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CMGE Technology Group Limited

中 手 游 科 技 集 团 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0302)

SUPPLEMENTAL ANNOUNCEMENT

Reference is made to the annual report (the “**Annual Report**”) for the year ended 31 December 2024 (the “**Reporting Period**”) published by CMGE Technology Group Limited (the “**Company**”) on 24 April 2025. Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meaning as those defined in the Annual Report.

This announcement is intended to provide further information on the impairments made by the Company during the Reporting Period and the Post-IPO Share Option Scheme.

IMPAIRMENTS

Impairment of trade receivables

To ensure the Group’s games achieve maximum market coverage, the Group collaborates with various third-party publishing channels. These channels are authorised to promote the Group’s licensed games and collect revenue from in-game purchases, which is then settled with the Group according to the contractual payment cycle.

With regard to such collaborations, these channels would deduct the amount of the promotional fee payable by the Group to them from the in-game purchase revenue and then pay the remaining amount of such revenue to the Group in accordance with the terms of the contracts. These arrangements are consistent with prevailing industry practices.

The Group normally grants existing channels and other counterparties (including the aforesaid channels) a credit period of 180 days, and a credit period of not more than 270 days for major channels and key counterparties. The Group has a well-defined settlement management system in place, regularly reviews overdue accounts, and maintains ongoing communication with business partners regarding settlement arrangements.

According to the “2024 China Mobile Game Advertising Marketing Report” released by a third-party research organisation named Gamma Data, there was a sluggish growth in the scale of mobile game users in 2024, and the average rate of selling expenses of game enterprises continued to increase and the increased cost continued to squeeze out profit from the game enterprises. It implies that given the same promotional fee being incurred, channels are generating lower in-game purchase revenue from users, leading to a reduced free cash flow. Faced with such industry challenges, channels are increasingly having difficulty in making payments on time. During the Reporting Period, the Group recognised an impairment of trade receivables of approximately RMB175.8 million on the balances from third-party publishing channels that require a period longer than the terms of the contract to settle their outstanding in-game purchase revenue with the Group under the poor market conditions mentioned above.

Impairment of contract assets and other receivables

During the Reporting Period, the Group recognised an impairment of financial assets included in prepayments, other receivables and other assets of approximately RMB79.73 million. Such impairment comprises the following major items:

1. In 2021, the Group and a game developer in Chengdu (the “**Developer**”) entered into an agreement for game product development for a contractual sum of RMB100 million, pursuant to which the Developer agreed to develop certain game products according to the requirements of the Group and the Group had made a prepayment of approximately RMB47.2 million. Since the Developer failed to deliver the game products and fulfil the obligations in a timely manner as agreed in the contract, the Group commenced litigation against the Developer in May 2024 and demanded the Developer to return the amount paid by the Group. As at 31 December 2024, no judgment has been issued by the People’s Court yet. Since the Developer refused to repay the amount and had been involved in various enforcement actions in connection with other litigation cases since January 2024, the Board had doubt in the Developer’s repayment ability. Therefore, the Group recognised approximately RMB47.2 million as the relevant impairment during the Reporting Period.

2. As disclosed in the Prospectus, on 21 September 2018, the Company entered into a share purchase agreement with Future Kemy Limited (“**Future Kemy**”), which was supplemented by two supplemental agreements dated 25 March 2019 and 30 June 2019 respectively, pursuant to which Rocket Parade Investment Limited (a wholly-owned subsidiary of the Company) agreed to acquire 49% of the issued shares of Angel Fund (Asia) Investments Limited from Future Kemy for a consideration of RMB199.6064 million, subject to the satisfaction of certain conditions precedent on or before 31 December 2019. The Company paid a cash deposit of RMB50 million to Future Kemy in September 2018. Since Future Kemy could not satisfy the conditions precedent, the transaction was terminated in 2021 and Future Kemy shall return the amount paid by the Company on or before 31 December 2022 in accordance with the agreement.

Since Future Kemy failed to return the cash deposit of RMB50 million to the Company on or before 31 December 2022, the Group had recognised an impairment loss of approximately RMB37.5 million for the year ended 31 December 2022.

During the year ended 31 December 2023, since there were negotiations between the Company and Future Kemy on repayment, no further impairment loss was recognised by the Group.

During the year ended 31 December 2024, the Company has made attempts to further negotiate with Future Kemy on repayment, but Future Kemy has become out of reach. Since Future Kemy was unable to provide any repayment schedule for the amount of deposit paid by the Company, the Board considered that it was unlikely for Future Kemy to make any repayment. Therefore, the Group further recognised approximately RMB12.5 million as the relevant impairment during the Reporting Period, resulting in a nil receivable balance from Future Kemy as at 31 December 2024.

The Company is currently in the process of seeking legal advice to explore legal actions that may be taken for the recovery of the amount owing by Future Kemy.

Write-off of prepayments

As disclosed in the Annual Report, as at 31 December 2024, the prepayments of the Group amounted to approximately RMB1,367.0 million. The prepayments of the Group mainly included prepaid licence fees (non-current) of approximately RMB737.6 million, prepaid minimum guarantees (current) of approximately RMB443.3 million, prepaid investment cost of approximately RMB149.3 million and other prepayments of approximately RMB36.8 million. The underlying contracts for such prepayments for licence fees and minimum guarantees were made with more than 50 renowned enterprises worldwide, representing more than 60 operating or developing games and will be amortised monthly after the game development is completed and officially launched.

During the Reporting Period, more than 20 prepaid contracts involved impairment losses and the Group recognised a write-off of prepayments of approximately RMB211.8 million for reasons as follows. During the development of games, unforeseen issues may arise, such as substandard game quality or preset gameplay mechanics being unacceptable to users. As a result, third-party developers may fail to deliver new games on schedule as stipulated in the contracts. Additionally, game development typically involves repeated rounds of tests and revisions, each of which may encounter the aforementioned unpredictable problems. This makes it difficult for third-party developers to provide a clear timeline for completing all development work. The Group will therefore recognise a one-time impairment on the corresponding prepaid licence fees (non-current) and the corresponding non-refundable prepaid minimum guarantees (current) when the third-party developers are unable to provide new game products as scheduled according to the contract terms and are unable to provide concrete completion schedules of all development work. Besides, prepaid licence fees (non-current) for a game/IP without a corresponding game development plan for a long period of time will be subject to the same one-time impairment treatment. Apart from that, when a contract expires or an IP is abandoned during the contract period mainly due to the underlying game failing to meet the anticipated revenue, any unutilised and non-refundable prepaid minimum guarantees (current) will be subject to a one-time impairment. The Group generally involves the third-party developers in rounds of negotiation throughout the contract period prior to reaching the conclusion for the aforesaid one-time impairment treatment.

Among the total impairment amount:

- (a) Prepaid minimum guarantees (current) amounted to approximately RMB101.0 million;
- (b) Prepaid licence fees (non-current) amounted to approximately RMB100.8 million; and
- (c) Prepaid investment funds (non-current) amounted to approximately RMB10.0 million.

Impairment of goodwill

As disclosed in the Annual Report, Wenmai Hudong and Shanghai Zhoujing recorded losses due to their underperformance during the Reporting Period, and the Group recorded goodwill impairment of Wenmai Hudong of approximately RMB529.9 million and that of Shanghai Zhoujing of approximately RMB16.8 million.

1. Wenmai Hudong

Wenmai Hudong's dynasty-themed strategic mobile game *World of Castellan* (城主天下), which was launched in November 2023, underperformed in terms of revenue in 2024. The launch plan for another strategy game *Code: Master* (代號:主公), which was originally scheduled for release in 2024, had been cancelled. Meanwhile, Wenmai Hudong's self-developed game *Code: Dark Night Legend* (代號:暗夜傳奇) was also scheduled for release in 2024, but its testing cycle required additional time, resulting in a delayed launch and no revenue could be generated during the Reporting Period.

In view of the above, the business profitability of Wenmai Hudong in 2024 has significantly lowered. With reference to the valuation made by an independent valuer (the “**Valuer**”) in respect of the cash-generating unit of Wenmai Hudong as at 31 December 2024 in accordance with Hong Kong Accounting Standard 36 — Impairment of Assets, the Group recognised the relevant impairment.

Accordingly, as disclosed in the Annual Report, the revenue growth rate applied in the cash flow projections for the cash-generating unit of Wenmai Hudong to undertake impairment testing of the relevant goodwill has been adjusted downward to 2%-157% (for the year ended 31 December 2023: 16%-213%). Such kind of range of revenue growth rate represents the growth rate computed based on the actual revenue amount in the respective financial year and the forecasted annual revenue amount over the next 5-year period, and the highest rate of 157% mainly represents the revenue growth expected to be brought from the launch of Wenmai Hudong's self-developed legendary game *Code: Dark Night Legend* (代號:暗夜傳奇) in 2025.

2. Shanghai Zhoujing

As disclosed in the Annual Report, *Street Basketball* (全民街籃), a competitive game self-developed by Shanghai Zhoujing, a subsidiary of the Company, has implemented many tests during 2024. However, the testing data was unable to meet expectations, which also caused considerable losses to the Group. During the Reporting Period, the project has been transferred to a third-party partner for adjustment and optimisation and publication.

As the game *Street Basketball* (全民街籃) is still in the development stage, with no clear launch schedule and no further test data, Shanghai Zhoujing is unable to provide a substantiated profit forecast. Therefore, the Board believes that Shanghai Zhoujing lacks the ability to continue generating profits, and an impairment of goodwill was recognised for Shanghai Zhoujing during the Reporting Period.

Accordingly, as disclosed in the Annual Report, the revenue growth rate applied in the cash flow projections for “Shanghai Zhoujing cash-generating units” to undertake impairment testing of the relevant goodwill has been adjusted to nil (for the year ended 31 December 2023: 5%-44%).

Impairment of other intangible assets

As disclosed in the Annual Report, during the Reporting Period, the Group recorded an impairment of intangible assets for research and development expenditures of *Legend of Sword and Fairy: World* (仙劍世界) (the “**Flagship Game**”) of approximately RMB157.7 million and the impairment of other intangible assets of approximately RMB53.9 million, such as IP licences and content provider (“CP”) licences.

1. *Legend of Sword and Fairy: World* (仙劍世界)

The Flagship Game underperformed in testing conducted in June and December 2024, with results falling short of expectations. As a result, the Group significantly lowered its profit forecast for the Flagship Game. With reference to the value in use of technology of game in research of the Flagship Game belonging to Shanghai Fanying as at 31 December 2024 appraised by the Valuer in accordance with the International Valuation Standards issued by the International Valuation Standards Council, the Group recognised approximately RMB157.7 million as the relevant impairment during the Reporting Period.

The value in use of technology of game in research of the Flagship Game belonging to Shanghai Fanying as at 31 December 2024 was derived by the application of an income approach technique known as the “multi-period excess earnings” method. Using this method, the Valuer first estimates the after-tax cash flows to Shanghai Fanying as a result of owning the identified intangible asset. Contributory asset charges are then netted from the after-tax cash flows to arrive at the residual after-tax cash flows. These benefits are capitalised at a discount rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject intangible asset. This method is based on the principle that investors, who own only the intangible asset, will have to rent equipment, working capital and other incidental assets in order to operate the business. Thus, the charges on renting these contributory assets have to be taken into consideration.

The value in use of technology of game in research of the Flagship Game was arrived at by summing the net present values of the after-tax residual cash flows attributable to the owner of the subject intangible asset at the corresponding discount rate.

The Valuer adopted the following key assumptions:

- (a) The projected business will be and could be achieved with the effort of the management of Shanghai Fanying.
- (b) The Valuer has relied on the management representation on the future operation plan provided by Shanghai Fanying.
- (c) All proposed facilities and systems will work properly and will be sufficient for future operation.
- (d) All information provided by Shanghai Fanying are reliable and legitimate.
- (e) There will be no material change in the existing political, legal, technological, fiscal or economic condition which may adversely affect the business of Shanghai Fanying.

2. IP licences and CP licences

The impairment of other intangible assets of approximately RMB53.9 million mainly comprises the outstanding prepaid licence fees (non-current) that are yet to be amortised in full at the time of early withdrawal of IP and CP licenses across a total of 11 games collaborated with third-party partners from the market. These games were withdrawn from the market at a time earlier than expected because they were unable to achieve the anticipated revenue.

Opinion of the Board

In determining the aforementioned impairments:

- (i) the management of the Company had from time to time communicated with the business partners and the debtors about their financial condition during the Reporting Period;
- (ii) the directors and/or management of the Company had conducted due diligence on the operation and financial condition of the game developers; and
- (iii) the directors and/or management of the Company had assessed the profitability and launch plan of the games.

Based on the foregoing and that the valuations (if any) were performed by an independent valuer in accordance with professional valuation standards, the Board considered that the respective impairment amount mentioned above was fair and reasonable.

POST-IPO SHARE OPTION SCHEME

In addition to the information on the Post-IPO Share Option Scheme disclosed in the Annual Report, set out below are the closing prices of the Shares immediately before the date on which the outstanding share options as at 31 December 2024 were granted:

Date of grant	Closing price of the Shares immediately before the date on which the share options were granted (HK\$)
29 March 2021	2.81
20 January 2023	1.95
24 April 2024	1.15

By order of the Board
CMGE Technology Group Limited
XIAO Jian
Chairman

Hong Kong, 5 November 2025

As at the date of this announcement, the Board comprises Mr. XIAO Jian, Mr. SIN Hendrick M.H., J.P. and Mr. FAN Yingjie as executive Directors; Mr. ZHANG Shengyan, Mr. JIANG Yukai and Mr. LIU Shanshan as non-executive Directors; and Ms. NG Yi Kum, Mr. TANG Liang and Mr. HO Orlando Yaukai as independent non-executive Directors.