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ZX Inc.
中旭未来

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 9890)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2024

The Board (the “**Board**”) of Directors (the “**Directors**”) of ZX Inc. (the “**Company**”, together with its subsidiaries and the PRC Operating Entities¹, the “**Group**”) is pleased to announce the unaudited consolidated results of the Company for the six months ended June 30, 2024 (the “**Reporting Period**”), together with comparative figures for the same period of 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

According to the China Gaming Industry Report for January to June 2024 (《2024年1-6月中國遊戲產業報告》) jointly issued by the Game Publishing Committee of China Audio-video and Digital Publishing Association (中國音數協遊戲工委) and China Game Industry Research Institute (中國遊戲產業研究院), from January to June 2024, China’s game market and game user scale maintained a stable growth: actual sales revenue from the domestic game market was RMB147.267 billion, representing a year-on-year increase of 2.08%; the number of game users was 674 million, representing a year-on-year increase of 0.88%.

BUSINESS REVIEW

During the six months ended June 30, 2024, we successfully launched 29 new games. As of June 30, 2024, we had operated more than 380 game products, and the game products we marketed and operated had an aggregate of 603.2 million registered users.

¹ The PRC Operating Entities refer to the entities controlled by the Group through the Contractual Arrangements, the details of which are set out in the Company’s prospectus dated September 18, 2023 (“**Prospectus**”).

For the six months ended June 30, 2024, we marketed and operated game products with an average of 10.2 million monthly active users (MAUs), an average of 1.1 million monthly paying users (MPUs) and an average monthly revenue per paying user (ARPPU) of RMB476.8 for all of the game products we marketed and operated.

Continuous Precision Marketing and Refined In-Depth Operations

Precision digital marketing, in-depth operations, and brand development are our three core competitivenesses. From the “Legend” (《傳奇》) series to the “Soul Land” (《鬥羅大陸》) series, we use precision digital marketing to make our games stand out among a massive number of products and rapidly reach our target game users. Through continuous in-depth operations, we manage and optimize the entire game lifecycle to create a succession of evergreen games. Additionally, we integrate brand development initiatives to empower our games to reach a wider group of audience.

Laying Out New Product Tracks and Creating a Diversified Gaming Product Matrix

In January 2024, we jointly released “Soul Land: Shrek Academy” (《鬥羅大陸：史萊克學院》) with CMGE Technology Group Limited (中手遊科技集團有限公司), a company listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (stock code: 0302). As the first open-world team battle massive multiplayer online mobile game operated by our Group, the game topped the iOS Free App List and TapTap’s Hot Game List on its first day of release. We leveraged celebrity endorsements to empower the long-term operation of the game.

In June 2024, we launched the blockbuster online mobile simulation game (“**SLG**”) “Beast Lord: New World” (《野獸領主：新世界》), which topped the iOS Free Game List and other lists upon its launch. The game is also the first online mobile exploration SLG featured with real animals themes in the Chinese Mainland, which is a new breakthrough for us to layout the multi-category game tracks and create a diversified game product matrix.

Deepening Collaboration on Arithmetic Power Layout and Strengthening Cloud Synergy

The Group renewed its strategic collaboration agreements with renowned cloud computing service providers such as Tencent Cloud Computing (Beijing) Co., Ltd. (騰訊雲計算(北京)有限責任公司), Alibaba Cloud Computing Co., Ltd. (阿里雲計算有限公司), Huawei Cloud Co., Ltd. (華為雲計算技術有限公司) and Beijing Volcano Engine Technology Co., Ltd. (北京火山引擎科技有限公司). Leveraging the globalization node layout and internationally leading algorithm technology accumulation provided by these service providers, we aim to accelerate our Group’s digital intelligence transformation in areas such as game research and development, operational efficiency improvement, and artificial intelligence applications.

The Group also established in-depth cooperation with Huawei Technologies Co., Ltd. (華為技術有限公司) and joined its HarmonyOS ecosystem to explore collaborative opportunities in the game industry, expanding HarmonyOS system as a new platform for multiple games and bringing users a cross-platform interconnected game experience.

Understanding Diversified Cultures and Advancing the Pace of Globalization Strategy

The Group not only focuses on refined cultivation in the domestic market, but also adopts a global perspective. As of June 30, 2024, the Group had released and operated over 30 multilingual games in international markets such as Hong Kong, Macau, Taiwan, Europe, America, Japan, South Korea, and Southeast Asia, with dozens of games in reserve, achieving a leap both in cultural output and commercial expansion. The Group will continue to develop a diversified product matrix, actively promote the research and development progress of new games such as “Code 20” (《代號20》) and “Code HB” (《代號HB》), and strive to accelerate the launch process.

Laying Out AI Industry and Developing a Digital Intelligence Product Matrix

In 2024, we launched our artificial intelligence (“AI”) big model assistance system — the “X” intelligent marketing platform, which is technically supported by AI technology to predict industry trends, improve advertising accuracy, and meet the needs in the game advertising and marketing field. We have also established a wholly-owned subsidiary, Hong Kong Yuanda Future Limited (香港遠達未來有限公司) in Hong Kong, which mainly engaged in the application and development of AI technology in the game industry. It is also committed to integrating AI technology into in-game art production, creative copywriting, video generation, intelligent assistance, collaborative work and other areas of operations, and is dedicated to applying AI algorithms and AI-generated content technology to optimize game operation and promotion, eventually creating new gameplay and fresh experiences for players.

Outlook

The Group is actively preparing launches of a number of new blockbuster games, covering diversified themes and genres, which will help the Group expand its user base and meet the diversified needs of the market. Among them, the game “Tiny Troopers” (《小兵大作戰》) has started public testing, and “Wandering Five Thousand Years” (《漫遊五千年》) and the major IP SLG “Soul Land: Legend of Evil Slayer” (《鬥羅大陸：誅邪傳說》) have opened pre-orders.

Affected by factors such as the downturn of the overall macroeconomy, the gradual reduction of the benefits brought by the growth of game users, and the intensified competition for existing market shares, the game industry is facing great pressure. The Group will actively deploy in terms of growth strategies and operations to overcome difficulties.

On the strategy side, the Group will continue to implement the development strategy of precision marketing and in-depth operation, develop a digitalized and intelligent-enabled multi-category product matrix, systematically advance the “research and operation integration” strategy, and continuously progress the global development layout.

On the business operations side, the Group will continue to operate medium to heavy-weight app games with high operational difficulty and strategic importance, and actively seek to expand the market for light and casual small games through a diversified approach simultaneously.

FINANCIAL DISCUSSION AND ANALYSIS

Revenue

Our revenue is generated primarily from (i) marketing and operating online games developed by game developers and marketing online literature products and video clips developed by content creators; and (ii) our consumer product business, primarily including sales of our private-label and local-flavor rice noodle products and other fast consumer foods under the brand “Zha Zha Hui” (渣渣灰).

The following table sets forth a breakdown of our revenue both in absolute amount and as a percentage of our total revenue for the period indicated:

	For the Six Months Ended June 30			
	2024		2023	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
	(Unaudited)		(Unaudited)	
Online Game Publishing Business and Other Marketing Business				
Game products operated under the self-run model	2,481,575	77.0%	2,118,937	62.3%
Game products operated under the joint-run model	668,542	20.7%	1,105,104	32.5%
Others	19,254	0.6%	49,251	1.4%
Subtotal	3,169,371	98.3%	3,273,292	96.2%
Consumer Product Business	56,405	1.7%	126,799	3.8%
Total	<u>3,225,776</u>	<u>100.0%</u>	<u>3,400,091</u>	<u>100.0%</u>

The Group's revenue for the six months ended June 30, 2024 was RMB3,225.8 million, a slight decrease of 5.1% compared to RMB3,400.1 million in the same period of 2023, maintaining a relatively stable performance overall. The decrease was mainly due to a decrease of RMB436.6 million in revenue from game products operated under the joint-run model, partially offset by an increase of RMB362.6 million in revenue from game products operated under the self-run model.

Online Game Publishing Business and Other Marketing Business

For the six months ended June 30, 2024, revenue generated from the game products we market and operate under the self-run model was RMB2,481.6 million, representing an increase of 17.1% compared to RMB2,118.9 million in the same period of 2023. The increase was mainly due to (i) the popularity of our newly launched games under the self-run model including “Soul Land: Shrek Academy” (《鬥羅大陸：史萊克學院》) and “Beast Lord: The New Land” (《野獸領主：新世界》) in 2024, contributing substantially to our revenue; and (ii) an increase in revenue from certain existing game products under the self-run model. For the six months ended June 30, 2024, revenue generated from the game products we market and operate under the joint-run model was RMB668.5 million, a decrease of 39.5% compared to RMB1,105.1 million in the same period of 2023. The decrease was mainly because (i) certain existing game products entered into a later stage of their lifecycle, which led to a decrease in revenue generated under the joint-run model; and (ii) the new blockbuster games launched during the first half of 2024 mainly used self-run model for end-user acquisition, resulting in a decrease in revenue under the joint-run model.

Revenue generated from other marketing business, primarily revenue from marketing online literature products and video clips, decreased significantly by 60.9% from RMB49.3 million for the six months ended June 30, 2023 to RMB19.3 million for the six months ended June 30, 2024, which was mainly due to the Group's strategical focus on its core business of marketing and operating game products.

Consumer Product Business

Revenue generated from consumer product business, primarily including sales of our private-label and local-flavor rice noodle products and other fast consumer foods under the brand “Zha Zha Hui”, decreased by 55.5% from RMB126.8 million for the six months ended June 30, 2023 to RMB56.4 million for the six months ended June 30, 2024. The decrease was mainly due to (i) the Group's strategical focus on its core business of marketing and operating game products, thereby reducing R&D and marketing expenditures in the consumer product business; and (ii) the increased market competition in the consumer product sector.

Cost of Sales

For the six months ended June 30, 2024, the Group's cost of sales was RMB861.6 million, representing a decrease of 22.1% compared to RMB1,106.0 million in the same period of 2023. The change was mainly due to the decrease in gross billings generated by game products under the joint-run model, leading to a reduction in commissions to third-party distribution channels.

Gross Profit and Gross Profit Margin

For the six months ended June 30, 2024, the Group's total gross profit was RMB2,364.2 million, representing a slight increase of 3.1% compared to RMB2,294.1 million in the same period of 2023, which was generally in line with the growth in revenue generated from game products under the self-run model.

The Group's gross profit margin for the six months ended June 30, 2024 was 73.3%, representing an increase of 5.8 percentage points compared to 67.5% in the same period of 2023, primarily because the Group generated a higher portion of revenue from game products under the self-run model, which had a higher gross profit margin compared to the joint-run model.

Other Income and Gains

For the six months ended June 30, 2024, the Group's other income and gains were RMB78.7 million, representing a decrease of 79.6% compared to RMB386.3 million in the same period of 2023, primarily due to a decrease in fair value gains on financial assets at fair value through profit or loss ("FVTPL") in relation to changes in the fair value of shares of other listed company held by the Group.

Selling and Distribution Expenses

For the six months ended June 30, 2024, the Group's selling and distribution expenses were RMB2,288.8 million, representing an increase of 17.2% compared to RMB1,953.2 million in the same period to 2023. This was mainly due to our increased efforts in promoting and advertising our new high-quality games.

Administrative Expenses

For the six months ended June 30, 2024, the Group's administrative expenses were RMB112.5 million, representing a decrease of 11.9% compared to RMB127.6 million in the same period of 2023. This was mainly because (i) no listing expenses were recorded in the first half of 2024, and (ii) the share-based compensation relevant to administrative personnel recorded in the first half of 2024 decreased.

R&D Costs

For the six months ended June 30, 2024, the Group's R&D costs were RMB74.5 million, representing a decrease of 14.1% compared to RMB86.7 million in the same period of 2023. This was mainly due to a decrease in share-based compensation relevant to R&D personnel recorded in the first half of 2024.

Other Expenses

For the six months ended June 30, 2024, the Group's other expenses were RMB367.1 million (same period in 2023: RMB3.8 million). The change was primarily due to (i) an increase in investment loss on financial assets at FVTPL in relation to the decrease of the price of stocks the Group held as a strategic investment in Zhejiang Century Huatong Group Co., Ltd. (浙江世紀華通集團股份有限公司) (“**Century Huatong**”), a company listed on the Shenzhen Stock Exchange (SZSE: 002602); (ii) impairment losses on assets relating to prepayments of licensing fees to game developers, which were incurred as a result of the delay in the launch schedules of certain licensed games; (iii) an increase in impairment losses on fixed assets; and (iv) impairment losses on goodwill relating to one of our wholly-owned subsidiaries.

Finance Costs

For the six months ended June 30, 2024, the Group's finance costs were RMB28.2 million, a decrease of 47.2% compared to RMB53.4 million in the same period of 2023. The decrease was mainly due to a decrease in the finance cost of bills payable, which was in line with a decrease in the Group's bills payable.

Share of Profits and Losses of Joint Ventures

For the six months ended June 30, 2024, the Group recorded share of profits of RMB0.7 million (same period in 2023: RMB2.2 million). This change was mainly due to (i) the losses recorded by our joint ventures, Guangzhou Ziyun Cloud Computing Co., Ltd. (廣州紫雲雲計算有限公司) and Guangzhou Zeda New Cultural and Creative Industry Development Co., Ltd. (廣州市澤達新文創產業發展有限公司); and (ii) the decrease in profits recorded by our joint venture, Zhejiang Xuwan Technology Co., Ltd. (浙江旭玩科技有限公司).

Share of Profits and Losses of Associates

For the six months ended June 30, 2024, the Group recorded share of profits of RMB16.9 million (same period in 2023: losses of RMB13.3 million). The change was mainly because (i) we recorded profits by our associate Shanghai Dehan Technology Co., Ltd. (上海德寒科技有限公司) in 2024; and (ii) the losses recorded by our associate Hangzhou Shengxu Miracle Network Technology Co., Ltd. (杭州盛旭奇跡網絡科技有限公司) decreased.

Income Tax Credit/(Expense)

For the six months ended June 30, 2024, the Group recorded income tax credit of RMB31.4 million (same period in 2023: income tax expense of RMB142.4 million). The income tax credit was mainly incurred in relation to (i) impairment of assets; and (ii) changes in fair value of shares of other listed company held by the Group.

(Loss)/Profit for the Period

As a result of the foregoing, the Group's net loss was RMB385.0 million for the six months ended June 30, 2024. For the same period of last year, the Group's net profit was RMB300.3 million.

Goodwill

As of June 30, 2024, the Group's goodwill was nil (December 31, 2023: RMB27.9 million). The decrease in goodwill was mainly because the goodwill of the Group's wholly-owned subsidiary Guangzhou Chichi Network Technology Co., Ltd. (廣州吃吃網絡科技有限公司) had been written down to nil due to (i) the unsatisfactory operation of the Group's consumer product business during the Reporting Period and (ii) the Group's strategic focus on its core business of marketing and operating game products.

Trade Receivables

As of June 30, 2024, the Group's net trade receivables were RMB286.5 million, representing a decrease of 7.8% compared to RMB310.7 million as of December 31, 2023, mainly due to our increased efforts in recovering our trade receivables which were due.

Trade Payables

As of June 30, 2024, the Group's trade payables were RMB618.6 million, representing an increase of 32.7% compared to RMB466.1 million as of December 31, 2023, mainly due to an increase in trade payables of the agreed portion of gross billing payable to collaborating platforms.

Bills Payable

As of June 30, 2024, the Group's bills payable were RMB2,334.6 million, representing a decrease of 16.8% compared to RMB2,806.6 million as of December 31, 2023, mainly due to a reduction in payments to suppliers settled using bank acceptance bills during the Reporting Period.

Liquidity and Capital Resources

As of June 30, 2024, the Group had cash and cash equivalents of RMB541.0 million (December 31, 2023: RMB486.9 million), representing cash and bank balance, net of restricted cash. Cash and cash equivalents were held in RMB, HK dollars, US dollars and Japanese yen. Going forward, the Group believes that its liquidity requirements will be satisfied by using a combination of cash generated from operating activities, funds raised from the capital markets from time to time and the net proceeds received from the Global Offering. The Group currently does not have any other plans for material additional external financing.

Bank Borrowings

As of June 30, 2024, the Group had interest-bearing bank and other borrowings of RMB49.8 million (December 31, 2023: RMB213.7 million). The Group's interest-bearing bank and other borrowings were discounted bills and bank loans provided by commercial banks to the Group, both of which were fully secured by pledges during the ordinary course of business. The interest-bearing bank and other borrowings were denominated in RMB and bore interests at rates ranging from 1.2% to 2.0% per annum.

Gearing Ratio

The Group monitored its capital sufficiency using gearing ratio. As of June 30, 2024, the Group's gearing ratio (debt, including interest-bearing bank borrowings and lease liabilities, as a percentage of total equity as of the end of the relevant reporting period) was 0.13 (December 31, 2023: 0.18).

Current Ratio

As of June 30, 2024, the Group's current ratio (total current assets divided by total current liabilities as of the end of the relevant reporting period) was 0.88 (December 31, 2023: 0.84).

Significant Investments, Material Acquisitions and Disposals

As of June 30, 2024, the Group held no significant investments (including any investments in target companies with a value equal to or exceeding 5% of the Group's total assets).

For the six months ended June 30, 2024, the Group did not have any material acquisition or disposal of subsidiaries, associates and joint ventures.

Future Plans for Material Investments and Capital Assets

As of June 30, 2024, the Group had no specific plan for material investments and acquisition or disposal of capital assets.

Capital Expenditure

For the six months ended June 30, 2024, total capital expenditure amounted to approximately RMB23.2 million (same period in 2023: RMB11.9 million), which was used for the purchase of properties and equipments and other intangible assets.

Contingent Liabilities

As of June 30, 2024, the Group did not have any material contingent liabilities, guarantees of any litigations or claims of material importance, pending or threatened against any member of the Company. In March 2024, the Group settled previous civil litigation disclosed in its annual report for the year of 2023 with ChuanQi IP Co., Ltd., as the plaintiff, with respect to collaboration and other ancillary documents on and the website established for the PC version of The Legend of Mir II (熱血傳奇). ChuanQi IP Co., Ltd. withdrew the lawsuit from the High People's Court of Fujian Province in March 2024.

Foreign Exchange Risk and Hedging

The Group's financial statements were expressed in RMB, but the Group undertook certain transactions in foreign currencies, which exposed the Group to foreign currency risk. The Group currently does not hold any financial instruments for hedging purposes. The Group manages its currency risks by closely monitoring the movement of the foreign currency rates and considers hedging significant foreign currency exposure should the need arise.

Employee, Remuneration and Option Scheme

As of June 30, 2024, the Group had 1,247 employees (December 31, 2023: 1,305), all of whom were based in China. The total remuneration cost incurred by the Group for the six months ended June 30, 2024 was RMB218.9 million, representing a decrease of 16.0% compared to RMB260.7 million in the same period of 2023.

The Group compensates its employees with salaries, allowances and benefits in kind, equity-settled share payment expenses and pension scheme contributions. The Group determines employees' compensation packages on the basis of work performance and the market standard of remuneration. The Group also makes sufficient provisions for the social insurance and housing provident fund contributions as required by the PRC laws and regulations.

The Group has also adopted a pre-IPO share option plan to provide incentives for eligible participants who contribute to the success of the Group's operations, including among others, employees of the Group. Please refer to the section headed "Statutory and General Information — D. Pre-IPO Share Option Plans" in Appendix IV to the Prospectus for further details.

For the six months ended June 30, 2024, the Group did not experience any material labor disputes or strikes that may have a material and adverse effect on its business, financial condition or results of operations, or any difficulty in recruiting employees.

Charge on Assets

As of June 30, 2024, the Group had pledged (i) time deposits of RMB3,000.4 million (December 31, 2023: RMB4,183.4 million) and (ii) fixed assets and investment properties with a total carrying amount of RMB60.8 million (December 31, 2023: nil), which had been acting as a security for the discounted bills, bills payable and bank loans made available to the Group.

OTHER INFORMATION

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in the Appendix C3 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its code of conduct regarding directors' dealing in the Company's securities. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code for the six months ended June 30, 2024. The Company's relevant employees, who are likely to be in possession of inside information of the Company, are also subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the Company's relevant employees was noted by the Company for the six months ended June 30, 2024.

The Company has also established a policy on inside information to comply with its obligations under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the Listing Rules. In case when the Company becomes aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

Compliance with the Corporate Governance Code

The Company is committed to maintaining high standard of corporate governance to safeguard the interest of the shareholders of the Company (the “**Shareholders**”) and to enhance corporate value and accountability. The Company’s corporate governance practices are based on the principles and code provisions set forth in the Corporate Governance Code in the Appendix C1 of the Listing Rules (the “**Corporate Governance Code**”).

For the six months ended June 30, 2024, the Company has complied with the code provisions set out in the Corporate Governance Code except for code provisions as explained below.

Pursuant to code provision C.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The roles of chairman of the Board and chief executive officer of the Group were performed by Mr. WU Xubo (“**Mr. WU**”) during the Reporting Period. In view of Mr. WU’s substantial contribution to the Group since its establishment and his extensive experience, the Company considered that having Mr. WU acting as both the chairman of the Board and chief executive officer during the Reporting Period provided strong and consistent leadership to the Group and facilitate the efficient execution of the Group’s business strategies.

The Board believes that such structure did not impair the balance of power and authority between the Board and the management of the Group during the Reporting Period, given that: (i) there were sufficient checks and balances in the Board, as a decision made by the Board required approval by at least a majority of the Directors, and the Board comprised three independent non-executive Directors, which was in compliance with the requirement under the Listing Rules; (ii) Mr. WU and the other Directors were aware of and undertook to fulfill their fiduciary duties as Directors, which require, among other things, that he acted for the benefit and in the best interests of the Group and made decisions for the Group accordingly; and (iii) the balance of power and authority was ensured by the operations of the Board which comprised experienced and high calibre individuals who met regularly to discuss issues affecting the operations of the Group. Moreover, the overall strategic and other key business, financial, and operational policies of the Group were made collectively after thorough discussion at both Board and senior management levels.

For the purpose of achieving better corporate governance of the Company pursuant to code provision C.2.1 of the Corporate Governance Code, the Board has approved a separation of roles of the chief executive officer and the chairman, with Ms. LIANG Wenhong (“**Ms. LIANG**”) being appointed as the chief executive officer of the Company (the “**CEO**”) to succeed Mr. WU with effect from August 30, 2024 while Mr. WU will remain as an executive Director, the chairman of the Board, the chairman of the nomination committee

and a member of the remuneration committee of the Company. Upon such change, the Company has complied with all code provisions as set out in Appendix C1 to the Listing Rules since the roles of the chief executive officer and the chairman are not performed by the same individual, reflecting the Company's commitment to achieving better corporate governance practices.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities (including sale of treasury shares (as defined in the Listing Rules)) for the six months ended June 30, 2024. As of June 30, 2024, the Company did not hold any treasury shares (as defined in the Listing Rules).

Interim Dividend

The Board did not recommend the distribution of an interim dividend for the six months ended June 30, 2024 (Same period in 2023: nil).

Events after the End of the Reporting Period

Save for the change in the CEO from Mr. WU Xubo to Ms. LIANG Wenhong with effect from August 30, 2024 as stated above, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to June 30, 2024 and up to the date of this announcement.

Audit Committee

The Company has established the audit committee (the "**Audit Committee**") under the Board with written terms of reference in compliance with Rule 3.21 of the Listing Rules as well as paragraph D.3 of part 2 of the Corporate Governance Code. The Audit Committee consists of three independent non-executive Directors, namely, Ms. ZHENG Yi, Ms. SONG Siyun and Mr. QIN Yongde. The chairlady of the Audit Committee is Ms. ZHENG Yi, who has the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Company and the Group and discussed matters in relation to internal control, risk management and financial reporting with the management, including the review of the unaudited consolidated results of the Group for the six months ended June 30, 2024. The Audit Committee considers that the interim financial results for the six months ended June 30, 2024 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

Scope of Work of the Auditor

The figures in respect of this announcement for the Group's interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of comprehensive income and interim condensed consolidated statement of financial position, and the related notes thereon for the six months ended June 30, 2024 have been compared by the Company's external auditor, Ernst & Young ("EY"), to the amounts set out in the Group's consolidated financial statements for the six months ended June 30, 2024 and the amounts were found to be in agreement. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by EY in this announcement.

Publication of 2024 Interim Results and Interim Report

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zx.com). The interim report for the six months ended June 30, 2024 containing all applicable information required by the Listing Rules will be dispatched (if so requested by Shareholder(s)) to the Shareholders and published on the above websites in September 2024.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2024

		2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
	<i>Notes</i>		
REVENUE	5	3,225,776	3,400,091
Cost of sales		<u>(861,607)</u>	<u>(1,106,013)</u>
Gross profit		2,364,169	2,294,078
Other income and gains		78,704	386,310
Selling and distribution expenses		(2,288,845)	(1,953,214)
Administrative expenses		(112,491)	(127,620)
Research and development costs		(74,455)	(86,694)
Impairment losses on financial assets, net		(5,770)	(1,905)
Other expenses		(367,057)	(3,846)
Finance costs		(28,248)	(53,365)
Share of profits and losses of:			
Joint ventures		694	2,226
Associates		16,949	(13,316)
		<u>16,949</u>	<u>(13,316)</u>
(LOSS)/PROFIT BEFORE TAX	6	(416,350)	442,654
Income tax credit/(expense)	7	31,397	(142,393)
		<u>31,397</u>	<u>(142,393)</u>
(LOSS)/PROFIT FOR THE PERIOD		<u>(384,953)</u>	<u>300,261</u>
Attributable to:			
Owners of the parent		(382,924)	275,654
Non-controlling interests		(2,029)	24,607
		<u>(382,924)</u>	<u>24,607</u>
(LOSS)/EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE PARENT	9		
Basic (RMB)		<u>(0.74)</u>	<u>0.55</u>
Diluted (RMB)		<u>(0.74)</u>	<u>0.55</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
(LOSS)/PROFIT FOR THE PERIOD	<u>(384,953)</u>	<u>300,261</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive income of associates	<u>(59,202)</u>	<u>20,698</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>(59,202)</u>	<u>20,698</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>(444,155)</u></u>	<u><u>320,959</u></u>
Attributable to:		
Owners of the parent	<u>(442,126)</u>	<u>296,352</u>
Non-controlling interests	<u><u>(2,029)</u></u>	<u><u>24,607</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2024

		30 June 2024	31 December 2023
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property and equipment		75,200	98,567
Investment properties		80,375	81,541
Right-of-use assets		327,399	347,846
Goodwill		—	27,917
Other intangible assets		13,140	15,253
Investment in joint ventures		283,538	273,418
Investment in associates		137,088	178,239
Financial assets at fair value through profit or loss	<i>11</i>	—	15,000
Deferred tax assets		192,053	109,312
Prepayments, other receivables and other assets		65,467	11,633
Pledged deposits		1,361,691	2,045,506
		<hr/>	<hr/>
Total non-current assets		<u>2,535,951</u>	<u>3,204,232</u>
CURRENT ASSETS			
Inventories		2,656	2,905
Trade receivables	<i>10</i>	286,485	310,696
Prepayments, other receivables and other assets		785,901	683,872
Amounts due from related parties		76,538	23,981
Financial assets at fair value through profit or loss	<i>11</i>	314,862	412,800
Pledged deposits		1,638,746	2,137,907
Restricted cash		63,804	4,931
Cash and cash equivalents		540,955	486,886
		<hr/>	<hr/>
Total current assets		<u>3,709,947</u>	<u>4,063,978</u>

		30 June	31 December
		2024	2023
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	RMB'000
CURRENT LIABILITIES			
Trade payables	12	618,648	466,069
Bills payable	13	2,334,580	2,806,551
Other payables and accruals		687,029	893,941
Interest-bearing bank borrowings		49,752	213,743
Lease liabilities		46,001	39,616
Tax payable		460,414	416,277
		<u>4,196,424</u>	<u>4,836,197</u>
Total current liabilities		4,196,424	4,836,197
NET CURRENT LIABILITIES			
		<u>(486,477)</u>	<u>(772,219)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>2,049,474</u>	<u>2,432,013</u>
NON-CURRENT LIABILITIES			
Lease liabilities		147,013	153,178
Provision		200	3,050
		<u>147,213</u>	<u>156,228</u>
Total non-current liabilities		147,213	156,228
Net assets			
		<u>1,902,261</u>	<u>2,275,785</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital		77	77
Treasury shares		(2)	(3)
Reserves		1,927,328	2,286,450
		<u>1,927,403</u>	<u>2,286,524</u>
Non-controlling interests		<u>(25,142)</u>	<u>(10,739)</u>
Total equity		<u>1,902,261</u>	<u>2,275,785</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2024

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 18 March 2021 as an exempted company with limited liability under the Companies Law, Chapter 22 of the Cayman Islands. The registered address of the office of the Company is 190 Elgin Avenue, George Town, Grand Cayman KY1-9008, Cayman Islands.

The Company and its subsidiaries (collectively, the “**Group**”) are principally engaged in providing product marketing and operation services to online games in the People’s Republic of China (hereafter, the “**PRC**”).

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2024 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 2023.

The Group recorded net current liabilities of RMB486,477,000 as at 30 June 2024, which was primarily due to certain of the Group’s interest-bearing bank borrowings and bills payables being secured by long term fixed deposits of RMB1,414,462,000 that can be used to settle the Group’s current liabilities before maturity. The directors of the Group have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Taking into account the long term fixed deposits available to the Group and the internally generated funds from operations, the directors believe that the Group has sufficient cash flows in the foreseeable future to enable it to continue its operations and meet its liabilities as and when they fall due. Therefore, the interim condensed consolidated financial information has been prepared on a going concern basis.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2023, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period's financial information.

Amendments to HKFRS 16
Amendments to HKAS 1

Lease Liability in a Sale and Leaseback
Classification of Liabilities as Current or
Non-current
(the “2020 Amendments”)

Amendments to HKAS 1

Non-current Liabilities with Covenants
(the “2022 Amendments”)

Amendments to HKAS 7 and HKFRS 7

Supplier Finance Arrangements

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

- (a) Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of HKFRS 16, the amendments did not have any impact on the financial position or performance of the Group.
- (b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

- (c) Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the interim condensed consolidated financial information.

4. OPERATING SEGMENT INFORMATION

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

(a) Revenue from external customers

	For the six months ended	
	30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Chinese mainland	2,938,751	3,268,089
Hong Kong	284,634	132,002
Others	2,391	—
Total	<u>3,225,776</u>	<u>3,400,091</u>

(b) Non-current assets

As at 31 December 2023 and 30 June 2024, substantially all of the non-current assets of the Group were located in the PRC.

Information about major customers

Revenue from customers which amounted to more than 10% of the Group's revenue during the six months ended 30 June 2024 and 2023 are set out below:

	For the Six months ended	
	30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	1,269,915	—
Customer B	531,621	1,066,291
Customer C	184,345	696,796
Customer D	106,991	502,976
	<u>1,092,872</u>	<u>2,266,063</u>

5. REVENUE

Disaggregated revenue information

	For the six months ended	
	30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Type of goods or services		
Game marketing and operation — Self-run model*	2,481,575	2,118,937
Game marketing and operation — Joint-run model	668,542	1,105,104
Other marketing services	19,254	49,251
Sales of products	56,405	126,799
	<u>3,225,776</u>	<u>3,400,091</u>
Total	<u>3,225,776</u>	<u>3,400,091</u>
Timing of revenue recognition		
Services transferred over time	220,591	474,194
Services transferred at a point in time	2,948,780	2,799,098
Goods transferred at a point in time	56,405	126,799
	<u>3,225,776</u>	<u>3,400,091</u>
Total	<u>3,225,776</u>	<u>3,400,091</u>
Geographical markets		
Chinese Mainland	2,938,751	3,268,089
Hong Kong	284,634	132,002
Others	2,391	—
	<u>3,225,776</u>	<u>3,400,091</u>
Total	<u>3,225,776</u>	<u>3,400,091</u>

* Included the revenue of marketing and operation support services provided to third party publishers amounted to RMB5,950,000 for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB38,228,000).

6. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended	
	30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Costs of services charged by the collaborating distribution platforms under joint-run model	586,928	898,066
Cost of products sold	38,208	76,470
Promotion expenses	2,190,825	1,851,249
Employee benefit expense: (including directors' and chief executives' remuneration)		
Wages and salaries	129,849	133,527
Equity-settled-based payment expenses	83,004	112,554
Pension scheme contributions* (defined contribution)	6,091	14,633
	218,944	260,714
Depreciation of property and equipment	14,342	8,797
Depreciation of right-of-use assets	23,347	13,375
Depreciation of investment properties	1,166	—
Amortisation of other intangible assets	2,750	17,623
Lease payments not included in the measurement of lease liabilities	—	180
Gain on lease modification	(154)	(3,908)
Foreign exchange differences, net	(2,282)	77
Impairment of property and equipment	31,431	—
Impairment of trade receivables, net	(1,088)	(50)
Impairment of financial assets included in other receivables	157,662	1,955
Impairment of goodwill	27,917	—
Impairment of investment in joint ventures	972	—
Fair value loss/(gain) on financial assets at fair value through profit or loss	152,938	(23,113)
Gain on disposal of financial assets at fair value through profit or loss	(3,941)	(250,231)
Gain on disposal of subsidiaries	—	(58)
(Gain)/loss on disposal of items of property and equipment, net	(13)	683

* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

7. 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.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Company and its subsidiaries are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Hong Kong profits tax has been provided at the rate of 16.5% (2023: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

Taxes on profits assessable in Chinese mainland have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law (the “**PRC Tax Law**”) effective on 1 January 2008, the PRC corporate income tax rate of the Group’s subsidiaries operating in Chinese mainland during the reporting period was 25% of their taxable profits.

Guangzhou Zhongxu Future Technology Co., Ltd. (“**ZX WFOE**”), an indirect wholly-owned subsidiary of the Company, were accredited as “software enterprises” in 2021 under relevant PRC laws and regulations. Accordingly, ZX WFOE are exempt from Corporate Income Tax (“**CIT**”) for 2021 and 2022, followed by a 50% reduction in the applicable tax rates from 2023 to 2025.

The following table sets forth a breakdown of our income tax expense for the period indicated:

	For the six months ended	
	30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax–Chinese Mainland	51,344	137,028
Deferred income tax	(82,741)	5,365
Total tax charge for the period	<u>(31,397)</u>	<u>142,393</u>

8. DIVIDENDS

No dividends had been paid or declared by the Company during the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 519,231,717 in issue during the period.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the six months ended 30 June 2024 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic (loss)/earnings per share amounts presented.

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

	For the six months ended	
	30 June	
	2024	2023
	(Unaudited)	(Unaudited)
Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation (<i>RMB'000</i>)	(382,924)	275,654
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	519,231,717	498,000,000
Effect of dilution — weighted average number of ordinary shares	—	3,556,258
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>519,231,717</u>	<u>501,556,258</u>

10. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the end of the reporting period, based on the transaction dates and net of loss allowance, is as follows:

	30 June 2024	31 December 2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Within 1 year	284,808	307,204
1 to 2 years	1,532	3,218
Over 2 years	145	274
	<hr/>	<hr/>
Total	<u>286,485</u>	<u>310,696</u>

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2024	31 December 2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Non-current portion		
Unlisted equity investments, at fair value	<hr/> —	<hr/> 15,000
Current portion		
Wealth management products, at fair value	40,462	—
Listed equity investments, at fair value	274,400	412,800
	<hr/>	<hr/>
	<u>314,862</u>	<u>412,800</u>
	<hr/>	<hr/>
Total	<u>314,862</u>	<u>427,800</u>

The above unlisted equity investments were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The above wealth management products were issued by banks in Chinese Mainland. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The above listed equity investments were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The fair value of the unlisted equity investments were recognised based on the unobservable inputs of valuation models and were within level 3 of the fair value hierarchy. The fair values of wealth management products were recognised based on the observable inputs of valuation models from the private equity funds and were within level 2 of the fair value hierarchy. The fair values of investment in listed companies were recognised at quoted price in active markets.

12. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the transaction dates, is as follows:

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Within 1 year	598,015	454,835
1 to 2 years	16,837	9,624
2 to 3 years	2,295	324
Over 3 years	1,501	1,286
Total	<u>618,648</u>	<u>466,069</u>

13. BILLS PAYABLE

	30 June 2024	31 December 2023
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Bills payable	<u>2,334,580</u>	<u>2,806,551</u>
Total	<u><u>2,334,580</u></u>	<u><u>2,806,551</u></u>

The time deposits and financial assets at fair value through profit or loss in total of RMB4,371,004,000 were pledged for bills payable as at 31 December 2023. The time deposits, buildings and investment properties in total of RMB3,011,102,000 were pledged for bills payable as at 30 June 2024.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to the management and staffs of the Group for their commitment and contribution during the Reporting Period. The Board would also like to express its appreciation to the Shareholders.

By order of the Board

ZX Inc.

Mr. WU Xubo

Chairman of the Board and Executive Director

Guangzhou, the PRC, August 30, 2024

As of the date of this announcement, the Board comprises Mr. WU Xubo and Ms. WU Xuan as executive Directors; and Ms. SONG Siyun, Mr. QIN Yongde and Ms. ZHENG Yi as independent non-executive Directors.