

Key Points of CMGE 2022

Financial Results

- On March 22, China Mobile Games and Entertainment Group Limited (CMGE) released its annual financial report for 2022. According to the report, CMGE's total revenue for the year was 2.714 billion yuan, down by 31.4% from the previous year. The company also posted a loss of 21.69 million yuan for the year. The overseas business revenue amounted to 36.12 million yuan, representing 13.3 percent of the total revenue. Gross profit margin increased from 37.2 percent in the previous year to 41 percent.

- **Financial Status**

- Some projects experienced varying degrees of delay due to the impact of Covid-19 and game license approval suspension, and the launch of new games also incurred significant challenges. As of December 31, 2022, CMGE reported total revenue for the year was 2.714 billion yuan, representing a 31.4 percent decrease compared to 2021. The company also recorded a loss of 21.69 million yuan for the year, primarily due to the poor performance of some companies invested in by CMGE. Of the total loss, 19.34 million was attributed to impairments on investments, while 13.7 million to impairments on non-operating financial activities and contracts. Excluding the impact of the aforementioned non-operating impairments and other factors, the company's operating business maintained a consistent level of profitability throughout the year.

- **The Global Publishing Business of IP-based Games**

Multiple new games performed exceptionally well in the domestic market, while the overseas market saw a stable growth

- As of December 31, 2022, the overseas business revenue amounted to 36.12 million yuan, representing 13.3 percent of the total revenue, while the publishing business revenue totalled 211.4 million yuan. Self-developed games generated a revenue of 45.3 million yuan and licensing Business generated a revenue of 14.72 million yuan.
- As of December 31, 2022, the number of newly registered users amounted to 84.61 million. The average number of monthly paying users was 1.12 million, and the

total number of monthly active users was 15.52 million.

- In 2022, CMGE demonstrated its commitment to research and development by providing consistent investment. The R&D team grew to 650 personnel, and the R&D expenditure increased to 52.67 million yuan, presenting a year-on-year increase of 69.5%.
- CMGE has been committed to fostering a highly competitive pool of IP-based games. In 2022, newly authorized IP games included the Disney All-Star series, Fights Break Sphere, and Ultraman. As of December 31, 2022, CMGE possessed 64 authorized IPs and 68 self-owned IPs.
- **Rakshasa Street: The Chosen One: The game generated a revenue of more than 100 million yuan in the first week after its release. Additionally, multiple games made their way to the iOS and Google Popular Games List and Top Free Games List.**
- Rakshasa Street: The Chosen One, which was released in December 2022, has been downloaded by more than 5 million people. On the first day of its launch, it attracted more than 2 million newly registered players and generated a revenue of more than 100 million yuan in its first week. In the first month of its launch, it topped the iOS Free Games List in China and ranked 4th in the Popular Games List.
- The King of Fighters: All Stars, which is a self-developed game by CMGE, was released in November 2022 in China and topped the iOS Free Games List in China.
- A New Record of a Mortal's Journey to Immortality went online in January 2022 and was recommended by Mobile Hardcore Alliance (MHA).
- Ultraman: The Gathering, which was released in January 2022, was pre-ordered by millions of people in the first month after the pre-order started. In the first month after its release, it ranked 2nd on the iOS Free Games List in China.
- The New Legend of Condor Heroes: Iron Blood and Loyal Heart was released in Thailand, Vietnam, and Indonesia in January, June, and July, respectively. In the first month after its release, it achieved notable rankings: it came 8th on Thailand's iOS Popular Games List and 7th on Thailand's Google Popular Games List, 1st on Vietnam's iOS Free Games List, and 5th on Indonesia's iOS Popular Games List.
- Dynasty Warriors: Hegemony was released in Hong Kong, Macao, and Taiwan regions of China, Singapore, and Malaysia in January 2022. In the first month after its release, it achieved notable rankings: it ranked 1st on the iOS and Google Free Games Lists of Hong Kong and Macao and Singapore, and 2nd on Taiwan's iOS Popular Games List. On August 10, 2022, it was released in Vietnam, Thailand, the Philippines, and Indonesia in Southeast Asia. After its release, it ranked 1st on Vietnam's and the Philippines' iOS Free Games List and 3rd on Vietnam's iOS Free Games List.
- Soul Land-God of Battle Arise was released in Vietnam in March 2022. In the first month after its release, it ranked 1st and 4th on Vietnam's iOS Free Games List

and Top Free Games, respectively.

- The King of Fighters: All Stars, independently developed and published by CMGE, was released in Hong Kong, Macao, and Taiwan regions of China, Singapore, and Malaysia in February 2023. In the first month after its release, it achieved impressive results, topping the iOS and Google Free Games Lists of all five regions and countries. It also ranked 5th on the Popular Games Lists of these regions and countries.
- Cultivation Fantasy was released in November 2022 in Hong Kong, Macao, and Taiwan regions of China, and ranked 3rd on Taiwan's iOS Free Games List in the first month after its release.
- Consistent revenue and profits were attributed to the games that were released, including the independently developed and published titles such as The New Legend of Condor Heroes: Iron Blood and Loyal Heart and Soul Land: God of Battle Arise, as well as the jointly-developed game, One Piece: The Voyage.

- **Review of Independent Game Development:**

CMGE made significant headway in independent game development, with a variety of products launched and key projects progressing well.

- The Group's revenue was consistently boosted by independently developed games such as Thunder Empire, The Legend of Dragon City, and board games (operated online prior to 2022), which underwent ongoing upgrades and continued to generate revenue for the company.
- CMGE's wholly-owned subsidiary Wenmai Interactive has completed the development of World of Castellan, which obtained its game license in February 2023 and is currently in its final testing stage. The game is expected to be published by 37 Interactive Entertainment in the first half of 2023.
- CMGE's wholly-owned subsidiary, Beijing Softstar, rolled out its independently developed game, The Legend of Sword and Fairy 7, in the second half of 2021. As of December 31, 2022, the game had sold over 510,000 PC copies and over 210,000 copies on the cloud version. After its release on consoles was released in Hong Kong, Macao, Taiwan, Southeast Asia, Japan, and North America in August 2022, the game sold an additional 70,000 copies and more (as of December 31, 2022).
- Beijing Softstar's self-developed game, RichMan 10, achieved global sales of over 141,000 copies worldwide as of December 31, 2022. The game was released on Xbox One, Xbox Series S, Xbox Series X, PlayStation 4, and PlayStation 5 in July 2022, followed by its release on Steam and Switch in October 2022.
- In the first half of 2022, CMGE's wholly-owned subsidiary, Shanghai Softstar, began development on The Legend of Sword and Fairy 4 Remake. The project is currently in progress.
- In the realm of e-Sports, Shanghai Continents Sport Technology, a company invested in and held by CMGE, has completed the development of Code: Street

Basketball 3V3 and has applied for license for the game. Continents' core team members are composed of former Chinese and Korean members of Code: Street Basketball 3V3, including Steven Chao, known as "the father of Code: Street Basketball 3V3." The game is currently in its testing stage and is expected to be released in 2023.

- **Review of Self-developed IP-based games**

Key projects related to Sword and Fairy IP were successfully implemented, contributing to its continued popularity in 2023.

- CMGE has developed a comprehensive plan for the Sword and Fairy IP, encompassing various areas such as gaming, television series and films, animations, literature, music, derivatives, and location-based entertainment. Additionally, CMGE plans to work with leading partners to expand the Sword and Fairy IP universe.
- Games: In the first half of 2023, CMGE launched Sword and Fairy: Wen Qing, a card mobile game that has obtained a game license. Additionally, CMGE partnered with Kingnet to develop The Legend of Sword and Fairy: A New Start, a mobile idle game that has also obtained a game license and is scheduled for release in 2023. Furthermore, the MMORPG mobile game, The Legend of Sword and Fairy•Yuan Qi, which is jointly developed by CMGE and Lingxi Games, has reached its final testing stage. On July 15, 2022, CMGE collaborated with Immersive World to release the VR version of The Legend of Sword and Fairy 1, providing players with a fresh and immersive experience. In November 2022, CMGE announced a strategic partnership with DPVR and PICO to expand the Sword and Fairy IP into the VR and XR market. The VR version of multiple Sword and Fairy IP games will run smoothly on DPVR's new product E4, which is specially designed for games. Moreover, CMGE will also release The Legend of Sword and Fairy VR versions on PICO VR platforms, following their partnership with the ByteDance-affiliated XR technology company.
- Televisions and films: TV series of The Legend of Sword and Fairy 1 cooperated with Tencent Penguin Pictures and The Legend of Sword and Fairy 4 cooperated with IQIYI have both finished shooting in 2022 and is expected to be released in 2023. CMGE joined hands with Shandong Film and TV Media Group on the production of The Legend of Sword and Fairy 6, which finished filming in the second half of 2022. CMGE and Tencent Penguin Pictures are set to deepen their partnership on the production of The Legend of Sword and Fairy 3 TV series. Moving forward, CMGE plans to adapt other Sword and Fairy works into TV series, including The Legend of Sword and Fairy 5: Prequel and The Legend of Sword and Fairy 7. Animations and novels: CMGE is collaborating with Tencent Penguin Pictures to produce animated TV series for The Legend of Sword and Fairy 1 and The Legend of Sword and Fairy 3. The Legend of Sword and Fairy 3 will be adapted into an animated TV series produced by Penguin Pictures and animated by YanYang Culture. The series is set to be released on Tencent Video and Jiguang TV. In August 2022, the first concept trailer for The Legend of Sword and Fairy 3 was released, teasing fans with a glimpse of the upcoming animation. The Group has

entered into a partnership with Bilibili for the animation of The Legend of Sword and Fairy 4. In July 2022, CMGE celebrated the 27th anniversary of The Legend of Sword and Fairy with a livestreaming event on Weibo, bringing a vibrant audio-visual experience to players. In November 2022, CMGE partnered with Moli, a studio of CITIC Press Group, to publish the first physical book in the Sword and Fairy series, The Legend of Sword and Fairy 4.

- In April 2022, CMGE teamed up with POP MART to roll out the first-ever Sword and Fairy blind box garage kit featuring traditional Chinese festivals. The second series inspired by traditional Chinese instruments will also be released. In addition to the collaboration with POP MART, CMGE has partnered with other leading companies, studios, and brands such as Good Smile Arts, Infinity Studio, and Bandai Namco to release Sword and Fairy-inspired merchandise. These include nendoroids, statues, garage kits featuring popular characters like Long Kui/Red, Long Kui/Blue, Lin Yueru, Li Xiaoyao, and female weapon models. The company has also announced plans to release more models in the future, including garage kits of Han Lingsha and Jiu Jianxian and the Statue of Yue Qingshu. In January 2022, the Sword and Fairy series digital collections were launched on the One Art platform and achieved enormous success, with 40,000 NFTs character badges sold out in just one second. In April 2022, an additional 80,000 copies of the Sword and Fairy digital collections were released on Alifish, an e-commerce platform, as the skin of Alipay's payment QR code. In May 2022, CMGE released more digital collections on Tencent's Huanhe platform, including 24240 NFTs of Sword and Fairy swords. Around 190,000 people competed for pre-orders, and all the NFT sold out within just one second following their release.
- The location-based entertainment project, Xianjian Town in Hangzhou Xixi National Wetland Park, is scheduled to open to the public in 2023.

- **Review of Chinese-style Metaverse Platform**

Sword and Fairy World is an upcoming open-world Xianxia game that takes place in a metaverse setting. The game is currently under development and expected to be released with its game license in 2023.

- It has been in independent development by CMGE for over two years. It has applied for a game license in the second half of 2022 and is expected to obtain its game license and be ready for the public in 2023. It is the first open-world Xianxia game that takes place in a metaverse setting. Sword and Fairy: World boasts eight unique selling points, including 24-hour lighting, a dynamic weather system, realistic water flow, smart AI NPC, a seamless map system, high-definition modelling, multi-dimensional face and appearance customization, simultaneous playing, and UGC creation tools. In addition, the game offers cross-platform play across mobile, PC, cloud, consoles, and VR devices, providing an immersive and seamless gaming experience regardless of time and place.
- CMGE's studio division, Starry Sky Studio, is an experienced developer of open-world RPGs and a user of VR technologies. They have contributed to providing

unique gaming experiences to players by combining their expertise with the UGC creation tools and socializing features in Sword and Fairy World. In Sword and Fairy World, brands will be transformed into virtual merchants, providing players with a realistic buying experience. Players can create and customize their virtual identities to their liking and immerse themselves in the game's evolving world. They can live, play, and socialize according to their principles and beliefs, and explore this World at their own pace.

- **The Global Publishing Business of IP-based Games in 2023**

- Ultraman: The Gathering was released in January 2023 in China and topped the iOS Free Games List in China in the first month following its release.
- Cultivation Fantasy has obtained a game license and is scheduled for release in the first half of 2023.
- The development team behind The New Legend of Condor Heroes: Iron Blood and Loyal Heart is currently working on Sword and Fairy: Wen Qing, which has obtained a game license and is expected to be released in the first half of 2023.
- The mobile game The Legend of Spacewalker: Dawn, which is an extension of China Literature's popular IP-based game, The Legend of Spacewalker, has received a game license and is expected to be released in the first half of 2023.
- In addition to games that have obtained a game license, there are several new games expected to be released in 2023. These include Soul Land: Shrek Academy, an MMORPG game based on the Soul Land IP, an RPG mobile card game adapted from Shura Chat Group, and a mobile simulation game adapted from Country Love, a popular TV series.
- Rakshasa Street: The Chosen One is scheduled for release in Hong Kong, Macao, and Taiwan regions of China in the second half of 2023.
- Soul Land-God of Battle Arise is scheduled to be released in the first half of 2023 in Korea, Europe, and America.
- Dynasty Warriors: Hegemony is scheduled to be released in 2023 in Japan, Europe, and America.
- New games are also scheduled to be released in Hong Kong, Macao, and Taiwan regions of China, including Sword and Fairy: Wen Qing, New Romance of the Three Kingdoms: The Legend of Cao Cao, Don't Say Goodnight to Fairytales, the Shura Group, and Code: FA.

- **Independent Game Development in 2023**

- CMGE's wholly-owned subsidiary Wenmai Interactive has completed the development of The World of Heroes, which obtained its game license in February 2023 and is currently in its final testing stage. The game is expected to be published by 37 Interactive Entertainment in the first half of 2023.

- In the first half of 2022, CMGE's wholly-owned subsidiary, Shanghai Softstar, began development on The Legend of Sword and Fairy 4: Remake. The project is currently in progress.
- Shanghai Continents Sport Technology, a company invested in and held by CMGE, has recently completed the development of their new game temporarily titled Code: Street Basketball 3V3 for PC, and has applied for a license for the game. The game is expected to be released in 2023.
- Games such as Thunder Empire, The Legend of Dragon City, and board games will undergo ongoing upgrades and continue to generate revenue for the company.

• **Self-developed IP-based games in 2023**

- The Sword and Fairy Alliance, a community platform that integrates person space, content creation, monetization, and socializing, will open to the public in the first half of 2023.
- The TV series adaptations of The Legend of Sword and Fairy 3 and The Legend of Sword and Fairy 4, produced in partnership with Tencent Penguin Pictures and IQIYI, are expected to be released in 2023.
- The Legend of Sword and Fairy 6 that is jointly produced by CMGE and Shandong Film and TV Media Group is expected to be released in 2024.
- The animated TV series adaptation of The Legend of Sword and Fairy 4, produced in partnership with Tencent Penguin Pictures, is expected to be released in 2024. The trailer for the series is expected to be released in 2023.
- The Legend of Sword and Fairy 4 will be an animated TV series in partnership with Bilibili. The production is currently fundraising and is expected to start filming in 2023.
- A Sword and Fairy-related novel, Yao Tai Xue, is expected to be released in 2023.
- Novels adaptations based on popular games such as The Legend of Sword and Fairy 1, The Legend of Sword and Fairy 2, The Legend of Xian Xia, and The Legend of Qionghua are in development.
- The real scene entertainment project, Xianjian Town in Hangzhou Xiqi National Park, is scheduled to open to the public in 2023. Further efforts will be made for its official opening.

• **Chinese-style Metaverse Platform Sword and Fairy World in 2023**

- In February 2023, CMGE announced collaboration with Baidu ERNIE Bot, a knowledge-enhanced model, and became one of its first partners. This partnership will enable Sword and Fairy World to incorporate cutting-edge AI technologies that will facilitate player-NPC interaction and UGC creation. By incorporating AIGC technologies into the game, CMGE aims to provide seamless interaction for players,

allowing them to engage more fully with the game's characters and world. The game is expected to obtain its game license and be scheduled for release in 2023.

- **Integrating ESG principles into corporate governance and embracing social responsibility across multiple dimensions**

- As a global IP game operator, CMGE's business has a relatively low impact on the environment. That being said, it is still important for CMGE to actively engage in corporate social responsibility. This includes integrating environmental protection and management into their business decisions and undertaking philanthropic activities to build a healthy and harmonious online and offline ecosystem. CMGE has developed policies and procedures related to environmental, social, and governance issues, and it has integrated sustainable practices into its daily operations to foster environmental awareness among its staff.

- Additionally, CMGE has been supporting the "Dream Library" project, which promotes reading among the young, and has made steady progress in implementing the project. To date, CMGE has built ten "Dream Libraries."

- On March 10, 2022, CMGE donated 1 million yuan to procure local anti-epidemic materials in support of Hong Kong's fight against the epidemic. The company also coordinated with Hong Kong's social anti-epidemic organizations to ensure the proper distribution of the materials.

- CMGE has implemented various measures to protect minors, including real-name authentication, anti-addiction systems, and age-appropriate reminders for all games published by the company. The company also strictly adheres to the new regulations on anti-addiction restrictions for minors set by the State Press and Publication Administration. Online game services for minors are only available for one hour on Fridays, Saturdays, Sundays, and statutory holidays from 8:00 p.m. to 9:00 p.m. daily, with the aim of promoting the healthy growth of minors.

- All of CMGE's games have measures in place to restrict underage consumption. In 2022, only approximately 0.0029% of CMGE's gaming revenue in China was made by players under the age of 18.

- At the 2022 Game Responsibility Forum hosted by People's Daily Online, the company was recognized as an "Enterprise with Outstanding Social Responsibility Performance" and received the "Model of Social Responsibility Innovation in Guangdong, Hong Kong and Macao Greater Bay Area" award from the China Institute of Corporate Governance and Shenzhen Rural Revitalization and Collaboration Exchange Bureau.