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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 2020

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 2020, together with the comparative figures for the six months ended 30 June 2019. 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 30 June		
	2020	2019	Year-on-Year Change*
	(RMB'000)	*(RMB'000)*	%
	(Unaudited)	(Unaudited)	
Revenue	**468,478**	308,043	52.1
Gross profit	**225,934**	154,348	46.1
Gross profit margin (%)	**48.2**	50.1	
Profit for the period	**131,848**	70,264	87.6
Profit margin (%)	**28.1**	22.8	
Non-HKFRS adjusted net profit**	**133,590**	87,970	51.9
Earnings per Share (expressed in RMB per Share)	**0.130**	0.078	66.0
Dividend per Share (expressed in HKD per Share)	**Nil**	0.05	N/A

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

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

OPERATIONAL HIGHLIGHTS

	For the six months ended 30 June		For the year ended 31 December
	2020	2019	2019
	('000)	*('000)*	*('000)*
All Games			
Cumulative registered players	**997,464**	605,758	728,067
MAU	**82,951**	53,990	48,538
DAU	**10,414**	8,091	7,486
MPU (Virtual items)	**899**	896	809
ARPPU of virtual items (RMB)	**35**	39	37
Card and Board Games			
Cumulative registered players	**768,895**	458,001	548,099
MAU	**70,203**	42,119	38,696
DAU	**9,384**	7,301	6,768
MPU (Virtual items)	**872**	868	775
ARPPU of virtual items (RMB)	**33**	38	36
Other Games			
Cumulative registered players	**228,569**	147,757	179,979
MAU	**12,748**	11,871	9,842
DAU	**1,030**	790	717
MPU (Virtual items)	**27**	29	33
ARPPU of virtual items (RMB)	**87**	58	61

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an established mobile game developer and operator in the PRC with special focus on card and board and other casual mobile games. Many of our games are based on well-established classic card and board games and they have been widely welcomed by the users. The Group generated income through the sales of virtual items and in-game information service. In the first half of 2020, following the outbreak of the COVID-19 pandemic, people spent more time at home and on mobile activities as well. Games served as an important channel in keeping players entertained and connected with each other. Leverage on such social circumstances, the Group continued to improve our internal procedures and supporting systems such as big data analysis system and promotion system, explore our distribution channels, and released more new features and ran compelling in-game events and activities. In the first half of 2020, we launched nine new games, among which seven are casual games such as Block Blast King (王者消方塊) and Ace Fruit Cutting (王牌切水果) and two are local Mahjong games. As at 30 June 2020, we had 60 self-developed games and 15 third-party games, among which 36 are card and board games and 39 are other casual games, respectively.

In terms of financial performance, we experienced a rapid growth in the first half of 2020. Revenue increased from approximately RMB308.0 million for the six months ended 30 June 2019 to approximately RMB468.5 million for the six months ended 30 June 2020, representing an increase of approximately 52.1%. Our net profit increased from approximately RMB70.3 million for the six months ended 30 June 2019 to approximately RMB131.8 million for the six months ended 30 June 2020, representing an increase of approximately 87.6%. Our adjusted net profit, excluding the Share-based payments, increased from approximately RMB88.0 million for the six months ended 30 June 2019 to approximately RMB133.6 million for the six months ended 30 June 2020, representing an increase of approximately 51.9%.

Our revenue generated from in-game information service achieved a significant growth in the first half of 2020. Such growth was attributable to our strengthened cooperation on advertising monetization with well-known advertising platforms such as ByteDance and Tencent and our cooperation with some new advertising monetization platforms such as Kuaishou and Youshi Technology. In addition, we have also optimized and enriched our method of advertising monetization which has further improved the monetization ability of our in-game information service. As a result, for the six months ended 30 June 2020, the Group's revenue from in-game information service amounted to approximately RMB292.0 million, representing a significant increase of approximately 187.6% from RMB101.5 million as compared with the six months ended 30 June 2019.

In terms of business development, the Group optimized and enhanced the product experience of existing games, increased the player's activity and stickiness, and at the same time increased the number of new players by strengthening promotion efforts in expanding promotion channels such as Toutiao, Pinduoduo, Kuaishou and Chubao. As a result, the Group recorded a significant increase in the cumulative registered players and active users in the first half of 2020. We had approximately 997.5 million cumulative registered players as at 30 June 2020. Our average MAU increased from approximately 54.0 million for the six months ended 30 June 2019 to approximately 83.0 million for the six months ended 30 June 2020. Our average DAU increased from approximately 8.1 million for the six months ended 30 June 2019 to approximately 10.4 million for the six months ended 30 June 2020. With our further optimization and improvement of our in-game information service strategy, notwithstanding that our ARPPU of virtual items decreased slightly from approximately RMB39 for the six months ended 30 June 2019 to approximately RMB35 for the six months ended 30 June 2020, our average MPU remained stable at approximately 0.9 million for the six months ended 30 June 2019 and 2020, respectively, while our revenue from in-game information service increased noticeably and led to a significant growth in our overall revenue for the six months ended 30 June 2020.

In terms of the mobile game industry in the PRC, the overall development trend and atmosphere remained positive throughout the first half of 2020, with a continuous growth in the number of players and the market scale. After the resumption of the approval process of game publication numbers by the PRC government, the Group has obtained six new game publication numbers in the first half of 2020, all of them are casual games. As at 30 June 2020, we possessed 67 game publication numbers, 48 of which covering our card and board games and 19 of which covering our casual games. Due to the current development strategy and resources allocation, 15 games with publication numbers have not yet been in operation. The Group will start promoting our operations at any time as and when appropriate in the future. We are confident that we will continue to obtain new game publication numbers in the future.

FUTURE PROSPECTS

Looking forward to the second half of 2020, we expect in-game consumption activities to largely normalise as people return to work, and we will mainly focus on the following strategies in the future:

- Continuously optimizing the existing R&D systems such as product testing system, development tools and promotion system, and improving the success opportunities of new games;

- Strengthening the research and development of casual games, especially moderate games such as simulation games and social games, exploring opportunities in the PRC and overseas casual games markets and continuing to diversify our revenue;

- Conducting more precise cross-selling promotion and increasing players' scale by relying on big data analysis and using the existing large-scale player base, and continuously improving our own advertising platform;

- Continuing to expand the mixed monetization mode of virtual items consumption and in-game information service, and increase our business cooperation with distribution channels and advertising platforms, thereby increasing our income scale;

- Pursuing opportunities to acquire or invest in other game developers or teams with mobile traffic foundations or promotional resources to strengthen our development of external cooperation.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2020, the Group operated self-developed games and third-party games. All of the games used a Free-to-Play model and the Group generated revenue through the sales of virtual items and in-game information service.

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

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

	For the six months ended 30 June				Year-on-
	2020		2019		Year Change
	RMB'000	*%*	*RMB'000*	*%*	*%*
	(Unaudited)		(Unaudited)		
Sales of virtual items	**176,464**	**37.7**	206,517	67.0	-14.6
— Self-developed games	**169,304**	**36.2**	200,976	65.2	-15.8
— Third-party games	**7,160**	**1.5**	5,541	1.8	29.2
In-game information service	**292,014**	**62.3**	101,525	33.0	187.6
Total	**468,478**	**100.0**	308,042	100.0	52.1

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

	For the six months ended 30 June				Year-on-
	2020		2019		Year Change
	RMB'000	**%**	*RMB'000*	%	%
	(Unaudited)		(Unaudited)		
Card games	**290,159**	**62.0**	259,142	84.1	12.0
Board games	**34,332**	**7.3**	17,412	5.7	97.2
Other games	**143,987**	**30.7**	31,488	10.2	357.3
Total	**468,478**	**100.0**	308,042	100.0	52.1

For the six months ended 30 June 2020, the Group's total revenue was approximately RMB468.5 million, representing an increase of approximately 52.1% from approximately RMB308.0 million as compared with the corresponding period of 2019. This increase was primarily due to the increase in in-game information service.

For the six months ended 30 June 2020, the Group's revenue from sale of virtue items amounted to approximately RMB176.5 million, representing a decrease of approximately 14.6% from RMB206.5 million as compared with the corresponding period of 2019. On the other hand, for the six months ended 30 June 2020, the Group's revenue from in-game information service amounted to approximately RMB292.0 million, representing an increase of approximately 187.6% from RMB101.5 million as compared with the corresponding period of 2019. This was mainly due to monetization of the advertising value brought by the growing user base and active users.

Cost of Sales

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

	For the six months ended 30 June		Year-on-Year
	2020	2019	Change
	RMB'000	*RMB'000*	*%*
	(Unaudited)	(Unaudited)	
Payment channel costs	**47,875**	47,822	0.1
Distribution platform costs	**39,816**	71,844	-44.6
Information service costs	**148,029**	28,204	424.8
Others	**6,824**	5,824	17.1
Total	**242,544**	153,694	57.8

For the six months ended 30 June 2020, the cost of sales was approximately RMB243.0 million, representing an increase of approximately 57.8% from approximately RMB153.7 million as compared with the corresponding period of 2019. This was mainly attributable to the increase in the information service costs which was partially offset by the decrease in the distribution platform costs. The increase in the information service costs was due to the Group's increased advertising efforts in securing more users with advertising monetization value.

Gross Profit and Gross Profit Margin

Gross profit increased by 46.4% from approximately RMB154.3 million for the six months ended 30 June 2019 to approximately RMB225.9 million for the six months ended 30 June 2020, which was in line with the growth of the Group's business. The gross profit margin decreased to 48.2% for the six months ended 30 June 2020 from 50.1% for the six months ended 30 June 2019, which was primarily due to the stabilized gross profit margin of in-game information service resulting from the increase in the in-game information service costs.

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

	For the six months ended 30 June			
	2020		2019	
	Gross Profit	**Gross Profit Margin**	Gross Profit	Gross Profit Margin
	RMB'000	**%**	*RMB'000*	%
Sales of virtual items	**85,888**	**48.7**	83,844	40.6
— Self-developed games	**78,728**	**46.5**	78,303	39.0
— Third-party games	**7,160**	**100.0**	5,541	100.0
In-game information service	**140,046**	**48.0**	70,504	69.4
Total	**225,934**	**48.2**	154,348	50.1

Other Income

Other income increased by 83.0% from approximately RMB8.7 million for the six months ended 30 June 2019 to approximately RMB16.0 million for the six months ended 30 June 2020. The significant increase was primarily due to the increase in (i) time deposits and wealth management income by RMB3.9 million; and (ii) temporary tax incentives by RMB1.7 million.

Selling and Distribution Expenses

Selling and distribution expenses increased by 15.1% from approximately RMB35.1 million for the six months ended 30 June 2019 to approximately RMB40.4 million for the six months ended 30 June 2020. This increase was primarily attributable to the increase in marketing and sales labour costs while the sales and marketing expenses decreased from 11.4% of the total revenue for the six months ended 30 June 2019 to 8.6% of the total revenue for the six months ended 30 June 2020.

Administrative Expenses

Administrative expenses increased by 1.2% from approximately RMB31.1 million for the six months ended 30 June 2019 to approximately RMB31.4 million for the six months ended 30 June 2020, primarily due to the increase in labour costs and office rental expenses as a result of the Group's expansion, and such increase was offset by the decrease in Share-based payments and nil Listing-related expenses. The administrative expenses decreased from 10.0% of the total revenue for the six months ended 30 June 2019 to 6.8% for the six months ended 30 June 2020.

Research and Development Expenses

Research and development expenses increased by 70.4% from approximately RMB15.6 million for the six months ended 30 June 2019 to approximately RMB26.6 million for the six months ended 30 June 2020. The increase was primarily due to (i) the increase in the research and development efforts; (ii) the increase in the research and development personnel and other related costs; and (iii) the outsourcing of the research and development of certain products.

Other Expenses

Other expenses decreased by 14.7% from approximately RMB1.6 million for the six months ended 30 June 2019 to approximately RMB1.3 million for the six months ended 30 June 2020, primarily due to the fact that (i) there was no more donation expenses in relation to the Listing; and (ii) part of the increase was offset by the increase in losses due to the change of exchange rates.

Finance Costs

Finance costs increased by 723.9% from approximately RMB46,000 for the six months ended 30 June 2019 to approximately RMB0.4 million for the six months ended 30 June 2020. The significant increase was primarily due to (i) the payment of the borrowing interests of RMB0.3 million for a short-term bank loan; and (ii) the interest on lease liabilities of RMB0.1 million.

Income Tax Expense

The income tax expenses for the six months ended 30 June 2020 was approximately RMB9.8 million, increased by 4.1% from approximately RMB9.4 million as compared with the corresponding period of 2019. Such increase was mainly attributable to the increase in the taxable income and was partially offset by the tax exemption enjoyed by Shenzhen Laiwan as a software enterprise.

Profit for the Six Months Ended 30 June 2020

As a result of the above factors, the net profit of the Group was approximately RMB131.8 million for the six months ended 30 June 2020, an increase of approximately 87.6% as compared with RMB70.3 million for the six months ended 30 June 2019.

Non-HKFRS Measures — Adjusted Net Profit

The adjusted net profit for the six months ended 30 June 2020, adjusted by excluding the share-based compensation to key employees was approximately RMB133.6 million, increasing by 51.9% as compared to approximately RMB88.0 million for the first half of 2019.

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

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Profit for the period	**131,848**	70,264
Add:		
Listing-related expenses	**—**	13,258
Share-based compensation	**1,742**	4,448
Adjusted net profit	**133,590**	87,970

Liquidity and Capital Resources

The Group's total bank balances and cash increased from approximately RMB293.5 million as at 31 December 2019 to approximately RMB507.1 million as at 30 June 2020. Such increase in total bank balances and cash during the six months ended 30 June 2020 was primarily resulted from (i) the decrease in accounts receivable for approximately RMB85.0 million; (ii) the capital received from the disposal of shares of Genimous Technology Co., Ltd. (智度科技股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 000676); and (iii) the operating income generated for the six months ended 30 June 2020.

As at 30 June 2020, current assets of the Group amounted to approximately RMB780.3 million, including bank balances and cash of approximately RMB507.1 million and other current assets of approximately RMB273.2 million. Current liabilities of the Group amounted to approximately RMB89.6 million, including trade payables and contract liabilities of approximately RMB26.2 million and other current liabilities of approximately RMB63.4 million. As at 30 June 2020, the current ratio (the current assets to current liabilities ratio) of the Group was 8.71, as compared with 5.07 as at 31 December 2019.

As at 30 June 2020, the Group had borrowings amounting to approximately RMB18.2 million (31 December 2019: nil). In March 2020, the Group received a bank loan of RMB20.0 million at an interest rate of 0.45% above the one-year loan prime rate which is repayable within six months and is guaranteed by Shenzhen Laiwan.

As a result of the abovementioned borrowings, the gearing ratio (calculated by dividing total debt (being interest-bearing bank borrowings) by total equity) as at 30 June 2020 was 2.5% while the gearing ratio as at 31 December 2019 was nil. The increase was mainly resulted from the new short-term bank borrowings obtained by the Group.

Capital Expenditures

For the six months ended 30 June 2020, the capital expenditures of the Group amounted to approximately RMB4.2 million, which were primarily used to purchase vehicles and office equipment and for office renovation.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2020.

Pledge of Assets

As at 30 June 2020, the Group did not pledge any assets.

Future Plan for Material Investments and Capital Assets

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

Significant Investments, Acquisitions and Disposals

Save as disclosed in this announcement, there were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, 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 2020.

Foreign Exchange Risk Management

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*5*	**468,478**	308,042
Cost of sales		**(242,544)**	(153,694)
Gross profit		**225,934**	154,348
Other income and gains	*5*	**15,950**	8,714
Selling and distribution expenses		**(40,416)**	(35,117)
Administrative expenses		**(31,444)**	(31,075)
Research and development costs		**(26,627)**	(15,623)
Other expenses		**(1,326)**	(1,555)
Finance costs	*7*	**(379)**	(46)
Share of profits and losses of: Joint ventures		**(79)**	—
PROFIT BEFORE TAX	*6*	**141,613**	79,646
Income tax expense	*8*	**(9,765)**	(9,382)
PROFIT FOR THE PERIOD		**131,848**	70,264

INTERIM CONDENSES CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD		**131,848**	70,264
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**3,105**	5,270
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**3,105**	5,270
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**")		**14,052**	2,171
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**17,157**	7,441
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**149,005**	77,705
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*10*	**RMB13.0 cents**	RMB7.8 cents
Diluted	*10*	**RMB13.0 cents**	RMB7.8 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property and equipment		**6,736**	3,652
Right-of-use asset		**5,698**	6,355
Intangible assets		**230**	334
Investments in joint ventures		**4,921**	—
Equity instruments designated at FVOCI		**3,486**	40,606
Long-term prepayments, deposits and other receivables		**7,000**	7,400
Deferred tax asset		**1,813**	546
Total non-current assets		**29,884**	58,893
CURRENT ASSETS			
Trade receivables	*11*	**108,214**	193,204
Contract costs		**5,011**	8,743
Financial assets at fair value through profit or loss	*12*	**129,317**	166,998
Prepayments, deposits and other receivables		**30,687**	18,648
Time deposits with original maturity of over three months		**212,257**	131,662
Cash and cash equivalents		**294,820**	161,843
Total current assets		**780,306**	681,098
CURRENT LIABILITIES			
Trade payables	*13*	**16,577**	71,731
Contract liabilities		**9,611**	15,558
Other payables and accruals		**39,684**	33,256
Interest-bearing bank borrowings		**18,200**	—
Lease liabilities		**2,850**	2,461
Tax payable		**2,641**	11,380
Total current liabilities		**89,563**	134,386
NET CURRENT ASSETS		**690,743**	546,712
TOTAL ASSETS LESS CURRENT LIABILITIES		**720,627**	605,605

	As at 30 June 2020 *RMB'000* (Unaudited)	As at 31 December 2019 *RMB'000* (Audited)
NON-CURRENT LIABILITIES		
Lease liabilities	**3,069**	4,080
Deferred tax liabilities	**—**	6,210
Total non-current liabilities	**3,069**	10,290
Net assets	**717,558**	595,315
EQUITY		
Equity attributable to owners of the parent		
Share capital	**8,946**	8,946
Reserves	**708,612**	586,369
Total equity	**717,558**	595,315

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 28 August 2018 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered address of the office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal activity of the Company is investment holding. The Company and its subsidiaries are principally engaged in developing and operating mobile games in the People's Republic of China (hereafter, the "**PRC**") and investment business in the PRC. There has been no significant change in the Group's principal activities during the reporting periods.

The Company's shares have been listed on the Main Board of Stock Exchange since 16 April 2019.The interim condensed consolidated financial information is presented in thousands of RMB, unless otherwise stated, and is approved for issue by the Board on 13 August 2020. The interim condensed consolidated financial information has not been audited.

2. BASIS OF PRESENTATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 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 2019.

3. 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 2019, 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 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions (early adopted)*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

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

(a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

(c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

    During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's office buildings have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB240,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

(d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

4. 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 2020 and 2019 are set out below:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A	**133,019**	NA*
Customer B	**88,481**	53,413

* 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.

5. REVENUE, OTHER INCOME AND GAINS

Revenue from contracts with customers

(a) Disaggregated revenue information

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue:		
Type of goods or services		
Self-developed games	**169,304**	200,976
Third-party games	**7,160**	5,541
In-game information service	**292,014**	101,525
Total revenue from contracts with customers	**468,478**	308,042
Timing of revenue recognition		
Services transferred over time	**468,478**	308,042

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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Self-developed games	**15,558**	30,305

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

Publishing service for third party games

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

In-game information service

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

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019/30 June 2020 are as follows:

	Six months ended 30 June 2020	Year ended 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**9,611**	15,558

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.

Other income and gains

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**3,571**	548
Fair value gains or losses on financial assets at fair value through profit and loss	**3,870**	2,959
Government grants related to income*	**3,977**	4,845
Super deduction for input VAT	**1,661**	—
Donation income	**2,800**	—
Others	**71**	362
	15,950	8,714

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

6. PROFIT BEFORE TAX

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

	Note	Six months ended 30 June **2020** *RMB'000* **(Unaudited)**	2019 *RMB'000* (Unaudited)
Services fee charged by distribution platforms and payment vendors		**87,691**	119,666
Cost of in-game information service		**148,029**	28,204
Promotion expenses		**40,416**	35,117
Employee benefit expense (including directors' and chief executives' remuneration):			
Wages and salaries		**51,895**	25,745
Pension scheme contributions (defined contribution scheme)		**322**	824
Equity-settled share-based payment expenses		**1,742**	4,448
Depreciation of property and equipment		**1,101**	692
Depreciation of right-of-use assets		**1,092**	1,166
Amortisation of intangible assets		**104**	106
Research and development costs		**26,627**	15,623
Impairment of trade receivables*	*11*	**646**	666
Auditors' remuneration		**350**	350
Listing expense		**—**	13,258

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

7. FINANCE COSTS

	Six months ended 30 June **2020** *RMB'000* **(Unaudited)**	2019 *RMB'000* (Unaudited)
Interest on bank loans	**261**	—
Interest on lease liabilities	**118**	46
	379	46

8. INCOME TAX

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

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

Zen-Game Shenzhen was qualified as a "Key Software Enterprise" under relevant PRC laws and regulations and the applicable tax rate was 10% since 31 December 2017. Zen-Game Shenzhen applied the most preferential tax rate of 10% for the year ended 31 December 2019. Zen-Game Shenzhen expected the applicable tax rate to be 10% for the six months ended 30 June 2020.The qualification of "Key Software Enterprise" and related preferential income tax rate are subject to annual assessment.

Shenzhen Laiwan was accredited as a "Software Enterprise" in July 2019 under relevant PRC laws and regulations with a preferential tax treatment (i.e., 2-year exemption and 3-year half payment) from its first profitable year. Shenzhen Laiwan expected it will be exempt from income tax for the year 2020.

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

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

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
Charge for the period	**9,962**	8,279
Deferred tax	**(197)**	1,103
Total tax charge for the period	**9,765**	9,382

9. DIVIDENDS

	Six months ended 30 June	
	2020	2019
	HKD'000	*HKD'000*
Interim — nil (six months ended 30 June 2019: HK$0.05) per ordinary share	**—**	51,082

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2020.

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

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue, during the six months ended 30 June 2020 and 2019.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share and diluted earnings per share for the six months ended 30 June 2020 and 2019 has been retrospectively adjusted for the effect of capitalisation issue.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2020 and 2019.

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

	Six months ended 30 June	
	2020	2019
	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	**131,848**	70,264
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	**1,017,808,505**	901,207,646

11. TRADE RECEIVABLES

	As at 30 June 2020	As at 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**110,168**	194,512
Provision for expected credit losses	**(1,954)**	(1,308)
	108,214	193,204

The Group's trade receivables primarily consist of those due from third-party distribution platforms and payment vendors who collected payment from 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 2020 *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
Within 90 days	**92,986**	183,909
91 to 180 days	**11,710**	7,309
181 days to 1 year	**2,997**	1,468
1 year to 2 years	**521**	518
	108,214	193,204

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk and days past due of the trade receivables to measure the expected credit losses. During the reporting periods, the expected losses rate is determined as follows:

30 June 2020 (Unaudited)	**Amount** *RMB'000*	**Expected credit loss rate**	**Impairment** *RMB'000*
Trade receivables aged:			
Within 1 year	108,751	0.97%	1,058
1 to 2 years	876	40.50%	355
Over 2 years	541	100.00%	541
	110,168		1,954

31 December 2019 (Audited)	**Amount** *RMB'000*	**Expected credit loss rate**	**Impairment** *RMB'000*
Trade receivables aged:			
Within 1 year	193,304	0.32%	618
1 to 2 years	721	28.15%	203
Over 2 years	487	100.00%	487
	194,512		1,308

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

	Note	**As at 30 June 2020** *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
At beginning of year		**(1,308)**	(306)
Provision for expected credit losses	*6*	**(646)**	(1,002)
At the end of year/period		**(1,954)**	(1,308)

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020 *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
Wealth management products issued by licensed banks, at fair value	**129,317**	166,998
	129,317	166,998

Wealth management products were denominated in RMB, with an expected rate of return ranging from 2.40% to 4.40% and 3.65% to 4.50% per annum for the six months ended 30 June 2020 and year ended 31 December 2019, 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 within categorized level 2 of the fair value hierarchy.

13. 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 2020 *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
Within 3 months	**7,294**	63,812
3 to 6 months	**4,416**	4,447
6 months to 1 year	**3,095**	2,316
1 year to 2 years	**909**	1,156
2 years to 3 years	**863**	—
	16,577	71,731

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

EVENT AFTER THE REPORTING PERIOD

The Group did not have any significant events after 30 June 2020 and up to the date of this announcement.

USE OF PROCEEDS FROM THE LISTING

The net proceeds raised by the Company from the Listing are approximately HK$206.5 million (after deduction of the underwriting commissions in respect of the offering and other estimated expenses). As at 30 June 2020, a total amount of approximately HK$83.2 million out of the net proceeds had been utilized by the Group. We have, and will continue to utilize the net proceeds from the Listing in accordance with the purposes set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 3 April 2019.

EMPLOYEE REMUNERATION AND RELATIONS

As at 30 June 2020, the Group had approximately 253 employees (213 as at 31 December 2019). As required by the PRC laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. Remuneration of the Group's employees includes basic salaries, allowances, bonus, share options and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. The Group believes that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes during the six months ended 30 June 2020.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2020.

CORPORATE GOVERNANCE CODE

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

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Corporate Governance Code during the six months ended 30 June 2020, save for deviation from code provision A.2.1 of the Corporate Governance Code. The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the Company's unaudited condensed consolidated interim results for the six months ended 30 June 2020 and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The Audit Committee has also discussed the auditing, internal control and financial reporting matters.

The interim results for the six months ended 30 June 2020 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

During the six months ended 30 June 2020, the Company has repurchased a total of 830,000 Shares on the Stock Exchange and the details are set out below:

Date of Repurchase	Number of Shares Repurchased	Price Per Share		Aggregate Consideration
		Highest	Lowest	
		HK$	*HK$*	*HK$*
19 March 2020	430,000	0.75	0.72	315,600
23 March 2020	400,000	0.75	0.73	297,000

During the six months ended 30 June 2020, 830,000 Shares were repurchased and to be cancelled.

The Directors believe that repurchases of Shares are in the best interests of the Company and the Shareholders as a whole and that such repurchases of Shares would lead to an enhancement of the earnings per Share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.zen-game.com). The interim report for the six months ended 30 June 2020 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the same websites in due course.

DEFINITIONS

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

"ARPPU"	monthly average revenue per paying user, which represents the revenue for the period divided by the number of paying players in such period, and then divided by the number of months in such period
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors of the Company
"China" or "PRC"	the People's Republic of China excluding for the purpose of this announcement, Hong Kong, Macau and Taiwan
"Company"	Zengame Technology Holding Limited (禪遊科技控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 28 August 2018
"Corporate Governance Code"	code on corporate governance practices contained in Appendix 14 to the Listing Rules
"DAU"	daily active users
"Director(s)"	the director(s) of the Company
"Free-to-Play"	a business model which players can play games for free, but may need to pay for virtual items sold in games to enhance their game experience
"Group"	collectively, the Company and its subsidiaries
"HK$", "HKD" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HKFRS"	Hong Kong Financial Reporting Standards
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange

"Listing Rules"	The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
"MAU"	monthly active users
"Model Code"	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules
"MPU"	monthly playing users
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	the shareholder(s) of the Company
"Shenzhen Laiwan"	Shenzhen Laiwan Technology Co., Ltd.* (深圳市來玩科技有限公司), an indirect wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Zen-Game Shenzhen"	Shenzhen Zen-Game Technology Co. Ltd.* (深圳市禪遊科技股份有限公司), an indirect wholly-owned subsidiary of the Company
"%"	per cent

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

Hong Kong, 13 August 2020

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