensure key research and development projects would be progressed smoothly. In 2022, the Group enhanced its refined operation on games launched, including *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵬群俠傳之鐵血丹心), *Soul Land: God of Battle Arise* (斗羅大陸:鬥神再臨) and games jointly produced with third party like *One Piece: The Voyage* (航海王熱血航線) and *Dynasty Warriors: Hegemony* (真·三國無雙霸), continuously enhancing the profitability of projects launched. From April 2022 onwards, the issuance of licence is gradually normalised and licences for various games of the Group has been progressively obtained and the promotion of the games has been launched and achieved outstanding results, these include *The King of Fighters: All Stars* (全明星激鬥), a 3D mobile game researched and developed by the Group with multiple series officially licensed from SNK, and *Rakshasa Street: Chosen One* (鎮魂街:天生為王), a mobile game published by the Group.

The Group continued to enhance its input in research and development business in 2022, research and development investment has been increased from RMB310.7 million in 2021 to RMB526.7 million in 2022, representing a year-on-year increase of 69.5%. *Legend of Sword and Fairy: World* (仙劍世界), a self-developed game by the Group's Mantianxing Studio (滿天星工作室), is China's first open world metaverse game featuring the Chinese fairy and hero theme. *Legend of Sword and Fairy: World* (仙劍世界) adopts eight innovative points on technological advantages, like 24-hour lighting, weather change system, real water flow effect, artificial intelligence ("AI") non-player character ("NPC"), open world technology, simultaneous online technology for millions of players, high definition model-making and multi-dimensional character customisation and user-generated content ("UGC") creation tools, which support players to have cross-platform experience on mobile, personal computer ("PC"), cloud, console and virtual reality ("VR"), without being constrained by platform and device, and providing players ultra-strong "immersive" playing experience, anytime and anywhere. *Legend of Sword and Fairy: World* (仙劍世界) is expected to be launched in 2023.

In 2023, with its three major business segments, namely IP game development and global publishing, proprietary IP operation and Chinese-style metaverse platform as the focus, the Group will insist on high quality and refining development as always, and continue to bring rich content and interactive experience of premium IP games and its proprietary "*Legend of Sword and Fairy*" IP game to global players.

## BUSINESS REVIEW

### Global Publishing of IP Games

*Rakshasa Street: Chosen One* (鎮魂街:天生為王), a mobile game published by the Group, recorded a result of more than 5 million users reserved for downloading this game in Mainland China, and was awarded the vivo Most Anticipated Game of the Year Award (vivo年度最受期待遊戲獎項). This game was launched in December 2022, and received Mobile Hardcore Alliance's Super Star Recommendation. On the first day of its launch, the number of new registered users exceeded 2 million, and the gross billing in the first week exceeded 100 million. During the first month of its launch, it achieved excellent performance that it ranked first in the Top Free Game List and ranked fourth in the Best Selling Game List of Apple's App Store in Mainland China. *The King of Fighters: All Stars* (全明星激鬥), a 3D mobile game researched and developed by the Group with multiple series officially licensed from SNK, received the Golden Plume Awards of Most Anticipated Mobile Game of 2022 (2022年度玩家最期待的移動網絡遊戲金翎獎). This game was launched in Mainland China in November 2022, and ranked first in the Top Free Game List of Apple's App Store in Mainland China during the first month of its launch, and received the Golden Gyro Awards of Popular IP Games of 2022 (2022年度人氣IP類遊戲金陀螺獎). Launched in January 2022, the mobile game *A New Record of a Mortal's Journey to Immortality* (新凡人修仙傳), which is published by the Group, received Mobile Hardcore Alliance's Star Recommendation. The mobile game *Ultraman: The Gathering* (奧特曼:集結), adapted from the official licensed IP of the original Ultraman series produced and licensed by Tsuburaya Productions Co., Ltd. (日本圓谷株式會社) in Japan, was reserved by over 1 million users within one month after reservation commenced, and has been launched in Mainland China in January 2023. This game was ranked second in the Top Free Game List of Apple's App Store in Mainland China during the first month of its launch. *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵰群俠傳之鐵血丹心) and *Soul Land: God of Battle Arise* (斗羅大陸:鬥神再臨) which are published by the Group, and games jointly produced with third party like *One Piece: The Voyage* (航海王熱血航線) and *Dynasty Warriors: Hegemony* (真·三國無雙霸), and other games launched and operated, continued to contribute to the revenue and profits of the Group in 2022.

In Hong Kong, Macau and Taiwan and overseas markets, the *New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵰群俠傳之鐵血丹心), a game published by the Group, was launched in Thailand, Vietnam and Indonesia in January, June and July 2022, respectively, and ranked eighth on the Best Selling Game List of Apple's App Store in Thailand, seventh on the Best Selling Games List of Google Play Store in Thailand, first on the Top Free Games List of Apple's App Store in Vietnam and fifth in the Best Selling Games List of Apple's App Store in Indonesia in the first month of its launch. *Dynasty Warriors: Hegemony* (真·三國無

雙霸), an action role-playing game (“ARPG”) mobile game developed by Shenzhen EZfun Interactive Technology Co., Ltd. (深圳易帆互動科技有限公司), which was invested by the Group, was launched in Hong Kong, Macau, Taiwan, Singapore and Malaysia in January 2022, and ranked first on the Top Free Games List of Apple’s App Store and Google Play Store in the Hong Kong, Macau and Taiwan region and Singapore, first on the Best Selling Games List of Apple’s App Store in Hong Kong and Macau and second on the Best Selling Games List of Apple’s App Store in Taiwan in the first month of its launch. It was officially launched in the Southeast Asia region, including Vietnam, Thailand, the Philippines and Indonesia, on 10 August 2022, and ranked first on the Top Free Games List of Apple’s App Store in Vietnam and the Philippines and third on the Best Selling Games List of Apple’s App Store in Vietnam. *Soul Land: God of Battle Arise* (斗羅大陸:鬥神再臨), a mobile game published by the Group, was launched in Vietnam in March 2022, and ranked first on the Top Free Games List and fourth on the Best Selling Games List of Apple’s App Store in Vietnam in the first month of its launch. *The King of Fighters: All Stars* (全明星激鬥), a mobile game self-developed and published by the Group, was launched in Hong Kong, Macau, Taiwan, Singapore and Malaysia in February 2023, and ranked highest first on the Top Free Games List, highest fifth on the Best Selling Games Lists of the above-mentioned five countries and regions’ Apple’s App Store and ranked highest first on the Top Free Games List of Google Play Store in the first month of its launch. *Cultivation Fantasy* (我的御劍日記), a game developed by Love Games (Shanghai) Internet Technology Co., Ltd. (樂府互娛(上海)網絡科技有限公司), a research and development company invested by the Group and it had been launched in Hong Kong, Macau and Taiwan in November 2022, and ranked third in the Top Free Games List of Apple’s App Store in Taiwan in the first month of its launch. During 2022, the Group’s revenue from overseas business amounted to RMB361.2 million. The proportion of revenue generated from overseas business in the Group’s total revenue has reached 13.3%.

The Group commits to investing in quality developers in the industry and carrying out continuous and in-depth cooperation with them in the joint development and global publishing of games, providing strong support on expanding the Group’s game reserve. During the first half of 2022, the Group completed its investment in Shanghai Zhoujing Network Technology Co., Ltd. (上海洲競網絡科技有限公司) (“**Shanghai Zhoujing**”), and has become its controlling shareholder holding 51% of its equity interests. Its game Code: Basketball 3v3 (代號:籃球3v3) (tentative name) has completed its research and development and has entered the testing stage. It is expected to be launched in 2023. In the first half of 2022, the Group invested in Hainan Hemera Information Technology Co., Ltd. (海南赫墨拉信息科技有限公司) (“**Hainan Hemera**”). *Ultraman: The Gathering* (奧特曼:集結), a mobile game developed by its core team, has obtained the official licensed IP of the original Ultraman series licensed by Tsuburaya Productions Co., Ltd. (日本圓谷株式會社) in Japan. It was exclusively published by the Group and has been launched in January 2023.

## Self-Development of Games

The Group continued to increase the investment in its research and development business in 2022, with the number of research and development personnel reaching 650, representing a 55.8% of the total number of personnel of the Group. Research and development investment has increased from RMB310.7 million in 2021 to RMB526.7 million in 2022, representing a year-on-year increase of 69.5%. *The King of Fighters: All Stars* (全明星激鬥), a 3D mobile game researched and developed by the Group with multiple series officially licensed from SNK, received the Golden Plume Awards of Most Anticipated Mobile Game of 2022 (2022年度玩家最期待的移動網絡遊戲金翎獎). This game was launched in Mainland China in November 2022. It received Mobile Hardcore Alliance's Super Star Recommendation, and ranked first in the Top Free Game List of Apple's App Store in Mainland China during the first month of its launch, and received the Golden Gyro Awards of Popular IP Games of 2022 (2022年度人氣IP類遊戲金陀螺獎). Games of the Group which have been launched before 2022, including the self-developed games *The World of Legend - Thunder Empire* (傳奇世界之雷霆霸業), *Legend of Dragon City* (龍城傳奇) and card and board games continued to iterate and upgrade, and continuously contributing stable revenue to the Group. The SLG strategy mobile game *World of Castellan* (城主天下) which is self-developed by Beijing Wenmai Hudong Technology Company Limited (北京文脈互動科技有限公司) ("**Wenmai Hudong**"), a wholly-owned subsidiary of the Group, has successfully obtained the licence in February 2023. The game has entered the completion stage of final testing and it is planned to be exclusively published by 37 Interactive Entertainment (三七互娛) in the mainland market in the first half of 2023. Softstar Technology (Beijing) Co., Ltd. (軟星科技(北京)有限公司) ("**Beijing Softstar**") launched a self-developed game *Legend of Sword and Fairy 7* (仙劍奇俠傳七) in the second half of 2021, as of 31 December 2022, its PC version achieved a sales volume of over 510 thousand, its cloud gaming version achieved a sales volume of over 210 thousand, and its console version was launched in Hong Kong, Macau, Taiwan, Southeast Asia, Japan and North America in August 2022. As of 31 December 2022, its console version achieved sales volume of over 70 thousand. As of 31 December 2022, *Monopoly 10* (大富翁10), a PC game self-developed by Beijing Softstar, recorded a global sales volume of over 1,410 thousand, and was launched on platforms such as Xbox One, Xbox Series S, Xbox Series X, PlayStation 4 and PlayStation 5 in July 2022. *Monopoly 11* (大富翁11), which was meticulously developed by Beijing Softstar, have also been launched on the Steam and Switch platforms in October 2022. The standalone game *Legend of Sword and Fairy 4: Remake* (仙劍奇俠傳四:重製版) was kick-started by Softstar Technology (Shanghai) Co., Ltd. (軟星科技(上海)有限公司) ("**Shanghai Softstar**"), a wholly-owned subsidiary of the Group, in the first half of 2022, and the project has entered the research and development stage.

For games on eSports front, the Group's investment holding company in 2022, Shanghai Zhoujing's project under development *Code: Basketball 3v3* (代號:籃球3v3) (tentative name) is jointly produced by Mr. Zhao Yongshuo (趙勇碩), the father of Street Basketball (街頭籃球). The core team consists of the Chinese and Korean original team members of the Street Basketball (街頭籃球) project, which is experienced in the research and development of competitive sports games such as Street Basketball (街頭籃球) and Free Basketball (自由籃球), and is committed to turn *Code: Basketball 3v3* (代號:籃球3v3) (tentative name) into a PC-end eSports quality game. The Group will also organise influential eSports events around the game. *Code: Basketball 3v3* (代號:籃球3v3) (tentative name) has completed its research and development and has entered the testing stage. It is expected to be launched in 2023.

### **Proprietary IP Operation**

In the first half of 2022, revenue derived from the Group's IP licensing amounted to approximately RMB147.1 million. The Group established a strong presence for the cooperation of the *Legend of Sword and Fairy* (仙劍奇俠傳) IP throughout the industry chain, covering games, films and television, comics and animation, content literature, music, derivatives and real scene entertainment, and collaborated with top partners in related fields to jointly build the *Legend of Sword and Fairy* (仙劍) IP universe.

The Group will launch the story mobile card game *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情) in the first half of 2023. The game has already obtained the licence. The idle game *Legend of Sword and Fairy: A New Beginning* (仙劍奇俠傳:新的開始) which was co-developed by the Group and Kingnet (愷英網絡), has obtained a licence and will be launched in 2023. The large scale MMORPG mobile game, *Legend of Sword and Fairy • Yuanqi* (仙劍 • 緣起) developed by the Group and Alibaba's Lingxi Games (靈犀互娛) has entered the final stage of testing.

Following the successful launch of the game *Legend of Sword and Fairy 4 VR* (仙劍奇俠傳四 VR), the Group cooperated with Immersive World (沉浸世界) and launched the VR game *Legend of Sword and Fairy 1 VR* (仙劍奇俠傳一 VR) on 15 July 2022 with brand new experience. The classic story of *Legend of Sword and Fairy*, together with the 360-degree close range view and surrounding sound from VR, bring a complete immersive experience for players. In November 2022, the Group entered into a strategic cooperation with DPVR (大朋 VR), an terminal enterprise of VR, a number of VR games under *Legend of Sword and Fairy* (仙劍奇俠傳) will be fully compatible with 6DoF “game class” new product E4, which will be launched soon by DPVR (大朋 VR). The Group also entered into cooperation with PICO, a XR brand under ByteDance (字節跳動), the VR game of *Legend of Sword and Fairy* (仙劍奇俠傳) will be launched on PICO VR platform.

In terms of films and television, the shooting of films and television series, *Legend of Sword and Fairy 1* (仙劍奇俠傳一), which was co-produced by the Group and Tencent’s Penguin Pictures (企鵝影視), and the shooting of *Legend of Sword and Fairy 4* (仙劍奇俠傳四), which was co-produced by the Group and iQiyi (愛奇藝), have been finished during 2022, and are expected to be broadcasted in 2023. The Group joined Shandong Film and Television Production Co., Ltd. (山東影視製作股份有限公司) (“**Shandong Film and Television**”), the producer of hit television dramas such as *Nirvana in Fire* (琅琊榜) and *The Disguiser* (偽裝者), in the production of *Legend of Sword and Fairy 6* (仙劍奇俠傳六), for which shooting was completed in the second half of 2022. Penguin Pictures will further cooperated with the Group to produce *Legend of Sword and Fairy 3* (仙劍奇俠傳三). The Group will also initiate cooperation plans for a number of Legend of Sword and Fairy IP films and television series, including Prequel of *Legend of Sword and Fairy 5* (仙劍奇俠傳五前傳) and *Legend of Sword and Fairy 7* (仙劍奇俠傳七). In terms of animation and novel, the Group cooperated with Penguin Pictures (企鵝影視) to jointly shoot the animation series of *Legend of Sword and Fairy 1* (仙劍奇俠傳一) and *Legend of Sword and Fairy 3* (仙劍奇俠傳三). In August 2022, the first concept trailer of *Legend of Sword and Fairy 3* (仙劍奇俠傳三) was released, the animation will be produced by Year Young Culture(炎央文化) and published by Penguin Film (企鵝影視), and broadcasted on Tencent Video and Ji Guang (極光) TV platforms. The Group has entered into cooperation with Bilibili, and Bilibili is responsible for the animation work of *Legend of Sword and Fairy 4* (仙劍奇俠傳四) In July 2022, the Group successfully held the 27th Anniversary of *Legend of Sword and Fairy* (仙劍奇俠傳) through Weibo livestreaming, delivering extensive visual and audio experiences to players. The first physical book of *Legend of Sword and Fairy* series, *Legend of Sword and Fairy 4* (仙劍奇俠傳四), jointly published by the Group and Moli Press of CITIC Press (中信出版 • 墨狸出版), has officially published and sales commenced in November 2022.

The Sword and Fairy Chinese Traditional Festival Figures Series, first launched by the Group with Pop Mart (泡泡瑪特), was released globally in April 2022. Meanwhile, the Group collaborated with Good Smile Arts (良笑塑美), the Infinity Studio (開天工作室) under Shanghai Qiku Network Technology Co., Ltd. (上海起酷網絡科技有限公司), Bandai Namco Entertainment (Shanghai) Co., Ltd. (萬代南夢宮(上海)娛樂有限公司) and other well-known partners to jointly launch Chinese-style products, including Nendoroid Long Kui (red and blue) (黏土人紅藍龍葵), statues of Xiao Ya Ji Lin Yueru (小雅集林月如), figure and statues of Li Xiao Yao (李逍遙), figures of female character weapons from *Legend of Sword and Fairy* (仙劍), and will continue to cooperate on launching figure of Han Ling Sha (韓菱紗), statues of Yue Qing Shu (月清疏), figure of Jiu Jian Xian (酒劍仙), and will cooperate with Pop Mart (泡泡瑪特) to launch the second blind boxes series The Sword and Fairy Chinese Traditional Musical Instruments Figure Series. In January 2022, the Group has achieved huge success in its first launch of *Legend of Sword and Fairy* (仙劍奇俠傳) digital collections through the platform TheOne.Art (唯一藝術); and issued 40,000 NFT badges of *Legend of Sword and Fairy* (仙劍) characters which were sold out in a split second. In April 2022, the Group joined hands with Alifish (阿里魚), a digital collections e-commerce platform, to launch 80,000 *Legend of Sword and Fairy* (仙劍奇俠傳) skins for payment code of Alipay in digital collection format. It was the Group's first attempt to apply multi-theme application scenarios for its digital collections. In May 2022, the Group launched another batch of digital collections of *Legend of Sword and Fairy* (仙劍奇俠傳), of which 24,240 NFTs of digital supreme weapons from *Legend of Sword and Fairy 7* (仙劍奇俠傳七) were published through digital collection e-commerce platform Tencent Huanhe (騰訊幻核). Nearly 190,000 people participated in the lottery draw for the qualification of advance purchase, and these digital supreme weapons were sold out in a split second.

The *Legend of Sword and Fairy* (仙劍) Real Scene Entertainment Project, Hangzhou Xiqi Xianjian Town (杭州西溪仙劍小鎮) promoted by the Group has entered into the final stage of inspection, and is expected to have soft opening in 2023. Focusing on the future, the Group will create more high-quality content, reach young consumers who are interested in *Legend of Sword and Fairy* (仙劍) IP and Chinese-style elements by various means, continuously enhancing the reputation of *Legend of Sword and Fairy* (仙劍奇俠傳) among young people and further enrich the users' interactive experience.

## **Chinese-style Metaverse Platform - Sword and Fairy World (仙劍世界)**

*Legend of Sword and Fairy: World* (仙劍世界), a self-developed metaverse game of the Group's Mantianxing Studio (滿天星工作室), has been researched and developed for more than two years and official application for licence has been submitted in the second half of 2022. It is expected to obtain the licence and will be launched in 2023. This game is China's first open world metaverse game featuring the Chinese fairy and hero theme. The game adopts eight innovative points on technological advantages, like 24-hour lighting, weather change system, real water flow effect, intelligent AI NPC, open world technology, simultaneous online technology for millions of players, high definition model-making and multi-dimensional character customisation and UGC creation tools, which support players to have cross-platform experience on mobile, PC, cloud, console and VR, without being constrained by platform and device, and providing players ultra-strong "immersive" playing experience, anytime and anywhere.

Leveraging the rich experience and knowledge of the research and development team in open world RPG technology and virtual reality technology, and by integrating the customised content freely created by users and the extensive social function, the game will provide players a highly differentiated immersive experience. Different brands will join the game platform and providing players with brand new and real consumption scenarios. In the World of *Legend of Sword and Fairy* (仙劍大世界), players can engage in their development and evolvement with different virtual identities, choose the ways of living, playing and socialising in the World of *the Legend of Sword and Fairy* (仙劍大世界) based on their own philosophy, and explore the world of game as they wish and dream.

### **Social Responsibility**

As a global IP game operator, the Group's business does not have a significant impact on the environment. The Group actively fulfills its corporate social responsibilities, integrates environmental protection and environmental management into its business decisions, and conducts charitable activities to build a healthy and harmonious online and offline ecosystem. The Group has established environmental, social and governance policies and procedures, and has incorporated the concept of sustainable development into its daily management to enhance the environmental awareness of the employees of the Group.

The Group has always fulfilled its social responsibility in different dimensions. Having supported the “CMGE Dream Libraries (中手游築夢圖書館)” project for a long time to promote reading among the youth, the project is being steadily pushed forward, and the Group has set up ten “CMGE Dream Libraries (中手游築夢圖書館)”. The tenth “CMGE Dream Libraries (中手游築夢圖書館)” was set up in Zijin County, Heyuan City, Guangdong Province in June 2022, this was also the first “CMGE Dream Libraries (中手游築夢圖書館)” funded by online donation.

On 10 March 2022, in order to support the fight against the pandemic in Hong Kong, the Group allocated RMB1.0 million equivalent for the first batch of funds to purchase anti-pandemic supplies locally, and contacted the social anti-pandemic organisations in Hong Kong for orderly distribution. The first batch of anti-pandemic funds would be mainly used for the vulnerable groups such as the elderly and children in Hong Kong who were lacking anti-pandemic supplies. The Group was also awarded as an “Outstanding Social Responsibility Performance Enterprise (社會責任表現相對突出的企業)” at the 2022 Game Responsibility Forum (2022遊戲責任論壇) hosted by People’s Daily Online (人民網), and has been accredited as “Guangdong-Hong Kong-Macao Greater Bay Area Social Responsibility Innovation Model (粵港澳大灣區社會責任創新典範)” by the Research Institute of China Corporate Governance (中國公司治理研究院) and Shenzhen Rural Revitalization and Cooperation and Exchange Bureau(深圳市鄉村振興和協作交流局).

As the Group strictly follows the relevant national policies, all published games are embedded with a real-name authentication system, an anti-addiction system and age limit reminders. To strictly observe the new regulations of the National Press and Publication Administration on preventing addiction for minors, the Group only provides one hour of online gaming service to minors from 8:00 pm to 9:00 pm on Fridays, Saturdays, Sundays and statutory holidays, striving to ensure the healthy growth of minors. All games under the Group have rules restricting the spending from minors. Players under the age of 12 are prohibited from making payments in the games under the Group; minors between the ages of 12 and 16 may not exceed RMB50 in a single recharge in the games under the Group, and the cumulative monthly recharge amount shall not exceed RMB200; minors between the ages of 16 and 18 may not exceed RMB100 in a single recharge in the games under the Group, and the cumulative monthly recharge amount shall not exceed RMB400. In 2022, minor players under the age of 18 accounted for approximately 0.0029% of the Group’s revenue from games in China.

## BUSINESS OUTLOOK

### Global Publishing of IP Games

With the normalization of the domestic licence issuance, the Group has formulated a detail product publishing plan for achieving growth of results in 2023, among which, the mobile game *Ultraman: The Gathering* (奧特曼:集結), adapted from the official licensed IP of the original Ultraman series produced and licensed by Tsuburaya Productions Co., Ltd. (日本圓谷株式會社) in Japan, has been launched in January 2023, and ranked second on the Top Free Games List of Apple's App Store in Mainland China in the first month of its launch. The mobile card game *Cultivation Fantasy* (我的御劍日記), which was researched and developed by Love Games (Shanghai) Internet Technology Co., Ltd. (樂府互娛(上海)網絡科技有限公司), a company invested by the Group, has been granted the licence and will be launched in the first half of 2023. *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情), a role playing card game produced by the original research and development team of *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵰群俠傳之鐵血丹心) based on *Legend of Sword and Fairy* (仙劍奇俠傳), the Group's proprietary IP, has obtained the licence and will be launched in the first half of 2023. *Swallowed Star: Dawn* (吞噬星空:黎明), a mobile game researched and developed by the Group's investee company Guangzhou Maiji Information Technology Co. Ltd. (廣州麥吉信息科技有限公司) with China Literature Limited (閱文集團)'s first heavyweight IP Swallowed Star (吞噬星空) as the basis, has been granted the licence and will be launched in the first half of 2023. Apart from the above-mentioned games, the Group will launch a number of new games in Mainland China in 2023, including *Soul Land: Shrek Academy* (斗羅大陸:史萊克學院), the first massive multi-player role playing game (MMORPG mobile game) developed based on the *Soul Land* (斗羅大陸), and *Daily Life of Chat Group* (聊天群的日常生活), a RPG mobile card game adapted from *Cultivation Chat Group* (修真聊天群), and *Country Love Story* (鄉村愛情故事), a simulation mobile game adapted from *Country Love* IP (鄉村愛情).

In Hong Kong, Macau and Taiwan and overseas markets, *Rakshasa Street: Chosen One* (鎮魂街:天生為王), a hugely successful mobile game in Mainland China, is planned to be launched in Hong Kong, Macau and Taiwan in the second half of 2023. The game *Soul Land: God of Battle Arise* (斗羅大陸:鬥神再臨) will also be launched in Korea, Europe and the United States in the first half of 2023. The game *Dynasty Warriors: Hegemony* (真·三國無雙霸) will be launched in Japan, Europe and the United States in 2023. In the meantime, the Group planned to launch various new games in Hong Kong, Macau and Taiwan in 2023, including 3D card-idling mobile games like *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情), *New Romance of the Three Kingdoms: The Legend of Cao Cao* (新三國志曹操傳), *Don't Say Goodnight to Fairy Tales* (別對童話說晚安), *Daily Life of Chat Group* (聊天群的日常生活) and *Code: FA* (代號:FA).

## Self-Development of Games

Dynasty-themed strategic Mobile game *World of Castellan* (城主天下) which is self-developed by Wenmai Hudong, a wholly-owned subsidiary of the Group, has entered the stage of final testing, and successfully obtained the licence in February 2023, it is planned to be exclusively published by 37 Interactive Entertainment (三七互娛) in the first half of 2023. The *Legend of Sword and Fairy 4: Remake* (仙劍奇俠傳四:重製版) developed by Shanghai Softstar, a wholly-owned subsidiary of the Group, was officially kick-started in the first half of 2022 and the project has entered the research and development stage. For games on eSports front, *Code: Basketball 3v3* (代號:籃球3v3)(tentative name), the PC-end eSport game under development by the Group's holding subsidiary Shanghai Zhoujing, has completed its research and development and has entered the testing stage. It has applied for the licence and is expected to be launched in 2023. *The King of Fighters: All Stars* (全明星激鬥), *The World of Legend - Thunder Empire* (傳奇世界之雷霆霸業), *Legend of Dragon City* (龍城傳奇) and card and board games that are currently launched and operated by the Group will continue to iterate and upgrade, and enhance their contributions to the revenue of the Group for the stable operating period.

## Proprietary IP Operation

The Group will be constantly committed to enhancing the value and boosting the vitality and influence of *Legend of Sword and Fairy* (仙劍奇俠傳). The *Sword and Fairy*'s first community, the *Sword and Fairy Alliance* (仙劍聯盟), which comprises personal space, content co-creation, content monetisation and social networking, will open for users registration in the first half of 2023.

*Legend of Sword and Fairy 3* (仙劍奇俠傳三), which was cooperated by the Group and Penguin Pictures (企鵝影視), and *Legend of Sword and Fairy 4* (仙劍奇俠傳四), which was co-produced by the Group and iQiyi (愛奇藝) are expected to be broadcasted in 2023, and *Legend of Sword and Fairy 6* (仙劍奇俠傳六), which was co-produced by the Group and Shandong Film and Television, are expected to be broadcasted in 2024. The trailer of the animation series of *Legend of Sword and Fairy 3* (仙劍奇俠傳三), which was cooperated by the Group and Penguin Pictures (企鵝影視), is expected to be launched in 2023 and the formal animation is planned to be broadcasted in 2024. The shooting of the animation series of the *Legend of Sword and Fairy 4* (仙劍奇俠傳四), which was co-produced by the Group and Bilibili, will officially start in 2023. The novel of *Legend of Sword and Fairy* (仙劍奇俠傳) series Yao Tai Xue (瑤台雪) will also be released in 2023. The new edition of novel *Legend of Sword and Fairy 1* (仙劍奇俠傳一), the novel *Legend of Sword and Fairy 2* (仙劍奇俠傳二), *Xian Xia Zhuan* (仙霞傳) and *Qiong Hua Hou Zhuan* (瓊華後傳) are in the process of creation.

2023 will also be a year of prosperous development for offline tourism and entertainment. The Group will continue to implement the *Legend of Sword and Fairy* (仙劍) Real Scene Entertainment Project, namely Hangzhou Xiqi Xianjian Town (杭州西溪仙劍小鎮).

### **Chinese-style Metaverse Platform - Sword and Fairy World (仙劍世界)**

The Group become the first ecosystem partners of ERNIE Bot (文心一言) of Baidu in February 2023, and the leading intelligent conversation technology results of Baidu will be applied in the field of open world games. This also symbolises that *Legend of Sword and Fairy: World* (仙劍世界), a game which is researching by the Group, and an open world metaverse game featuring the Chinese fairy and hero theme, will be the first game to be supported by the leading AI technology. *Legend of Sword and Fairy: World* (仙劍世界) will apply the technology of ERNIE Bot (文心一言), and realise the function of NPC interaction and user UGC creation with better convenience in the game. NPC can acquire the background of characters and story, and the characteristics of characters, and is able to communicate with players freely. NPC can react to the pre-set characteristics, and thus affecting the subsequent plot development of the game. Through the integration of artificial intelligence generated content (“AIGC”) technology, *Sword and Fairy World* (仙劍世界) aims to provide an immersive experience of “everything can be interacted” to players. The UGC creation tool, combined with AI technology, will enable users to create rich content at a lower cost and better convenience. The game is expected to obtain licence and launch in 2023. Please look forward to it!

The Group is sensitive to the rapid development of AIGC technology, and has applied AIGC technology to content marketing copywriting creation, production of placement materials, script creation for game research and development and art production, fully achieving cost reduction and efficiency enhancement.

All members of the Group will always uphold the values of “integrity, transparency, honesty, in-depth thinking and long-termism (正直守信、透明坦誠、深度思考、長期主義)” and the mission of “creating quality products with passion” (用熱愛鑄造精品), being a company that is full of passion and creativity. The Group will promote China’s wonderful traditional culture and socialist values, becoming a responsible practitioner and a promoter of cultural values. Thanks to Shareholders and investors for your consistent support.

By order of the Board

**XIAO Jian**

*Chairman*

Hong Kong, 22 March 2023

## Management Discussion and Analysis

As of 31 December 2022, the Group had a vast IP reserve of a total of 132 IPs, comprising 64 licensed IPs and 68 proprietary IPs. Statistics from Analysys (易觀智庫) shows that, as of 31 December 2022, apart from Tencent Games, the Group was the game publisher that had the largest amount of IP reserve in the PRC and launched the largest amount of mobile IP-based games among game publishers in the PRC in the past two years.

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

	For the year ended 31 December	
	2022	2021
	Revenue	Revenue
	RMB'000	RMB'000
IP-based games		
(i) licensed and proprietary IPs held by the Group	<b>1,388,064</b>	2,266,149
(ii) IPs held by game developers	<b>288,269</b>	699,359
Non-IP based games	<b>1,037,559</b>	991,062
<b>Total</b>	<b><u>2,713,892</u></b>	<b><u>3,956,570</u></b>

The Group is committed to creating a highly competitive IP-based game ecosystem. Apart from proprietary IPs, the Group also actively obtained a large number of selected licensed IPs from third parties. Newly licensed high-quality IPs obtained in 2022 included *Disney: All Stars* (迪士尼全明星)、*Fights Break Firmament* (斗破蒼穹)、*Ultraman* (奧特曼). For the year ended 31 December 2022, the Group's total number of IP games in operation reached 25, revenue generated from the Group's IP games reached 1,676.3 million.

***A continuous growth in the number of registered users in 2022.***

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

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2022</b>	2021
Average MAUs ( <i>thousands</i> )	<b>15,523</b>	19,063
Average MPUs ( <i>thousands</i> )	<b>1,124</b>	1,439
ARPPU ( <i>RMB</i> )	<b>201.2</b>	229.2
Total new registered users ( <i>thousands</i> )	<b>84,609</b>	116,880

The Group strives to continuously improve its operating ability, increase the life cycle of products during the stable operation period, and expand the ability of existing products to attract users. Meanwhile, the Group is able to continuously launch new games that are popular among players in the market. The Group had approximately 84.6 million newly registered users in 2022, and as of 31 December 2022, the accumulated registered users of the Group reached 611.5 million.

The Group received the following main awards and recognitions for the quality and popularity of its games or services, as well as the contributions to social responsibility during the reporting period:

<b>Award/Recognition</b>	<b>Date of Award</b>	<b>Awarding Institution/Authority</b>
Social Responsibility of “Golden Diamond Award” 2022 (金鑽榜2022社會責任獎)	February 2023	The Department of Culture and Tourism of Guangdong Province (廣東省文化和旅遊廳), Association of Game Industry of Guangdong (廣東省遊戲產業協會)
Outstanding Contribution of “Golden Diamond Award” 2022 (金鑽榜2022年度突出貢獻獎)	February 2023	The Department of Culture and Tourism of Guangdong Province (廣東省文化和旅遊廳), Association of & Game Industry of Guangdong (廣東省遊戲產業協會)
“Golden Plume Award” as Most Influential Mobile Game Publisher (金翎獎最具影響力移動遊戲發行商)	December 2022	Shanghai Hanwei Xinheng Exhibition Co., Ltd. (上海漢威信恒展覽有限公司)
Metaverse Leader Award (元宇宙領軍企業獎)	November 2022	Ministry of Commerce of The People’s Republic of China (商務部), The Department of Science and Technology (科學技術部), Ministry of Industry and Information Technology (工業和信息化部), National Development and Reform Commission (國家發展改革委)
Leading Digital Trade Enterprises in Guangdong Province 2022 (2022年廣東省數字貿易龍頭企業)	November 2022	Department of Commerce of Guangdong Province (廣東省商務廳)
Guangdong Top 500 Enterprises 2022 (2022廣東企業500強)	October 2022	Enterprise Association of Guangdong (廣東省企業聯合會)
Shenzhen Top 500 Enterprises 2022 (2022深圳企業500強)	September 2022	Enterprise Association of Shenzhen (深圳市企業聯合會), Entrepreneur Association of Shenzhen (深圳市企業家協會)
TOP 50 Cultural and Creative Enterprises 2022 (2022新文創企業TOP50)	December 2022	China Internet Weekly published by the Chinese Academy of Sciences (中國科學院《互聯網週刊》), IT Research Centre under Chinese Academy of Social Sciences (中國社會科學院信息化研究中心), eNet Research Centre (eNet研究院) and Deben Consultation (Beijing) Co., Ltd. (德本諮詢(北京)有限公司)
TOP 100 Overseas Chinese Enterprises 2022 (2022出海企業TOP100)	November 2022	China Internet Weekly published by the Chinese Academy of Sciences (中國科學院《互聯網週刊》), IT Research Centre under Chinese Academy of Social Sciences (中國社會科學院信息化研究中心), eNet Research Centre (eNet研究院) and Deben Consultation (Beijing) Co., Ltd. (德本諮詢(北京)有限公司)
Top 100 Metaverse Industry Application and Pioneering Technology 2022 (2022元宇宙產業應用與先鋒技術百強)	December 2022	Cailianshe (財聯社)
2021-2022 China Internet Sector Self-Discipline Contribution and Public Welfare Award (2021-2022年度中國互聯網行業自律貢獻和公益獎)	November 2022	Ministry of Industry and Information Technology (工業和信息化部), The People’s Government of Shenzhen Municipality (深圳市人民政府)
Outstanding Social Responsibility Performance Enterprise (社會責任表現相對突出企業)	July 2022	People’s Daily Online (人民網)
Guangdong-Hong Kong-Macao Greater Bay Area Social Responsibility Innovation Model (粵港澳大灣區社會責任創新典範)	August 2022	China Academy of China Corporate Governance (中國公司治理研究院), Shenzhen Rural Revitalization and Cooperation and Exchange Bureau (深圳市鄉村振興和協作交流局), Shenzhen Media Group (深圳廣播電影電視集團), Hong Kong Commercial Daily (香港商報)

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The following table sets forth the comparative figures for the years ended 31 December 2021 and 2022:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>	<b>2,713,892</b>	3,956,570
Cost of sales	<u><b>(1,602,197)</b></u>	<u>(2,483,080)</u>
<b>Gross Profit</b>	<b>1,111,695</b>	1,473,490
Other income and gains	<b>63,877</b>	236,969
Selling and distribution expenses	<b>(237,981)</b>	(497,627)
Administrative expenses	<b>(730,695)</b>	(445,751)
Impairment of financial and contract assets, net	<b>(137,033)</b>	(54,103)
Other expenses	<b>(193,368)</b>	(30,980)
Finance costs	<b>(35,280)</b>	(24,292)
Share of losses of a joint venture	<b>(8)</b>	(4,131)
Share of profits and losses of associates	<u><b>(16,680)</b></u>	<u>(2,469)</u>
<b>(Loss)/profit before tax</b>	<b>(175,473)</b>	651,106
Income tax expense	<u><b>(41,407)</b></u>	<u>(57,163)</u>
<b>(Loss)/profit for the year</b>	<u><b>(216,880)</b></u>	<u>593,943</u>
Attributable to owners of the parent	<b>(205,035)</b>	611,770
Attributable to non-controlling interests	<u><b>(11,845)</b></u>	<u>(17,827)</u>
<b>Adjusted net (loss)/profit</b>	<u><b>(196,134)</b></u>	<u>630,028</u>

## Adjusted net (loss)/profit

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

	For the year ended 31 December	
	2022 RMB'000	2021 RMB'000
(Loss)/profit for the year attributable to owners of the parent	(205,035)	611,770
Add:		
Equity-settled share-based expense	<u>8,901</u>	<u>18,258</u>
<b>Adjusted net (loss)/profit</b>	<b><u>(196,134)</u></b>	<b><u>630,028</u></b>

## Revenue

The Group's revenue decreased by approximately 31.4% from RMB3,956.6 million for the year ended 31 December 2021 to RMB2,713.9 million for the year ended 31 December 2022.

Revenue by category:

	For the year ended 31 December			
	2022		2021	
	RMB'000	%	RMB'000	%
Game publishing	2,114,226	77.9	2,819,638	71.3
Game development	452,569	16.7	904,989	22.9
IP Licensing	<u>147,097</u>	<u>5.4</u>	<u>231,943</u>	<u>5.8</u>
<b>Total</b>	<b><u>2,713,892</u></b>	<b><u>100.0</u></b>	<b><u>3,956,570</u></b>	<b><u>100.0</u></b>

- (i) A decrease in the Group's game publishing revenue by 25.0% from RMB2,819.6 million for the year ended 31 December 2021 to RMB2,114.2 million for the year ended 31 December 2022. During the reporting period, *Rakshasa Street: Chosen One* (鎮魂街:天生為王), an online mobile game published by the Group, was achieved a huge success in Mainland China; the Group launched *The New Legend of The Condor Heroes: Iron Blood and Loyal Heart* (新射鵰群俠傳之鐵血丹心) and *Dynasty Warriors: Hegemony* (真·三國無雙霸) in the overseas market recorded a huge success. Publishing new games provided new publishing revenue to the Group. However, the delay of obtaining licences as scheduled for various games planned to be published in 2022, such as *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情) and *Cultivation Fantasy* (我的御劍日記), which led to the delay in the launch of these games, resulting in a slight decrease in the size of game publishing revenue.
- (ii) A decrease in the Group's game development revenue by 50.0% from RMB905.0 million for the year ended 31 December 2021 to RMB452.6 million for the year ended 31 December 2022. *The King of Fighters: All Stars* (全明星激鬥), a 3D mobile game self-developed and published by the Group and with multiple series officially licensed from SNK, has been launched in Mainland China in November 2022, it ranked first on the Best Selling Games Lists of Apple's App Store in Mainland China during the first month of its launch. However, the delay of obtaining licences as scheduled for various online self-developed games planned to be published in 2022, such as *World of Castellan* (城主天下), and the revenue performance of *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) developed by Wenmai Hudong, a wholly-owned subsidiary of the Group was declined as compared with same period of last year, resulting in a decrease in game development revenue; and
- (iii) A decrease in the revenue generated from the Group's IP licensing by 36.6% from RMB231.9 million for the year ended 31 December 2021 to RMB147.1 million for the year ended 31 December 2022, primarily as a result of the decrease in the Group's revenue generated from IP licensing of the *Legend of Sword and Fairy* (仙劍奇俠傳).

## Cost of sales

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

	For the year ended 31 December			
	2022		2021	
	RMB'000	% to Revenue	RMB'000	% to Revenue
Commissions charged by channels and CPs	1,366,266	50.3	2,113,537	53.4
Amortisation of game royalties	56,041	2.1	27,529	0.7
Amortisation of software copyrights and trademarks	11,723	0.4	13,619	0.3
Amortisation of IP royalties	16,745	0.6	33,433	0.9
Commissions charged by IPs	114,607	4.2	155,974	3.9
Game development costs	—	—	65,945	1.7
Others	36,815	1.4	73,043	1.9
<b>Total</b>	<b>1,602,197</b>	<b>59.0</b>	<b>2,483,080</b>	<b>62.8</b>

The Group's cost of sales decreased by 35.5% from RMB2,483.1 million for the year ended 31 December 2021 to RMB1,602.2 million for the year ended 31 December 2022. The publishing revenue of the Group's publishing business decreased due to the failure of obtaining licence for the Group's games originally planned to be launched in 2022 during the reporting period, resulting in a 35.4% decrease in the commissions charged by channels and CPs from RMB2,113.5 million for the year ended 31 December 2021 to RMB1,366.3 million for the year ended 31 December 2022. During the reporting period, the developer contracts of several games of the Group expired, and the amortisation of game royalties increased by 103.6% from RMB27.5 million for the year ended 31 December 2021 to RMB56.0 million for the year ended 31 December 2022. *World of Castellan* (城主天下), the new game product self-developed by the Group, was not launched during the reporting period due to postponement in obtaining licenses, and a number of projects under development have not yet been launched and accordingly not generated royalty income during the reporting period. Therefore, no corresponding game development costs were recorded for the year ended 31 December 2022.

### ***Gross profit and gross profit margin***

The Group's gross profit decreased by 24.6% from RMB1,473.5 million for the year ended 31 December 2021 to RMB1,111.7 million for the year ended 31 December 2022. The Group's gross profit margin increased from 37.2% for the year ended 31 December 2021 to 41.0% for the year ended 31 December 2022.

### **Other income and gains**

The Group's other income and gains consist primarily of (i) bank interest income; (ii) government grants; (iii) gain on disposal of investments in associates; and (iv) fair value adjustment of contingent consideration. The table below sets forth the Group's other income and gains by category for the years indicated:

	<b>For the year ended 31 December</b>			
	<b>2022</b>		<b>2021</b>	
	<b>RMB'000</b>	<b>%</b>	<b>RMB'000</b>	<b>%</b>
Bank interest income	<b>5,560</b>	<b>8.7</b>	12,149	5.1
Government grants	<b>23,454</b>	<b>36.7</b>	25,808	10.9
Gains on disposal of investments in associates	<b>—</b>	<b>—</b>	185,145	78.2
Fair value adjustment of contingent consideration	<b>9,311</b>	<b>14.6</b>	—	—
Foreign exchange difference, net	<b>1,473</b>	<b>2.3</b>	3,139	1.3
Others	<b>24,079</b>	<b>37.7</b>	10,728	4.5
<b>Total</b>	<b><u>63,877</u></b>	<b><u>100.0</u></b>	<b><u>236,969</u></b>	<b><u>100.0</u></b>

The Group's other income and gains decreased by 73.0% from RMB237.0 million for the year ended 31 December 2021 to RMB63.9 million for the year ended 31 December 2022, which was mainly due to the relatively considerable gains arising from disposal of investments in certain associates during the year ended 31 December 2021.

## Selling and distribution expenses

The Group's selling and distribution expenses consist primarily of (i) marketing expenses; and (ii) salaries and welfare. 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			
	2022		2021	
	RMB'000	% to Revenue	RMB'000	% to Revenue
Marketing expenses	186,423	6.9	428,938	10.8
Salaries and welfare	36,432	1.3	61,031	1.5
Office costs and utilities	11,856	0.5	5,795	0.2
Others	3,270	0.1	1,863	0.1
<b>Total</b>	<b>237,981</b>	<b>8.8</b>	<b>497,627</b>	<b>12.6</b>

The Group's selling and distribution expenses decreased by 52.2% from RMB497.6 million for the year ended 31 December 2021 to RMB238.0 million for the year ended 31 December 2022. It was mainly due to (i) the postponement of obtaining licenses as schedules for various games planned to be published by the Group, resulting in decrease in marketing expenses; and (ii) the Group reduced the number of marketing staff which led to the decrease in related salaries and welfare expenses.

## Administrative expenses

The Group's administrative expenses consist primarily of (i) research and development expenses; (ii) salaries and welfare for management and administrative departments; and (iii) office costs and utilities. 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			
	2022		2021	
	RMB'000	% to Revenue	RMB'000	% to Revenue
Research and development expenses	526,745	19.4	310,673	7.9
Salaries and welfare	109,521	4.0	82,847	2.1
Office costs and utilities	85,910	3.2	46,365	1.2
Others	8,519	0.3	5,866	0.1
<b>Total</b>	<b>730,695</b>	<b>26.9</b>	<b>445,751</b>	<b>11.3</b>

The Group's administrative expenses increased by 63.9% from RMB445.8 million for the year ended 31 December 2021 to RMB730.7 million for the year ended 31 December 2022. Such increase was mainly because (i) the Group increased the investment of research and development of the projects *The King of Fighters: All Stars* (全明星激鬥) and *Legend of Sword and Fairy: World* (仙劍世界). The number of research and development personnel of Mantianxing Studio (滿天星工作室) has been increased due to the launch of *The King of Fighters: All Stars* (全明星激鬥). The research and development expenses increased by 69.5% from RMB310.7 million for the year ended 31 December 2021 to RMB526.7 million for the year ended 31 December 2022; and (ii) The number of research and development personnel and the office area has been expanded resulted in the increase in relevant salaries and welfare expenses as well as office costs; and (iii) during the reporting period, the Group has established a new digital art publishing management team and salaries of certain management personnel of the research and development department were classified as salaries and welfare of the administrative and management department, and such have resulted in an increase in salaries and welfare expenses as compared to previous year.

### **Impairment of financial and contract assets, net**

The Group's asset impairment losses represent impairment losses on trade receivables, financial assets included in prepayment, other receivables and other assets. According to the relevant management policies under HKFRS 9, the impairment loss on financial and contract assets recorded by the Group increased by 153.3% from RMB54.1 million for the year ended 31 December 2021 to RMB137.0 million for the year ended 31 December 2022. The increase was primarily attributable to an impairment on a prepayment paid for a conditional share purchase, which has been reclassified to deposits and other receivables during the year ended 31 December 2021.

### **Other expenses**

The Group's other expenses increased by 524.2% from RMB31.0 million for the year ended 31 December 2021 to RMB193.4 million for the year ended 31 December 2022. The increase was primarily attributable to (i) the digital publishing performance of certain investee companies of the Group in Mainland China did not meet expectations in 2022, which resulted in decline in the operating performance. Accordingly, the Group recognised impairment provisions corresponding to the above-mentioned investee companies; and (ii) the significant fair value losses on financial assets at fair value through profit or loss.

### **Finance costs**

The Group's finance costs mainly consist of interest expenses, which increased by 45.2% from RMB24.3 million for the year ended 31 December 2021 to RMB35.3 million for the year ended 31 December 2022, mainly due to the increase in interest expenses of the bank borrowings of the Group.

### **Share of losses of a joint venture**

As at 31 December 2022, the Group held a 60% equity interest in Shenzhen Boliang Technology Co., Ltd. (深圳博良科技有限公司), which is considered as a joint venture of the Group under applicable accounting policies.

The Group's share of losses of a joint venture decreased from a loss of RMB4.1 million for the year ended 31 December 2021 to a loss of RMB8.0 thousand for the year ended 31 December 2022.

### **Share of profits and losses of associates**

The Group's share of profits and losses of associates increased from a loss of RMB2.5 million for the year ended 31 December 2021 to a loss of RMB16.7 million for the year ended 31 December 2022. This was mainly because the underperformance of the games launched by various game research and development companies and digital publishing companies invested by the Group in 2022, or because the performance of digital publishing business did not meet expectation, that led to the decline of its operating results. Therefore, the Group recognised relevant losses in respect of the above-mentioned invested companies.

### **Loss before tax**

As a result of the foregoing, the Group's profit before tax experienced a change from RMB651.1 million for the year ended 31 December 2021 to a loss of RMB175.5 million for the year ended 31 December 2022.

### **Income tax expense**

The Group's income tax expense decreased by 27.6% from RMB57.2 million for the year ended 31 December 2021 to RMB41.4 million for the year ended 31 December 2022. The Group has provided income tax expenses for 2022 despite a net loss was incurred. The income tax expenses have been recognised mainly due to the operating profits recorded in certain subsidiaries in Mainland China for the year ended 31 December 2022.

### **Loss for the year**

As a result of the foregoing, the Group's profit for the year experienced a change from RMB593.9 million for the year ended 31 December 2021 to a loss of RMB216.9 million for the year ended 31 December 2022.

## LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2022, 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 RMB818.5 million and RMB237.0 million as at 31 December 2021 and 2022, 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 borrowings; (iii) other funds raised from the capital markets from time to time; and (iv) the net proceeds received from the subscription of new shares by Bilibili Inc. and other subscribers on 10 May 2021 (the “**Subscription**”). The Group currently does not have any plans for material additional external financing.

### 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	
	2022	2021
	RMB'000	RMB'000
Net cash flows (used in)/from operating activities	(1,873)	355,576
Net cash flows used in investing activities	(176,642)	(994,761)
Net cash flows (used in)/from financing activities	(409,864)	689,815
Net (decrease)/increase in cash and cash equivalents	(588,379)	50,630
Cash and cash equivalents at beginning of year	818,520	794,888
Effect of foreign exchange rate changes, net	6,819	(26,998)
Cash and cash equivalents at end of the year	<u>236,960</u>	<u>818,520</u>

### **Net cash flows used in operating activities**

For the year ended 31 December 2022, the Group recorded net cash used in its operating activities of RMB1.9 million, which was primarily attributable to the Group's loss before taxation of RMB175.5 million, primarily adjusted by (i) impairment of trade receivables of RMB64.8 million; (ii) amortisation of other intangible assets of RMB70.0 million; (iii) impairment of financial assets included in prepayments, other receivables and other assets of RMB72.2 million; (iv) impairment of an investment in an associate of RMB58.1 million; and (v) fair value losses on financial assets at fair value through profit or loss of RMB56.3 million. Movements in working capital mainly contributed a net cash outflow of RMB285.1 million, consisting of (a) an increase in trade and bills receivables of RMB83.2 million; (b) an increase in prepayments, other receivables and other assets of RMB104.5 million; (c) a decrease in trade payables of RMB71.8 million; and (d) income tax paid of RMB25.6 million.

### **Net cash flows used in investing activities**

For the year ended 31 December 2022, the Group recorded net cash flows used in investing activities of RMB176.6 million, which was primarily attributable to (i) purchases of financial assets at fair value through profit or loss of RMB707.3 million; (ii) additions to other intangible assets of RMB528.0 million, mainly IP licences and CP licences; partially offset by, among others; (iii) disposal of financial assets at fair value through profit or loss of RMB524.5 million; and (iv) release of pledged and other deposits of RMB489.2 million as at 31 December 2022.

### **Net cash flows used in financing activities**

For the year ended 31 December 2022, the Group recorded net cash flows used in financing activities of RMB409.9 million, which was primarily attributable to repayment of bank and other loans of RMB812.6 million, partially offset by new bank loans obtained by the Group of RMB474.2 million.

During the year, the Group repurchased an aggregate of 15,378,000 ordinary shares for a total consideration of approximately RMB19.3 million (HKD21.2 million) on the Stock Exchange.

## Indebtedness

For the year ended 31 December 2022, the Group obtained bank loans of RMB474.2 million and repaid bank and other loans of RMB812.6 million.

As at 31 December 2022, the Group had interest-bearing bank borrowings of RMB444.2 million (2021: RMB764.6 million), including bank loans amounting to RMB104.2 million and secured by the equity interests of certain subsidiaries of the Group and a financial asset at fair value through profit or loss. The effective interest rates on the Group's secured bank loans were 6.67%, and the Group's unsecured bank loans range from 1.85% to 5.50%.

As at 31 December 2022, the lease liabilities of the Group were RMB42.5 million (2021: RMB25.1 million).

## Off-balance sheet commitments and arrangements

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

## KEY FINANCIAL METRICS

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

	For the year ended 31 December/ as at 31 December	
	2022	2021
Current ratio (times) <sup>(1)</sup>	1.6	1.9
Gearing ratio <sup>(2)</sup>	7.8%	13.2%
Gross profit margin	41.0%	37.2%

### 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 2022 mainly with its internal resources.

The Group's capital commitments as at 31 December 2021 and 2022 amounted to RMB305.1 million and RMB300.2 million, respectively. The Group's capital commitments as at 31 December 2022 were for the purchase of IP and game licenses.

## **SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS OR DISPOSAL**

Save as disclosed below, during the year ended 31 December 2022, 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.

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

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

In June 2022, the Group acquired 51% equity interest in Shanghai Zhoujing Network Technology Co., Ltd. (上海洲競網絡科技有限公司), which was principally engaged in game development business in the PRC, by capital injection of RMB30 million. The acquisition was made with the objective to expand the Group's eSports business. The goodwill arose from the acquisition amounted to approximately RMB16.8 million.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed above, the Group has no concrete plan for material investments or capital assets as at the date of this announcement.

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

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

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

No.	Purposes	Amount of the net proceeds (HK\$ in millions)	Amount utilised	Amount	Amount of	Expected timeline for the full utilisation of the remaining proceeds
			between the completion of the Subscription and 31 December 2021 (HK\$ in millions)	utilised during the year ended 31 December 2022 (HK\$ in millions)	unutilised net proceeds as at 31 December 2022 (HK\$ in millions)	
1.	Further enhance IP-based game publishing and development business through acquisitions and/or investments	849.15	470.90	378.25	—	N/A

As illustrated in the above table, the Company has fully utilised the net proceeds from the Subscription and there is no unutilised net proceeds from the Subscription as at 31 December 2022.

## OTHER INFORMATION

### Purchase, Sale or Redemption of Listed Securities

During the year, the Group repurchased an aggregate of 15,378,000 ordinary shares for a total consideration of approximately RMB19.3 million (HK\$21.2 million) on the Stock Exchange. The repurchased shares will subsequently be cancelled. Details of the shares repurchased are as follows:

Month of repurchase	Number of ordinary shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration paid HK\$ in millions
September 2022	3,198,000	1.72	1.31	5.1
October 2022	12,180,000	1.50	1.13	16.1
	<u>15,378,000</u>			<u>21.2</u>

Save as disclosed above, the Group did not purchase, sell or redeem any of the Company's listed securities during the year ended 31 December 2022.

### Corporate Governance Code

During the year ended 31 December 2022, 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 C.2.1 of the CG Code.

Pursuant to code provision C.2.1 of the CG Code, the roles of chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Group does not have a separate chairman and chief executive officer and Mr. Xiao Jian currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board currently comprises three executive Directors (including Mr. Xiao Jian), one non-executive Director and three independent non-executive Directors, and therefore has a fairly strong independence element in its composition, and therefore has a fairly

strong independence element in its composition. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider separating the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Company as a whole.

### **Model Code for Securities Transactions**

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

Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the year ended 31 December 2022. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management members or relevant employees of the Group for the year ended 31 December 2022.

### **Employees’ remuneration and relations**

As at 31 December 2022, the Group had 1,165 full-time employees (2021: 1,176). 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 received restricted share units (RSUs) under the Company’s pre-IPO restricted share unit schemes (the “**Pre-IPO RSU Schemes**”) and have also been granted share options under the Post-IPO Share Option Scheme. The Group provides training programmes to employees, including new hire training for new employees and continuing technical training for its research and development team and game operation team to enhance their skill and knowledge.

## **Remuneration policy**

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

## **Audit Committee**

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

The Audit Committee, together with the Auditor, reviewed the Group's consolidated financial statements for the year ended 31 December 2022. There is no disagreement between the Board and the Audit Committee regarding the accounting treatment adopted by the Company.

## **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, 30 May 2023 to Friday, 2 June 2023 (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, 29 May 2023.

## **Final Dividend**

To preserve sufficient funds to meet the financial needs of the Group for its business operations and future business development, having regard to the impact on the Group's business and financial conditions previously created by the COVID-19 pandemic, and the challenges to full recovery of the overall economic environment, the Board does not recommend the declaration of a final dividend for the year ended 31 December 2022.

## **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	
		2022 RMB'000	2021 RMB'000
<b>REVENUE</b>	4	<b>2,713,892</b>	3,956,570
Cost of sales		<u>(1,602,197)</u>	<u>(2,483,080)</u>
Gross profit		<b>1,111,695</b>	1,473,490
Other income and gains	4	<b>63,877</b>	236,969
Selling and distribution expenses		<b>(237,981)</b>	(497,627)
Administrative expenses		<b>(730,695)</b>	(445,751)
Impairment of financial and contract assets, net		<b>(137,033)</b>	(54,103)
Other expenses		<b>(193,368)</b>	(30,980)
Finance costs		<b>(35,280)</b>	(24,292)
Share of profits and losses of:			
A joint venture		<b>(8)</b>	(4,131)
Associates		<b>(16,680)</b>	(2,469)
<b>(LOSS)/PROFIT BEFORE TAX</b>	5	<b>(175,473)</b>	651,106
Income tax expense	6	<b>(41,407)</b>	(57,163)
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b><u>(216,880)</u></b>	<b><u>593,943</u></b>
Attributable to:			
Owners of the parent		<b>(205,035)</b>	611,770
Non-controlling interests		<b>(11,845)</b>	(17,827)
		<b><u>(216,880)</u></b>	<b><u>593,943</u></b>
<b>(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	8		
Basic			
– For (loss)/profit for the year		<b><u>RMB(7.42) cents</u></b>	<u>RMB22.85 cents</u>
Diluted			
– For (loss)/profit for the year		<b><u>RMB(7.42) cents</u></b>	<u>RMB22.84 cents</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
<b>(LOSS)/PROFIT FOR THE YEAR</b>	<b><u>(216,880)</u></b>	<b><u>593,943</u></b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(78,668)</u>	<u>1,770</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation from functional currency to presentation currency	<u>174,755</u>	<u>(50,099)</u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>	<b><u>96,087</u></b>	<b><u>(48,329)</u></b>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>	<b><u>(120,793)</u></b>	<b><u>545,614</u></b>
Attributable to:		
Owners of the parent	<u>(108,948)</u>	563,441
Non-controlling interests	<u>(11,845)</u>	<u>(17,827)</u>
	<b><u>(120,793)</u></b>	<b><u>545,614</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December	
		2022 RMB'000	2021 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property and equipment		17,873	8,747
Right-of-use assets		40,904	24,180
Goodwill	9	1,124,781	1,107,937
Other intangible assets		538,765	536,513
Investment in a joint venture		4,684	4,692
Investments in associates		156,629	231,400
Financial assets at fair value through profit or loss	10	2,099,456	1,896,914
Deferred tax assets		58,416	58,182
Prepayments	12	881,220	647,973
		4,922,728	4,516,538
<b>TOTAL non-current assets</b>			
<b>CURRENT ASSETS</b>			
Trade and bills receivables	11	1,070,799	1,052,446
Prepayments, other receivables and other assets	12	909,899	940,869
Due from related parties		12,368	11,064
Pledged and other deposits		1,000	502,282
Cash and cash equivalents		236,960	818,520
		2,231,026	3,325,181
<b>TOTAL current assets</b>			
<b>CURRENT LIABILITIES</b>			
Trade payables	13	307,670	378,488
Other payables and accruals		282,741	488,966
Contingent consideration for business combination		168,925	—
Interest-bearing bank borrowings		444,169	764,601
Tax payable		133,063	135,303
Due to related parties		7,338	4,215
Lease liabilities		15,435	16,631
		1,359,341	1,788,204
<b>TOTAL current liabilities</b>			

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
<b>NET CURRENT ASSETS</b>	<b>871,685</b>	1,536,977
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>5,794,413</b>	6,053,515
<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liabilities	75,474	72,973
Contingent consideration for business combination	—	178,236
Lease liabilities	27,056	8,444
Total non-current liabilities	102,530	259,653
Net assets	<b>5,691,883</b>	5,793,862
<b>EQUITY</b>		
<b>Equity attributable to owners of the parent</b>		
Issued capital	1,925	1,925
Reserves	5,672,888	5,791,937
	5,674,813	5,793,862
Non-controlling interests	17,070	—
Total equity	<b>5,691,883</b>	5,793,862

## 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 Act (as revised) 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, game development and licensing of intellectual property in Mainland China, Hong Kong, Taiwan and Korea, and the investment business in Mainland China.

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

### 2.1 BASIS OF PREPARATION

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

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the current year's consolidated financial statements:

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

The Group has early adopted above amendment to HKFRS 16 for its annual reporting period beginning on 1 January 2021. The adoption of remaining amendments to HKFRSs and HKAS has no material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

## 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 consolidated financial statements.

Amendments to HKAS 1	<i>Classification of liabilities as Current or Non-current</i> <sup>2</sup>
Amendments to HKAS 1 HK Interpretation 5 (2022)	<i>Non-current Liabilities with Covenants</i> <sup>2</sup> <i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i> <sup>2</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> <sup>1</sup>
Amendments to HKAS 8 Amendments to HKAS 12	<i>Definition of Accounting Estimates</i> <sup>1</sup> <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2024.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

The Group is in the process of making an assessment of the impact of these new or revised HKFRSs upon initial application. Up to now, the Group considers that these standards will not have a significant impact on the Group's financial performance and financial position.

## 3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in mobile game publishing, game development and licensing of intellectual property.

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.

**For the year ended 31 December 2022**

<b>Segments</b>	<b>Game publishing RMB'000</b>	<b>Game development RMB'000</b>	<b>Licensing of intellectual property RMB'000</b>	<b>Total RMB'000</b>
<b>Segment revenue (note 4)</b>				
Sales to external customers	2,114,226	452,569	147,097	2,713,892
Intersegment sales	—	159,307	—	159,307
	<u>2,114,226</u>	<u>611,876</u>	<u>147,097</u>	<u>2,873,199</u>
Reconciliation:				
Elimination of intersegment sales				<u>(159,307)</u>
Total revenue from contracts with customers				<u><u>2,713,892</u></u>
Segment results	722,854	253,475	135,366	1,111,695
Reconciliation:				
Other income and gains				63,877
Selling and distribution expenses				(237,981)
Administrative expenses				(730,695)
Impairment of financial and contract assets, net				(137,033)
Other expenses				(193,368)
Finance costs				(35,280)
Share of profits and losses of:				
A joint venture				(8)
Associates				<u>(16,680)</u>
LOSS BEFORE TAX				<u><u>(175,473)</u></u>

**For the year ended 31 December 2021**

<b>Segments</b>	Game publishing RMB'000	Game development RMB'000	Licensing of intellectual property RMB'000	Total RMB'000
<b>Segment revenue (note 4)</b>				
Sales to external customers	2,819,638	904,989	231,943	3,956,570
Intersegment sales	—	521,109	—	521,109
	2,819,638	1,426,098	231,943	4,477,679
Reconciliation:				
Elimination of intersegment sales				(521,109)
Total revenue from contracts with customers				<u>3,956,570</u>
Segment results	905,139	379,146	189,205	1,473,490
Reconciliation:				
Other income and gains				236,969
Selling and distribution expenses				(497,627)
Administrative expenses				(445,751)
Impairment of financial and contract assets, net				(54,103)
Other expenses				(30,980)
Finance costs				(24,292)
Share of profits and losses of:				
A joint venture				(4,131)
Associates				(2,469)
PROFIT BEFORE TAX				<u>651,106</u>

### Geographical information

(a) Revenue from external customers

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Mainland China	<b>2,352,649</b>	3,498,117
Other countries/regions	<u><b>361,243</b></u>	<u>458,453</u>
	<u><b>2,713,892</b></u>	<u>3,956,570</u>

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

(b) Non-current assets

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Mainland China	<b>2,727,662</b>	2,523,130
Other countries/regions	<u><b>37,194</b></u>	<u>38,312</u>
	<u><b>2,764,856</b></u>	<u>2,561,442</u>

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

### Information about major customers

During the year ended 31 December 2022, revenue of approximately RMB584,237,000 was derived from a single external customer that accounted for more than 10% of total revenue.

During the year ended 31 December 2021, there was no revenue derived from a single external customer that accounted for more than 10% of the total revenue.

#### 4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

(a) Disaggregated revenue information

**For the year ended 31 December 2022**

Segments	Game publishing RMB'000	Game development RMB'000	Licensing of intellectual property RMB'000	Total RMB'000
<b>Types of goods or services:</b>				
Mobile game publishing services	2,114,226	—	—	2,114,226
Game development related services	—	452,569	—	452,569
Licensing of intellectual property	—	—	147,097	147,097
	<u>2,114,226</u>	<u>452,569</u>	<u>147,097</u>	<u>2,713,892</u>
<b>Total revenue</b>				
	<u><u>2,114,226</u></u>	<u><u>452,569</u></u>	<u><u>147,097</u></u>	<u><u>2,713,892</u></u>
<b>Revenue from contracts with customers under HKFRS 15 by geographical markets:</b>				
Mainland China	1,767,075	452,569	133,005	2,352,649
Other countries/regions	347,151	—	14,092	361,243
	<u>2,114,226</u>	<u>452,569</u>	<u>147,097</u>	<u>2,713,892</u>
	<u><u>2,114,226</u></u>	<u><u>452,569</u></u>	<u><u>147,097</u></u>	<u><u>2,713,892</u></u>
<b>Revenue from contracts with customers under HKFRS 15 by timing of revenue recognition:</b>				
Services transferred over time	2,114,226	452,569	45,832	2,612,627
Services transferred at a point in time	—	—	101,265	101,265
	<u>2,114,226</u>	<u>452,569</u>	<u>147,097</u>	<u>2,713,892</u>
	<u><u>2,114,226</u></u>	<u><u>452,569</u></u>	<u><u>147,097</u></u>	<u><u>2,713,892</u></u>

**For the year ended 31 December 2021**

<b>Segments</b>	<b>Game publishing RMB'000</b>	<b>Game development RMB'000</b>	<b>Licensing of intellectual property RMB'000</b>	<b>Total RMB'000</b>
<b>Types of goods or services:</b>				
Mobile game publishing services	2,819,638	—	—	2,819,638
Game development related services	—	904,989	—	904,989
Licensing of intellectual property	—	—	231,943	231,943
<b>Total revenue</b>	<b>2,819,638</b>	<b>904,989</b>	<b>231,943</b>	<b>3,956,570</b>
<b>Revenue from contracts with customers under HKFRS 15 by geographical markets:</b>				
Mainland China	2,361,185	904,989	231,943	3,498,117
Other countries/regions	458,453	—	—	458,453
<b>Total revenue</b>	<b>2,819,638</b>	<b>904,989</b>	<b>231,943</b>	<b>3,956,570</b>
<b>Revenue from contracts with customers under HKFRS 15 by timing of revenue recognition:</b>				
Services transferred over time	2,819,638	786,121	60,423	3,666,182
Services transferred at a point in time	—	118,868	171,520	290,388
<b>Total revenue</b>	<b>2,819,638</b>	<b>904,989</b>	<b>231,943</b>	<b>3,956,570</b>

The following table shows the amounts of revenue from contracts with customers under HKFRS 15 recognised in the current reporting period that were included in the contract liabilities at the beginning of each reporting period:

	<b>2022 RMB'000</b>	<b>2021 RMB'000</b>
Revenue recognised that was included in the contract liabilities balance at the beginning of year:		
Short-term advances received from games publishing	<b>42,453</b>	92,611
Sales of game points in self-developed games	<b>69,231</b>	34,222
	<b>111,684</b>	126,833

(b) Performance obligations of revenue from contracts with customers under HKFRS 15

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

*Publishing services*

The performance obligation is satisfied over time as services are rendered and payment is generally due within 180 days from the date of billing.

*Game development related services*

The performance obligation from self-developed and self-operating games is satisfied over the estimated Player Relation Period. The performance obligation from licensing self-developed games to other publishers as customer is satisfied over time during the licence period for granting the customer a right to access, or at a point for granting the customer a right to use.

*Intellectual property licensing services*

The performance obligation is satisfied over the license period (for a right to access) or at the point in time when the customer can first use the licensed intellectual property (for a right to use). Payment is generally due within 180 days from delivery.

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

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Amounts expected to be recognised as revenue:		
Within one year	<b>128,841</b>	113,327

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.

(c) Other income and gains

	2022 RMB'000	2021 RMB'000
<b>Other income</b>		
Bank interest income	5,560	12,149
Government grants - related to income*	23,454	25,808
Foreign exchange differences, net	1,473	3,139
Others	24,079	4,449
	<u>54,566</u>	<u>45,545</u>
<b>Gains</b>		
Gains on disposal of investments in associates	—	185,145
Fair value adjustment of contingent consideration	9,311	—
Others	—	6,279
	<u>9,311</u>	<u>191,424</u>
	<u><u>63,877</u></u>	<u><u>236,969</u></u>

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

## 5. (LOSS)/PROFIT BEFORE TAX

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

	2022 RMB'000	2021 RMB'000
Commissions charged by channels and CPs <sup>(a)</sup>	1,366,266	2,113,537
Commissions charged by IPs	114,607	155,974
Game development cost	—	65,945
Promotion expenses	186,423	428,938
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	375,210	281,682
Equity-settled share-based expense	8,163	17,072
Pension scheme contributions (defined contribution scheme) <sup>(b)</sup>	74,996	30,210
	<u>458,369</u>	<u>328,964</u>
Depreciation of property and equipment	4,284	4,052
Depreciation of right-of-use assets	18,875	24,923
Amortisation of other intangible assets <sup>(c)</sup>	69,991	127,579
Research and development costs	526,745	310,673
Lease payments not included in the measurement of lease liabilities	8,981	745
Foreign exchange differences, net	(1,473)	(3,139)
Impairment of an investment in an associate <sup>(e)</sup>	58,092	5,805
Impairment of financial and contract assets, net:		
Impairment of trade receivables, net	64,823	29,359
Impairment of financial assets included in prepayments, other receivables and other assets	72,210	24,744
	<u>137,033</u>	<u>54,103</u>
Write-off of prepayments, net <sup>(d)</sup>	50,934	3,334
Impairment of goodwill <sup>(e)</sup>	12,288	—
Impairment of other intangible assets <sup>(e)</sup>	10,636	6,018
Bank interest income	(5,560)	(12,149)
Loss on disposal of items of property and equipment	103	209
Auditor's remuneration	6,150	5,200
Gains on disposal of investments in associates	—	(185,145)
Fair value losses on financial assets at fair value through profit or loss	56,284	12,692
Fair value adjustment of contingent consideration	(9,311)	544

- (a) Zhejiang Shiji Huatong Group Limited (“**Shiji Huatong**”), a listed company on the Shenzhen Stock Exchange (SZSE:002602), and a wholly-owned subsidiary of Shiji Huatong is a limited partner of Changpei (Shanghai) Investment Centre (Limited Partnership) (“**Changpei Shanghai**”). Pursuant to the partnership agreement of Changpei Shanghai, the general partner shall have the exclusive and sole right of management of the affairs of the partnership and limited partners shall have no power to conduct the business of the partnership nor shall limited partners represent the partnership. Also, limited partners shall not participate in the management or control of the investment business of the partnership. Therefore, as Shiji Huatong neither has any voting rights in the Company through its holding vehicles nor has significant influence on the Company, the directors of the Company believe that Shiji Huatong is an independent third party with the Group. Shiji Huatong provided channel services to the Group, which amounted to RMB62,620,000 during the year ended 31 December 2022 (2021: RMB415,399,000), and the balance of trade receivables from Shiji Huatong as at 31 December 2022 was RMB9,741,000 (2021: RMB18,880,000).
- (b) There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.
- (c) The amortisation of other intangible assets for the year is included in “Cost of sales” in the consolidated statement of profit or loss.
- (d) Write-off of prepayments is included in “other expenses” in the consolidated statement of profit or loss. These prepayments are relating to certain mobile games projects which the Group had decided to terminate.
- (e) Impairment of goodwill, other intangible assets and investment in an associate 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 profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

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

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

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

Shenzhen Douyue Network Technology Co., Ltd. and China Mobile Games and Entertainment Group Limited Shenzhen were accredited as high and new technology enterprises (“**HNTE**”) in 2020 under relevant PRC laws and regulations. Accordingly, Shenzhen Douyue Network Technology Co., Ltd. and China Mobile Games and Entertainment Group Limited Shenzhen were entitled to a preferential Corporate Income Tax (“**CIT**”) rate of 15% from 2020 to 2022.

Beijing Wenmai Hudong Technology Company Limited (“**Wenmai Hudong**”) was accredited as a HNTE and the certificate is valid for three years since its renewal in 2019. For the years ended 31 December 2022 and 31 December 2021, Wenmai Hudong was entitled to a tax rate of 15%. Wenmai Hudong needs to renew the HNTE certificate every three years so as to enjoy the reduced tax rate of 15%.

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

Horgos Bell Mutual Entertainment Technology Co., Ltd. was established in the Horgos Development Zone of Xinjiang in 2016. According to the applicable regulations promulgated by the State Council and relevant authorities, it was entitled to tax exemption for five years from 2016 which was the first tax year with production and operation income and is entitled to a preferential CIT rate of 12.5% for five years thereafter from 2021 to 2025.

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

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

Horgos Wenmai Hudong Technology Company Limited was established in the Horgos Development Zone of Xinjiang in 2020. According to the applicable regulations promulgated by the State Council and relevant authorities, it was entitled to tax exemption for five years from 2020 which was the first tax year with production and operation income.

Tibet Jichuang Internet Technology Co., Ltd. was established in Lhasa Tibet. According to the applicable regulations promulgated by the State Council and relevant authorities, the applicable tax rate for Tibet Jichuang was 15% for the year ended 31 December 2022.

Hainan Chuangyue Technology Company Limited and Hainan Zhanshen Internet Technology Company Limited were established in the Hainan Free Trade Port. According to the applicable regulations promulgated by the State Council and relevant authorities, the applicable tax rate for Hainan Chuangyue Technology Company Limited and Hainan Zhanshen Internet Technology Company Limited was 15% each for the year ended 31 December 2022 (2021: 15%).

Beijing Shanxunxingkong Technology Co., Ltd., Shenzhen Fansheng Network Technology Co., Ltd. and Shanghai Fanying Network Technology Co., Ltd. were accredited as a “software enterprise” in 2021 under relevant PRC laws and regulations. According to relevant policies, it was entitled to tax exemption from 2021 to 2022 and is entitled to a preferential CIT rate of 12.5% from 2023 to 2025.

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

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Current tax expense		
PRC	<b>34,518</b>	29,124
Hong Kong	<b>4,622</b>	16,976
Elsewhere	—	24
	<hr/>	<hr/>
Total	<b>39,140</b>	46,124
	<hr/>	<hr/>
Deferred tax expense		
PRC	<b>2,267</b>	11,039
	<hr/>	<hr/>
Total	<b>2,267</b>	11,039
	<hr/>	<hr/>
Total tax charge for the year	<b>41,407</b>	57,163
	<hr/> <hr/>	<hr/> <hr/>

A reconciliation of the tax expense applicable to (loss)/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 as follows:

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
(Loss)/profit before tax	<u><b>(175,473)</b></u>	<u>651,106</u>
Tax at the statutory tax rate	<b>(43,869)</b>	162,777
Effect of different applicable tax rates for specific jurisdictions or enacted by local authority	<b>40,597</b>	(73,829)
Profits and losses attributable to a joint venture and associates	<b>1,890</b>	911
Super deduction for research and development expenses	<b>(25,162)</b>	(41,604)
Expenses not deductible for tax	<b>15,211</b>	2,346
Effect on opening deferred tax of increase in rates	—	(11,342)
Utilisation of previously unrecognised tax losses	<b>(26,451)</b>	(1,492)
Tax losses not recognised	<u><b>79,191</b></u>	<u>19,396</u>
Tax charge at the Group's effective rate	<u><b>41,407</b></u>	<u>57,163</u>

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 2022, no deferred tax (2021: 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 RMB285,139,451 (2021: RMB277,203,000).

## 7. DIVIDENDS

The board of directors of the Company has resolved not to recommend payment of a final dividend for the year ended 31 December 2022 (2021: nil).

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

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of RMB205,035,000 (2021: profit of RMB611,770,000), and the weighted average number of ordinary shares of 2,764,646,362 (2021: 2,676,901,781) in issue during the year.

The Group did not have any potentially dilutive ordinary shares in issue during the year ended 31 December 2022 (2021: 1,521,864 potential dilutive shares).

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

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
<b>(Loss)/earnings</b>		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculation	<u><b>(205,035)</b></u>	<u>611,770</u>
	<b>Number of shares</b>	
	<b>2022</b>	2021
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	<b>2,764,646,362</b>	2,676,901,781
Effect of dilution – weighted average number of ordinary shares		
Share options	<u>—</u>	<u>1,521,864</u>
	<u><b>2,764,646,362</b></u>	<u>2,678,423,645</u>

## 9. GOODWILL

	RMB'000
<b>At 1 January 2021 and 31 December 2021:</b>	
Cost	1,118,617
Accumulated impairment	(10,680)
	<hr/>
Net carrying amount	1,107,937
	<hr/>
Cost at 1 January 2021 and 31 December 2021, net of accumulated impairment	1,107,937
Acquired through business combinations	29,132
Impairment during the year	(12,288)
	<hr/>
Net carrying amount at 31 December 2022	1,124,781
	<hr/> <hr/>
<b>At 31 December 2022:</b>	
Cost	1,147,749
Accumulated impairment	(22,968)
	<hr/>
Net carrying amount	1,124,781
	<hr/> <hr/>

### Impairment testing of goodwill

Goodwill is allocated to the mobile game publishing CGU, the Wenmai Hudong CGU, the Beijing Softstar CGU, the Shanghai Zhoujing Network Technology Co., Ltd. (“**Shanghai Zhoujing**”) CGU, the Guangzhon Chuxin Technology Co., Ltd. (“**Guangzhon Chuxin**”) CGU and the Hainan Guming Technology Co., Ltd. (“**Hainan Guming**”) CGU for impairment testing. The recoverable amounts of the CGUs have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The growth rate beyond the five-year period had been projected as 3%.

The respective recoverable amounts and the carrying values of the mobile game publishing CGU, the Wenmai Hudong CGU, the Beijing Softstar CGU and the Shanghai Zhoujing as at 31 December 2022 and 2021 are as follows:

#### Mobile game publishing CGU:

	2022	2021
	RMB'000	RMB'000
Recoverable amount	2,030,000	2,010,000
Carrying value including allocated goodwill	1,353,893	1,019,377

Wenmai Hudong CGU:

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Recoverable amount	<b>795,271</b>	996,461
Carrying value including allocated goodwill	<b>725,017</b>	719,259

Beijing Softstar CGU:

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Recoverable amount	<b>706,745</b>	685,039
Carrying value including allocated goodwill	<b>550,154</b>	552,973

Shanghai Zhoujing CGU:

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Recoverable amount	<b>33,027</b>	N/A
Carrying value including allocated goodwill	<b>16,844</b>	N/A

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:

	<b>2022</b>	2021
Growth rates (during the five-year period)	<b>3%-20%</b>	3%-16%
Gross margin	<b>65%</b>	27%
Pre-tax discount rate	<b>19%</b>	16%
Terminal growth rate	<b>3%</b>	3%

Wenmai Hudong CGU:

	<b>2022</b>	2021
Growth rates (during the five-year period)	<b>5%-485%</b>	3%-60%
Gross margin	<b>21%</b>	19%-21%
Pre-tax discount rate	<b>21%</b>	22%
Terminal growth rate	<b>2%</b>	3%

Beijing Softstar CGU:

	2022	2021
Growth rates (during the five-year period)	2%-240%	(48%)-107%
Gross margin	85%	60%-64%
Pre-tax discount rate	15%	22%
Terminal growth rate	2%	3%

Shanghai Zhoujing CGU:

	2022	2021
Growth rates (during the five-year period)	5%-84%	—
Gross margin	24%	—
Pre-tax discount rate	28%	—
Terminal growth rate	3%	—

Assumptions were used in the value-in-use calculation of the CGUs for 31 December 2022 and 2021. 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.

*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.

Guangzhou Chuxin CGU and Hainan Guming CGU

During the year ended 31 December 2022, management of the Group has provided impairment loss on goodwill of RMB9,632,000 (2021: nil) and RMB2,656,000 (2021: nil) allocated to software, information and technology operation of Guangzhou Chuxin CGU and digital art related business of Hainan Guming CGU respectively to write down their recoverable amounts to nil due to their closure of businesses under the Group's latest strategy.

## 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2021
	RMB'000	RMB'000
Listed equity investments, at fair value	179,739	195,267
NEEQ quoted equity investments, at fair value	—	31,220
Unlisted equity investments, at fair value	1,373,812	1,586,350
Convertible loans, at fair value	545,905	84,077
	<u>2,099,456</u>	<u>1,896,914</u>

In May 2018, the Group acquired 26% of the issued shares of Angel Fund (Asia) Investments Limited (“**Angel Fund**”) from Angel (Partners) Investments Limited with the consideration of 1,270,963 issued shares of Ridgeview Well Investment Limited, the then sole shareholder of the Company. Angel Fund held 9,740,562 shares, representing 20.368% of the total issued shares of Softstar Entertainment Inc, which is a company listed on the Taiwan Stock Exchange (TAIPEI: 6111). The fair value of the investment in Angel Fund was RMB45,806,000 (2021: RMB65,679,000) as at 31 December 2022.

In April 2018, CMGE Group Limited transferred the investment in China Prosperity Capital Mobile Internet Fund L.P (“**CPC Fund**”) to the Group. In June 2018, the Group injected cash of US\$8,300,000 (equivalent to RMB54,442,000) to CPC Fund. The Group acted as a limited partner and held 25.65% of its limited partnership interests. The fair value of the investment in CPC Fund was RMB221,720,000 (2021: RMB210,554,000) as at 31 December 2022.

In February 2020, Guohong Jiaxin (Shenzhen) Angel Venture Capital Enterprise (L.P.) (“**Angel Venture**”) has been set up after obtaining all the related licences and approval documentation. The fair value of the investment in Angel Venture was RMB201,000,000 (2021: RMB188,321,000) as at 31 December 2022.

The Group holds 26%, 25.65% and 39.01% limited partnership interests in Angel Fund, CPC Fund, and Angel Venture, respectively. Pursuant to the relevant agreements of these three funds, the Group is entitled to investment return, but has no right or power to participate in the management or control of the funds. Therefore, the Group has neither control nor significant influence on Angel Fund, CPC Fund and Angel Venture and they are treated as financial instruments at fair value through profit or loss.

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

## 11. TRADE AND BILLS RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	1,232,102	1,138,216
Allowance for impairment	<u>(161,303)</u>	<u>(96,480)</u>
Trade receivables, net	1,070,799	1,041,736
Bills receivable	<u>—</u>	<u>10,710</u>
	<u><b>1,070,799</b></u>	<u><b>1,052,446</b></u>

Trade receivables mainly represent amounts receivable from third-party publishing channels. The Group normally allows credit terms of 180 days for established channels and other counterparties and extends credit terms up to 270 days for major channels and other major counterparties. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

	2022 RMB'000	2021 RMB'000
Within 6 months	737,740	620,678
6 months to 1 year	155,602	262,384
1 year to 18 months	100,177	121,238
18 months to 2 years	60,762	34,839
Over 2 years	<u>16,518</u>	<u>2,597</u>
	<u><b>1,070,799</b></u>	<u><b>1,041,736</b></u>

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

	2022 RMB'000	2021 RMB'000
At beginning of year	96,480	72,146
Provision for impairment losses, net (note 5)	64,823	29,359
Amount written off as uncollectible	—	(5,000)
Exchange realignment	<u>—</u>	<u>(25)</u>
At end of year	<u><b>161,303</b></u>	<u><b>96,480</b></u>

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

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

**As at 31 December 2022**

	<b>Amount</b> <b>RMB’000</b>	<b>Expected</b> <b>credit</b> <b>loss rate</b>	<b>Impairment</b> <b>RMB’000</b>
Default receivables	2,543	100.0%	2,543
Other trade receivables aged:			
Current	758,992	2.8%	21,252
Past due for less than 6 months	169,132	8.0%	13,530
Past due for 6 months to 1 year	119,685	16.3%	19,508
Past due for 1 year to 18 months	94,940	36.0%	34,178
Past due for 18 months to 24 months	64,398	74.4%	47,880
Past due for over 24 months	22,412	100.0%	22,412
	<u>1,232,102</u>		<u>161,303</u>

**As at 31 December 2021**

	<b>Amount</b> <b>RMB’000</b>	<b>Expected</b> <b>credit</b> <b>loss rate</b>	<b>Impairment</b> <b>RMB’000</b>
Default receivables	2,454	100.0%	2,454
Other trade receivables aged:			
Current	634,639	2.2%	13,961
Past due for less than 6 months	277,655	5.5%	15,271
Past due for 6 months to 1 year	139,194	12.9%	17,956
Past due for 1 year to 18 months	55,743	37.5%	20,904
Past due for 18 months to 24 months	8,804	70.5%	6,207
Past due for over 24 months	19,727	100.0%	19,727
	<u>1,138,216</u>		<u>96,480</u>

## 12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 RMB'000	2021 RMB'000
Non-current portion		
Prepayments	<u>881,220</u>	<u>647,973</u>
Current portion		
Prepayments	648,526	508,816
Deposits and other receivables*	215,682	374,709
Contract costs**	<u>45,691</u>	<u>57,344</u>
	<u>909,899</u>	<u>940,869</u>
	<u><u>1,791,119</u></u>	<u><u>1,588,842</u></u>

\* Deposits and other receivables as at 31 December 2021 included an investment in a US listed company with a carrying amount of RMB51,379,000. The carrying amount of this investment was assessed using scenario-based model.

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

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts except for the gross carrying amount for receivables of RMB129,373,000 (2021: RMB76,123,000) which is considered as credit-impaired at 31 December 2022 and is classified as stage 3.

The following table shows reconciliation of impairment that has been recognised for financial assets included in prepayments, other receivables and other assets:

	12-month		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Stage 3 RMB'000	
As at 1 January 2021	—	—	—	—	—
Changes due to financial instruments recognised as at 1 January 2021:					
– Impairment loss recognised	—	—	12,667		12,667
New financial assets originated or purchased	—	—	12,077		12,077
As at 31 December 2021 and 1 January 2022	—	—	24,744		24,744
Changes due to financial instruments recognised as at 1 January 2022:					
– Impairment loss recognised	—	—	84,287		84,287
– Reversal of impairment loss	—	—	(12,077)		(12,077)
Exchange realignment	—	—	(1,793)		(1,793)
As at 31 December 2022	—	—	95,161		95,161

### 13. TRADE PAYABLES

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

	2022 RMB'000	2021 RMB'000
Within 3 months	169,871	158,004
3 to 6 months	65,710	133,083
6 months to 1 year	26,639	83,273
1 year to 2 years	29,901	2,586
2 years to 3 years	15,549	1,542
Total	307,670	378,488

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, 22 March 2023

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