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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 2024

The board of directors of Zengame Technology Holding Limited is pleased to announce the interim results and the interim condensed consolidated financial statements of the Company and its subsidiaries for the six months ended 30 June 2024, together with the comparative figures for the six months ended 30 June 2023. These interim results have been reviewed by Ernst & Young, the auditors 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		
	30 June		Year-on-Year Change* %
	2024 (RMB'000) (Unaudited)	2023 (RMB'000) (Unaudited)	
Revenue	934,315	1,017,834	(8.2)
Gross profit	492,901	635,714	(22.5)
Gross profit margin (%)	52.8	62.5	—
Profit for the period	309,844	404,261	(23.4)
Profit (%)	33.2	39.7	—
Non-HKFRS adjusted net profit**	324,733	413,154	(21.4)
Earnings per Share (expressed in RMB per Share)	0.31	0.41	(24.4)

* 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

In the first half of 2024, the Chinese gaming market remained stable and positive, with the industry entering a phase of normalized regulation. On one hand, the trend towards high-quality, premium game development continued, with gaming companies placing greater emphasis on the content value and cultural significance of their products. On the other hand, gaming companies are deepening their overseas expansion efforts, seeking growth in foreign markets, and leveraging high-quality games to promote and inherit China's excellent traditional culture. Furthermore, the mutual promotion of technological innovation and the booming development of the gaming industry are driving the industry to new heights through continuous technological breakthroughs.

As a leading mobile game developer in China, the Group remains vigilant to market changes, consistently adheres to compliant operations, and focuses on the card and board, and casual games business. The Group continuously enhances the quality of its game products and actively expands into overseas gaming markets to provide users with an increasingly improved gaming experience.

In the first half of 2024, the Group focused on its core products, strengthening in-house innovation and enhancing operations with the aim of optimizing user experience and the commitment to continually create new game content and improve the quality of the Group's game products. In terms of business development, on one hand, the Group has consistently updated and enriched the strategic aspects of existing game features. During the six months ended 30 June 2024, the Group introduced innovative gameplay rules such as "Dragon Three Kingdoms (天龍三國)" for "Fingertip Sichuan Mahjong (指尖四川麻將)" and "Master Blaster (暴擊大師)" for "Fight the Landlord (禪遊鬥地主)". On the other hand, the Group has comprehensively packaged and optimized game features, including opening animations, special effects triggered by specific tile combinations, and background music for matches, providing players with fresh and exciting experiences through effects like "Grand Ambition (大展宏圖)", "Four Heroes Battle (四雄爭霸)", and "Central Dominance (中原霸主)". Additionally, the Group has conducted refined operational activities to increase the fun of the games, maintain their long lifecycle, and boost player engagement. At the same time, the Group remains closely attentive to technological developments, leveraging the introduction and application of Artificial Intelligence Generated Content (AIGC) technology to enhance its research and operations, further improving the Company's level of intelligent and refined operations.

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

	For the six months ended		For the
	30 June		year ended
	2024	2023	31 December
	(’000)	(’000)	(’000)
MAU	25,207	25,068	25,065
DAU	4,468	4,404	4,347
MPU (Virtual items)	525	575	553
ARPPU of virtual items (<i>RMB</i>)	271	289	304

The Fingertip Sichuan Mahjong (指尖四川麻將), one of the Group’s flagship products, is highly popular and well-loved by players, achieving a peak ranking of third on the China iOS best-selling list for board and card games. In the first half of 2024, the Group launched two new casual games, each released in domestic and overseas markets. As at 30 June 2024, the Group had 54 self-developed games and six third-party games, among which 43 are board and card games, and 17 are casual games, respectively.

In terms of financial performance, due to a decrease in the number of paying users in the Group's board and card games and a decrease of ARPPU, the overall revenue of the Group decreased from approximately RMB1,017.8 million for the six months ended 30 June 2023 to approximately RMB934.3 million for the six months ended 30 June 2024, representing a decrease of approximately 8.2%. At the same time, due to an increase in the information service costs, the cost of sales increased from approximately RMB382.1 million for the six months ended 30 June 2023 to approximately RMB441.4 million for the six months ended 30 June 2024, representing an increase of approximately 15.5%. With the decline in the Group's revenue, the Group's net profit has decreased from approximately RMB404.3 million for the six months ended 30 June 2023 to approximately RMB309.8 million for the six months ended 30 June 2024, representing a decrease of approximately 23.4%. The Group's adjusted net profit, excluding the Share-based payments, decreased from approximately RMB413.2 million for the six months ended 30 June 2023 to approximately RMB324.7 million for the six months ended 30 June 2024, representing a decrease of approximately 21.4%.

In terms of regulatory compliance within the gaming industry, the Company has consistently kept pace with the latest policy changes to ensure that all the Group's game products meet the relevant management requirements. The Group proactively and diligently advances various online protection measures for both minors and adults. Regarding the protection of minors, the Group has continuously upgraded its protection systems in line with the increasingly specific anti-addiction policy guidelines introduced domestically. In addition to strictly implementing real-name verification and anti-addiction requirements, the Group has enhanced restrictions on the duration, time slots, and spending for minors according to the latest policy demands. Furthermore, the Group has also established reasonable spending limits for adult users. In terms of user information security, the Group rigorously ensured the full protection of personal information, upgraded and improved its prevention and control systems against personal information leakage and optimized its management system for user privacy protection, ensuring that every user can enjoy the Group's game products in a healthy, positive, and compliant environment.

FUTURE PROSPECTS

In the second half of 2024, the Group will mainly focus on the following strategies to expand its business and growth:

- Develop long-cycle premium games to enhance quality and efficiency and optimize user experience;
- Focus on talent development and innovative incentive mechanisms to continuously strengthen operational management;
- Intensify efforts to expand into overseas markets, cultivating new growth engines for the future;

- Increase investment in industry peers to expand research and development capabilities and create synergies; and
- Embrace cutting-edge technologies to empower high-quality development of core businesses.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2024, 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 interim condensed 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 is 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
	2024		2023		Change
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	%
	(Unaudited)		(Unaudited)		
Sales of virtual items	894,395	95.7	963,923	94.7	(7.2)
— Self-developed games	889,134	95.2	960,029	94.3	(7.4)
— Third-party games	5,261	0.5	3,894	0.4	35.1
In-game information service	39,920	4.3	53,911	5.3	(26.0)
Total	934,315	100.0	1,017,834	100.0	(8.2)

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
	2024		2023		Change
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	%
Board and card games	895,074	95.8	999,513	98.2	(10.4)
Other games	39,241	4.2	18,321	1.8	114.2
Total	<u>934,315</u>	<u>100.0</u>	<u>1,017,834</u>	<u>100.0</u>	<u>(8.2)</u>

For the six months ended 30 June 2024, the Group's total revenue was approximately RMB934.3 million, representing a decrease of approximately 8.2% as compared with approximately RMB1,017.8 million for the six months ended 30 June 2023. This decrease was primarily due to a decrease in the number of paying users in the Group's board and card games and a decrease of ARPPU. The Group's revenue derived from the sales of virtue items decreased by 7.2% from approximately RMB963.9 million for the six months ended 30 June 2023 to approximately RMB894.4 million for the six months ended 30 June 2024. On the other hand, the Group's revenue derived from in-game information service decreased by 26.0% from approximately RMB53.9 million for the six months ended 30 June 2023 to approximately RMB39.9 million for the six months ended 30 June 2024. The decrease in revenue derived from in-game information service was mainly due to the decline in the in-game information service market.

Due to a decrease in the number of paying users, the Group's revenue from board and card games decreased from RMB999.5 million for the six months ended 30 June 2023 to RMB895.1 million for the six months ended 30 June 2024, representing a decrease of approximately 10.4%. The increase in revenue from other games was mainly due to the increase in revenue from casual 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 30 June		Year-on-Year Change
	2024 (RMB'000) (Unaudited)	2023 (RMB'000) (Unaudited)	%
Channel costs	264,142	278,109	(5.0)
Information service costs	89,406	2,912	2,970.3
New media costs	78,395	91,721	(14.5)
Others	9,471	9,378	1.0
Total	441,414	382,120	15.5

The cost of sales increased by 15.5% from approximately RMB382.1 million for the six months ended 30 June 2023 to approximately RMB441.4 million for the six months ended 30 June 2024. The increase in the cost of sales was mainly attributable to the combined effects of increased information service costs and decreased new media costs.

Gross Profit and Gross Profit Margin

Gross profit decreased by 22.5% from approximately RMB635.7 million for the six months ended 30 June 2023 to approximately RMB492.9 million for the six months ended 30 June 2024. The gross profit margin decreased from 62.5% for the six months ended 30 June 2023 to 52.8% for the six months ended 30 June 2024.

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

	For the six months ended 30 June			
	2024		2023	
	Gross Profit	Gross Profit	Gross Profit	Gross Profit
	Margin	Margin	Margin	Margin
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Sales of virtual items	456,455	51.0	584,715	60.7
— Self-developed games	451,194	50.7	580,821	60.5
— Third-party games	5,261	100	3,894	100.0
In-game information service	36,446	91.3	50,999	94.6
Total	492,901	52.8	635,714	62.5

Other Income

Other income increased by 1.8% from approximately RMB46.3 million for the six months ended 30 June 2023 to approximately RMB47.2 million for the six months ended 30 June 2024. The increase was primarily due to an increase in the bank interest income.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 43.7% from approximately RMB73.4 million for the six months ended 30 June 2023 to approximately RMB41.3 million for the six months ended 30 June 2024. This decrease was primarily attributable to reduced distribution expenses and decreased sales personnel and salaries.

Administrative Expenses

Administrative expenses decreased by 7.4% from approximately RMB60.7 million for the six months ended 30 June 2023 to approximately RMB56.2 million for the six months ended 30 June 2024. This decrease was primarily due to reduced salaries for management personnel.

Research and Development Expenses

Research and development expenses decreased by 9.0% from approximately RMB73.8 million for the six months ended 30 June 2023 to approximately RMB67.2 million for the six months ended 30 June 2024. The decrease was primarily due to reduced salaries for research and development personnel.

Other Expenses

Other expenses decreased by 46.4% from approximately RMB10.1 million for the six months ended 30 June 2023 to approximately RMB5.4 million for the six months ended 30 June 2024. The decrease was primarily due to the decrease in impairment of other receivables.

Finance Costs

Finance costs decreased by 62.5% from approximately RMB0.4 million for the six months ended 30 June 2023 to RMB0.2 million for the six months ended 30 June 2024.

Income Tax Expense

The income tax expense decreased from approximately RMB57.7 million for the six months ended 30 June 2023 to approximately RMB56.7 million for the six months ended 30 June 2024. This decrease was mainly attributable to the combined effect of a decline in the Group's profit before tax and an increase in withholding tax on dividends to be paid by the Group's PRC subsidiaries to its Hong Kong subsidiary.

Profit for the six months ended 30 June 2024

As a result of the above factors, the net profit of the Group was approximately RMB309.8 million for the six months ended 30 June 2024, representing a decrease of approximately 23.4% as compared with RMB404.3 million for the six months ended 30 June 2023. This decrease was mainly attributable to the decrease in the Group's revenue from the sales of virtual items and in-game information service.

Non-HKFRS Measures — Adjusted Net Profit

The adjusted net profit for the six months ended 30 June 2024, adjusted by excluding the Share-based compensation, was approximately RMB324.7 million, decreasing by 21.4% as compared to approximately RMB413.2 million for the six months ended 30 June 2023.

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	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	309,844	404,261
Add:		
Share-based compensation	14,889	8,893
Adjusted net profit	<u>324,733</u>	<u>413,154</u>

Liquidity and Capital Resources

The Group's total bank balances and cash decreased from approximately RMB1.9 billion as at 31 December 2023 to approximately RMB1.7 billion as at 30 June 2024. This decrease was due to the Company's allocation of certain funds to time deposits exceeding one year.

As at 30 June 2024, current assets of the Group amounted to approximately RMB2,093.7 million, primarily consisting of bank balances and cash of approximately RMB1,661.5 million and financial assets held for trading of approximately RMB258.5 million. Current liabilities of the Group amounted to approximately RMB408.3 million, primarily consisting of contract liabilities of approximately RMB69.6 million and other payables and accruals of approximately RMB293.7 million. As at 30 June 2024, the current ratio (the current assets to current liabilities ratio) of the Group was 5.1, as compared with 7.5 as at 31 December 2023.

As at 30 June 2024, the Group had no borrowings (31 December 2023: nil). The gearing ratio is calculated by dividing total debt (being interest-bearing bank borrowings) by total equity. As at 30 June 2024, the gearing ratio was nil (31 December 2023: nil).

Capital Expenditures

For the six months ended 30 June 2024, the capital expenditures of the Group amounted to approximately RMB11.2 million, which were primarily used to the investments in and purchase of office premises.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2024.

Pledge of Assets

As at 30 June 2024, 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 2024.

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 States 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 2024

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
REVENUE	4	934,315	1,017,834
Cost of sales		<u>(441,414)</u>	<u>(382,120)</u>
Gross profit		492,901	635,714
Other income and gains		47,188	46,338
Selling and distribution expenses		(41,332)	(73,410)
Administrative expenses		(56,164)	(60,690)
Research and development costs		(67,229)	(73,840)
Other expenses		(5,426)	(10,126)
Finance costs		(159)	(424)
Share of profits and losses of:			
Joint ventures		(180)	(569)
Associates		<u>(3,019)</u>	<u>(1,077)</u>
PROFIT BEFORE TAX	5	(366,580)	461,916
Income tax expense	6	<u>(56,736)</u>	<u>(57,655)</u>
PROFIT FOR THE PERIOD		<u>309,844</u>	<u>404,261</u>
Attributable to:			
Owners of the parent		309,844	404,845
Non-controlling interests		<u>—</u>	<u>(584)</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	8	<u>RMB30.72 cents</u>	RMB40.51 cents
Diluted		<u>RMB30.07 cents</u>	<u>RMB39.56 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>309,844</u>	<u>404,261</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>3,065</u>	<u>15,251</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	3,065	15,251
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):		
Change in fair value of equity investments designated at fair value through other comprehensive income	<u>(9,322)</u>	<u>(9,788)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>(6,257)</u>	<u>5,463</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>303,587</u>	<u>409,724</u>
Attributable to:		
Owners of the parent	303,587	410,308
Non-controlling interests	<u>—</u>	<u>(584)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property and equipment		14,832	7,653
Right-of-use asset		27,332	5,086
Intangible assets		1,582	541
Investments in associates		24,088	28,471
Investments in Joint ventures		2,744	4,136
Equity investments designated at fair value through other comprehensive income (“FVOCI”)		18,897	29,772
Long-term prepayments, deposits and other receivables		15,516	20,059
Deferred tax assets		6,094	4,551
Time deposits with original maturity of over one year		689,973	374,079
		801,058	474,348
CURRENT ASSETS			
Trade receivables	9	115,753	168,691
Contract costs		24,287	38,717
Financial assets at fair value through profit or loss (“FVPL”)	10	258,469	15,521
Prepayments, deposits and other receivables		33,770	36,283
Time deposits with original maturity of over three months		585,078	575,278
Cash and cash equivalents		1,076,389	1,331,652
		2,093,746	2,166,142
CURRENT LIABILITIES			
Trade payables	11	14,477	17,174
Contract liabilities		69,593	112,468
Other payables and accruals		293,727	130,247
Lease liabilities		6,096	3,465
Tax payable		24,390	26,770
		408,283	290,124
NET CURRENT ASSETS		1,685,463	1,876,018
TOTAL ASSETS LESS CURRENT LIABILITIES		2,486,521	2,350,366

		As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Lease liabilities		21,348	1,632
Deferred tax liabilities		31,087	19,516
Deferred income		9,244	9,244
		<hr/>	<hr/>
Total non-current liabilities		61,679	30,392
		<hr/>	<hr/>
Net assets		2,424,842	2,319,974
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	12	9,082	9,070
Treasury shares		(18,817)	(18,817)
Other reserves		2,434,577	2,329,721
Non-controlling interests		—	—
		<hr/>	<hr/>
Total equity		2,424,842	2,319,974
		<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 2024 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 2023.

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 2023, 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 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")</i>
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i>

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

- (a) Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of HKFRS 16, the amendments did not have any impact on the financial position or performance of the Group.

- (b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

- (c) Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the interim condensed consolidated financial information.

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

There is no individual customer with revenue individually account for 10% or more of the Group's revenue for the six months ended 30 June 2024 (No for 30 June 2023).

4. REVENUE

Revenue from contracts with customers

(a) Disaggregated revenue information

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue:		
Types of goods or services		
Self-developed games	889,134	960,029
Third-party games	5,261	3,894
In-game information service	39,920	53,911
Total	<u>934,315</u>	<u>1,017,834</u>
Timing of revenue recognition		
Services transferred at a point in time	45,181	57,805
Services transferred over time	889,134	960,029
Total	<u>934,315</u>	<u>1,017,834</u>

The following table shows the amounts of revenue recognised in the current reporting period that was 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	
	2024	2023
	<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>112,468</u>	<u>83,284</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 Player Relation 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 Paying Players and remit the cash to the Group 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 recognised at a point in time when the third-party game's developer receives publishing services provided by the entity. The payment is generally due within 30 to 90 days from the date of billing.

In-game information service

The performance obligation is recognised at a point in time when the advertisements placed by third-party platforms are displayed in the game interface. 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 2024 and 31 December 2023 are as follows:

	Six months ended 30 June 2024 RMB'000 (Unaudited)	Year ended 31 December 2023 RMB'000 (Audited)
Within one year	<u>69,593</u>	<u>112,468</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	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Services fee charged by distribution platforms and payment vendors	264,142	278,109
Information service costs	89,406	2,912
New media costs	78,395	91,721
Promotion expenses	14,024	45,378
Depreciation of property and equipment	1,976	2,362
Depreciation of right-of-use assets	4,141	4,152
Amortisation of intangible assets	619	452
Research and development costs	6,142	6,802
Impairment of trade receivables*	38	28
Impairment of prepayments, deposits and other receivables*	—	10,000
Auditors' remuneration	600	600
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	110,349	131,272
Pension scheme contributions (defined contribution scheme)	2,966	2,886
Equity-settled share-based payment expenses	14,889	8,893
Foreign exchange differences, net*	1,462	(7,952)
Impairment of investments in a joint venture and associates*	3,912	—

* The provision of impairment for trade receivables, impairment of financial assets included in prepayments, other receivables and other assets, foreign exchange differences and impairment of investments in an associate and joint ventures 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 operated.

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. (hereafter, "**Zen-Game Shenzhen**") was registered in the Shenzhen-Hong Kong modern service industry cooperation zone in Qianhai, Shenzhen. According to the applicable regulations promulgated by the State Council and relevant authorities, the applicable tax rate for Zen-Game Shenzhen was 15% for the six months ended 30 June 2024.

The Group's subsidiary Shenzhen Tiantianlaiwan Technology Co., Ltd. (hereafter, "**Tiantianlaiwan**") was qualified as "High and New Technology Enterprises" under the PRC Enterprise Income Tax ("**EIT**") Law since year 2022. Accordingly, Tiantianlaiwan 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 2024.

The Group's subsidiary HAINAN TIAN TIAN LAI WAN TECHNOLOGY CO., LTD. (hereafter, "**Hainan Tiantianlaiwan**") was established in the Hainan Free Trade Port. According to the applicable regulations promulgated by the State Council and relevant authorities, the applicable tax rate for Hainan Tiantianlaiwan was 15% for the six months ended 30 June 2024.

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 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:

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
Charge for the period	45,155	76,097
Deferred tax	11,581	(18,442)
	<hr/>	<hr/>
Total tax charge for the period	<u>56,736</u>	<u>57,655</u>

7. DIVIDENDS

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2024 (for six months ended 30 June 2023: 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 2024 and 2023.

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:

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	309,844	404,845
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,008,762,680	999,284,570
Effect of dilution — weighted average number of ordinary shares:		
Share Option Scheme	5,790,846	7,909,374
Share Award Scheme	15,897,215	16,159,121
	<u>1,030,450,741*</u>	<u>1,023,353,065</u>

* The diluted earnings per share amounts are based on the profit for the period of RMB309,844,000 and the weighted average number of ordinary shares of 1,030,450,741 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:

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Within 90 days	110,332	165,900
91 to 180 days	2,680	1,629
181 days to 1 year	1,813	528
1 year to 2 years	928	634
	<hr/>	<hr/>
Total	<u>115,753</u>	<u>168,691</u>

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Wealth management products issued by licensed banks, at fair value	<u>258,469</u>	<u>15,521</u>

Wealth management products were denominated in RMB, with an expected rate of return ranging from 1.92% to 2.70% and 1.00% to 3.00% per annum for the six months ended 30 June 2024 and year ended 31 December 2023, 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 categorised 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 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Within 3 months	12,724	16,543
3 to 6 months	1,330	330
6 months to 1 year	288	186
1 year to 2 years	135	115
Total	<u>14,477</u>	<u>17,174</u>

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

12. SHARE CAPITAL

Shares

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Authorised: 50,000,000,000 ordinary shares of HK\$0.01 each as at 30 June 2024 (2023: 50,000,000,000 ordinary shares)	<u>440,000</u>	<u>440,000</u>
Issued and fully paid: 1,031,788,687 ordinary shares as at 30 June 2024 (2023: 1,030,604,937 ordinary shares)	<u>9,082</u>	<u>9,070</u>

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

	<i>Notes</i>	Number of shares in issue	Share capital <i>RMB'000</i>
At 31 December 2023 (Audited) and 1 January 2024		1,030,604,937	9,070
Share options exercised	<i>(a)</i>	<u>1,183,750</u>	<u>12</u>
At 30 June 2024 (Unaudited)		<u><u>1,031,788,687</u></u>	<u><u>9,082</u></u>

- (a) The subscription rights attaching to 1,183,750 share options were exercised at the subscription price of HK\$1.29 per share, resulting in the issue of 1,183,750 shares for a total cash consideration, before expenses, of HK\$1,527,000 (equivalent to RMB1,447,000). An amount of RMB535,000 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 2024 and up to the date of this announcement.

EMPLOYEE REMUNERATION AND RELATIONS

As at 30 June 2024, the Group had approximately 501 employees (537 as at 31 December 2023). 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, bonuses, 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 2024.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2024 (for the six months ended 30 June 2023: Nil).

At the Board meeting held on 21 March 2024, the Board proposed the payment of a final dividend of HK\$0.23 per Share for the year ended 31 December 2023. The aforesaid final dividend was approved by the Shareholders at the annual general meeting of the Company held on 31 May 2024 and was paid on 4 July 2024.

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 C1 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 2024, 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 C3 to the Listing Rules as its code of conduct regarding securities transactions by the Directors.

Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2024.

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 2024 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 2024 are unaudited, but 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".

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 (including the sale of treasury shares (as defined under the Listing Rules), if any) for the six months ended 30 June 2024. As at 30 June 2024, the Company did not hold any treasury shares (as defined under the Listing Rules).

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 (www.zen-game.com). The interim report for the six months ended 30 June 2024 containing all the information required by Appendix D2 to the Listing Rules will be published on the same websites in due course, and will be despatched to the Shareholders who have already provided instructions indicating their preference to receive hard copies 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 C1 to the Listing Rules

“DAU”	daily active users
“Director(s)”	the director(s) of the Company
“Free-to-Play”	a business model in 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 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 C3 to the Listing Rules
“MPU”	monthly paying 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, 22 August 2024

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.