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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 2023

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 2023, together with the comparative figures for the six months ended 30 June 2022. 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 2023 (RMB'000) (Unaudited)	2022 (RMB'000) (Unaudited)	
Revenue	<b>1,017,834</b>	619,786	64.2
Gross profit	<b>635,714</b>	399,648	59.1
Gross profit margin (%)	<b>62.5</b>	64.5	
Profit for the period	<b>404,261</b>	236,905	70.6
Profit (%)	<b>39.7</b>	38.2	
Non-HKFRS adjusted net profit**	<b>413,154</b>	238,459	73.3
Earnings per Share (expressed in RMB per Share)	<b>0.41</b>	0.24	70.8

\* 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 compensation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

As a leading mobile game developer in the PRC, the Group has closely followed the changing trend of market and user demand, increased investment in innovative models for new media channels such as short clips and livestreaming, and focused on the innovation, research and development and operation of high-quality board and card and casual games, to establish a top leisure entertainment platform and community. The Group generated income through the sales of virtual items and in-game information service.

In the first half of 2023, the policies guided the healthy development of the game industry and the industry started to boom degrees upwards, numerous game manufacturers were striving to seek breakthrough opportunities. On the one hand, the game industry constantly insisted on boutique and high-quality development, emphasized the content value and cultural connotation of game products, and paid more attention to user experience; on the other hand, the game manufacturers continuously deepened their export-oriented layout and explored overseas market increment, and the creative ability and distribution capacity of the export-oriented game products were continued to improve. In addition, with the gradual deepening of development of AI technology and the application, the AI empowerment brought out the efficiency improvement of the game industry and further facilitated the continuous innovation of gameplay.

Against such background, in the first half of 2023, the Group made continuous progress to enhance its capacities in game research and development and innovation, with a focus on optimizing user experience and to commit to creating new game content and improving game products' quality. On the one hand, the Group continuously and iteratively updated its existing gameplay, and enriched strategic of its gameplay. At the same time, during the interim period, the Group launched gameplays with innovative rules, including among others, the “Five Elements Magic Weapon (五行神兵槓)” for “Fingertip Sichuan Mahjong (指尖四川麻將)”, and “Encounter consecutive bombs (吃個連炸)” for “Fight the Landlord (禪游鬥地主)”; On the other hand, the Group comprehensively updated and optimized the gameplay in various perspectives, including animated short film for game openings, special effects of game players and game fighting music, among which, the special effects in the Group's gameplays, like “Four Symbols Universe (四象乾坤)”, “Refinement into Gold (百煉成金)” and “Multicolor Gilt (五色鑲金)”, brought gamers refreshing experience. In addition, the Group launched attractive in-game activities, such as “Lucky Event (開運福利)”, “Qizhen Pavilion (奇珍閣)” and “Daily Reward (每日懸賞)” to enhance its games' fun and playability. Meanwhile, in terms of industrial technology innovation and application, the Group concerned about the impact brought by the automated production tools on its business development. Leveraging on the introduction and application of AIGC technology, the Group was devoted to improving its efficiency in research and development of game products, and to further enhance its intelligence and refined operation.

The following table sets forth the key operational highlights of the Group for the periods/year indicated:

	<b>For the six months ended</b>		For the year
	<b>30 June</b>		ended
	<b>2023</b>	2022	31 December
	<b>(‘000)</b>	(‘000)	(‘000)
MAU	<b>25,068</b>	38,707	35,967
DAU	<b>4,404</b>	6,288	5,810
MPU (Virtual items)	<b>575</b>	1,065	1,015
ARPPU of virtual items ( <i>RMB</i> )	<b>289</b>	82	133

In the first half of 2023, due to the Group’s product iterative innovation and steady development of product channel, the revenue generated from the Group’s board games increased from RMB451.8 million for the six months ended 30 June 2022 to RMB923.2 million for the six months ended 30 June 2023, representing an increase of approximately 104.3%. The Fingertip Sichuan Mahjong (指尖四川麻將), one of the Group’s flagship products, was highly popular and loved by players and it had ranked the second in board and card games on the iOS bestseller list in the PRC. In the first half of 2023, the Group relaunched four board and card games and launched one overseas game. As at 30 June 2023, the Group had 48 self-developed games and 7 third-party games, among which 43 are board and card games, and 12 are other casual games, respectively.

In terms of business development, the Group optimized and enhanced the product experience of existing games, increased the investment in the operation of the Group’s living broadcasting business, and at the same time engaged more hosts with high quality and unique features. The Group enriched the gameplay to increase users’ willingness to pay. As a result, for the six months ended 30 June 2023, the Group’s revenue from sales of virtual items amounted to approximately RMB963.9 million, representing an increase of approximately 100.7% as compared with RMB480.2 million for the six months ended 30 June 2022, and our ARPPU of virtual items increased from approximately RMB82 for the six months ended 30 June 2022 to approximately RMB289 for the six months ended 30 June 2023.

In terms of financial performance, due to the increase in users' payment capacity, the overall revenue of the Group increased from approximately RMB619.8 million for the six months ended 30 June 2022 to approximately RMB1,017.8 million for the six months ended 30 June 2023, representing an increase of approximately 64.2%. At the same time, due to the increase in overall revenue and channel costs of the Group, the cost of sales increased from approximately RMB220.1 million for the six months ended 30 June 2022 to approximately RMB382.1 million for the six months ended 30 June 2023, representing an increase of approximately 73.6%. With the growth of overall performance of the Group, the Group's net profit has nonetheless increased from approximately RMB236.9 million for the six months ended 30 June 2022 to approximately RMB404.3 million for the six months ended 30 June 2023, representing an increase of approximately 70.6%. The Group's adjusted net profit, excluding the Share-based compensation, increased from approximately RMB238.5 million for the six months ended 30 June 2022 to approximately RMB413.2 million for the six months ended 30 June 2023, representing an increase of approximately 73.3%.

In terms of regulation in game industry, the Group has always strictly complied with relevant laws and regulations. In terms of minors protection, the Group has introduced a real-name authentication system and anti-addiction tips into its game products comprehensively, and strictly enforced the restrictions on the duration, time slot and consumption of games for minors in accordance with the latest requirements. In addition, in terms of personal data protection, the Group upgraded its prevention and control system for personal information leakage and optimized its management system of the personal privacy protection for users, to ensure sufficient protection of users' personal information. In the future, the Group will closely monitor and follow up with any relevant new laws and regulations in the PRC and update its legal compliance database and business processes in a timely manner to ensure that the Group's business complies with the requirements of the latest laws and regulations, and to establish a green and healthy game eco-environment.

## **FUTURE PROSPECTS**

In the second half of 2023, the Group will mainly focus on the following strategies to expand its business and growth:

- consolidating advantages in board and card tracks and further enhancing management capability in research and development and business operation;
- closing to channels and users demand and continuously committing to iterative updates of products and user experience;
- taking advantages of the Group's core competitive advantages and actively exploring and developing overseas game markets;

- actively embracing industrial technology change to effectively empower the Group's core business; and
- actively seeking suitable investment opportunities and assisting the investee companies in achieving high quality growth.

## FINANCIAL REVIEW

### Revenue

For the six months ended 30 June 2023, 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 the Group's consolidated statement of financial position and were then recognized as revenue in accordance with the Group's 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 the Group's revenue by business model for the periods indicated:

	For the six months ended 30 June				Year-on- Year Change
	2023		2022		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	%
	(Unaudited)		(Unaudited)		
<b>Sales of virtual items</b>	<b>963,923</b>	<b>94.7</b>	480,233	77.5	100.7
— Self-developed games	<b>960,029</b>	<b>94.3</b>	477,900	77.1	100.9
— Third-party games	<b>3,894</b>	<b>0.4</b>	2,333	0.4	66.9
<b>In-game information service</b>	<b>53,911</b>	<b>5.3</b>	139,553	22.5	(61.4)
<b>Total</b>	<b><u>1,017,834</u></b>	<b><u>100.0</u></b>	<b><u>619,786</u></b>	<b><u>100.0</u></b>	<b><u>64.2</u></b>

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

	For the six months ended 30 June				Year-on- Year Change %
	2023		2022		
	<i>RMB'000</i> (Unaudited)	%	<i>RMB'000</i> (Unaudited)	%	
Board games	923,175	90.7	451,800	72.9	104.3
Card games	76,338	7.5	160,967	26.0	(52.6)
Other games	18,321	1.8	7,019	1.1	161.0
<b>Total</b>	<b>1,017,834</b>	<b>100.0</b>	<b>619,786</b>	<b>100.0</b>	<b>64.2</b>

For the six months ended 30 June 2023, the Group's total revenue was approximately RMB1,017.8 million, representing an increase of approximately 64.2% as compared with approximately RMB619.8 million for the six months ended 30 June 2022. This increase was primarily due to the comprehensive effect of (i) the increase in board games ARPPU of the Group; and (ii) the decrease in revenue derived from card games. The Group's revenue derived from the sales of virtual items increased by 100.7% from approximately RMB480.2 million for the six months ended 30 June 2022 to approximately RMB963.9 million for the six months ended 30 June 2023. The Group's revenue derived from in-game information service decreased by 61.4% from approximately RMB139.6 million for the six months ended 30 June 2022 to approximately RMB53.9 million for the six months ended 30 June 2023. The decrease in revenue derived from in-game information service was mainly due to the decrease in the market of in-game information service and the revenue from information service of card games.

## Cost of Sales

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

	For the six months ended		Year-on-Year Change %
	30 June 2023 (RMB'000) (Unaudited)	2022 (RMB'000) (Unaudited)	
Channel costs	278,109	157,614	76.4
Information service costs	2,912	19,006	-84.7
New media costs	91,721	36,884	148.7
Others	9,378	6,634	41.4
<b>Total</b>	<b>382,120</b>	<b>220,138</b>	<b>73.6</b>

The cost of sales increased by 73.6% from approximately RMB220.1 million for the six months ended 30 June 2022 to approximately RMB382.1 million for the six months ended 30 June 2023. The increase in the cost of sales was mainly attributable to the increase in overall revenue and the new media costs of the Group.

## Gross Profit and Gross Profit Margin

Gross profit increased by 59.1% from approximately RMB399.6 million for the six months ended 30 June 2022 to approximately RMB635.7 million for the six months ended 30 June 2023. The gross profit margin slightly decreased from 64.5% for the six months ended 30 June 2022 to 62.5% for the six months ended 30 June 2023.

The following table sets forth the Group's gross profit and gross profit margin by business model for the periods indicated:

	<b>For the six months ended 30 June</b>			
	<b>2023</b>		<b>2022</b>	
	<b>Gross Profit</b>	<b>Gross Profit</b>	<b>Gross Profit</b>	<b>Gross Profit</b>
	<b><i>RMB'000</i></b>	<b><i>%</i></b>	<b><i>RMB'000</i></b>	<b><i>%</i></b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
<b>Sales of virtual items</b>	<b>584,715</b>	<b>60.7</b>	289,254	60.2
— Self-developed games	<b>580,821</b>	<b>60.5</b>	286,921	60.0
— Third-party games	<b>3,894</b>	<b>100</b>	2,333	100.0
<b>In-game information service</b>	<b>50,999</b>	<b>94.6</b>	110,394	79.1
<b>Total</b>	<b>635,714</b>	<b>62.5</b>	399,648	64.5

### **Other Income**

Other income increased by 78.7% from approximately RMB25.9 million for the six months ended 30 June 2022 to approximately RMB46.3 million for the six months ended 30 June 2023. The increase was primarily due to the increase in bank interest income and exchange gains.

### **Selling and Distribution Expenses**

Selling and distribution expenses decreased by 10.8% from approximately RMB82.3 million for the six months ended 30 June 2022 to approximately RMB73.4 million for the six months ended 30 June 2023. This decrease was primarily attributable to the comprehensive effect of (i) the decrease in promotion and advertising expenses; and (ii) the increase in the remuneration of sales staff.

### **Administrative Expenses**

Administrative expenses increased by 63.5% from approximately RMB37.1 million for the six months ended 30 June 2022 to approximately RMB60.7 million for the six months ended 30 June 2023. This increase was primarily due to the increase in the remuneration of administrative personnel.



## **Research and Development Expenses**

Research and development expenses increased by 47.7% from approximately RMB50.0 million for the six months ended 30 June 2022 to approximately RMB73.8 million for the six months ended 30 June 2023. The increase was primarily due to the increase in the number of research and development personnel and their salaries.

## **Other Expenses**

Other expenses increased by 476.0% from approximately RMB1.8 million for the six months ended 30 June 2022 to approximately RMB10.1 million for the six months ended 30 June 2023. The increase was primarily due to the impairment of other receivables.

## **Finance Costs**

Finance costs increased by 28.9% from approximately RMB0.3 million for the six months ended 30 June 2022 to approximately RMB0.4 million for the six months ended 30 June 2023.

## **Income Tax Expense**

The income tax expense increased from approximately RMB17.4 million for the six months ended 30 June 2022 to approximately RMB57.7 million for the six months ended 30 June 2023, representing an increase of approximately RMB40.2 million or approximately 231.0%. This increase was mainly attributable to the (i) decrease in the Group's preferential income tax in 2023; and (ii) enjoy the withholding tax rate of 5% by the Group during the six months ended 30 June 2023 as the Group's Hong Kong subsidiary obtained the Hong Kong tax resident certificate.

## **Profit for the six months ended 30 June 2023**

As a result of the above factors, the net profit of the Group was approximately RMB404.3 million for the six months ended 30 June 2023, representing an increase of approximately 70.6% as compared with RMB236.9 million for the six months ended 30 June 2022. This increase was mainly attributable to the increase in the Group's revenue from sales of virtual items.

## Non-HKFRS Measures — Adjusted Net Profit

The adjusted net profit for the six months ended 30 June 2023, adjusted by excluding the Share-based compensation, was approximately RMB413.2 million, increasing by 73.3% as compared with approximately RMB238.5 million for the six months ended 30 June 2022.

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

	For the six months ended	
	30 June	
	2023	2022
	RMB'000	RMB'000
Profit for the period	404,261	236,905
Add:		
Share-based compensation	8,893	1,554
Adjusted net profit	<u>413,154</u>	<u>238,459</u>

## Liquidity and Capital Resources

The Group's total bank balances and cash increased from approximately RMB1.1 billion as at 31 December 2022 to approximately RMB1.4 billion as at 30 June 2023. This increase in total bank balances and cash during the six months ended 30 June 2023 was due to the increase in cash balance from operating profit.

As at 30 June 2023, current assets of the Group amounted to approximately RMB1,934.6 million, primarily consisting cash and cash equivalents and time deposits of approximately RMB1,413.0 million, trade receivables of approximately RMB179.3 million and financial assets at FVPL of approximately RMB253.2 million. Current liabilities of the Group amounted to approximately RMB464.5 million, primarily consisting of contract liabilities of approximately RMB108.1 million and other payables and accruals of approximately RMB295.6 million (including the final dividends approved by the Shareholders at the annual general meeting held on 20 June 2023 and paid on 28 July 2023). As at 30 June 2023, the current ratio (the current assets to current liabilities ratio) of the Group was 4.2, as compared with 5.8 as at 31 December 2022.

As at 30 June 2023, the Group had borrowings amounting to approximately RMB12.0 million (31 December 2022: RMB13.5 million). In August 2022, the Group obtained a bank loan of RMB15 million at an interest rate of the one-year loan prime rate plus 34BP. The said loan will be due on 31 August 2023.

As a result of the aforesaid borrowings, the gearing ratio is calculated by dividing total debt (being interest-bearing bank borrowings) by total equity. As at 30 June 2023, the gearing ratio was 0.6% (31 December 2022: 0.8%).

### **Capital Expenditures**

For the six months ended 30 June 2023, the capital expenditures of the Group amounted to approximately RMB21.8 million, which were primarily used to invest in other games' research and development and the Group's operation.

### **Contingent Liabilities**

The Group had no material contingent liabilities as at 30 June 2023.

### **Pledge of Assets**

As at 30 June 2023, the Group did not pledge any assets.

### **Future Plan for Material Investments and Capital Assets**

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 2023.

### **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 also has certain cash and bank balances denominated in United State dollars and Hong Kong dollars, which would expose the Group to foreign exchange risk. 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 2023

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
<b>REVENUE</b>	4	<b>1,017,834</b>	619,786
Cost of sales		<u>(382,120)</u>	<u>(220,138)</u>
Gross profit		<b>635,714</b>	399,648
Other income and gains		<b>46,338</b>	25,934
Selling and distribution expenses		<b>(73,410)</b>	(82,270)
Administrative expenses		<b>(60,690)</b>	(37,124)
Research and development costs		<b>(73,840)</b>	(49,983)
Other expenses		<b>(10,126)</b>	(1,758)
Finance costs		<b>(424)</b>	(329)
Share of profits and losses of:			
Joint ventures		<b>(569)</b>	391
Associates		<b>(1,077)</b>	(186)
<b>PROFIT BEFORE TAX</b>	5	<b>461,916</b>	254,323
Income tax expense	6	<u>(57,655)</u>	<u>(17,418)</u>
<b>PROFIT FOR THE PERIOD</b>		<b><u>404,261</u></b>	<b><u>236,905</u></b>
Attributable to:			
Owners of the parent		<b>404,845</b>	237,010
Non-controlling interests		<b>(584)</b>	(105)
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic	8	<b>RMB40.51 cents</b>	RMB23.80 cents
Diluted		<b><u>RMB39.56 cents</u></b>	<b><u>RMB23.73 cents</u></b>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Six months ended 30 June</b>	
<i>Notes</i>	<b>2023</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>PROFIT FOR THE PERIOD</b>	<b><u>404,261</u></b>	<b><u>236,905</u></b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>15,251</u>	<u>115</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	<b>15,251</b>	<b>115</b>
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>(9,788)</u>	<u>2,029</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b><u>5,463</u></b>	<b><u>2,144</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b><u>409,724</u></b>	<b><u>239,049</u></b>
Attributable to:		
Owners of the parent	<b>410,308</b>	<b>239,154</b>
Non-controlling interests	<b><u>(584)</u></b>	<b><u>(105)</u></b>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2023	As at 31 December 2022
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
<b>NON-CURRENT ASSETS</b>			
Property and equipment		7,817	9,833
Right-of-use asset		4,718	7,854
Intangible assets		811	1,263
Investments in associates		25,426	7,003
Investments in Joint ventures		4,348	4,917
Equity investments designated at FVOCI		15,560	26,610
Long-term prepayments, deposits and other receivables		21,726	18,511
Deferred tax assets		3,207	332
Time deposits with original maturity of over one year		440,000	440,000
		523,613	516,323
<b>CURRENT ASSETS</b>			
Trade receivables	9	179,332	161,763
Contract costs		42,461	26,077
Financial assets at fair value through profit or loss (“FVPL”)	10	253,209	210,885
Prepayments, deposits and other receivables		46,625	52,619
Time deposits with original maturity of over three months		203,667	105,759
Cash and cash equivalents		1,209,311	977,230
		1,934,605	1,534,333
<b>CURRENT LIABILITIES</b>			
Trade payables	11	18,844	17,298
Contract liabilities		108,124	83,284
Other payables and accruals		295,638	123,600
Interest-bearing bank borrowings		12,000	13,500
Lease liabilities		4,555	6,589
Tax payable		25,338	18,426
		464,499	262,697
<b>NET CURRENT ASSETS</b>		<b>1,470,106</b>	<b>1,271,636</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,993,719</b>	<b>1,787,959</b>

		As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities		278	1,439
Deferred tax liabilities		<u>1,931</u>	<u>20,760</u>
Total non-current liabilities		<u>2,209</u>	<u>22,199</u>
Net assets		<u><b>1,991,510</b></u>	<u><b>1,765,760</b></u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	12	9,066	9,044
Treasury shares		(22,767)	(22,767)
Other reserves		<u>2,005,086</u>	<u>1,778,774</u>
Non-controlling interests		<u>125</u>	<u>709</u>
Total equity		<u><b>1,991,510</b></u>	<u><b>1,765,760</b></u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 1. BASIS OF PRESENTATION

The interim condensed consolidated financial information for the six months ended 30 June 2023 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 2022.

## 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 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period's financial information.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform — Pillar Two Model Rules</i>

The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information.



- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022, with any cumulative effect recognised as an adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases that occurred on or after 1 January 2022.
- (d) Amendments to HKAS 12 International Tax Reform — Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to 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 periods, 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 a customer which amounted to more than 10% of the Group's revenue during the six months ended 30 June 2023 and 2022 are set out below:

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Customer A	<b>NA*</b>	71,439

\* 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	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Revenue:</b>		
<b>Types of goods or services</b>		
Self-developed games	960,029	477,900
Third-party games	3,894	2,333
In-game information service	53,911	139,553
	<u>1,017,834</u>	<u>619,786</u>
Total revenue from contracts with customers	<u>1,017,834</u>	<u>619,786</u>
<b>Timing of revenue recognition</b>		
Services transferred over time	<u>1,017,834</u>	<u>619,786</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	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Self-developed games	<u>83,284</u>	<u>59,183</u>

(b) *Performance obligations*

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

*Virtual items in self-developed games*

The performance obligation from operation of self-developed games is satisfied over the estimated Player Relationship Period 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.

*Operation service for third party games*

The performance obligation is satisfied over time as the third-party game's developer simultaneously receives operation 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 30 June 2023 and 31 December 2022 are as follows:

	<b>Six months ended 30 June 2023 RMB'000 (Unaudited)</b>	Year ended 31 December 2022 RMB'000 (Audited)
Within one year	<b><u>108,124</u></b>	<b><u>83,284</u></b>

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:

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2023</b>	<b>2022</b>
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Services fee charged by distribution platforms and payment vendors		<b>278,109</b>	157,614
Cost of in-game information service		<b>2,912</b>	19,006
New media costs		<b>91,721</b>	36,884
Promotion expenses		<b>45,378</b>	61,660
Depreciation of property and equipment	9	<b>2,362</b>	2,042
Depreciation of right-of-use assets		<b>4,152</b>	3,581
Amortisation of intangible assets		<b>452</b>	541
Research and development costs		<b>73,840</b>	49,983
Impairment of trade receivables*		<b>28</b>	1,173
Impairment of prepayments, deposits and other receivables*		<b>10,000</b>	—
Auditors' remuneration		<b>600</b>	600
Equity-settled share-based payment expenses		<b>8,893</b>	1,554
Loss on disposal of items of property and equipment		<b>—</b>	38

\* The provision of impairment for trade receivables and prepayments, deposits and other receivables are 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.

The Group's subsidiary Shenzhen Zen-Game Technology Co. Ltd. was qualified as "High and New Technology Enterprises" under the EIT Law since year 2022. Accordingly it was entitled to a preferential income tax rate of 15% for a 3-year period since year 2022. The company expected the applicable tax rate to be 15% for the six months ended 30 June 2023.

The Group's subsidiary Shenzhen Tiantianlaiwan Technology Co., Ltd. (hereafter, "**Tiantianlaiwan**") was qualified as a "software enterprise" in 2020 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. Therefore, Tiantianlaiwan was exempted from income tax for its first two profitable years (i.e. 2019 and 2020) and was entitled to a preferential income tax rate of 12.5% from 2021 to 2023.

The Group's subsidiary HAINAN TIAN TIAN LAI WAN TECHNOLOGY CO., LTD. (hereafter, "**Hainan Tiantianlaiwan**") were established in the Hainan Free Trade Port. According to the applicable regulations promulgated by the State Taxation Administration of the PRC, the applicable tax rate for Hainan Tiantianlaiwan was 15% for the six months ended 30 June 2023.

The Group's subsidiary Shenzhen Metaverse Technology Co., Ltd. (hereafter, "**Metaverse**") was qualified as a "software enterprise" in 2021 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. Therefore, Metaverse was exempted from income tax for its first two profitable years (i.e. 2021 and 2022) and was entitled to a preferential income tax rate of 12.5% from 2023 to 2025.

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 has been provided at the rate of 16.5% on the Group's assembled profits 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:

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Current tax		
Charge for the period	<b>76,097</b>	26,547
Deferred tax	<b>(18,442)</b>	(9,129)
	<hr/>	<hr/>
Total tax charge for the period	<b><u>57,655</u></b>	<b><u>17,418</u></b>

## **7. DIVIDENDS**

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2023 (for six months ended 30 June 2022: 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 parent, and the weighted average number of ordinary shares in issue, during the six months ended 30 June 2023 and 2022.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all dilutive potential ordinary shares into ordinary shares.

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	<b>404,845</b>	237,010
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<b>999,284,570</b>	995,672,255
Effect of dilution — weighted average number of ordinary shares:		
Share Option Scheme	<b>7,909,374</b>	3,254,090
Share Award Scheme	<b>16,159,121</b>	—
	<b><u>1,023,353,065*</u></b>	<b><u>998,926,345</u></b>

\* The diluted earnings per share amounts are based on the profit for the period of RMB404,845,000 and the weighted average number of ordinary shares of 1,023,353,065 in issue during the period.

## **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:

	<b>As at 30 June 2023 RMB'000 (Unaudited)</b>	<b>As at 31 December 2022 RMB'000 (Audited)</b>
Within 90 days	<b>175,096</b>	155,924
91 to 180 days	<b>3,138</b>	4,773
181 days to 1 year	<b>545</b>	835
1 year to 2 years	<b>553</b>	231
	<u><b>179,332</b></u>	<u>161,763</u>

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

	<b>As at 30 June 2023 RMB'000 (Unaudited)</b>	<b>As at 31 December 2022 RMB'000 (Audited)</b>
Wealth management products issued by licensed banks, at fair value	<u><b>253,209</b></u>	<u>210,885</u>

Wealth management products were denominated in RMB, with an expected rate of return ranging from 1.00% to 5.60% and 1.00% to 3.50% per annum for the six months ended 30 June 2023 and year ended 31 December 2022, 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 <b>30 June</b> <b>2023</b> <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Within 3 months	17,866	16,490
3 to 6 months	383	116
6 months to 1 year	117	17
1 year to 2 years	478	675
	<u>18,844</u>	<u>17,298</u>

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

## 12. SHARE CAPITAL

### Shares

	As at <b>30 June</b> <b>2023</b> <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Authorized: 50,000,000,000 ordinary shares of HK\$0.01 each as at 30 June 2023 (2022: 50,000,000,000 ordinary shares)	<b>440,000</b>	440,000
Issued and fully paid: 1,030,124,687 ordinary shares as at 30 June 2023 (2022: 1,027,731,687 ordinary shares)	<b>9,066</b>	9,044

A summary of movements in the Company's share capital is as follows:

	<i>Notes</i>	<b>Number of shares in issue</b>	<b>Share capital <i>RMB'000</i></b>
At 31 December 2022 (Audited) and 1 January 2023		1,027,731,687	9,044
Share options exercised	<i>(a)</i>	<u>2,393,000</u>	<u>22</u>
At 30 June 2023 (Unaudited)		<u><u>1,030,124,687</u></u>	<u><u>9,066</u></u>

- (a) The subscription rights attaching to 2,393,000 share options were exercised at the subscription price of HK\$1.29 per share, resulting in the issue of 2,393,000 shares for a total cash consideration, before expenses, of HK\$3,087,000 (equivalent to RMB2,846,000). An amount of RMB954,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

## **EVENT AFTER THE REPORTING PERIOD**

The Group did not have any significant events after 30 June 2023 and up to the date of this announcement.

## **EMPLOYEE REMUNERATION AND RELATIONS**

As at 30 June 2023, the Group had approximately 520 employees (524 as at 31 December 2022). As required by the PRC laws and regulations, the Group participates in various employee social security plans for its 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 it maintains a good working relationship with its employees, and it has not experienced any material labor disputes during the six months ended 30 June 2023.

## **INTERIM DIVIDEND**

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

At the Board meeting held on 29 March 2023, the Board proposed the payment of a final dividend of HK\$0.21 per Share for the year ended 31 December 2022. The aforesaid final dividend was approved by the Shareholders at the annual general meeting held on 20 June 2023 and paid on 28 July 2023.

## **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 all the code provisions contained in the Corporate Governance Code during the six months ended 30 June 2023, save for deviation from code provision C.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 two executive Directors 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 provision C.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, all of them confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2023.

## **AUDIT COMMITTEE**

The Company established the Audit Committee with 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 2023 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 2023 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 had purchased, sold or redeemed any of the Company’s listed securities for the six months ended 30 June 2023.

## **PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This interim results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.zen-game.com](http://www.zen-game.com)). The interim report for the six months ended 30 June 2023 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Shareholders and available on the aforesaid 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 the Group’s 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

“%” 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, 23 August 2023

*As at the date of this announcement, the executive Directors are Mr. Ye Sheng, Mr. Yang Min and Ms. Xiong Mi, and the independent non-executive Directors are Mr. Jin Shuhui, Mr. Mao Zhonghua and Mr. Yang Yi.*