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Zengame Technology Holding Limited

禪遊科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2660)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board of directors of Zengame Technology Holding Limited is pleased to announce the interim results and the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries for the six months ended 30 June 2021, together with the comparative figures for the six months ended 30 June 2020. These interim results have been reviewed by Ernst & Young, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” and by the Audit Committee.

FINANCIAL HIGHLIGHTS

	For the six months ended		Year-on-Year Change*
	30 June 2021 (RMB'000) (Unaudited)	2020 (RMB'000) (Unaudited)	
Revenue	444,223	468,478	-5.2
Gross profit	286,633	225,934	26.9
Gross profit margin (%)	64.5	48.2	
Profit for the period	145,745	131,848	10.5
Profit (%)	32.8	28.1	
Non-HKFRS adjusted net profit**	146,442	133,590	9.6
Earnings per Share (expressed in RMB per Share)	0.14	0.13	7.7

* Year-on-Year Change % represents a comparison between the current reporting period and the corresponding period of last year.

** Non-HKFRS adjusted net profit was derived from the unaudited profit for the period excluding Share-based payments.

OPERATIONAL HIGHLIGHTS

	For the six months ended		For the
	30 June		year ended
	2021	2020	31 December
	('000)	('000)	2020
			('000)
All Games			
Cumulative registered players	1,203,373	997,464	1,090,674
MAU	44,443	82,951	60,466
DAU	6,643	10,414	7,906
MPU (Virtual items)	661	899	649
ARPPU of virtual items (RMB)	65	35	37
Card and Board Games			
Cumulative registered players	940,250	768,895	845,754
MAU	39,968	70,203	51,964
DAU	6,390	9,384	7,248
MPU (Virtual items)	646	872	629
ARPPU of virtual items (RMB)	61	33	31
Other Games			
Cumulative registered players	263,124	228,569	244,920
MAU	4,475	12,748	8,502
DAU	253	1,030	658
MPU (Virtual items)	15	27	19
ARPPU of virtual items (RMB)	217	87	183

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an established mobile game developer and operator in the PRC with special focus on card and board and other casual mobile games. Many of our games are based on well-established classic card and board games and they have been widely welcomed by the users. The Group generated income through the sales of virtual items and in-game information service. In the first half of 2021, the economy of the PRC recovered gradually from the impact of the COVID-19 pandemic, movement restrictions were largely removed, and people placed less reliance on games and entertainment to connect with each other as compared with the corresponding period last year. From the perspective of the mobile game industry, notwithstanding that the impressive and substantial growth during the first half of last year cannot be sustained, the long-term development prospects of the industry are still positive overall. In the first half of 2021, the Group has made some adjustments in its business focus. On one hand, we made substantial investment in product innovation of board and card games, such as launching competition mode and live telecast mode, adding innovative gameplay and special effects with traditional Chinese culture elements when players playing some special composition of cards or boards in our games. On the other hand, we reduced our investment in hyper-casual games and removed six hyper-casual games in order to put more focus on the production of boutique games. In the first half of 2021, in addition to maintaining the leading position of our Fight the Landlord series in the market, we have made great breakthroughs in our Mahjong series. The revenue generated from our board games has increased from RMB34.3 million for the six months ended 30 June 2020 to RMB157.9 million for the six months ended 30 June 2021, representing an increase of 3.6 times and became one of the Group's flagship products. Our Fight the Landlord (禪遊鬥地主) recently ranked 7th in card and board games on the IOS bestseller list in China. The Fingertip Sichuan Mahjong (指尖四川麻將) was also highly popular and loved by players, and it has recently ranked 2nd in card and board games on the IOS bestseller list in China. In the first half of 2021, we launched seven new games, among which two are overseas online games. As at 30 June 2021, we had 56 self-developed games and 13 third-party games, among which 19 are card games, 17 are board games and 33 are other casual games, respectively.

In terms of business development, the Group optimized and enhanced the product experience of existing games, and at the same time increased the number of new players by strengthening promotion efforts in expanding promotion channels such as Tencent, Toutiao, Baidu, Kuaishou and Douyin. As a result, the Group recorded an increase in the cumulative registered players in the first half of 2021. We had approximately 1,203.4 million cumulative registered players for the six months ended 30 June 2021 as compared with 997.5 million cumulative registered players for the six months ended 30 June 2020. In addition, the Group enriched the features of in-game virtual items. As a result, for the six months ended 30 June 2021, the Group's revenue from sales of virtual items amounted to approximately RMB226.5 million, representing an increase of approximately 28.4% from RMB176.5 million as compared with the six months ended 30 June 2020, and our ARPPU of virtual items increased from approximately RMB35 for the six months ended 30 June 2020 to approximately RMB65 for the six months ended 30 June 2021.

In terms of financial performance, due to our adjustment of business focus in the first half of 2021 in reducing the investment in hyper-casual games, the in-game information service revenue generated from hyper-casual games reduced and thus our overall revenue decreased from approximately RMB468.5 million for the six months ended 30 June 2020 to approximately RMB444.2 million for the six months ended 30 June 2021, representing a decrease of approximately 5.2%. At the same time, we have also reduced the expenditure on the information service costs, so the cost of sales decreased from approximately RMB242.5 million for the six months ended 30 June 2020 to approximately RMB157.6 million for the six months ended 30 June 2021, representing a decrease of approximately 35.0%. Attributable to the improvement in gross profit margin, our net profit has nonetheless increased from approximately RMB131.8 million for the six months ended 30 June 2020 to approximately RMB145.7 million for the six months ended 30 June 2021, representing an increase of approximately 10.5%. Our adjusted net profit, excluding the Share-based payments, increased from approximately RMB133.6 million for the six months ended 30 June 2020 to approximately RMB146.4 million for the six months ended 30 June 2021, representing an increase of approximately 9.6%.

In terms of the mobile game industry in the PRC, the overall development trend and atmosphere remained positive throughout the first half of 2021, with a continuous growth in the number of players and the market scale. The Group has obtained four new game publication numbers in the first half of 2021. As at 30 June 2021, we possessed 78 game publication numbers, 50 of which covering our card and board games and 28 of which covering our casual games. Due to the current development strategy and resources allocation, 30 games with publication numbers have not yet been in operation. The Group will start promoting our operations at any time as and when appropriate in the future. In addition, we have always strictly complied with the relevant laws and regulations. To protect the physical and mental health of game players, especially minors, we have long established an anti-addiction system for minors in accordance with the relevant laws and regulations and have incorporated this system into our games. Our system can also automatically screen sensitive words and block inappropriate language and content, so as to resist vulgar content such as erotic and violence. Meanwhile, we also strictly abide by the relevant rules and regulations for the security protection of internet personal information and also those relating to anti-gambling. We have compiled internal policies for personal information protection, established prevention and control measures for personal information leakage, and strictly followed the relevant laws and regulations to protect the privacy of users. We will closely monitor and follow up with any relevant new laws and regulations in the PRC, and update our legal compliance database and business processes in a timely manner to ensure that our business complies with the requirements of the latest laws and regulations.

FUTURE PROSPECTS

In the second half of 2021, the Group will mainly focus on the following strategies to expand our business and growth:

- continuously strengthening our brand building and enhancing the effect of word-of-mouth, in addition to expanding promotion channels;
- increasing our effort in building platforms for player communities and redefining the card and board game products with an innovative mode by adding multi-element entertainment experiences;
- continuously exploring opportunities in overseas casual game markets and developing competitive products;
- pursuing opportunities to acquire or invest in other game development teams or teams of new markets for consumption which are compatible with our development strategies and continuously expanding our business boundaries; and
- continuously building a talented team with efficient learning capability and embracing a future of both uncertainties and opportunities with an open and focused attitude.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2021, the Group operated self-developed games and third-party games. All of the games used a Free-to-Play model and the Group generated revenue through the sales of virtual items and in-game information service.

Sales proceeds of virtual items were initially recorded as contract liabilities on our consolidated statement of financial position and were then recognized as revenue in accordance with our revenue recognition policies. Revenue collected from the paying players of third-party games and the in-game information service are shared between the Group and the third-party game developers and the advertising platforms based on a pre-determined rate in accordance with the relevant agreements. The revenue generated from the sale of virtual items from third-party games and the in-game information service are both recognized on a net basis when the relevant services are provided.

The following table sets forth a breakdown of our revenue by business model for the periods indicated:

	For the six months ended 30 June				Year-
	2021		2020		on-Year
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	Change
	(Unaudited)		(Unaudited)		%
Sales of virtual items	226,515	51.0	176,464	37.7	28.4
— Self-developed games	221,068	49.8	169,304	36.1	30.6
— Third-party games	5,447	1.2	7,160	1.5	–23.9
In-game information service	217,708	49.0	292,014	62.3	–25.4
Total	444,223	100.0	468,478	100.0	–5.2

The following table sets forth a breakdown of our revenue by game category for the periods indicated:

	For the six months ended 30 June				Year- on-Year Change %
	2021 <i>RMB'000</i> (Unaudited)	%	2020 <i>RMB'000</i> (Unaudited)	%	
Card games	262,269	59.1	290,159	61.9	-9.6
Board games	157,853	35.5	34,332	7.3	359.8
Other games	24,101	5.4	143,987	30.8	-83.3
Total	444,223	100.0	468,478	100.0	-5.2

For the six months ended 30 June 2021, the Group's total revenue was approximately RMB444.2 million, representing a decrease of approximately 5.2% from approximately RMB468.5 million as compared with the corresponding period of 2020. The Group's revenue from sale of virtual items amounted to approximately RMB226.5 million, representing an increase of approximately 28.4% from RMB176.5 million as compared with the corresponding period of 2020. On the other hand, for the six months ended 30 June 2021, the Group's revenue from in-game information service amounted to approximately RMB217.7 million, representing a decrease of approximately 25.4% from RMB292.0 million as compared with the corresponding period of 2020. These were mainly due to (i) the decrease in in-game information service revenue as a result of the reduced investment in hyper-casual games; and (ii) the increase in the revenue from the sale of virtual items caused by the increase in card and board game ARPPU.

Cost of Sales

The following table sets forth a breakdown of our cost of sales by nature for the periods indicated:

	For the six months ended		Year-on-Year Change %
	30 June 2021 (RMB'000) (Unaudited)	2020 (RMB'000) (Unaudited)	
Payment channel costs	36,353	47,875	-24.1
Distribution platform costs	49,313	39,816	23.9
Information service costs	66,504	148,029	-55.1
Others	5,420	6,824	-20.6
Total	157,590	242,544	-35.0

For the six months ended 30 June 2021, the cost of sales was approximately RMB157.6 million, representing a decrease of approximately 35.0% from approximately RMB242.5 million as compared with the corresponding period of 2020. This was mainly attributable to the reduction of the promotion of hyper-casual games.

Gross Profit and Gross Profit Margin

Gross profit increased by 26.9% from approximately RMB225.9 million for the six months ended 30 June 2020 to approximately RMB286.6 million for the six months ended 30 June 2021. The gross profit margin increased to 64.5% for the six months ended 30 June 2021 from 48.2% for the six months ended 30 June 2020. The increase in the gross profit margin was primarily due to the increase in both the ARPPU of virtual items and the gross profit margin of in-game information service.

The following table sets forth our gross profit and gross profit margin by business model:

	For the six months ended 30 June			
	2021		2020	
	Gross Profit	Gross Profit	Gross Profit	Gross Profit
	Margin	Margin	Margin	Margin
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Sales of virtual items	128,743	56.8	85,888	48.7
— Self-developed games	123,296	55.8	78,728	46.5
— Third-party games	5,447	100.0	7,160	100.0
In-game information service	157,890	72.5	140,046	48.0
Total	286,633	64.5	225,934	48.2

Other Income

Other income decreased by 10.3% from approximately RMB16.0 million for the six months ended 30 June 2020 to approximately RMB14.3 million for the six months ended 30 June 2021. The decrease was primarily due to the reduction of government subsidies.

Selling and Distribution Expenses

Selling and distribution expenses increased by 19.9% from approximately RMB40.4 million for the six months ended 30 June 2020 to approximately RMB48.4 million for the six months ended 30 June 2021. This increase was primarily attributable to the increase in the Company's brand and product promotion.

Administrative Expenses

Administrative expenses increased by 4.6% from approximately RMB31.4 million for the six months ended 30 June 2020 to approximately RMB32.9 million for the six months ended 30 June 2021, primarily due to the increase in the number of back office staff and the rental expenses.

Research and Development Expenses

Research and development expenses increased by 41.5% from approximately RMB26.6 million for the six months ended 30 June 2020 to approximately RMB37.7 million for the six months ended 30 June 2021. The increase was primarily due to the increase in the number of R&D personnel and their salaries.

Other Expenses

Other expenses decreased by 56.9% from approximately RMB1.3 million for the six months ended 30 June 2020 to approximately RMB0.6 million for the six months ended 30 June 2021. There were donation expenses in relation to the COVID-19 pandemic incurred during the corresponding period last year. No more donation expenses were incurred for the six months ended 30 June 2021 which resulted in the decrease in other expenses.

Finance Costs

Finance costs decreased by 44.3% from approximately RMB0.4 million for the six months ended 30 June 2020 to approximately RMB0.2 million for the six months ended 30 June 2021. The decrease was primarily due to the decrease in loan amount.

Income Tax Expense

The income tax expenses for the six months ended 30 June 2021 was approximately RMB35.4 million, increased by 262.5% from approximately RMB9.8 million as compared with the corresponding period of 2020. Such significant increase was mainly attributable to the increase in taxable income and the impact of the increase in the applicable preferential tax rate.

Profit for the six months ended 30 June 2021

As a result of the above factors, the net profit of the Group was approximately RMB145.7 million for the six months ended 30 June 2021, an increase of approximately 10.5% as compared with RMB131.8 million for the six months ended 30 June 2020.

Non-HKFRS Measures — Adjusted Net Profit

The adjusted net profit for the six months ended 30 June 2021, adjusted by excluding the share-based compensation to key employees was approximately RMB146.4 million, increasing by 9.6% as compared to approximately RMB133.6 million for the first half of 2020.

The following table sets out the adjusted net profit as well as the calculation process based on non-HKFRS for the periods indicated:

	For the six months ended	
	30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	145,745	131,848
Add:		
Share-based compensation	697	1,742
	<u>146,442</u>	<u>133,590</u>
Adjusted net profit	<u>146,442</u>	<u>133,590</u>

Liquidity and Capital Resources

The Group's total bank balances and cash slightly increased from approximately RMB608.8 million as at 31 December 2020 to approximately RMB609.5 million as at 30 June 2021.

As at 30 June 2021, current assets of the Group amounted to approximately RMB1.0 billion, including bank balances and cash of approximately RMB609.5 million and other current assets of approximately RMB393.6 million. Current liabilities of the Group amounted to approximately RMB164.4 million, including trade payables and contract liabilities of approximately RMB62.7 million and other current liabilities of approximately RMB90.4 million, and short-term loans of RMB11.3 million. As at 30 June 2021, the current ratio (the current assets to current liabilities ratio) of the Group was 6.10, as compared with 14.34 as at 31 December 2020.

As at 30 June 2021, the Group had borrowings amounting to approximately RMB11.3 million (31 December 2020: nil). In April 2021, the Group obtained a bank loan of RMB12.0 million at an interest rate of 0.65% above the one-year loan prime rate. The said loan will be due in April 2022.

As a result of the abovementioned borrowings, the gearing ratio (calculated by dividing total debt (being interest-bearing bank borrowings) by total equity) as at 30 June 2021 was 1.3% while the gearing ratio as at 31 December 2020 was nil. The increase was mainly resulted from the new short-term bank borrowings obtained by the Group.

Capital Expenditures

For the six months ended 30 June 2021, the capital expenditures of the Group amounted to approximately RMB23.5 million, which were primarily used for equity investment in other companies in the sum of RMB21.6 million and for the purchase of office equipment in a sum of RMB1.9 million.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2021.

Pledge of Assets

As at 30 June 2021, the Group did not pledge any assets.

Future Plan for Material Investments and Capital Assets

Save as disclosed in this announcement, the Group did not have other plans for material investments and capital assets.

Significant Investments, Acquisitions and Disposals

There were no significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures, nor was there any plan authorized by the Board for other material investments or additions of capital assets during the six months ended 30 June 2021.

Foreign Exchange Risk Management

The functional currency of the Group is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
REVENUE	4	444,223	468,478
Cost of sales		<u>(157,590)</u>	<u>(242,544)</u>
Gross profit		286,633	225,934
Other income and gains		14,307	15,950
Selling and distribution expenses		(48,449)	(40,416)
Administrative expenses		(32,885)	(31,444)
Research and development costs		(37,675)	(26,627)
Other expenses		(572)	(1,326)
Finance costs		(211)	(379)
Share of profits and losses of:			
Joint ventures		<u>—</u>	<u>(79)</u>
PROFIT BEFORE TAX	5	181,148	141,613
Income tax expense	6	<u>(35,403)</u>	<u>(9,765)</u>
PROFIT FOR THE PERIOD		<u>145,745</u>	<u>131,848</u>
Attributable to:			
Owners of the parent		<u>145,745</u>	<u>131,848</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	8	<u>RMB0.14</u>	<u>RMB0.13</u>
Diluted	8	<u>RMB0.14</u>	<u>RMB0.13</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
PROFIT FOR THE PERIOD	<u>145,745</u>	<u>131,848</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(1,526)</u>	<u>3,105</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(1,526)	3,105
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):		
Change in fair value of equity instruments designated at fair value through other comprehensive income ("FVOCI")	<u>75</u>	<u>14,052</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>(1,451)</u>	<u>17,157</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>144,294</u>	<u>149,005</u>
Attributable to:		
Owners of the parent	<u>144,294</u>	<u>149,005</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property and equipment		6,018	5,398
Right-of-use asset		4,989	4,480
Intangible assets		700	892
Investments in associates		4,000	—
Investments in Joint ventures		8,940	8,940
Equity instruments designated at FVOCI		20,206	3,600
Long-term prepayments, deposits and other receivables		8,190	6,750
Deferred tax assets		1,267	515
		<hr/>	<hr/>
Total non-current assets		54,310	30,575
CURRENT ASSETS			
Trade receivables	9	146,941	71,259
Contract costs		16,800	3,308
Financial assets at fair value through profit or loss	10	189,431	110,680
Prepayments, deposits and other receivables		40,437	31,476
Time deposits with original maturity of over three months		335,000	323,915
Cash and cash equivalents		274,507	284,921
		<hr/>	<hr/>
Total current assets		1,003,116	825,559
CURRENT LIABILITIES			
Trade payables	11	19,249	10,484
Contract liabilities		43,475	6,784
Other payables and accruals		63,418	33,559
Interest-bearing bank borrowings		11,280	—
Lease liabilities		3,641	2,924
Tax payable		23,302	3,831
		<hr/>	<hr/>
Total current liabilities		164,365	57,582
NET CURRENT ASSETS			
		<hr/>	<hr/>
		838,751	767,977
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/> <hr/>	<hr/> <hr/>
		893,061	798,552

	<i>Notes</i>	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Lease liabilities		1,623	1,803
Deferred tax liabilities		286	142
		<hr/>	<hr/>
Total non-current liabilities		1,909	1,945
		<hr/>	<hr/>
Net assets		891,152	796,607
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>12</i>	8,946	8,946
Reserves		882,206	787,661
		<hr/>	<hr/>
Total equity		891,152	796,607
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PRESENTATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period's financial information.

Amendments to HKFRS 9, HKAS *Interest Rate Benchmark Reform-Phase 2*
39, HKFRS 7, HKFRS 4 and
HKFRS 16

Amendment to HKFRS 16

Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)

The nature and impact of the new and revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“**RFR**”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. The amendments are not expected to have a significant impact on the financial position and performance of the Group.
- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendment is not expected to have a significant impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in developing and operating mobile games.

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

Geographical information

During the reporting period, the Group operated within one geographical segment because all of its revenue was generated in the PRC and all of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

Revenue from customers which amounted to more than 10% of the Group's revenue during the six months ended 30 June 2021 and 2020 are set out below:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Customer A	79,220	133,019
Customer B	71,210	88,481

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue for the respective period.

4. REVENUE

Revenue from contracts with customers

(a) Disaggregated revenue information

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue:		
Types of goods or services		
Self-developed games	221,068	169,304
Third-party games	5,447	7,160
In-game information service	217,708	292,014
	<u>444,223</u>	<u>468,478</u>
Total revenue from contracts with customers	<u>444,223</u>	<u>468,478</u>
Timing of revenue recognition		
Services transferred over time	<u>444,223</u>	<u>468,478</u>

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Self-developed games	<u>6,784</u>	<u>15,558</u>

(b) Performance obligations

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

Virtual items in self-developed games

The performance obligation of the operation of self-developed games is satisfied over the estimated average playing period of Paying Players as the customer simultaneously receives and consumes in-game virtual items provided by the entity’s performance as the entity performs.

The distribution platforms collect the payment from the players who purchased the Group’s in-game virtual items (“**Paying Players**”) and remit the cash to the Company net of commission charges which are pre-determined according to the relevant terms of the agreements entered into between the Group and distribution platforms or third-party payment vendors. The payment is generally due within 30 to 90 days from the date of collecting the payment from the Paying Players.

Publishing service for third party games

The performance obligation is satisfied over time as the third-party game’s developer simultaneously receives distribution services provided by the entity’s performance as the entity performs. The payment is generally due within 30 to 90 days from the date of billing.

In-game information service

The performance obligation is satisfied over time as the advertiser simultaneously receives in-game information service provided by the entity’s performance as the entity performs. The payment is generally due within 30 to 90 days from the date of billing.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2020/30 June 2021 are as follows:

	Six months ended 30 June 2021 RMB’000 (Unaudited)	Year ended 31 December 2020 RMB’000 (Audited)
Within one year	<u>43,475</u>	<u>6,784</u>

All 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.

5. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations is arrived at after charging:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Services fee charged by distribution platforms and payment vendors	36,353	87,691
Cost of in-game information service	49,313	148,029
Promotion expenses	48,449	40,416
Depreciation of property and equipment	1,274	1,101
Depreciation of right-of-use assets	1,584	1,092
Amortisation of intangible assets	192	104
Research and development costs	37,675	26,627
Impairment of trade receivables*	557	646
Auditors' remuneration	350	350

* The provision of impairment for trade receivables is included in "other expenses" in the consolidated statement of profit or loss.

6. INCOME TAX

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

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Zen-Game Shenzhen was qualified as "High and New Technology Enterprises" under the EIT Law since year 2019. Accordingly it was entitled to a preferential income tax rate of 15% for a 3-year period since 31 December 2019. Zen-Game Shenzhen expected the applicable tax rate to be 15% for the six months ended 30 June 2021.

Shenzhen Laiwan was accredited as a “software enterprise” in July 2019 under relevant PRC laws and regulations with a preferential tax treatment (i.e., 2-year exemption and 3-year half payment) from its first profitable year. Shenzhen Laiwan expected the applicable tax rate to be 12.5% for the six months ended 30 June 2021.

Tiantianlaiwan was qualified as a “software enterprise” under the relevant PRC Laws and regulations with a preferential tax treatment (i.e., 2-year exemption and 3-year half payment) from its first profitable year. Tiantianlaiwan expected the applicable tax rate to be 12.5% for the six months ended 30 June 2021.

Pursuant to the PRC Enterprise Income Tax (“EIT”) Law and the respective regulations, the other PRC subsidiaries are subject to income tax at a statutory rate of 25% for the reporting periods.

Hong Kong profits tax have been provided at the rate of 16.5% on the Group’s assembled profit derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

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

	Six months ended 30 June	
	2021	2020
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Current tax		
Charge for the period	35,936	9,962
Deferred tax	(533)	(197)
	<hr/>	<hr/>
Total tax charge for the period	<u>35,403</u>	<u>9,765</u>

7. DIVIDENDS

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

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

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the six months ended 30 June 2021 and 2020.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share and diluted earnings per share for the six months ended 30 June 2021 and 2020 has been retrospectively adjusted for the effect of capitalisation issue as described more fully in note 12.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2021 and 2020.

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	145,745	131,848
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	1,017,444,000	1,017,808,505

9. TRADE RECEIVABLES

The Group's trade receivables primarily consist of those due from third-party distribution platforms and payment vendors who collect payment from the Paying Players on behalf of the Group. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing and are generally on terms within 90 days.

An aging analysis of the trade receivables as at the end of each of the reporting periods, based on the recognition date of gross trade receivables and net of provision, is as follows:

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Within 90 days	132,521	62,530
91 to 180 days	9,562	5,889
181 days to 1 year	4,044	2,449
1 year to 2 years	814	391
	<u>146,941</u>	<u>71,259</u>

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Wealth management products issued by licensed banks, at fair value	<u>189,431</u>	<u>110,680</u>
	<u>189,431</u>	<u>110,680</u>

Wealth management products were denominated in RMB, with an expected rate of return ranging from 2.26% to 5.00% and 2.72% to 4.05% per annum for the six months ended 30 June 2021 and year ended 31 December 2020, respectively. The return on all of these wealth management products is not guaranteed, and hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. None of these investments are past due. The fair values are based on cash flows discounted using the expected return based on management judgement and are categorized within level 2 of the fair value hierarchy.

11. TRADE PAYABLES

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

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Within 3 months	15,669	7,116
3 to 6 months	593	630
6 months to 1 year	1,088	1,801
1 year to 2 years	1,660	937
2 years to 3 years	239	—
	<u>19,249</u>	<u>10,484</u>

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

12. SHARE CAPITAL

Shares

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Authorized: 50,000,000,000 ordinary shares of HK\$0.01 each as at 30 June 2021 (2020: 50,000,000,000 ordinary shares)	440,000	440,000
Issued and fully paid: 1,017,444,000 ordinary shares as at 30 June 2021 (2020: 1,018,274,000 ordinary shares)	8,946	8,946

EVENT AFTER THE REPORTING PERIOD

The Group did not have any significant events after 30 June 2021 and up to the date of this announcement.

USE OF PROCEEDS FROM THE LISTING

The net proceeds raised by the Company from the Listing are approximately HK\$206.5 million (after deduction of the underwriting commissions in respect of the offering and other estimated expenses). As at 30 June 2021, a total amount of approximately HK\$154.4 million out of the net proceeds had been utilized by the Group. We have, and will continue to utilize the net proceeds from the Listing in accordance with the purposes set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 3 April 2019.

EMPLOYEE REMUNERATION AND RELATIONS

As at 30 June 2021, the Group had approximately 327 employees (235 as at 31 December 2020). As required by the PRC laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. Remuneration of the Group’s employees includes basic salaries, allowances, bonus, share options and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. The Group believes that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes during the six months ended 30 June 2021.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Company has adopted the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules on the Stock Exchange as its own code of corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Corporate Governance Code during the six months ended 30 June 2021, save for deviation from code provision A.2.1 of the Corporate Governance Code. The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance.

Mr. Ye Sheng is both the chairman of the Board and the chief executive officer of the Group. The Board believes that vesting the roles of both chairman of the Board and chief executive officer in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within the Group. The Group considers that the balance of power and authority of the present arrangement will not be impaired as the Board comprises five other experienced and high-calibre individuals including another executive Director, one non-executive Director and three independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of the Group, the Board will make consultations with appropriate Board committees and senior management. Therefore, the Directors consider that the present arrangement is beneficial to and in the interest of the Company and the Shareholders as a whole and the deviation from Code A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has also adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors.

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2021.

AUDIT COMMITTEE

The Company established the Audit Committee written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three members, namely, Mr. Jin Shuhui, Mr. Mao Zhonghua and Mr. Yang Yi, all of whom are independent non-executive Directors. Mr. Jin Shuhui is the chairman of the Audit Committee.

The Audit Committee has reviewed the Company's unaudited condensed consolidated interim results for the six months ended 30 June 2021 and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made.

The interim results for the six months ended 30 June 2021 is unaudited, but has been reviewed by Ernst & Young, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity”.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities for the six months ended 30 June 2021.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.zen-game.com>). The interim report for the six months ended 30 June 2021 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the same websites in due course.

DEFINITIONS

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

“ARPPU”	monthly average revenue per paying user, which represents the revenue for the period divided by the number of paying players in such period, and then divided by the number of months in such period
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors of the Company
“China” or “PRC”	the People’s Republic of China excluding for the purpose of this announcement, Hong Kong, Macau and Taiwan
“Company”	Zengame Technology Holding Limited (禪遊科技控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 28 August 2018

“Corporate Governance Code”	code on corporate governance practices contained in Appendix 14 to the Listing Rules
“DAU”	daily active users
“Director(s)”	the director(s) of the Company
“Free-to-Play”	a business model which players can play games for free, but may need to pay for virtual items sold in games to enhance their game experience
“Group”	collectively, the Company and its subsidiaries
“HK\$”, “HKD” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“HKFRS”	Hong Kong Financial Reporting Standards
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“MAU”	monthly active users
“Model Code”	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules
“MPU”	monthly playing users
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules

“Zen-Game Shenzhen” Shenzhen Zen-Game Technology Co. Ltd.* (深圳市禪遊科技股份有限公司), an indirect wholly-owned subsidiary of the Company

“%” per cent

* The English translation of Chinese entity is for identification purpose only.

By Order of the Board
Zengame Technology Holding Limited
Ye Sheng
Chairman

Hong Kong, 18 August 2021

As at the date of this announcement, the executive Directors are Mr. Ye Sheng and Mr. Yang Min, the non-executive Director is Ms. Fu Hao, and the independent non-executive Directors are Mr. Jin Shuhui, Mr. Mao Zhonghua and Mr. Yang Yi.