



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 REPORT
2019

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ye Sheng (叶升)
(Chairman and Chief Executive Officer)
Mr. Yang Min (楊民)
(Vice Chairman and Chief Technology Officer)

Non-executive Directors

Mr. Lin Cong (林葱)
Ms. Li Wen (李雯)

Independent Non-executive Directors

Mr. Jin Shuhui (金書匯)
Mr. Mao Zhonghua (毛中華)
Mr. Yang Yi (陽翼)

AUDIT COMMITTEE

Mr. Jin Shuhui (金書匯) *(Chairman)*
Mr. Mao Zhonghua (毛中華)
Mr. Yang Yi (陽翼)

REMUNERATION COMMITTEE

Mr. Yang Yi (陽翼) *(Chairman)*
Mr. Ye Sheng (叶升)
Mr. Mao Zhonghua (毛中華)

NOMINATION COMMITTEE

Mr. Ye Sheng (叶升) *(Chairman)*
Mr. Mao Zhonghua (毛中華)
Mr. Yang Yi (陽翼)

JOINT COMPANY SECRETARIES

Mr. Zhang Yong (張勇)
Ms. Li Yan Wing Rita (李昕穎)

AUTHORIZED REPRESENTATIVES

Mr. Yang Min (楊民)
Ms. Li Yan Ming Rita (李昕穎)

HONG KONG LEGAL ADVISERS

Luk & Partners In Association with Morgan, Lewis & Bockius
Suites 1902-09, 19th Floor
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

COMPLIANCE ADVISER

Guotai Junan Capital Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

AUDITORS

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Rooms 1304-06
Changhong Science and Technology Mansion
Keji South 12 Road
Science and Technology Park
Nanshan District, Shenzhen
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

China Merchants Bank

Shenzhen Branch

(Shidai Square Sub-branch)

1st Floor, Zhuoyue Shidai Square
4068 Yitian Road
Futian Central District
Shenzhen
PRC

COMPANY WEBSITE

<http://www.zen-game.com>

STOCK CODE

2660

FINANCIAL HIGHLIGHTS

	For the six months ended		Year-on-Year Change*
	30 June 2019 (RMB'000) (Unaudited)	2018 (RMB'000) (Unaudited)	
Revenue	308,042	267,826	15.0
Gross profit	154,348	101,339	52.3
Gross profit margin	50.1	37.8	
Profit for the period	70,264	50,761	38.4
Profit (%)	22.8	19.0	
Non-IFRS adjusted net profit**	87,970	53,972	63.0
Earnings per Share (expressed in RMB per Share)	0.078	0.062	25.8
Dividend per Share (expressed in HKD per Share)	0.05	N/A	N/A

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

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

OPERATIONAL HIGHLIGHTS

	For the six months ended 30 June		For the year ended 31 December
	2019 (‘000)	2018 (‘000)	2018 (‘000)
All Games			
Cumulative registered players	605,758	289,945	442,262
MAU	53,990	27,879	35,875
DAU	8,091	5,954	6,426
MPU (Virtual items)	896	1,287	1,120
ARPPU of virtual items (RMB)	39	34	36
Card and Board Games			
Cumulative registered players	458,001	245,665	340,368
MAU	42,119	20,291	25,309
DAU	7,301	5,266	5,594
MPU (Virtual items)	868	1,244	1,083
ARPPU of virtual items (RMB)	38	33	34
Other Games			
Cumulative registered players	147,757	44,280	101,895
MAU	11,871	7,588	10,566
DAU	790	688	832
MPU (Virtual items)	28	43	37
ARPPU of virtual items (RMB)	58	82	70

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 in-game virtual items and in-game advertising. In terms of revenue and active users, Fight the Landlord (鬥地主) and Sichuan Mahjong (四川麻將) are the two most popular card and board mobile games we offer. They are based on real-world card and board games that have enjoyed wide popularity in the PRC for many years. In addition, we also offer casual games, such as Kuaishou Fishing (快手捕魚), a casual fishing game and Happy Mengmengxiao (開心萌萌消), a matching puzzle game. In the first half of 2019, we launched seven new casual mobile games. We launched those games on the platform of Google and Facebook, targeting at the overseas market. As at 30 June 2019, we had 46 self-developed games and 15 third-party games, among which 19 are card games, 14 are board games and 28 are other casual games.

In terms of financial performance, we experienced rapid growth in the first half of 2019. Revenue increased from approximately RMB267.8 million for the six months ended 30 June 2018 to approximately RMB308.0 million for the six months ended 30 June 2019, representing an increase of approximately 15.0%. Our profit increased from approximately RMB50.8 million for the six months ended 30 June 2018 to approximately RMB70.3 million for the six months ended 30 June 2019, representing an increase of approximately 38.4%. Our adjusted net profit, excluding Share-based payments and the Listing expenses, increased from approximately RMB54.0 million for the six months ended 30 June 2018 to approximately RMB88.0 million for the six months ended 30 June 2019, representing an increase of approximately 63.0%.

In terms of business development, the Group continued to optimize and enhance the product experience of existing games, improve the player's activity and stickiness, and cross-sell the new games via in-game portals with the platform-based business model, thereby increasing the number of new players and active users in the first half of 2019. We had approximately 163.5 million new registered players for the six months ended 30 June 2019. Our cumulative registered players increased from approximately 442.3 million as at 31 December 2018 to approximately 605.8 million as at 30 June 2019. Our average MAU increased from approximately 27.9 million for the six months ended 30 June 2018 to approximately 54.0 million for the six months ended 30 June 2019. Our average DAU increased from approximately 6.0 million for the six months ended 30 June 2018 to approximately 8.1 million for the six months ended 30 June 2019. In-game advertising is a new revenue segment of the Group, which has contributed revenue since May 2018. The Group has been launching games via the advertising platforms of Tencent, Vivo, Oppo and Today's Headlines in order to expand the user base. By integrating the advertisements into the games, the Group successfully broadened the revenue source. In the first half of 2019, the Group further strengthened the in-game advertising monetization strategy by starting cooperation with five new platforms, encouraging players, especially non-paying players, to obtain in-game virtual items by watching the advertising videos. As a result, for the six months ended 30 June 2019, the Group's revenue from in-game advertising business amounted to approximately RMB101.5 million, representing an increase of approximately 48 times from RMB2.1 million as compared with the corresponding period of 2018.

In terms of the mobile game industry in the PRC, the PRC government has, after the suspension in March 2018, resumed the approval process of game publication numbers in December 2018. In the first half of 2019, the Group has obtained two new game publication numbers, both of which were for casual games. As at 30 June 2019, we possessed 58 game publication numbers, 48 of which covering our card and board games and 10 of which covering our casual games. Due to the current development strategy and resources allocation, 19 games with publication numbers have not yet been in operation. The Group will start promoting their operations at any time as and when appropriate in the future. We have an adequate reserve in terms of game publication numbers, and are confident that we will continue to obtain new game publication numbers in the future.

The shares of the Company has been successfully listed on the Main Board of the Stock Exchange since 16 April 2019. It was an important milestone for the Group's history, highlighting its competitive edge and capital strength. It also represents investors' recognition of our strategic development, financial performance and corporate governance, which will be the drivers of the Group's growth.

FUTURE PROSPECTS

In the second half of 2019, the Group will continue to move forward following its positive development trend in the six months ended 30 June 2019. We will mainly focus on the following strategies in the second half of 2019:

- Continuously optimizing the current game portfolio, adding new features and gameplay rules, and enhancing players' experience;
- Strengthening cross-selling efforts and increasing the players' scale with the use of big data analysis and using the existing massive player base;
- Continuing to develop the dual monetization model of in-game virtual items consumption and in-game advertisement, and increase our business cooperation with distribution channels and advertising platforms, thereby increasing the Group's income; and
- Strengthening the research and development and promotion of casual games in the overseas markets, and exploring opportunities in the overseas casual games market.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, 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 advertising.

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 advertising 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 advertising are both recognized on a net basis when the relevant services are provided.

Management Discussion and Analysis

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-Year Change %
	2019		2018		
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%	
Sales of virtual items	206,517	67.0	265,762	99.2	-22.3
– Self-developed games	200,976	65.2	264,821	98.8	-24.1
– Third-party games	5,541	1.8	941	0.4	488.8
In-game advertising	101,525	33.0	2,064	0.8	4,818.8
Total	308,042	100.0	267,826	100.0	15.0

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

	For the six months ended 30 June				Year-on-Year Change %
	2019		2018		
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%	
Sales of virtual items	206,517	67.0	265,762	99.2	-22.3
– SMS services	103,815	33.7	128,975	48.2	-19.5
– Online payment channels	102,702	33.3	136,787	51.0	-24.9
In-game advertising	101,525	33.0	2,064	0.8	4,818.8
Total	308,042	100.0	267,826	100.0	15.0

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

	For the six months ended 30 June				Year-on-Year Change %
	2019		2018		
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%	
Card games	259,142	84.1	236,436	88.3	9.6
Board games	17,412	5.7	6,826	2.5	155.1
Other games	31,488	10.2	24,564	9.2	28.2
Total	308,042	100.0	267,826	100.0	15.0

For the six months ended 30 June 2019, the Group's total revenue was approximately RMB308.0 million, representing an increase of approximately 15.0% from approximately RMB267.8 million as compared with the corresponding period of 2018. This increase was primarily due to the significant increase in the revenue generated from the in-game advertising business which the Group began in May 2018.

For the six months ended 30 June 2019, the Group's revenue from the sale of virtual items amounted to approximately RMB206.5 million, representing a decrease of approximately 22.3% from RMB265.8 million as compared with the corresponding period of 2018. On the other hand, for the six months ended 30 June 2019, the Group's revenue from in-game advertising business amounted to approximately RMB101.5 million, representing an increase of approximately 48 times from RMB2.1 million as compared with the corresponding period of 2018. This was mainly due to the change of strategy of the Group to encourage more players to get game beans through in-game advertising, such as watching videos or clicking the links of the advertisements, etc.

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 Change %
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	
Payment channel costs	47,822	56,538	-15.4
Distribution platform costs	71,844	106,713	-32.7
Advertising costs	28,204	—	—
Others	5,824	3,236	80.0
Total	153,694	166,487	-7.7

For the six months ended 30 June 2019, the cost of sales was approximately RMB153.7 million, representing a decrease of approximately 7.7% from approximately RMB166.5 million as compared with the corresponding period of 2018. This was mainly attributable to the mix of (i) the decrease in payment channel costs of RMB8.7 million and distribution platform costs of RMB34.9 million caused by the decrease in the revenue from the sales of virtual items; and (ii) the increase in the advertising costs of RMB28.2 million.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

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

	For the six months ended 30 June			
	2019		2018	
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%
Sales of virtual items	83,844	40.6	99,275	37.4
– Self-developed games	78,303	39.0	98,334	37.1
– Third-party games	5,541	100.0	941	100.0
In-game advertising	70,504	69.4	2,064	100.0
Total	154,348	50.1	101,339	37.8

Gross profit increased by 52.3% from approximately RMB101.3 million for the six months ended 30 June 2018 to approximately RMB154.3 million for the six months ended 30 June 2019, which was in line with the growth of the Group's business. The gross profit margin increased to 50.1% for the six months ended 30 June 2019 from 37.8% for the six months ended 30 June 2018. The increase in the gross profit margin was primarily due to the significant increase in the revenue from in-game advertising, where the margin is much higher than the revenue from the sale of virtual items.

Other Income and Gains

Other income and gains increased by 89.9% from approximately RMB4.6 million for the six months ended 30 June 2018 to approximately RMB8.7 million for the six months ended 30 June 2019. The significant increase was primarily due to the increase in government subsidy of approximately RMB4.1 million.

Selling and Distribution Expenses

Selling and distribution expenses increased from approximately RMB25.6 million for the six months ended 30 June 2018 to approximately RMB35.1 million for the six months ended 30 June 2019. This increase was primarily attributable to the increase in promotion and advertising expenses which were in turn caused by the larger players' scale, thereby increasing the amount of advertisements to maintain and increase the player base.

Administrative Expenses

Administrative expenses increased from approximately RMB10.5 million for the six months ended 30 June 2018 to approximately RMB31.1 million for the six months ended 30 June 2019, primarily due to (i) the incurrence of Listing expenses which amounted to approximately RMB13.3 million; (ii) the increase in staff welfare expenses which amounted to approximately RMB3.8 million; (iii) the increase in professional parties consultation expenses after listed which amounted to approximately RMB0.92 million; and (iv) the increase in Share-based payment which amounted to approximately RMB1.6 million.

Research and Development Expenses

Research and development expenses increased from approximately RMB13.2 million for the six months ended 30 June 2018 to approximately RMB15.6 million for the six months ended 30 June 2019. The increase was primarily due to the increase in welfare expenses caused by the increase in performance bonus and the increase in the number of research and development staff from 92 to 111.

Other Expenses

Other expenses increased from approximately RMB0.4 million for the six months ended 30 June 2018 to approximately RMB1.6 million for the six months ended 30 June 2019, primarily due to the provision of impairment for trade receivables and other Listing expense.

Finance Costs

Finance costs decreased from approximately RMB0.1 million for the six months ended 30 June 2018 to RMB46,000 for the six months ended 30 June 2019, as the relevant loan agreement expired in December 2018.

Income Tax Expense

The income tax expenses for the six months ended 30 June 2019 was approximately RMB9.4 million, increased by 74.2% from approximately RMB5.4 million as compared with the corresponding period of 2018. Such increase was mainly attributable to the increase in the taxable income.

The effective income tax rate for the six months ended 30 June 2018 and 2019 were 9.6% and 11.8%, respectively. Such increase was mainly attributable to the increase in the non-deductable expenses such as the Listing expenses which were incurred in 2019.

Profit for the six months ended 30 June 2019

As a result of the above factors, the net profit of the Group was approximately RMB70.3 million for the six months ended 30 June 2019, an increase of approximately 38.4% as compared with RMB50.8 million for the six months ended 30 June 2018.

Non-IFRS Measures – Adjusted Net Profit

The adjusted net profit for the six months ended 30 June 2019, adjusted by excluding the impact from one-off expenses in relation to the Listing and share-based compensation to key employees, was approximately RMB88.0 million, significantly increased by 63.0% as compared to approximately RMB54.0 million for the first half of 2018.

Management Discussion and Analysis

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

	For the six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Profit for the period	70,264	50,761
Add:		
Listing-related expenses	13,258	—
Share-based compensation	4,448	3,211
Adjusted net profit	87,970	53,972

Liquidity and Capital Resources

The Group's total bank balances and cash increased from approximately RMB11.1 million as at 31 December 2018 to approximately RMB243.8 million as at 30 June 2019. Such increase in total bank balances and cash during the six months ended 30 June 2019 was primarily resulted from the increase in the net cash flow from operating activities and the net proceeds from the Listing.

As at 30 June 2019, current assets of the Group amounted to approximately RMB544.0 million, including bank balances and cash of approximately RMB243.8 million and other current assets of approximately RMB300.2 million. Current liabilities of the Group amounted to approximately RMB62.4 million, including trade payables and contract liabilities of approximately RMB36.8 million and other current liabilities of approximately RMB25.6 million. As at 30 June 2019, the current ratio (the current assets to current liabilities ratio) of the Group was 8.7, as compared with 3.7 as at 31 December 2018.

Gearing ratio is calculated by dividing total debt (being interest-bearing bank borrowings) by total equity. The Group does not have any bank borrowings and other debt financing obligations as at 30 June 2019 and the resulting gearing ratio is nil (31 December 2018: nil). The Group intends to finance the expansion, investments and business operations with internal resources.

Financial Assets at Fair Value through Profit or Loss

As at 31 December 2018 and 30 June 2019, the Group had financial assets at fair value through profit or loss of RMB131.9 million and RMB192.3 million, respectively. The increase in the financial assets at fair value through profit or loss as at 30 June 2019 was generally in line with the increase in the Group's net cash flows generated from operating activities for the six months ended 30 June 2019 as compared with the corresponding period of 2018, with which the Group has opted to purchase more wealth management products as they generally have higher yields than fixed deposits with banks and have low risk.

Capital Expenditures

For the six months ended 30 June 2019, the capital expenditures of the Group amounted to approximately RMB1.8 million, which were primarily used to purchase vehicles and office software.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2019.

Pledge of Assets

As at 30 June 2019, 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 2019.

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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

PAYMENT OF INTERIM DIVIDEND

Having taken into account the performance of the Group for the financial year ended 31 December 2018 and the six months ended 30 June 2019, the Board declared an interim dividend of HK\$0.05 per Share for the six months ended 30 June 2019 to the Shareholders whose names appear on the register of members of the Company on Friday, 30 August 2019. The total amount is HK\$51.1 million. The payment date of the interim dividend is expected to be on or before Wednesday, 18 September 2019.

The Company does not have a fixed dividend policy and any dividend payout in the future will depend on our earnings and financial condition, operational needs, capital requirements and any other conditions that the Directors may consider relevant.

CLOSURE OF THE REGISTER OF MEMBERS

In order to be qualified for the interim dividend, the register of members of the Company will be closed from Wednesday, 28 August 2019 to Friday, 30 August 2019, both days inclusive, during which period no transfer of Shares of the Company will be effected. All Share transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 27 August 2019.

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 throughout the period commencing from the Listing Date to 30 June 2019, 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 chief executive officer of the Group and the chairman of the Board. The Board believes that vesting the roles of both chief executive officer and chairman of the Board 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 six other experienced and high-calibre individuals including another executive Director, two non-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 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 in March 2019.

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 regarding Directors' securities transactions throughout the period from the Listing Date to 30 June 2019.

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 2019 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 2019 is unaudited, but has been reviewed by Ernst & Young, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity".

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities throughout the period from the Listing Date to 30 June 2019.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B) of the Listing Rules, the changes in information of directors are set out below:

Name of Director	Details of Change
Ye Sheng	Appointed as an executive director and general manager of Zhuhai Zhangyou Technology Co., Ltd.* (珠海市掌遊科技有限公司) with effect from 11 March 2019
Yang Min	Appointed as the supervisor of Zhuhai Zhangyou Technology Co., Ltd.* (珠海市掌遊科技有限公司) with effect from 11 March 2019

STRUCTURED CONTRACTS

Please refer to the section headed “Structured Contracts” in the Prospectus for details. For the six months ended 30 June 2019, the Board has reviewed the overall performance of the Structured Contracts and believed that the Group has complied with the Structured Contracts in all material respects.

The Foreign Investment Law was formally passed by the thirteenth National People’s Congress on 15 March 2019 and will take effect on 1 January 2020. For details, please refer to the section headed “Structured Contracts – Development in the PRC Legislation on Foreign Investment” in the Prospectus. A foreign investor who invests in a foreign-invested value-added telecommunications enterprise operating value-added telecommunications businesses in the PRC must demonstrate a good track record and experience in operating value-added telecommunications businesses (the “**Qualification Requirement**”). Moreover, foreign investors that meet these requirements must obtain approvals from the MIIT and the MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals, for the commencement of that investor of value-added telecommunications businesses in the PRC.

There have been no updates to the Foreign Investment Law and the Group’s compliance with the Foreign Investment Law and the implementation rules in relation to the Qualification Requirement since the Listing Date and up to the date of this interim report.

Please also refer to the section headed “Structured Contracts” in the Prospectus for the Group’s efforts and actions undertaken to comply with the Qualification Requirement.

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 2019, a total amount of approximately HK\$8.7 million out of the net proceeds had been utilized by the Group. We have, and will continue to utilize the net proceeds from the Global Offering 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 2019, the Group had approximately 181 employees (177 as at 31 December 2018). 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 2019.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interests and/or short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

(i) Long position in the Company

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company ⁽⁴⁾
Mr. Ye Sheng	Founder of a discretionary trust ⁽¹⁾	222,712,000	21.80%
Mr. Yang Min	Founder of a discretionary trust ⁽²⁾	188,604,100	18.46%
Ms. Li Wen	Interest in a controlled corporation ⁽³⁾	7,592,380	0.74%

Notes:

- (1) Sky-zen Capital Limited is owned as to (i) 80% by YS Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Ye Sheng as the settlor and beneficiary; and (ii) 20% by Mr. Ye Sheng. Accordingly, Mr. Ye Sheng is deemed to be interested in all the Shares held by Sky-zen Capital Limited.
- (2) J&L Y Limited is owned as to (i) 80% by Y&J Family Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Yang Min as the settlor and beneficiary; and (ii) 20% by Mr. Yang Min. Accordingly, Mr. Yang Min is deemed to be interested in all the Shares held by J&L Y Limited.
- (3) D Zing Limited is owned as to 100% by Ms. Li Wen. Accordingly, Ms. Li Wen is deemed to be interested in all the Shares held by D Zing Limited.
- (4) The percentage is calculated based on the total number of issued Shares as at 30 June 2019.

(ii) Long position in associated corporation

Zen-Game Shenzhen

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in our Group
Mr. Ye Sheng	Interest in a controlled corporation ⁽¹⁾	13,326,923	24.68%
Mr. Yang Min	Interest in a controlled corporation ⁽²⁾	11,695,054	21.65%
Ms. Li Wen	Interest in a controlled corporation ⁽³⁾	500,000	0.93%

Notes:

- (1) Mr. Ye Sheng holds 99% equity interest of Shenzhen Tianchan Technology Co., Ltd.* (深圳市天禪科技有限公司) and he is thus deemed to be interested in the shares held by Shenzhen Tianchan Technology Co., Ltd.* (深圳市天禪科技有限公司) in Zen-Game Shenzhen.
- (2) Mr. Yang Min holds 90% equity interest of Shenzhen Dingyi Technology Co., Ltd.* (深圳市鼎翌科技有限公司) and he is thus deemed to be interested in the shares held by Shenzhen Dingyi Technology Co., Ltd. (深圳市鼎翌科技有限公司) in Zen-Game Shenzhen.
- (3) Ms. Li Wen holds 70% equity interest of Shenzhen Dewenshiji Technology Co., Ltd.* (深圳市德文世紀科技有限公司) and she is thus deemed to be interested in the shares held by Shenzhen Dewenshiji Technology Co., Ltd. (深圳市德文世紀科技有限公司) in Zen-Game Shenzhen.

Save as disclosed above, as at 30 June 2019, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long position in the Company

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in our Group ⁽¹⁰⁾
Sky-zen Capital Limited ⁽¹⁾	Beneficial owner	222,712,000	21.80%
Ms. Xie Yingying ⁽²⁾	Interest of spouse	222,712,000	21.80%
YS Limited ⁽¹⁾	Nominee for another person (other than a bare trustee)	222,712,000	21.80%
J&L Y Limited ⁽³⁾	Beneficial owner	188,604,100	18.46%
Ms. Jiang Qian ⁽⁴⁾	Interest of spouse	188,604,100	18.46%
Y&J Family Limited ⁽³⁾	Nominee for another person (other than a bare trustee)	188,604,100	18.46%
D Fun Limited ⁽⁵⁾	Beneficial owner	165,201,300	16.17%
Ms. Zhang Wei ⁽⁵⁾	Founder of a discretionary trust	165,201,300	16.17%
Mr. Zeng Liqing ⁽⁶⁾	Interest of spouse	165,201,300	16.17%
Bonaza Limited ⁽⁵⁾	Nominee for another person (other than a bare trustee)	165,201,300	16.17%
Playa Technology Limited ⁽⁷⁾	Beneficial owner	90,860,920	8.89%
Mr. Bao Zhoujia ⁽⁷⁾	Founder of a discretionary trust	90,860,920	8.89%
Sky Snow Limited ⁽⁷⁾	Nominee for another person (other than a bare trustee)	90,860,920	8.89%
Hezhong Power Limited ⁽⁸⁾	Nominee for another person (other than a bare trustee)	62,561,080	6.12%

Corporate Governance and Other Information

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in our Group ⁽¹⁰⁾
TCT (BVI) Limited	Other ⁽⁹⁾	222,712,000	21.80%
	Other ⁽⁹⁾	188,604,100	18.46%
	Other ⁽⁹⁾	165,201,300	16.17%
	Other ⁽⁹⁾	90,860,920	8.89%
	Other ⁽⁹⁾	62,561,080	6.12%
The Core Trust Company Limited	Trustee ⁽¹⁾	222,712,000	21.80%
	Trustee ⁽³⁾	188,604,100	18.46%
	Trustee ⁽⁵⁾	165,201,300	16.17%
	Trustee ⁽⁷⁾	90,860,920	8.89%
	Trustee ⁽⁸⁾	62,561,080	6.12%

Notes:

- (1) Sky-zen Capital Limited is owned as to (i) 80% by YS Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Ye Sheng as the settlor and beneficiary; and (ii) 20% by Mr. Ye Sheng. Accordingly, YS Limited is deemed to be interested in all the Shares held by Sky-zen Capital Limited.
- (2) Ms. Xie Yingying is the spouse of Mr. Ye Sheng and she is thus deemed to be interested in all the Shares held by Mr. Ye Sheng under the SFO.
- (3) J&L Y Limited is owned as to (i) 80% by Y&J Family Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Yang Min as the settlor and beneficiary; and (ii) 20% by Mr. Yang Min. Accordingly, Y&J Family Limited is deemed to be interested in all the Shares held by J&L Y Limited.
- (4) Ms. Jiang Qian is the spouse of Mr. Yang Min and she is thus deemed to be interested in all the Shares held by Mr. Yang Min under the SFO.
- (5) D Fun Limited is owned as to (i) 80% by Bonaza Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Ms. Zhang Wei as the settlor and beneficiary; and (ii) 20% by Ms. Zhang Wei. Accordingly, each of Bonaza Limited and Ms. Zhang Wei is deemed to be interested in all the Shares held by D Fun Limited.
- (6) Mr. Zeng Liqing is the spouse of Ms. Zhang Wei and he is thus deemed to be interested in all the Shares held by Ms. Zhang Wei under the SFO.
- (7) Playa Technology Limited is owned as to (i) 80% by Sky Snow Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Bao Zhoujia as the settlor and beneficiary; and (ii) 20% by Mr. Bao Zhoujia. Accordingly, each of Sky Snow Limited and Mr. Bao Zhoujia is deemed to be interested in all the Shares held by Playa Technology Limited.

- (8) Hezhong Power Limited is wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee under the RSU Scheme.
- (9) Certain Shares were held by Sky-zen Capital Limited (21.80%), J&L Y Limited (18.46%), D Fun Limited (16.17%), Playa Technology Limited (8.89%) and Hezhong Power Limited (6.12%), pursuant to certain discretionary trusts established and the RSU Scheme. Sky-zen Capital Limited, J&L Y Limited, D Fun Limited and Playa Technology Limited are held by YS Limited, Y&J Family Limited, Bonaza Limited and Sky Snow Limited (each a “Nominee”), respectively, as to 80%. Each Nominee and Hezhong Power Limited is wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of the aforementioned discretionary trusts and the RSU Scheme.
- (10) The percentage is calculated based on the total number of issued Shares as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

RSU SCHEME

We have adopted the RSU Scheme with a view to incentivize the Directors, senior management and employees for their contribution to the Group and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group. The RSU Scheme was approved and adopted by the Board on 9 October 2018, the principal terms of which are set out in “Statutory and General Information — F. RSU Scheme and Share Option Scheme — 1. RSU Scheme” in Appendix IV of the Prospectus.

We have appointed The Core Trust Company Limited as the trustee to assist with the administration and vesting of the RSUs granted pursuant to the RSU Scheme. A total of 62,561,080 Shares were issued to the RSU Nominee, who hold the shares for the benefit of eligible participants pursuant to the RSU Scheme. No further Shares will be allotted and issued to the RSU Nominee or the trustee for the purpose of the RSU Scheme (other than pursuant to sub-division, reduction or consolidation of the share capital of the Company in accordance with the RSU Scheme). As the RSU Scheme does not involve the grant of options to subscribe for any new Shares of the Company, it is not required to be subject to the provisions under Chapter 17 of the Listing Rules.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 28 March 2019, providing the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

The principal terms of the Share Option Scheme are prepared in accordance with the provisions of Chapter 17 of the Listing Rules and other rules and regulations. Further details of the Scheme are set forth in the section headed “Statutory and General Information — F. RSU Scheme and Share Option Scheme — 2. Share Option Scheme” in Appendix IV to the Prospectus.

For the six months ended 30 June 2019, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

INDEPENDENT REVIEW REPORT



22/F, CITIC Tower,
1 Tim Mei Avenue,
Central,
Hong Kong

Independent review report

To the board of directors of Zengame Technology Holding Limited
(Incorporated in Cayman Islands with limited liability)

Dear Sirs,

Introduction

We have reviewed the interim financial information set out on pages 23 to 28, which comprises the condensed consolidated statement of financial position of Zengame Technology Holding Limited (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2019 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 Interim Financial Reporting (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

13 August 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
REVENUE	4	308,042	267,826
Cost of sales		(153,694)	(166,487)
Gross profit		154,348	101,339
Other income and gains	4	8,714	4,588
Selling and distribution expenses		(35,117)	(25,576)
Administrative expenses		(31,075)	(10,470)
Research and development costs		(15,623)	(13,208)
Other expenses		(1,555)	(398)
Finance costs	6	(46)	(128)
PROFIT BEFORE TAX	5	79,646	56,147
Income tax expense	9	(9,382)	(5,386)
PROFIT FOR THE PERIOD		70,264	50,761

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD		70,264	50,761
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		5,270	4
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		5,270	4
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")	15	2,171	5,318
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		7,441	5,322
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		77,705	56,083
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	11	RMB7.8 cents	RMB6.2 cents
Diluted		RMB7.8 cents	RMB6.2 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property and equipment	12	3,116	2,589
Right-of-use asset		5,092	—
Other intangible assets	13	494	—
Investments in an associate	14	—	—
Equity instruments designated at FVOCI	15	54,692	51,796
Long-term prepayments, deposits and other receivables	19	5,000	5,000
Deferred tax asset	24	453	459
Total non-current assets		68,847	59,844
CURRENT ASSETS			
Trade receivables	16	84,163	98,373
Contract costs	17	10,076	19,683
Financial assets at fair value through profit or loss	18	192,291	131,915
Prepayments, deposits and other receivables	19	13,676	13,515
Amounts due from a related party	30	—	—
Time deposits with original maturity of over three months		80,373	—
Cash and cash equivalents	20	163,385	11,052
Total current assets		543,964	274,538
CURRENT LIABILITIES			
Trade payables	21	20,554	17,080
Contract liabilities	22	16,209	30,305
Other payables and accruals	23	21,433	23,321
Tax payable		4,157	3,460
Total current liabilities		62,353	74,166
NET CURRENT ASSETS		481,611	200,372
TOTAL ASSETS LESS CURRENT LIABILITIES		550,458	260,216
NON-CURRENT LIABILITIES			
Lease liabilities		3,034	—
Deferred tax liabilities	24	9,567	7,746
Total non-current liabilities		12,601	7,746
Net assets		537,857	252,470
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	2,064	334
Reserves	26/27	535,793	252,136
Total equity		537,857	252,470

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent							Total RMB'000
	Share capital RMB'000 (Note 25)	Capital reserve RMB'000 (Note 27)	Statutory surplus reserve RMB'000 (Note 27)	Share-based payment reserve RMB'000 (Note 26)	Fair value reserve of financial assets at FVOCI RMB'000 (Note 27)	Exchange fluctuation reserve RMB'000 (Note 27)	Retained profits RMB'000	
At 31 December 2018 (audited)	334	98,866	25,147	17,406	6,880	(6)	103,843	252,470
Effect of adoption of HKFRS 16	—	—	—	—	—	—	—	—
At 1 January 2019 (restated) (unaudited)	334	98,866	25,147	17,406	6,880	(6)	103,843	252,470
Profit for the period (unaudited)	—	—	—	—	—	—	70,264	70,264
Other comprehensive loss for the period:								
Change in fair value of equity instruments designated at FVOCI (unaudited)	—	—	—	—	2,171	—	—	2,171
Exchange differences on translation of foreign operations (unaudited)	—	—	—	—	—	5,270	—	5,270
Total comprehensive income for the period (unaudited)	—	—	—	—	2,171	5,270	70,264	77,705
Capital injection from shareholders (unaudited)	1,730	201,504	—	—	—	—	—	203,234
Transfer to statutory surplus reserve (unaudited)	—	—	—	—	—	—	—	—
Equity-settled share-based payment (unaudited)	—	—	—	4,448	—	—	—	4,448
At 30 June 2019 (unaudited)	2,064	300,370*	25,147*	21,854*	9,051*	5,264*	174,107*	537,857*
At 1 January 2018 (audited)	—	99,200	14,431	10,387	14,642	(2)	83,750	222,408
Profit for the period (unaudited)	—	—	—	—	—	—	50,761	50,761
Other comprehensive income for the period:								
Change in fair value of equity instruments designated at FVOCI (unaudited)	—	—	—	—	5,318	—	—	5,318
Exchange differences on translation of foreign operations (unaudited)	—	—	—	—	—	4	—	4
Total comprehensive income for the period (unaudited)	—	—	—	—	5,318	4	50,761	56,083
Transfer to statutory surplus reserve (unaudited)	—	—	5,234	—	—	—	(5,234)	—
Equity-settled share-based payment (unaudited)	—	—	—	3,211	—	—	—	3,211
At 30 June 2018 (unaudited)	—	99,200*	19,665*	13,598*	19,960*	2*	129,277*	281,702*

* These reserve accounts comprise the consolidated reserves of RMB281,702,000 and RMB535,793,000 in the consolidated statements of financial position as at 30 June 2018 and 30 June 2019, respectively.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
profit before tax:		79,646	56,147
Adjustments for:			
Finance costs	6	46	128
Listing expense		13,258	—
Dividend income		—	—
Interest income	4	(548)	(45)
Fair value gains on financial assets at fair value through profit and loss	4	(2,959)	(3,746)
Depreciation of property and equipment	5	692	383
Depreciation of right-of-use assets	5	1,166	—
Amortisation of other intangible assets	5	106	—
Equity-settled share-based payment expenses	5	4,448	3,211
Impairment of trade receivables	5	666	16
		96,521	56,094
Decrease in trade receivables		13,544	9,915
Decrease in contract costs		9,607	2,564
(Increase)/decrease in prepayments, deposits and other receivables		(161)	1,856
Decrease in amounts due from a related party		—	403
Increase/(decrease) in trade payables		3,474	(3,284)
Decrease in a contract liability		(14,096)	(5,504)
Decrease in other payables and accruals		(3,961)	(2,832)
Cash generated from operations		104,928	59,212
Income tax paid		(7,582)	(4,887)
Net cash flows generated from operating activities		97,346	54,325

Interim Condensed Consolidated Statement of Cash Flows

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Interest received		548	45
Fair value gains on financial assets at fair value through profit and loss ("FVPL")		2,959	3,746
Purchases of items of property, plant and equipment	12	(1,219)	(1,842)
Additions to other intangible assets	13	(600)	—
Increase in time deposits with original maturity of over three months		(80,373)	—
Purchases of financial assets at fair value through profit or loss		(90,376)	(103,639)
Receipt from maturity of financial assets at fair value through profit or loss		30,000	41,480
Net cash flows used in investing activities		(139,061)	(60,210)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Proceeds from issue of shares	28	213,641	—
Share issue expenses	28	(23,666)	—
Principal portion of lease payments	28	(1,151)	—
New bank loans	28	—	17,600
Repayment of bank loans	28	—	(7,600)
Interest paid	28	(46)	(128)
Net cash flows from financing activities		188,778	9,872
NET INCREASE IN CASH AND CASH EQUIVALENTS		147,063	3,987
Cash and cash equivalents at beginning of year		11,052	9,342
Effect of foreign exchange rate changes, net		5,270	4
CASH AND CASH EQUIVALENTS AT END OF YEAR		163,385	13,333
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	20	75,419	13,333
Time deposits with original maturity of less than three months	20	87,966	—
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS	20	163,385	13,333

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

1. BASIS OF PRESENTATION

The interim condensed consolidated financial information for the six months ended 30 June 2019 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 2018.

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 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK (IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Annual improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 Leases, Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures and HK (IFRIC)-Int 23 Uncertainty over Income Tax Treatments, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

HKFRS 16 replaces HKAS 17 Leases, HK (IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK (SIC)-Int 15 Operating Leases — Incentives and HK (SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

30 June 2019

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK (IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK (IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

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2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**As a lessee — Leases previously classified as operating leases** (continued)**Impacts on transition**

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets for leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	2,118
Increase in total assets	2,118
Liabilities	
Increase in lease liabilities	2,118
Increase in total liabilities	2,118
Decrease in retained earnings	—

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2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**As a lessee — Leases previously classified as operating leases** (continued)**Impacts on transition** (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Assets	
Operating lease commitments as at 31 December 2018	2,174
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments as at 1 January 2019	—
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	56
Commitments relating to leases of low-value assets	—
	<hr/>
Lease liabilities as at 1 January 2019	2,118

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

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2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**Summary of new accounting policies** (continued)***Lease liabilities***

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease property for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of property due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

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2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss**

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movement during the period are as follow:

	Right-of-use assets RMB'000 (Unaudited)	Lease liabilities RMB'000 (Unaudited)
As at 1 January 2019	2,118	2,118
Additions	4,140	4,140
Depreciation charge	(1,166)	—
Interest expense	—	46
Payments	—	(1,197)
As at 30 June 2019	5,092	5,107

HK (IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group adopted the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

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2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss (continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognized in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

Amendments to HKAS 28 issued in January 2018 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognizing losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group adopted the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also applied the relief from restating comparative information for prior periods upon adoption of the amendments. The amendments are not expected to have any significant impact on the Group's financial statements.

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.

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3. OPERATING SEGMENT INFORMATION (continued)

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 2019 is set out below:

	Six months ended 30 June 2019 RMB'000 (Unaudited)
Customer A	53,413

No revenue from services provided to a single customer amounted to 10% or more of the total revenue of the Group during the six months ended 30 June 2018.

4. REVENUE, OTHER INCOME AND GAINS

Revenue mainly represents the value of developing and operating mobile games during the reporting periods.

All revenue is recognized over time as the customer simultaneously receives and consumes in-game virtual items, in-game advertising services and distribution services provided by the entity's performance as the entity performs.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue		
Self-developed games	200,976	264,821
Third-party games	5,541	941
In-game advertising	101,525	2,064
	308,042	267,826
Other income and gains		
Bank interest income	548	45
Fair value gains or losses on financial assets at fair value through profit and loss	2,959	3,746
Government grants related to income*	4,845	795
Others	362	2
	8,714	4,588

* 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.

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5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Services fee charged by distribution platforms and payment vendors		119,666	163,251
Cost of in-game advertising		28,204	—
Promotion expenses		35,117	25,576
Employee benefit expense (including directors' and chief executives' remuneration (note 7)):			
— Wages and salaries		25,745	20,793
— Pension scheme contributions (defined contribution scheme)		824	701
— Equity-settled share-based payment expenses	26	4,448	3,211
Depreciation of property and equipment	12	692	383
Depreciation of right-of-use assets		1,166	—
Amortisation of other intangible assets	13	106	—
Research and development costs		15,623	13,208
Minimum lease payments under operating leases		—	1,032
Impairment of trade receivables*	16	666	16
Auditors' remuneration		611	306
Listing expense		13,258	—

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

6. FINANCE COSTS

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Interest expenses	46	128

Notes to Interim Condensed Consolidated Financial Information

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7. DIRECTORS' REMUNERATION

Mr. Ye Sheng (叶升) and Mr. Yang Min (楊民) were appointed as executive directors of the Company in 2018. Ms. Lin Cong (林蕙) and Ms. Li Wen (李雯) were appointed as non-executive directors of the Company in 2018. Mr. Jin Shuhui (金書匯), Mr. Mao Zhonghua (毛中華) and Mr. Yang Yi (陽翼) were appointed as independent non-executive directors of the Company in 2018, and Mr. Ye Sheng (叶升) was appointed as the chief executive director of the Company in September 2018.

Certain of the directors received remuneration from a recent subsidiary of the Predecessor Group for their appointment as directors or senior management of this subsidiary. The remuneration of each of these directors as recorded in the financial statements of the subsidiary is set out below:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	997	960
Pension scheme contributions	54	26
	1,051	986

(a) Executive directors and non-executive directors

Period ended 30 June 2019	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
(Unaudited)	RMB'000	RMB'000	RMB'000
Executive directors:			
Mr. Ye Sheng (叶升)	467	27	494
Mr. Yang Min (楊民)	467	27	494
Non-executive directors:			
Mr. Lin Cong (林蕙)	—	—	—
Ms. Li Wen (李雯)	—	—	—
Independent non-executive directors:			
Mr. Jin Shuhui (金書匯)	21	—	21
Mr. Mao Zhonghua (毛中華)	21	—	21
Mr. Yang Yi (陽翼)	21	—	21
	997	54	1,051

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7. DIRECTORS' REMUNERATION (continued)**(a) Executive directors and non-executive directors** (continued)

Period ended 30 June 2018 (Unaudited)	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:			
Mr. Ye Sheng (叶升)	450	13	463
Mr. Yang Min (楊民)	450	13	463
Non-executive directors:			
Mr. Lin Cong (林蔥)	—	—	—
Ms. Li Wen (李雯)	—	—	—
Independent non-executive directors:			
Mr. Jin Shuhui (金書匯)	—	—	—
Mr. Mao Zhonghua (毛中華)	30	—	30
Mr. Yang Yi (陽翼)	30	—	30
	960	26	986

Though the above directors were appointed after April 2018, the above remuneration information of each of these directors was recorded in the financial statements of the subsidiaries.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the reporting periods.

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8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the six months ended 30 June 2019 and 2018 included 2 and 2 directors, respectively, details of whose remuneration are set out in note 7 above. Details of the remuneration of the 3 and 3 highest paid employees who are neither a director nor chief executive of the Group during the six months ended 30 June 2019 and 2018, respectively are as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	912	1,017
Equity-settled share-based payment expense	2,852	1,187
Pension scheme contributions	57	22
	3,821	2,226

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	—	—
HK\$2,000,001 to HK\$2,500,000	—	—
HK\$2,500,001 to HK\$3,000,000	1	—
HK\$3,000,001 to HK\$3,500,000	—	—

During the reporting periods, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

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9. 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 accredited as “software enterprise” in 2015 under relevant PRC laws and regulation and was entitled with a preferential tax treatment (i.e., 2-year exemption and 3-year half payment) from its first profitable year. Therefore, Zen-Game Shenzhen was exempted from income tax for its first two profitable years (i.e. 2015 and 2016), and was entitled with a preferential income tax rate of 12.5% from 2017 to 2019. Zen-Game Shenzhen was also qualified as a “Key Software Enterprise” in 2017 and the applicable tax rate was 10% for the year ended 31 December 2017. Zen-Game Shenzhen applied the most preferential tax rate of 10% for the year ended 31 December 2018. Zen-Game Shenzhen expected the applicable tax rate to be 10% for the six months ended 31 December 2019.

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	
	2019*	2018*
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Current tax		
Charge for the period	8,279	5,373
Deferred tax (note 24)	1,103	13
Total tax charge for the period	9,382	5,386

* The qualification of “Key Software Enterprise” and related preferential income tax rate are subject to annual assessment.

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9. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate of Mainland China (i.e., 25%) where the main operating entity is domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rates are as follows:

	Six months ended 30 June			
	2019		2018	
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Profit before tax	79,646		56,147	
Tax at the statutory tax rate	19,912	25.0	14,037	25.0
Effect of different applicable tax rates for specific jurisdictions or enacted by local authority	(11,369)	(14.3)	(8,640)	(15.4)
Super deduction for research and development expenses	(1,102)	(1.4)	(770)	(1.4)
Expenses not deductible for tax	793	1.1	382	0.7
Effect on opening deferred tax of increase in rates	—	—	—	—
Tax losses not recognized	1,148	1.4	377	0.7
Tax charge at the Group's effective rate	9,382	11.8	5,386	9.6

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 30 June 2019 and 31 December 2018, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, the Group's earnings will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The total amounts of temporary difference associated with the investment in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised were approximately RMB198,230,000 and RMB115,704,000 for the six months ended 30 June 2019 and year ended 31 December 2018, respectively.

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9. INCOME TAX (continued)

- (a) According to relevant laws and regulations promulgated by the state Tax Bureau of the PRC, enterprises engaging in research and development activities are entitled to claim 150% of the research and development expenses from 1 January 2008 to 31 December 2017, and 175% of the research and development expenses from 1 January 2018 to 31 December 2019, as tax deductible expenses.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

As at 30 June 2019 and 31 December 2018, the Group had tax losses arising in Mainland China of RMB7,475,000 and RMB4,339,000, respectively, which will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognized in respect of these losses as they have arisen in a subsidiary that has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

The unrecognized deferred tax assets from tax losses will expire as followings:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Unaudited)
31 December 2020	1,457	1,457
31 December 2021	2,186	2,186
31 December 2022	8,534	8,534
31 December 2023	4,339	4,339
31 December 2024	7,475	—
	23,991	16,516

10. DIVIDENDS

The Board has resolved to recommend the payment of an interim dividend of HK\$0.05 per share out of the share premium account of the Company for the six months ended 30 June 2019 (for the six months ended 30 June 2018: Nil).

11. 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 2019 and 2018.

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 2019 and 2018 has been retrospectively adjusted for the effect of capitalisation issue as described more fully in note 25.

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11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2019 and 2018.

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

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	70,264	50,761
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	901,207,646	820,000,000

12. PROPERTY AND EQUIPMENT

	Electronic devices RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
30 June 2019 (Unaudited)				
At 1 January 2019:				
Cost	1,856	2,422	567	4,845
Accumulated depreciation	(1,100)	(868)	(288)	(2,256)
Net carrying amount	756	1,554	279	2,589
At 1 January 2019, net of accumulated depreciation	756	1,554	279	2,589
Additions	227	992	—	1,219
Depreciation provided during the year (note 5)	(208)	(344)	(140)	(692)
At 30 June 2019, net of accumulated depreciation	775	2,202	139	3,116
At 30 June 2019:				
Cost	2,083	3,414	567	6,064
Accumulated depreciation	(1,308)	(1,212)	(428)	(2,948)
Net carrying amount	775	2,202	139	3,116

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12. PROPERTY AND EQUIPMENT (continued)

	Electronic devices RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2018 (Audited)				
At 1 January 2018:				
Cost	1,230	969	415	2,614
Accumulated depreciation	(778)	(403)	(88)	(1,269)
Net carrying amount	452	566	327	1,345
At 1 January 2018, net of accumulated depreciation	452	566	327	1,345
Additions	642	1,454	152	2,248
Disposal	(17)	—	—	(17)
Depreciation provided during the year (note 5)	(321)	(466)	(200)	(987)
At 31 December 2018, net of accumulated depreciation	756	1,554	279	2,589
At 31 December 2018:				
Cost	1,855	2,422	567	4,844
Accumulated depreciation	(1,099)	(868)	(288)	(2,255)
Net carrying amount	756	1,554	279	2,589

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13. Other intangible assets

	Software license RMB'000	Total RMB'000
30 June 2019 (Unaudited)		
At 1 January 2019:		
Cost	—	—
Accumulated amortisation	—	—
Net carrying amount	—	—
At 1 January 2019, net of accumulated amortisation	—	—
Additions	600	600
Amortisation provided during the year (note 5)	(106)	(106)
Exchange realignment	—	—
At 30 June 2019, net of accumulated amortisation	494	494
At 30 June 2019:		
Cost	600	600
Accumulated amortisation	(106)	(106)
Net carrying amount	494	494

14. INVESTMENTS IN AN ASSOCIATE

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Share of net assets	338	338
Goodwill on acquisition	—	—
Provision for impairment	(338)	(338)
	—	—

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14. INVESTMENTS IN AN ASSOCIATE (continued)

Particulars of the Group's associate is as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Uniques Digital Company Limited* ("Uniques Digital")	HK\$2,000,000 as registered capital	Hong Kong	35%	Mobile game development

* In 2015, the Group invested HK\$1,000,000 in Uniques Digital and accounted for 23.53% of the total equity interest. In 2016, the Group invested an additional HK\$1,000,000, and the equity interest percentage increased from 23.53% to 35%.

** The recoverable amount of the investment in Uniques Digital has been determined based on a value-in-use calculation using the Company's share of the present value of the estimated future cash flows expected to be generated by the associate from financial budgets covering a five-year period. The projected cash flows have been updated to reflect the current financial performance of Uniques Digital, and the key assumptions adopted for growth rates and discount rates used in the value-in-use calculations are based on management's best estimates. Growth rates are determined by considering both internal and external factors. The pre-tax discount rate applied to the cash flow projections is 30%. As a result of this analysis, management has recognised a full impairment charge of RMB338,000 during the year ended 31 December 2017. The impairment charge is recorded within other expenses in the statement of profit or loss.

15. EQUITY INSTRUMENTS DESIGNATED AT FVOCI

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Listed equity investment:		
Genimous Technology Co., LTD. ("Zhidu Technology")*	52,353	49,571
Non-listed equity investments:		
Shenzhen Flying Fish Interactive Technology Company Limited ("Flying Fish")	839	725
Shenzhen Yiyou Technology Company Limited ("Yiyou")	1,500	1,500
	54,692	51,796

The above investments consist of investments in equity securities which were designated as equity instruments designated at FVOCI in financial assets.

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15. EQUITY INSTRUMENTS DESIGNATED AT FVOCI (continued)

In the six months ended 30 June 2019 and 2018, the changes in the fair value and income tax effect in respect of the Group's equity instruments designated at FVOCI recognised in other comprehensive income are as below:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The gross fair value change in respect of the Group's equity instruments designated at FVOCI recognised in other comprehensive income	2,894	7,091
Income tax effect	(723)	(1,773)
Changes in fair value on equity instruments designated at FVOCI	2,171	5,318

Equity instruments designated at FVOCI include investments in equity shares of listed and non-listed companies. The Group holds non-controlling interests (less than 7%) in these companies. These investments were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature.

* The Listed equity investment represents the Group's shareholding in Zhidu Technology, a third party company listed on the Shenzhen Stock Exchange. On 18 May 2016, the Group disposed its 3.2889% equity investment in Shanghai Falcon Network Limited in exchange for 5,803,941 shares of Zhidu Technology. The accumulated fair value reserve recognized for Shanghai Falcon in other comprehensive income of RMB22,693,000 was transferred to the retained earnings in the consolidated financial statement. The Group accounted for the equity investment in Zhidu Technology as an equity instrument designated at FVOCI. The fair value of the shares of Zhidu Technology as at 31 December 2018 and 30 June 2019 was RMB49,571,000 and RMB52,353,000, respectively.

16. TRADE RECEIVABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade receivables	85,135	98,679
Provision for expected credit losses	(972)	(306)
	84,163	98,373

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.

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16. TRADE RECEIVABLES (continued)

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 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within 90 days	68,759	85,056
91 to 180 days	12,553	9,688
181 days to 1 year	2,219	2,742
1 year to 2 years	632	887
	84,163	98,373

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 are determined as follows:

30 June 2019 (Unaudited)	Amount RMB'000	Expected credit loss rate	Impairment RMB'000
Trade receivables aged:			
Within 1 year	84,164	0.75%	633
1 to 2 years	703	10.06%	71
2 to 3 years	268	100.0%	268
	85,135		972
31 December 2018 (Audited)	Amount RMB'000	Expected credit loss rate	Impairment RMB'000
Trade receivables aged:			
Within 1 year	97,747	0.27%	261
1 to 2 years	932	4.83%	45
	98,679		306

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16. TRADE RECEIVABLES (continued)

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

	Note	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
At beginning of year		(306)	(1,328)
Provision for expected credit losses	6	(666)	(321)
Write-off		—	1,343
At the end of year		(972)	(306)

17. CONTRACT COSTS

Contract costs are mainly related to contract acquisition costs. Management expects that incremental relevant distribution service fees paid as a result of obtaining customer contracts are recoverable, which meet the contract acquisition cost criteria when the Group considers the Paying Player as its customers. The Group has therefore capitalised them as contract costs in the amount of RMB10,076,000 and RMB19,683,000 as at 30 June 2019 and 31 December 2018.

Capitalised relevant service fees are amortised when the related revenue is recognised, which is consistent with the pattern of recognition of the associated revenue. The amount of amortisation was RMB119,666,000 and RMB297,506,000 for each of the reporting periods and there was no impairment loss in relation to the costs capitalised.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Wealth management products issued by licensed banks, at fair value	192,291	131,915
	192,291	131,915

Wealth management products were denominated in RMB, with an expected rate of return ranging from 3.00% to 4.50% and 3.00% to 5.22% per annum for the six months ended 30 June 2019 and year ended 31 December 2018, 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.

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19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Non-current portion		
Deposits and other receivables — non current	5,000	5,000
Current portion		
Prepayments	6,560	5,925
Deposits and other receivables	7,116	7,590
	13,676	13,515

As at the end of each of the reporting periods, the amounts due from non-trade debtors were unsecured and interest-free. None of the above assets was either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The credit exposures of the above balances have not had significantly increase in credit risk since initial recognition, the Group is required to provide for 12-month expected credit losses. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward looking macroeconomic data. During the reporting periods, the Group estimated that the expected loss rate for the above receivables is insignificant.

20. CASH AND CASH EQUIVALENTS

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Time deposits with original maturity of less than three months	87,966	—
Unrestricted bank balances and cash	75,419	11,052
	163,385	11,052
Denominated in:		
RMB	37,404	8,244
HK\$	125,627	2,552
US\$	354	256

The cash and bank balances of the Group denominated in RMB amounted to RMB37,404,000 and RMB8,244,000 as at 30 June 2019 and 31 December 2018, respectively. The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

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21. 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 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within 3 months	13,482	8,406
3 to 6 months	3,460	4,311
6 months to 1 year	1,796	4,085
1 year to 2 years	1,782	278
2 years to 3 years	34	—
	20,554	17,080

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

22. CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 30 June 2019 and 31 December 2018 and will be expected to be recognised within one year:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Online game revenue	16,209	30,305

Deferred online game revenue primarily consists of the unamortized revenue from sales of game beans and other virtual items for online games, where there is still an implied obligation to be provided by the Group.

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22. CONTRACT LIABILITIES (continued)**(1) Revenue recognized in relation to contract liabilities**

The following table shows how much of the revenue recognized in the reporting periods relates to carried-forward contract liabilities.

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Revenue recognized that was included in the balance of contract liabilities at the beginning of the year		
Online game revenue	30,305	42,278

(2) Unsatisfied contracts

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Expected to be recognized within one year		
Online game revenue	16,209	30,305

23. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Salary and welfare payables	16,825	18,071
Other tax payables	1,175	4,530
Other payables	1,360	720
Lease liabilities	2,073	—
	21,433	23,321

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24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the reporting periods are as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Deferred tax assets and liabilities:		
At 1 January	(7,287)	(11,775)
Deferred tax credited to profit or loss during the year (note 10)	(1,103)	1,901
Deferred tax charged to other comprehensive income	(724)	2,587
At 31 December	(9,114)	(7,287)
	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Deferred tax assets		
Tax loss (note 10)	1,094	2,234
Fair value adjustments arising from equity instruments designated at FVOCI	40	69
Provision for accounts receivable (note 10)	487	421
	1,621	2,724
	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Deferred tax liabilities		
Fair value adjustments arising from equity instruments designated at FVOCI	10,621	9,926
Fair value adjustment arising from wealth management products (note 10)	114	85
	10,735	10,011
	(9,114)	(7,287)

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24. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Net deferred tax assets recognised in the consolidated statement of financial position	453	459
Net deferred tax liabilities recognised in the consolidated statement of financial position	(9,567)	(7,746)
	(9,114)	(7,287)

25. SHARE CAPITAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 28 August 2018 with authorized share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each, of which all the shares were issued and allotted and fully paid.

The Company had received an undertaking from certain then shareholders of Zen-Game Shenzhen, pursuant to which, the shareholders undertake to enter into the structured contracts with the Company and/or any of its subsidiaries such that Zen-Game Shenzhen shall become controlled by the Company as a variable interest entity in consideration for the Company's agreement to crediting the shares credited as fully paid at par.

Shares

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Authorized: 50,000,000,000 ordinary shares of HK\$0.01 each as at 30 June 2019 (2018: 50,000,000,000 ordinary shares)	440,000	440,000
Issued and fully paid: 1,021,672,000 ordinary shares as at 30 June 2019 (2018: 38,000,000 ordinary shares)	2,064	334

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25. SHARE CAPITAL (continued)

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

	Notes	Number of shares in issue	Share capital RMB'000
At 31 December 2018 (Audited) and 1 January 2019		38,000,000	334
Capitalisation Issue	(a)	782,000,000	—
Global offering (excluding shares issued under the over-allotment option)	(b)	180,000,000	1,540
Over-allotment	(c)	21,672,000	190
At 30 June 2019 (Unaudited)		1,021,672,000	2,064

- (a) 782,000,000 shares were allotted and issued to the shareholders of the Company immediately prior to the listing of the Company's shares on 16 April 2019 by way of capitalisation.
- (b) On 16 April 2019, the Company was listed on the Main Board of Stock Exchange with the stock code 2660 and made an offering of 180,000,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK\$1.23 per share.
- (c) The over-allotment option was partially exercised and the Company allotted and issued 21,672,000 additional shares, representing approximately 12.04% of the total number of the offer shares initially available under the global offering, at HK\$1.23 per share on 15 May 2019.

26. SHARE-BASED PAYMENT

Hezhong Century Technology Company Limited ("Hezhong") is a limited liability company controlled by Mr. Ye Sheng and Mr. Yang Min incorporated in the PRC since May 2012 and has become a shareholder of Zen-Game Shenzhen since June 2012. Except for holding an equity interest in Zen-Game Shenzhen, Hezhong did not conduct any other business. On 1 June 2016 and 1 June 2018, Hezhong granted 3,502,850 and 617,000 restricted shares units ("RSUs"), representing 2,980,300 underlying shares of and 5.52% equity interest in Zen-Game Shenzhen to the senior management and key employees ("Grantees") of the Group to retain them for the continuing operation and development of the Group. The RSUs enabled the Grantees to indirectly entitle to the ownership of Zen-Game Shenzhen through their respective equity interests in Hezhong.

The vesting period of the RSUs is determined to be two years with 50% each which will be vested at the end of each anniversary, or four years with 25% each which will be vested at the end of each anniversary, or six years with 10% each which will be vested at rear of the initial two anniversaries and each of 20% of at the end of the following four anniversaries.

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26. SHARE-BASED PAYMENT (continued)**Movements during the year**

Movements in the number of shares held for the Scheme and awarded shares for the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2019 are as follows:

	Number of shares held for the Share Award Scheme	Number of awarded shares	Total
At 1 January 2016	—	—	—
Granted	3,502,850	—	3,502,850
Awarded	—	—	—
At 31 December 2016	3,502,850	—	3,502,850
Awarded	(630,463)	630,463	—
At 31 December 2017	2,872,387	630,463	3,502,850
Granted	617,000	—	617,000
Awarded	(630,462)	630,462	—
At 31 December 2018	2,858,925	1,260,925	4,119,850
Awarded	(1,056,213)	1,056,213	—
At 30 June 2019	1,802,712	2,317,138	4,119,850

As part of the Restructuring, the Company issued shares to Hezhong Power Limited which is the nominee of trust and beneficially owned by the Grantees in exchange for controlling Hezhong's equity interest in Zen-Game Shenzhen. The percentage of the equity interest held by Hezhong Power Limited in the Company is identical to the percentage of the equity interest in Zen-Game Shenzhen indirectly held by the Grantees through Hezhong. There was no change in any other vesting conditions. There was no significant incremental value noted before and after the modification given the Zen-Game Shenzhen has carried out substantially all of the businesses owned by the Group.

The expense recognised for employee services received during the reporting periods is shown in the following table:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Share-based payment expenses	4,448	3,211

The directors of the Company appointed an independent valuer, Value Link Group, to estimate the fair values of the above RSUs as at the respective grant dates.

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26. SHARE-BASED PAYMENT (continued)

Movements during the year (continued)

The following table lists the key inputs to the model used for the valuation of restricted shares granted on each grant date:

	Granted on 1 June 2016	Granted on 1 June 2018
Weighted average cost of capital (%)	24	22
Discount for lack of marketability (%)	27	15
Weighted average share price (RMB per share)	5.06	14.97
Model used	Discounted cash flow method	Discounted cash flow method

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the interim condensed consolidated statement of changes in equity.

(a) Capital reserve

The capital reserve of the Group represents the difference between the aggregate of the paid-up share capital of the subsidiaries, the consideration paid by the Group for the business combination under common control and acquisition of a non-controlling shareholder.

On 27 May 2015, Zen-Game Shenzhen acquired 100% equity investments of International Mobile with a consideration of HK\$2,000,000 from Mr. Ye Sheng and Mr. Yang Min who held 26% and 74% of the shares of International Mobile respectively. Pursuant to the acting in concert agreements with a term of three years signed by Mr. Ye Sheng and Mr. Yang Min dated 30 August 2012 and 30 August 2015, Mr. Ye Sheng and Mr. Yang Min agreed to act in concert in respect of the exercise of voting rights as shareholders of Zen-Game Shenzhen. As a result, Mr. Ye Sheng and Mr. Yang Min who held more than 50% shares of Zen-Game Shenzhen in aggregate can control Zen-Game Shenzhen on a collective basis. Therefore, the acquisition of International Mobile by Zen-Game Shenzhen was accounted for as a business combination under common control of Mr. Ye Sheng and Mr. Yang Min.

On 1 January 2015, Zen-Game Shenzhen acquired a 23% equity investment of Chanyou Huyu from the non-controlling shareholder with a consideration of RMB1. Upon completion of this equity transfer, it became a wholly-owned subsidiary of Zen-Game Shenzhen.

(b) Statutory surplus reserve

In accordance with the Company Law of the PRC and the respective articles of association of the group companies, each of the companies that is domiciled in the PRC is required to allocate 10% of its profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

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27. RESERVES (continued)**(b) Statutory surplus reserve** (continued)

The statutory surplus reserve is non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

(c) Fair value reserve of financial assets at FVOCI

The fair value reserve of financial assets at FVOCI comprises all revaluation changes arising from the equity instruments designated at FVOCI.

(d) Share-based payment reserve

The share-based payment reserve comprises the fair value of the share-based payment granted and exercised, as further explained in Note 26 to the Historical Financial Information.

(e) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies not using RMB as functional currencies. The reserve is dealt with in accordance with the accounting policy set out in Note 2.4 to the Historical Financial Information in Appendix 1 of the Prospectus.

28. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS**(a) Changes in liabilities arising from financial activities:**

	Interest-bearing bank borrowings RMB'000	Interest payable RMB'000	Proceeds from issue of shares RMB'000	Share issue expenses RMB'000	Principal portion of lease payments RMB'000
At 1 January 2018 (Audited)	7,600	—	—	—	—
Changes from financing cash flows	10,000	(128)	—	—	—
Interest accrued	—	128	—	—	—
At 30 June 2018 (Unaudited)	17,600	—	—	—	—
At 31 December 2018 and 1 January 2019 (Audited)	—	—	—	—	—
Changes from financing cash flows	—	(46)	(213,641)	(23,666)	(1,151)
Dividend declared	—	—	—	—	—
Interest accrued	—	46	—	—	—
Proceeds from issue of shares	—	—	213,641	—	—
Share issue expenses	—	—	—	23,666	—
Principal portion of lease payments	—	—	—	—	1,151
At 30 June 2019 (Unaudited)	—	—	—	—	—

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29. COMMITMENTS

The Group had not any capital commitments at the end of the reporting period.

30. RELATED PARTY TRANSACTIONS

Name of related party	Relationship with the Group
-----------------------	-----------------------------

Uniques Digital Company Limited ("Uniques Digital")	Associate
Mr. Ye Sheng	The chief executive director

(a) Outstanding balances with a related party

As disclosed in the statements of financial position, the Group had outstanding balances which are trade in nature with a related party at 30 June 2019 and 31 December 2018.

Amounts due from related party

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Uniques Digital	2,900	2,900
Provision for expected credit losses	(2,900)	(2,900)
	—	—

The amounts due from a related party are unsecured, interest-free and repayable on demand.

In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward looking macroeconomic data. Due to the fact that Uniques Digital was in financial difficulties, at the end of 31 December 2017, the credit exposures has had a significant increase in credit risk since initial recognition on an individual basis. A loss allowance is made for lifetime expected credit losses. RMB2,900,000 was expected to be unrecoverable.

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30. RELATED PARTY TRANSACTIONS (continued)**(b) Compensation of key management personnel of the Group:**

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	2,029	1,938
Equity-settled share-based payment expense	3,210	2,137
Pension scheme contributions	129	50
	5,368	4,125

Further details of directors' and the chief executive's emoluments are included in note 7.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of each of the reporting periods are as follows:

30 June 2019 (Unaudited)

Financial assets	Financial assets at amortised cost	Financial assets at FVPL	Financial assets at FVOCI	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Equity instruments designated at FVOCI	—	—	54,692	54,692
Trade receivables	84,163	—	—	84,163
Financial assets included in prepayments, deposits and other receivables	13,676	—	—	13,676
Financial assets included in long-term prepayments, deposits and other receivables	5,000	—	—	5,000
Financial assets at fair value through profit or loss	—	192,291	—	192,291
Time deposits with original maturity of over three months	80,373	—	—	80,373
Cash and cash equivalents	163,385	—	—	163,385
	346,597	192,291	54,692	593,580

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31. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

30 June 2019 (Unaudited) (continued)

Financial liabilities	Financial liabilities at amortised cost RMB'000
Trade payables	20,554
Financial liabilities included in other payables and accruals	20,258
Financial liabilities included in lease liabilities	3,034
	43,846

31 December 2018 (Audited)

Financial assets	Financial assets at amortised cost RMB'000	Financial assets at FVPL RMB'000	Financial assets at FVOCI RMB'000	Total RMB'000
Equity instruments designated at FVOCI	—	—	51,796	51,796
Trade receivables	98,373	—	—	98,373
Financial assets included in prepayments, deposits and other receivables	13,515	—	—	13,515
Financial assets included in long-term prepayments, deposits and other receivables	5,000	—	—	5,000
Financial assets at fair value through profit or loss	—	131,915	—	131,915
Cash and cash equivalents	11,052	—	—	11,052
	127,940	131,915	51,796	311,651

Financial liabilities	Financial liabilities at amortised cost RMB'000
Trade payables	17,080
Financial liabilities included in other payables and accruals	18,791
	35,871

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32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 30 June 2019 and 31 December 2018, the fair values of the Group's financial assets or liabilities approximated to their respective carrying amounts.

Management has assessed that the carrying amounts of cash and cash equivalents, trade receivables, amounts due from a related party, financial assets included in prepayments, deposits and other receivables, trade payables, amounts due to related parties, financial liabilities included in other payables and accruals and interest-bearing bank borrowings reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) Financial instruments in level 1

The fair value of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on the quoted market prices (level 1: quoted price (unadjusted) in active markets) without deduction for transaction costs.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

The fair values of wealth management products have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including the expected future interest return on maturity of the wealth management products. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in the consolidated statements of profit or loss, are reasonable, and that they were the most appropriate values at the end of each of the reporting periods.

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32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

(c) Financial instruments in level 3

Level 3 instruments of the Group's assets are equity investments in unlisted companies and a listed company.

The fair values of the equity investments in unlisted companies have been estimated using the market approach. Major assumptions used in the valuation include discount of lack of marketability, P/E ratio, etc. The fair value of the equity investment in the listed company has been estimated using the closing price quoted in the active stock market discounted by the percentage of the lack of marketability during the lockup period of three years after the exchange date as further described in note 15 to the Historical Financial Information.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019 (Unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity instruments designated at FVOCI:				
Listed equity investment	52,353	—	—	52,353
Non-listed equity investment	—	—	2,339	2,339
Financial assets at fair value through profit or loss	—	192,291	—	192,291
	52,353	192,291	2,339	246,983

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32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)**Fair value hierarchy** (continued)

As at 31 December 2018 (Audited)

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using		Total RMB'000
		Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity instruments designated at FVOCI:				
Listed equity investment	—	—	49,571	49,571
Non-listed equity investment	—	—	2,225	2,225
Financial assets at fair value through profit or loss	—	131,915	—	131,915
	—	131,915	51,796	183,711

During the reporting periods, there were no transfers of fair value measurements between Level 1 and Level 2. The movements in fair value measurements within Level 3 during the reporting periods are as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Equity instruments designated at FVOCI:		
At 1 January	51,796	60,646
Total gains recognised in other comprehensive income	2,896	(10,350)
Purchases	—	1,500
Disposals	—	—
At 30 June & 31 December	54,692	51,796

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32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Below is a summary of significant unobservable inputs in recurring Level 3 to the valuation of financial instruments together with a quantitative sensitivity analysis at the end of each of the reporting periods:

	Valuation technique	Significant unobservable input	Range of inputs	
			As at 30 June 2019	As at 31 December 2018
Equity instruments designated at FVOCI:				
Listed equity investment	Market approach	Discount for lack of marketability %	NA	10
Non-listed equity investment	Market approach	Discount for lack of marketability %	30	30
		Price-Earnings ratio ("P/E ratio")	—	14.2
		Price/Sales ratio ("P/S ratio")	1.64	—

The fair value of equity instruments designated at FVOCI is affected by changes in the discount for lack of marketability, P/E ratio and P/S ratio. If the discount for lack of marketability had increased/decreased by 10% with all other variables held constant, the fair value of equity instruments designated at FVOCI for the six months ended 30 June 2019 and year ended 31 December 2018 would have been approximately RMB234,000 and RMB5,180,000 lower/higher, respectively.

If the P/E ratio and P/S ratio had increased/decreased by 10% with all other variables held constant, the fair value of equity instruments designated at FVOCI for the six months ended 30 June 2019 and year ended 31 December 2018 would have been approximately RMB234,000 and RMB222,500 higher/lower, respectively.

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, equity instruments designated at FVOCI and cash and cash equivalents. The Group has various other financial assets and liabilities such as trade receivables, other receivables, trade payables and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, trade receivables, and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades mainly with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by product type.

The following table demonstrates the concentrations of credit risk of the total trade receivables which were due from the Group's five largest distribution platforms or payment vendors.

	As at 30 June 2019 % (Unaudited)	As at 31 December 2018 %
		(Audited)
Percentage of total trade receivables due from: Group's five largest trade receivables	68.7	73.0

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 16 to the Historical Financial Information.

The Group has applied the simplified approach to provide for impairment for ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for impairment of all trade receivables and contract assets. To measure the ECLs, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The ECLs also incorporate forward-looking information. Management estimated that the expected credit loss rate for the Group's trade receivables are 1.14% and 0.3% as at 30 June 2019 and 31 December 2018, respectively.

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operation and bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of each of the reporting periods, based on the contractual undiscounted payments, was as follows:

	As at 30 June 2019 (Unaudited)			Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	
Trade payables	16,942	3,612	—	20,554
Financial instruments included in other payables and accruals	20,258	—	—	20,258
	37,200	3,612	—	40,812

	As at 31 December 2018 (Audited)			Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	
Trade payables	12,717	4,363	—	17,080
Financial instruments included in other payables and accruals	18,791	—	—	18,791
	31,508	4,363	—	35,871

Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

The directors of the Company review the asset-liability ratio, which is total assets divided by total liability, on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the raising of new debts as well as the redemption of the existing debts, and manage the asset-liability ratios. The Group's overall strategy remained unchanged during the reporting periods.

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Capital management** (continued)

The asset-liability ratios as at the end of each of the reporting periods are as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Total assets	612,811	334,382
Total liabilities	74,954	81,912
Asset-liability ratio	12%	24%

34. EVENTS AFTER THE REPORTING PERIOD

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2019.

DEFINITIONS

“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” or “Board of Directors”	the board of Directors of our Company
“China” or “PRC”	the People’s Republic of China excluding for the purpose of this interim report, Hong Kong, the Macau Special Administrative Region 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
“Foreign Investment Law”	the Foreign Investment Law of the PRC (中華人民共和國外商投資法), as enacted by the thirteenth National People’s Congress on 15 March 2019 which will be effective on 1 January 2020
“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
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Date”	16 April 2019, the date on which the Shares were listed on the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“MAU”	monthly active users

“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“Model Code”	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“MPU”	monthly playing users
“Prospectus”	the prospectus issued by the Company dated 3 April 2019
“RMB”	Renminbi, the lawful currency for the time being of the PRC
“RSU(s)”	the restricted share unit(s) to be granted under the RSU Scheme
“RSU Nominee”	Hezhong Power Limited, a limited liability company incorporated in the BVI and a wholly-owned subsidiary of Core Trust which will hold the Shares underlying the RSUs for the benefit of eligible participants pursuant to the RSU Scheme
“RSU Scheme”	the restricted share unit scheme approved and adopted by a resolution of the Board dated 9 October 2018, the principal terms of which are summarized under the section headed “Statutory and General Information – F. RSU Scheme and Share Option Scheme – 1. RSU Scheme” in Appendix IV to the Prospectus
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of our Company
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 28 March 2019, the principal terms of which are summarized under the section headed “Statutory and General Information – F. RSU Scheme and Share Option Scheme – 2. Share Option Scheme” in Appendix IV to the prospectus
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

Definitions

“Structured Contracts”	collectively, the Exclusive Consultancy and Technical Service Agreement, the IP License Agreement, the Exclusive Call Option Agreement, the Share Pledge Agreement, the Shareholders’ Rights Entrustment Agreement, the Shareholders’ Powers of Attorney, the Spouse Undertakings and the Loan Agreement, details of which are set out in the section headed “Structured Contracts” in the Prospectus
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial Shareholder(s)”	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), a company established as a limited liability company under the laws of the PRC on 20 July 2010 and converted into a joint stock company with limited liability in September 2015 and an indirect wholly-owned subsidiary of the Company
“%”	per cent

* If there is any inconsistency between the Chinese names of companies established in the PRC and their English translations, the Chinese names shall prevail. The English translations of companies marked with “*” are for identification purpose only.