

The Key Points of CMGE's Financial Report for the Year 2023

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- **CMGE Technology Group Limited (hereinafter referred to as "CMGE")** announced its annual performance report for the year 2023 on March 27. The total revenue for 2023 reached 2.606 billion yuan (RMB, same below), a decrease of 4% compared to the previous year. However, after adjustments, the net profit was 5.379 million yuan, turning losses into profits. Several games planned for release by the group successfully obtained licenses. Despite this, the overall business revenue for the year decreased due to some games not meeting revenue expectations and delays in launching new games. Self-developed games will be the core competitiveness that the group continues to invest in for the future, with AIGC technology already applied in game development, effectively reducing development costs.
- **Financial Situation:**
 - As of December 31, 2023, the group's total revenue was 2.606 billion yuan, a decrease of 4% compared to the previous year. However, after adjusting for non-operating expenses, the net profit was 5.379 million yuan, with operating profit reaching 107.4 million yuan after deducting non-operating income and expenses, marking a turnaround from losses to profits.
- **Summary Data:**
 - As of December 31, 2023, revenue from distribution business reached 2.133 billion yuan; revenue from self-developed business reached 215 million yuan; revenue from licensing business reached 257 million yuan.
 - As of December 31, 2023, the total number of new registered users for games reached 92.87 million, a year-on-year increase of 9.9%; the average monthly paying users reached 1.189 million, a year-on-year increase of 5.8%; the average monthly active users reached 17.05 million, a year-on-year increase of 9.9%.
 - Continued increase in R&D investment, with R&D spending reaching 370 million yuan, a year-on-year decrease of 29.7%, attributed to the application of AIGC to reduce costs while increasing efficiency.

- **Global IP Game Distribution Sector:**

- The jointly published "Sword and Fairy: Wen Qing" with Qingci Games was launched in June and showed strong revenue performance. Before its initial release, the game garnered over 8 million pre-registrations across all platforms. In its first month of its launch, it secured the top spot on the free games list of the Apple App Store in Mainland China, Hong Kong, and Macau, as well as ranking third in Taiwan's Apple App Store sales. Additionally, it received a Superstar Recommendation from the Hardcore Alliance.

- The mobile game "My Sword Diary," developed by invested LeFu Interactive, was launched in May and ranked first on the TapTap hot list in its first month. It also achieved the third position on the free games list and twenty-first on the best-selling games list of the Apple App Store in Mainland China.

- The mini-games division has launched a variety of mini-games such as "Sword and Fairy: Jiuzhou" and "Fire at Will" accumulating over 600 million yuan in revenue.

- Released games within the year for the domestic market are "Ultraman: The Gathering" and "Swallowed Star: Dawn", while for overseas markets including Hong Kong, Macau, Taiwan, Singapore, and Malaysia, "The King of Fighters: All Stars" did not meet revenue expectations.

- Independently released games like "The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart", "Rakshasa Street: Chosen One" and "Soul Land: God of Battle Arise", as well as jointly produced titles with third parties such as "One Piece: The Voyage" and "Dynasty Warriors: Hegemony", along with other games already in operation, remained sources of income and profit for the group throughout 2023.

- **Self-developed game sector:**

- The Three Kingdoms-themed strategy mobile game "World of Castellan" developed by wholly-owned subsidiary Wenmai Interactive was officially launched in November, exclusively published in the domestic market by 37 Interactive, and received the Hardcore Alliance Superstar Recommendation in the first month of its launch.

- In the esports gaming sector, the group's invested and controlled subsidiary Shanghai Zhoujing is developing the PC game "Hoop City: 3V3," which commenced monetization tests on December 29th and is set to officially launch in 2024. The development team is putting great effort into making it a high-quality esports game on the PC platform.

- Wholly-owned subsidiary Beijing Softstar's self-developed game "Chinese Paladin Seven," as of December 31, 2023, has accumulated sales exceeding

730,000 units for the PC version, over 210,000 units for the cloud gaming version, and more than 100,000 units for the console version. Beijing Softstar's self-developed PC games "RichMan 10" and "RichMan 11" have collectively sold over 2.1 million units globally.

- Wholly-owned subsidiary Shanghai Softstar's PC game project "Legend of Sword and Fairy 4: Remaked Edition" has been authorized to continue development by Cube Game.

- Self-developed games such as "The World of Legend – Thunder Empire", "Dragon City Legend", and various chess and card games that were launched prior to 2023 have been continuously upgraded and iterated, contributing consistently to revenue.

- **Self-owned IP Operations Segment:**

- The group has deeply expanded its collaboration across the entire industry chain of the "Legend of Sword and Fairy" IP, covering areas such as games, film and television, animation, literary content, music, derivative products, and real-world entertainment, jointly creating the "Sword and Fairy" IP universe with top partners in relevant fields. The group was recognized as the "2023 Super Potential IP Cultivation Pioneer" by Securities Times.

- Successfully launched the role-playing card mobile game "New Sword and Fairy: Wen Qing" within the year; the idle mobile game "Legend of Sword and Fairy: A New Beginning," co-developed with Kaiying Network, has been launched and achieved fifth place in the best-selling games list on WeChat Mini Games; the "Sword and Fairy" IP fan community "Sword and Fairy Alliance" has been opened for user registration.

- In the film and television sector, the group collaborated with iQiyi and others to produce the "Legend of Sword and Fairy 4" TV series, which was aired on the iQiyi platform in January 2024. Additionally, the "Legend of Sword and Fairy 6" TV series, produced in partnership with Shandong Television, was broadcast on Tencent Video in January 2024. The group has also completed filming for the "Legend of Sword and Fairy 1" TV series in cooperation with Penguin Pictures, with an expected release in 2024.

- In November, the group officially launched the production of interactive visual works based on the Sword and Fairy IP in collaboration with Qishu Youyu, HippoJoy, and Intiny.

- In the animation sector, the group has entered into a strategic partnership with Penguin Pictures to co-produce the "Legend of Sword and Fairy 1" and "Legend of Sword and Fairy 3" animations. The trailer for "Legend of Sword and Fairy 3" has been released, and the full animation is expected to be released in 2024.

- In the merchandise sector, the group continued its collaboration with Pop Mart, releasing the second blind box series titled "Legend of Sword and Fairy Traditional Chinese Musical Instruments Collection Figures" globally in 2023. Collaborating with renowned partners such as Liangxiao Subeauty, Kaitian Studio, and Bandai Namco,

the group launched Han Lingsha figures, Yue Qingshu statues, and Jiu Jianxian figures, which were well received by consumers in the market.

- In July, the group successfully held the 28th-anniversary celebration of "Legend of Sword and Fairy" in the form of a live broadcast on Bilibili. The planned Sword and Fairy Location-Based entertainment project has entered the final preparation stage before operation, with trials expected to begin in Shanghai, Hangzhou, Anhui, and Chongqing in 2024.

- **Chinese Style Universe Platform - "Sword and Fairy World":**

- "Sword and Fairy World" has opened its pre-registration activities, with pre-registration numbers exceeding 4 million people. It has undergone two tests during the year and is preparing for commercial billing testing before official launch in 2024.

- Based on technological innovation and the application of AIGC, the virtual world created in "Sword and Fairy World" will provide players with a huge sense of immersion and enhanced realism. The AI non-player characters (NPCs) in "Sword and Fairy World" will exhibit corresponding behaviors and conversations based on the natural environment, forming a naturally realistic social ecology to enhance the realism of the virtual world. Players can also access AI features such as facial expression customization, AI voice, AI-generated actions, and AI+UGC to enrich user's personalized expression, vivid performances, rich 3D digital assets content, free communication experiences, and lightweight UGC creation.

- "Sword and Fairy World" game will be adapted for multiple terminals to enhance terminal accessibility. Currently, it already supports mobile, PC, and cloud platforms, and will continue to launch VR/MR and console versions.

- The game will achieve cross-platform account interoperability, allowing players to access the same world regardless of the device they use, greatly expanding the player's social circle.

- With its outstanding art design, grand game world view, and reflection of Chinese cultural heritage, "Sword and Fairy World" was awarded "Most Anticipated Game of 2024" by the Golden Feather Awards, Golden Gyroscope Awards, Golden Mouth Awards, Golden Tea Awards, OPPO Developer Conference, Xiaomi Games, and was recognized as one of the "Top Ten IP Projects of the Decade" by the Golden Dolphin Awards.

- **Business Outlook**

- Vigorously support the development of Self-developed projects, improve business speed, efficiency, and productivity through AI and other technologies, and achieve cost savings.

- Cross-platform game "Sword and Fairy World", PC game "Hoop City: 3V3", and the Three Kingdoms-themed strategy mobile game "World of Castellan" launched in 23 will become the three major key projects of in-house game development.

- Amplify the value of the " Legend of Sword and Fairy" IP through films &TV, animation, and games.

- **2024 Global Release Plan for IP Games**

- Co-published with Tanwan Games, " Soul Land: Shrek Academy" was released on January 31, 2024, achieving first place on the Apple Free games list and Taptap Hot Games list. Its monthly revenue exceeded one hundred million, displaying stable long-term commercial performance, and is expected to increase profitability.
- Invested R&D company, Love Games is developing " Soul Land: Reversed Spacetime," which started pre-registration in February 2024 and is expected to officially launch in the first half of the year.
- Invested R&D company, EZFUN Interactive is developing " Fight Break Spheres ", which started pre-registration in January 2024 and is expected to officially launch in the first half of the year.
- The mini-game " Country Love Story" has started monetization tests to validate its business model and is planned to officially launch within the year.
- Multiple heavyweight IP games including "Naruto: Konoha Master", " New Romance of the Three Kingdoms - The Legend of Cao Cao " and " Daily Life of Chat Group" are planned to launch within the year.
- Launching over 10 mini-game products including " Sword and Fairy: Wen Qing" and "Naruto: Konoha Master."
- All the games mentioned in the above plan have obtained the required licenses.
- In the Hong Kong, Macao, and Taiwan regions, there will be a strong promotion for " Sword and Fairy: Wen Qing ", followed by the gradual release of games such as " Soul Land: Shrek Academy ", " Fight Break Spheres", " Soul Land: Reversed Spacetime" and "Code: FA." Additionally, a mobile game " Dynasty Warriors: Hegemony" will be launched in the Japanese market to increase game revenue in overseas regions.

- **2024 Self-developed Games:**

- Wholly-owned subsidiary Wenmai Interactive independently developed and released the Three Kingdoms-themed strategy mobile game " World of Castellan" last year, with exclusive domestic distribution by 37 Interactive. Leveraging the experience gained from this game's development and distribution, the group plans to continue developing and advancing a second similar game titled "Code: Lord," aiming to capture more market share in this gaming category.
- Holding subsidiary Shanghai Zhoujing's PC-based esports game " Hoop City: 3V3" commenced monetization tests on December 29, 2023, and is set to launch within this year.

- **2024 Self-Owned IP Operation**

- The TV series "Legend of Sword and Fairy 4" and "Legend of Sword and Fairy 6" have been broadcasted on iQiyi and Tencent Video, respectively.
- Penguin Pictures will further collaborate with the group to start filming "Legend of Sword and Fairy 3."
- Initiating a collaboration plan for multiple "Legend of Sword and Fairy" IP TV series, including "Legend of Sword and Fairy 5: Prequel," "Legend of Sword and Fairy 7," and the original drama "Legend of Sword and Fairy 6: Prequel."
- Collaborating with Penguin Pictures to produce animated series for "Legend of Sword and Fairy 1" and "Legend of Sword and Fairy 3," with "Legend of Sword and Fairy 3" expected to premiere within the year. Also collaborating with Bilibili to produce an animated adaptation of "Legend of Sword and Fairy 4," with filming expected to begin within the year.
- The literary works "Legend of Sword and Fairy 2," "Legend of Sword and Fairy 1," "Legend of Sword and Fairy V," "Legend of Sword and Fairy 5: Prequel," "Legend of Sword and Fairy 3," "Legend of Sword and Fairy 3: External," "Legend of Sword and Fairy 6," as well as two official original derivative works "Yao Tai Xue" and "Qiong Hua Hou Zhuan" are all in the creative stage and will be unveiled gradually in 2024 and 2025.
- The planned "Legend of Sword and Fairy" Location-Based entertainment project is in its final preparation stage and is expected to commence trial operations in 2024 in four provinces and cities: Shanghai, Hangzhou, Anhui, and Chongqing.
- **National Style Metaverse Platform - "Sword and Fairy World"**
- "Sword and Fairy World" will soon conduct a public billing test for players to verify the commercialization model of the official version before launch. This test will include the complete Ink-washed clouds and misty Jiangnan Storyline.
- With the introduction of AIGC assistance in design, the production cost of game art original paintings in "Sword and Fairy World" has been reduced by approximately 50%.
- AIGC technology is extensively applied in the creation of NPCs within the game, with designs based on an event-driven AI decision framework that can rapidly generate NPC behaviors.
- The group will continue to explore AIGC's auxiliary capabilities in game development scenarios such as 3D action generation, 3D model generation, scene generation, voice-over generation, etc. It is hoped that with AIGC's technological innovation, development efficiency can be significantly increased while reducing costs.
- **Multi-dimensional Fulfillment of Social Responsibility**
- The group has long supported the "CMGE Dream Library Project", which promotes youth reading. The project has been steadily implemented, and twelve "Dream Libraries" have been established.

- The group strictly adheres to relevant national policies by incorporating real-name authentication, anti-addiction systems, and age-appropriate reminders into all its game releases, aiming to protect the healthy growth of minors.
- In 2023, the revenue from Chinese games for players under 18 accounted for less than 0.01% of the group's total revenue.
- Recognized as a company with outstanding social responsibility performance at the 2023 Game Responsibility Forum hosted by People's Daily, the group also received the "2023 Pioneer Award for Public Welfare" from Guangdong Times Media Group.