

2022 INTERIM REPORT



Incorporated in the Cayman Islands with limited liability

IGG INC STOCK CODE: 799

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zongjian Cai (*Chairman and chief executive officer*)

Mr. Yuan Xu

Mr. Hong Zhang

Ms. Jessie Shen

Mr. Feng Chen

Non-executive Director

Mr. Yuan Chi

Independent Non-executive Directors

Dr. Horn Kee Leong

Mr. Dajian Yu

Ms. Zhao Lu

BOARD COMMITTEES

Audit Committee

Dr. Horn Kee Leong (*Chairman*)

Mr. Dajian Yu

Ms. Zhao Lu

Nomination Committee

Dr. Horn Kee Leong (*Chairman*)

Mr. Zongjian Cai

Mr. Dajian Yu

Ms. Zhao Lu

Remuneration Committee

Ms. Zhao Lu (*Chairman*)

Mr. Zongjian Cai

Mr. Dajian Yu

JOINT COMPANY SECRETARIES

Ms. Jessie Shen

Ms. Yin Ping Yvonne Kwong (*FCG, HKFCG*)

AUTHORISED REPRESENTATIVES

Mr. Zongjian Cai

Ms. Jessie Shen

Ms. Yin Ping Yvonne Kwong

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Hong Kong

AUDITOR

KPMG

(Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)

CORPORATE INFORMATION

LEGAL ADVISER AS TO HONG KONG LAWS

Jingtian & Gongcheng LLP

LEGAL ADVISER AS TO PRC LAWS

Jingtian & Gongcheng

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Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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COMPANY WEBSITE

www.igg.com

PRINCIPAL BANKS

Citibank N.A. Singapore Branch
Standard Chartered Bank (Singapore) Limited
The Hongkong and Shanghai Banking Corporation Limited

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited

HIGHLIGHTS

	1H2022	2H2021	1H2021
	HK\$' 000	HK\$' 000	HK\$' 000
	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	2,485,739	2,813,435	3,237,459
Cost of revenue	(787,102)	(897,784)	(955,024)
Other net (losses)/gains	(88,167)	(138,529)	107,399
Selling and distribution expenses	(822,038)	(1,017,865)	(935,264)
Administrative expenses	(197,031)	(194,074)	(253,755)
Research and development expenses	(738,152)	(755,991)	(497,776)
(Loss)/profit for the period	(171,771)	(207,310)	576,922
Including: Net (loss)/profit for core game business ¹	(58,025)	(64,457)	488,753
(Loss)/gain on investments ²	(113,746)	(142,853)	88,169
(Loss)/profit for the period attributable to equity shareholders of the Company	(171,771)	(206,908)	577,346
Adjusted net (loss)/income ³	(104,739)	(137,941)	590,805

- During the Period, amid the challenges caused by intensifying competition, the Russia-Ukraine War and persistently high inflation globally, the Group recorded a revenue of HK\$2,486 million, representing a decrease of 23% compared to HK\$3,237 million for the corresponding period last year, and decreased by 12% compared to HK\$2,813 million for the second half of 2021. “Lords Mobile”, IGG’s flagship title launched seven years ago, continued to generate stable revenue, contributing over HK\$2.0 billion in the first half of 2022.
- The Group’s loss for the Period was HK\$172 million. Due to the Group’s continuous efforts in optimising resource allocation and controlling costs during the Period, the loss narrowed by 17% from HK\$207 million for the second half of 2021. As for the corresponding period of the prior year, it was a profit of HK\$577 million. The Group’s net loss/profit for core game business turned from a net loss of over HK\$80 million in the first quarter of 2022 to a net profit of more than HK\$20 million in the second quarter of 2022. Regarding the investments, the Group recorded a loss on investments of HK\$114 million due to the valuation fluctuation and performance losses of the investee companies.
- Following years of investment in research and development, the Group has started a new chapter of growth in the second half of 2022. The Group expects a net loss in the second half of 2022 due to increased marketing budgets for new games in order to drive revenue to new heights.

1 Net (loss)/profit for core game business: Net (loss)/profit excluding (loss)/gain on investments.

2 (Loss)/gain on investments including: (1) fair value change and gain/loss on disposal of other financial assets, and dividend income; and (2) share of results of associates and joint ventures, impairment loss on interest in associates and joint ventures and net gain/loss on disposal and deemed disposal of associates and joint ventures.

3 Adjusted net (loss)/income represents (loss)/profit for the Period attributable to equity shareholders of the Company excluding share-based compensation. It is considered a useful supplement to the consolidated statement of profit or loss indicating the Group’s profitability and operational performance for the financial periods presented.

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL PRESENCE

Established in 2006, IGG is a renowned developer and publisher of mobile games with a strong global presence and an international customer base of 1.4 billion users with over 33 million MAU¹. Leveraging its success in client and browser PC online games, the Group changed its strategy to target the mobile games market in 2013. After years of effort, the Group's mobile games are now available in 23 different languages worldwide, and IGG has been listed among the "Top 52 Publishers" globally by data.ai for eight consecutive years. Embracing our corporate spirit of "Innovators at Work, Gamers at Heart," the Group is dedicated to creating high-quality and enjoyable games that will stand the test of time.

IGG is headquartered in Singapore with local offices in the United States, China, Canada, Japan, South Korea, Thailand, the Philippines, Indonesia, Brazil, Türkiye, Italy and Spain, and users from more than 200 countries and regions worldwide. Over the years, IGG has aggressively pursued a strategy of globalisation in R&D and operations, establishing long-term relationships with over 100 business partners, including global platforms, advertising channels, and vendors such as Apple, Google, and Meta. The Group's international presence and partnerships have enhanced its competitive advantage in the industry.

BUSINESS REVIEW

In the first half of 2022, the Group's revenue declined 23% year-on-year and decreased 12% half-on-half to nearly HK\$2.5 billion amid the challenges caused by intensifying competition, the Russia-Ukraine War and persistently high inflation globally. "Lords Mobile", IGG's flagship title launched seven years ago, continued to generate stable revenue, contributing over HK\$2.0 billion in the first half of 2022. During the Period, revenue generated from markets in Asia, North America and Europe accounted for 37%, 33% and 24%, respectively, of the Group's total revenue.

The Group continued to optimise resource allocation and control costs amid the operating challenges. IGG's core game business turned from a net loss of over HK\$80 million in the first quarter of 2022 to a net profit of more than HK\$20 million in the second quarter of 2022. Due to the valuation fluctuation and performance losses of the investee companies, the Group's investments recorded a loss of HK\$114 million. As a result, the Group recorded a net loss of HK\$172 million in the first half of 2022, narrower by 17% compared to the net loss of HK\$207 million in the second half of 2021.

¹ The Group's users and MAU include users of mobile games and apps.

MANAGEMENT DISCUSSION AND ANALYSIS

“Lords Mobile”

“Lords Mobile,” released in March 2016, is the Group’s first cross-platform, multi-language, real-time game designed for global gamers. The game has been well-received by gamers since its launch and continues to generate stable revenue for the Group. During the Period, the Group continued to release regular updates and collaborated with Universal Pictures to introduce characters from their smash hit, Kung Fu Panda 3, into the game. IGG will continue to release new game content and different promotional initiatives to extend the game’s longevity. As of 30 June 2022, the game has over 540 million registered users worldwide and nearly 11 million MAU.

“Time Princess”

“Time Princess,” released in the second half of 2020, is the first female-oriented game developed by the Group. On top of the frequent release of new interactive stories since its debut, “Time Princess” is collaborating with the Louvre Museum during the Period, the first time the Louvre has ever partnered with a mobile game. “Time Princess” took players on a magical tour of the Louvre through an interactive story “The Louvre Journey” with a unique outfit.

“Mythic Heroes”

“Mythic Heroes,” released in September 2021, is an idle role-playing game. With unique multi-cultural mythological themes and high-quality graphics, the game has been well-received by gamers since its debut. Recently, “Mythic Heroes” topped the game rankings on both Apple’s App Store and Google’s Play Store at its official release in South Korea. The game succeeded in gaining a growth driver in Asia.

“Castle Clash”

“Castle Clash” is a fast-paced tower defence game launched in 2013. The game remains popular after nine years. Frequent content updates and regular addition of new features have successfully sustained the game’s appeal.

New Titles

“Yeager: Hunter Legend,” an eagerly awaited action game, was released in July 2022. The game offers players an immersive and realistic monster hunting experience on a vast world map with intuitive battle controls and high-quality graphics. Another strategy game, “Doomsday: Last Survivors,” is a unique game with a combination of tower defence and strategy, and is showing growth potential in European, North American and South East Asian markets. Furthermore, a diverse line-up of new titles, including strategy games, an idle game, and more massively multiplayer online role-playing games are scheduled for launch in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Investments

The main objectives of the Group's investments are to strengthen its overall R&D capability and enrich its product portfolio. Through strategic agreements with companies in the games industry, including licensed publishing and outsourced game development, the Group strives to diversify its game portfolio. At the same time, the Group tracks strategic directions in the Internet industry by investing in private equity funds with outstanding performance and portfolios focused on mobile Internet business. During the Period, due to the valuation fluctuation and performance losses of the investee companies, the Group's investment business recorded a loss of HK\$114 million.

PROSPECTS

Following years of investment in research and development, the Group is starting a new chapter of growth in the second half of 2022. The Group expects a net loss in the second half of 2022 due to increased marketing budgets for new games in order to drive revenue to new heights.

Looking forward, IGG will continue to release innovative and diversified games to drive long-term growth. Embracing the corporate spirit of "Innovators at Work, Gamers at Heart," the Group will continue to strengthen its global R&D and operation teams, to relentlessly pursue its strategy of quality, innovation and excellence in creating innovative yet timeless games.

FINANCIAL REVIEW

Revenue

The Group's revenue for the Period was HK\$2,486 million, representing a decrease of 23% compared to the revenue of HK\$3,237 million for the corresponding period last year, and decreased by 12% compared to the revenue of HK\$2,813 million for the second half of 2021. The natural decline of revenue was primarily due to the core game of the Group reaching its maturity stage.

The following table sets forth a breakdown of the Group's revenue for the Period and the first half and second half of 2021:

	1H2022		2H2021		1H2021	
	HK\$' 000	%	HK\$' 000	%	HK\$' 000	%
"Lords Mobile"	2,008,898	80.8	2,283,043	81.1	2,737,262	84.6
"Time Princess"	131,696	5.3	156,649	5.6	155,581	4.8
"Mythic Heroes"	80,796	3.3	54,082	1.9	–	–
"Castle Clash"	71,907	2.9	101,542	3.6	153,740	4.7
Others	192,442	7.7	218,119	7.8	190,876	5.9
Total	2,485,739	100.0	2,813,435	100.0	3,237,459	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of revenue

The Group's cost of revenue for the Period was HK\$787 million, representing a decrease of 18% compared to HK\$955 million for the corresponding period in 2021, and decreased by 12% compared to HK\$898 million for the second half of 2021, primarily due to the decrease in channel costs as a result of decreased revenue.

Gross profit and gross profit margin

The Group's gross profit for the Period was HK\$1,699 million, representing a decrease of 26% compared to HK\$2,282 million for the corresponding period in 2021, and a decrease of 11% compared to HK\$1,916 million for the second half of 2021, primarily due to the natural grossing decline of the core game.

The Group's gross profit margin for the Period was 68.3%, representing a decrease of 2.2% compared to 70.5% for the corresponding period in 2021, but it raised slightly compared to 68.1% for the second half of 2021. The decrease in year-on-year gross profit margin was primarily due to the increase in server cost and content cost.

Other net (losses)/gains

The Group's other net loss for the Period was HK\$88 million. As for the corresponding period in 2021, it was net gain of HK\$107 million. The loss for the Period primarily came from investment impairment loss caused by the valuation fluctuation of investee companies. More details on other net (losses)/gains are set out in note 4 to the unaudited interim financial report, and details on the Group's investments are set out below in the "Investments" section.

Selling and distribution expenses

The Group's selling and distribution expenses for the Period was HK\$822 million, representing a decrease of 12% compared to HK\$935 million for the corresponding period in 2021, and a decrease of 19% compared to HK\$1,018 million for the second half of 2021. The decrease in selling and distribution expenses was due to decreased promotion for the core game which entered into the maturity stage.

Administrative expenses

The Group's administrative expenses for the Period was HK\$197 million, representing a decrease of 22% compared to HK\$254 million for the corresponding period in 2021, and remained stable compared to HK\$194 million for the second half of 2021. The decrease in administrative expenses year-on-year was primarily due to the Group's continuous efforts in resource optimisation and cost control.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and development expenses

The Group's research and development expenses for the Period was HK\$738 million, representing an increase of 48% compared to HK\$498 million for the corresponding period in 2021, but decreased by 2% compared to HK\$756 million for the second half of 2021. The R&D expenses for the Period increased year-on-year was primarily due to the Group had begun setting up new R&D centers in 2021 to strengthen the R&D teams and enrich its game portfolio, which resulted in a stepped-up investment in research and development since the second half of 2021. During the first half of 2022, R&D resource optimisation measures started to take effect, contributing to the decrease in R&D expenses for the Period compared to the previous half year.

Share of results of associates and joint ventures

The Group's share of results of associates and joint ventures for the Period was a net loss of HK\$8 million, and the net loss for the corresponding period in 2021 was HK\$28 million. The decrease in net loss was primarily due to the decrease of operating losses of relevant associates and joint ventures compared to the corresponding period in 2021. More details on share of results of associates and joint ventures are set out in note 11 to the unaudited interim financial report.

Income tax expenses

The Group's income tax expenses for the Period was HK\$14 million, representing a decrease of 85% compared to HK\$96 million for the corresponding period in 2021. The Group recorded a loss for the Period. The income tax expenses primarily came from some subsidiaries which recorded profit, as well as withholding tax from overseas income during the Period.

Capital expenditures

During the Period, the Group's capital expenditures were mainly related to acquisition of property, plant and equipment, including construction of self-use office building in Fuzhou, China, renovation of offices in various regions, purchases of servers and computers; and purchases of intangible assets, such as software. Capital expenditures for the Period and the corresponding period in 2021 are set forth below:

MANAGEMENT DISCUSSION AND ANALYSIS

	Six months ended 30 June	
	2022	2021
	HK\$' 000	HK\$' 000
Acquisition of property, plant and equipment:		
Office premises and renovations	41,353 ¹	151,170 ²
Servers and computers	6,921	24,658
Purchase of intangible assets:		
Software	2,353	1,753
Game license fee	–	12,885
Acquisition of land use rights	–	122,225 ³

1. It was mainly related to the payment for the Period for construction of self-use office building in Fuzhou. On 18 January 2022, Fuzhou Tianping, an indirect wholly-owned subsidiary of the Company, entered into a letter of award with the First Company of China Eighth Engineering Division Ltd.* (中建八局第一建设有限公司) (“the Contractor”), pursuant to which Fuzhou Tianping has awarded a construction contract to the Contractor with an aggregate construction area of approximately 49,200 square meters at a contract sum of RMB422 million (equivalent to approximately HK\$515 million, at the exchange rate on the signing date) in respect of the construction of office building(s) on the Land located in Jin’an District, Fuzhou, the PRC. As of the date of this report, the construction work is at the stage of pile foundation and is expected to be completed in February 2024. Please refer to the announcement of the Company dated 18 January 2022 for further details.
2. It was related to the 90% prepayment for the acquisition of self-use office premises located in the high-tech zone of Chengdu, China, and renovation expenses for other offices at various locations in the corresponding period of last year. On 1 February 2021, Chengdu Tianyong, an indirect wholly-owned subsidiary of the Company, entered into purchase agreements with Sichuan Ocean Land Development Co., Ltd.* (四川海洋置地發展有限公司) in respect of the acquisition of “the 15~19 floors of Neptune Center (phase II)” with a total area of 8,493.75 square meters, at a consideration of RMB132 million (equivalent to approximately HK\$158 million, at the exchange rate on the signing date).
3. It was related to final 50% payment for the acquisition of land use rights of the Land located in Fuzhou, China in the corresponding period of last year. On 15 September 2020, Fuzhou Tianping entered into a land use rights assignment contract with Fuzhou Natural Resources and Planning Bureau in respect of the acquisition of land use rights of the Land at a consideration of RMB201 million (equivalent to approximately HK\$228 million, at the exchange rate on the signing date). The Land is situated in Jin’an District, Fuzhou, China (Land Lot No. 2020-44) for construction of self-use office building, with a total site area of 8,910 square meters. Please refer to note 1 above and the announcements of the Company dated 15 September 2020 and 18 January 2022 for further details.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, capital resources and gearing ratio

As at 30 June 2022, the Group had net current assets of HK\$1,354 million (31 December 2021: HK\$1,437 million), and the gearing ratio of the Group, calculated as total liabilities divided by total assets, was 21.3% (31 December 2021: 25.6%).

As at 30 June 2022, the Group had cash and cash equivalents of HK\$1,670 million (31 December 2021: HK\$1,950 million).

Except for lease liabilities set out in note 18 to the unaudited interim financial report, the Group did not have any bank borrowings or other financing facilities as at 30 June 2022 and 31 December 2021.

Operating activities

Net cash outflow used in operating activities was HK\$140 million for the Period, compared to the net cash inflow of HK\$541 million for the corresponding period in 2021. The net cash outflow of operating activities was primarily due to the decline in revenue and increase in R&D expenses.

Investing activities

Net cash outflow used in investing activities was HK\$92 million for the Period, primarily due to the payment for the construction of self-use office building on the Land in Fuzhou, China, as well as equity investment in the mobile internet and gaming related companies and funds. Net cash inflow generated from investing activities was HK\$552 million for the corresponding period in 2021, primarily came from the Group's disposal of shares in XD Inc.

Financing activities

Net cash outflow used in financing activities was HK\$27 million for the Period, primarily attributable to capital and interest elements of lease rentals paid for right-of-use assets. Net cash outflow used in financing activities was HK\$822 million for the corresponding period in 2021, primarily attributable to the payment of the second interim dividend and special dividend for the year ended 31 December 2020, as well as share repurchase and purchase of shares for Share Award Scheme made by the Company.

Foreign currency risk

The Group's sales and purchases during the Period were mostly denominated in USD and SGD. The management team closely monitors foreign exchange exposure to ensure that appropriate measures are implemented in a timely and effective manner. Historically, the Group has not incurred any significant foreign currency exchange loss in its operation.

MANAGEMENT DISCUSSION AND ANALYSIS

Legal compliance

As the Group is continuously expanding its businesses worldwide, it is required to comply with the new applicable laws and regulations in different jurisdictions that are specifically relevant to the Group's business, such as laws relating to data protection, internet information security, intellectual property and gaming industry.

Protecting users' personal data is the top priority of operations, and the Group is fully aware that any misuse, loss or leakage of users' data could have a negative impact on affected users and the Group's reputation, and may even lead to potential legal action against the Group. The Group is committed to safeguarding the security of users' personal data. In this regard, the update of privacy policy and the treatment and control measures of users' personal data form part of this commitment. When collecting and processing such data, the Group explains the purpose of the acquired data and obtains the consent of users. Users also have rights to request to modify or delete their personal data. In addition, information security keeps the personal data anonymous to the maximum extent possible through effective management systems, also, employing internal processing mechanisms of data management, separation of access and restrictions on access, to ensure the highest level of protection of personal data.

Dividend

The Board does not recommend the payment of any interim dividend for the period ended 30 June 2022 (for the six months ended 30 June 2021: interim dividend of HK\$14.5 cents per ordinary Share).

Share repurchase

The Group made no share repurchases during the Period (for the six months ended 30 June 2021: total payment of share repurchase and declared dividends was approximately HK\$230 million, representing approximately 40% of the net profit).

Human resources

As at 30 June 2022, the Group had 2,763 employees (31 December 2021: 3,101; 30 June 2021: 2,619). The Group's total staff-related costs amounted to HK\$714 million for the Period (for the first half of 2021: HK\$515 million; for the second half of 2021: HK\$675 million).

With the objective of strengthening R&D teams, the Group began setting up new R&D centers since 2021 to enrich its product portfolio, which results in an increase in staff-related cost since the second half of 2021. In 2022, due to the optimisation of resources and reduction in headcount, the total staff number decreased by 11% as at 30 June 2022 compared to the end of 2021. The total staff-related costs for the Period increased slightly compared to the second half of 2021 was primarily due to the expenses related to severance pay.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's emolument comprises by basic salary, bonus and share-based compensation, and these are reviewed by the remuneration committee periodically. The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regarded the Group's operating results, individual performance, comparable market statistics and the Company's share price.

The Company has adopted the Pre-IPO Share Option Scheme, the Share Option Scheme, the Share Award Scheme and the Performance-based Share Award Scheme, to motivate and reward Directors, key management and eligible employees. Details of the schemes are set out in the paragraphs headed "Pre-IPO Share Option Scheme," "Share Option Scheme," "Share Award Scheme" and "Performance-based Share Award Scheme" in the section headed "Other Information" of this report.

Investments

As at 30 June 2022, the Group's carrying amount of investments was HK\$914 million (as at 31 December 2021:HK\$1,021 million), including interests in associates and joint ventures and other financial assets. Details of the investments of the Group are set out in notes 11 and 12 to the unaudited interim financial report.

Details of (loss)/gain on investments of the Period and the first half and second half in 2021 are set forth below:

	1H2022 HK\$' 000	2H2021 HK\$' 000	1H2021 HK\$' 000
Fair value change and gain on disposal of other financial assets and dividend income			
– Griffin Gaming Partners, L.P.	5,867	2,280	37,296
– MFund, L.P.	2,913	(106,309)	(114,518)
– XD Inc.	(187)	(291)	221,769
– Other funds and equity investments	1,477	(6,188)	(258)
Impairment loss on interests in associates and joint ventures	(115,522)	(2,572)	(30,151)
Net gains on disposal and deemed disposal of associates and joint ventures	–	2,016	2,280
Share of results of associates and joint ventures	(8,294)	(31,789)	(28,249)
Total	(113,746)	(142,853)	88,169

MANAGEMENT DISCUSSION AND ANALYSIS

Private equity funds

As at 30 June 2022, the Group held private equity funds at fair value through profit or loss amounting to approximately HK\$379 million, mainly including MFund, L.P. and Griffin Gaming Partners, L.P., which are set out below:

Name of investee Company	Percentage of interests held by the Group	Investments	Investments	Fair value	Fair value	Unrealised	Realised	Dividend
		cost as at 31 December 2021 HK\$' 000	cost as at 30 June 2022 HK\$' 000	as at 31 December 2021 HK\$' 000	as at 30 June 2022 HK\$' 000	gain on change in fair value for the Period HK\$' 000		gain for the Period HK\$' 000
MFund, L.P. ("MFund")	4.37%	23,286	23,286	167,796	171,612	2,913	-	-
Griffin Gaming Partners, L.P. ("Griffin")	5.44%	87,648	89,532	110,674	119,119	5,867	-	-

Note: During the Period, the unrealised exchange gain of the above investments was approximately HK\$1.6 million.

The Group first entered into a limited partnership agreement with MFund, an Independent Third Party private equity fund, in 2014. The Group, as a limited partner, undertook to subscribe for the share of assets in MFund at a sum of US\$3.0 million (equivalent to HK\$23.29 million), accounting for approximately 4.37% interests. MFund has a diversified investment portfolio, including equity investments in mobile internet industry, which is in alignment with the Group's strategic investment objectives. The investment cost and fair value of the Group's interests in MFund comprised approximately 0.59% and 4.34% of the total assets of the Group as at 30 June 2022, respectively.

The Group first entered into a limited partnership agreement with an Independent Third Party to subscribe for the relevant share of interest of Griffin in 2019. Griffin mainly focuses on the investment in gaming related companies worldwide, and its investment portfolio is in line with the Group's strategic investment objective. Subsequently in 2020, the Group entered into a subscription increase letter, pursuant to which the Group's total commitment in Griffin was US\$12.0 million (equivalent to approximately HK\$93.3 million) for an aggregate of approximately 5.44% interests in it. As of 30 June 2022, the Group has contributed US\$11.52 million (equivalent to approximately HK\$89.53 million) to Griffin. The investment cost and fair value of the Group's interests in Griffin comprised approximately 2.26% and 3.01% of the total assets of the Group as at 30 June 2022, respectively.

Save as disclosed above, there were no other material investments held by the Group as at 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Material acquisitions and disposals of subsidiaries and associates and joint ventures

During the Period, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures (for the six months ended 30 June 2021: nil) or future plans for material investments or capital assets as at the date of this report. More details on associates and joint ventures are set out in note 11 to the unaudited interim financial report.

Capital commitment

	At 30 June 2022 HK\$' 000	At 31 December 2021 HK\$' 000
Construction of self-use office building ¹	447,708	–
Acquisition of self-use office premises	14,123	16,102
Renovations and design	4,898	28,869
Investment contracts	3,767	27,630
Purchase of equipment	–	1,267
Total	470,496	73,868

1. On 18 January 2022, Fuzhou Tianping, an indirect wholly-owned subsidiary of the Company, entered into a letter of award with the First Company of China Eighth Engineering Division Ltd.* (中建八局第一建设有限公司) (“the Contractor”), pursuant to which Fuzhou Tianping has awarded a construction contract to the Contractor with a contract sum of RMB422 million (equivalent to approximately HK\$515 million, at the exchange rate on the signing date) in respect of the construction of office building(s) on the Land located in Jin’an District, Fuzhou, the PRC. The construction contract has been signed on the same day after the letter of award was made. Please refer to the announcement of the Company dated 18 January 2022 for further details.

As at 30 June 2022, the Group had a capital commitment of HK\$470 million, which was mainly related to (i) a balance due regarding the construction of self-use office building on the Land by Fuzhou Tianping, (ii) final payment of acquisition of self-use office premises, renovations and design expenses of subsidiaries’ offices at various locations, and (iii) contract payments of investments in the mobile internet and gaming related companies and funds (31 December 2021: HK\$74 million).

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge on assets

On 6 April 2022, Fuzhou Tianping provided a letter of guarantee issued by China Merchants Bank Co., Ltd. Fuzhou Branch (“CMB”) in favour of the Contractor, namely The First Company of China Eighth Engineering Division Ltd.* (中建八局第一建设有限公司), for a maximum amount of RMB27 million (equivalent to approximately HK\$34 million, at the exchange rate on the signing date) to secure Fuzhou Tianping’s performance of payment obligations under the construction contract entered into between Fuzhou Tianping and the Contractor in relation to the construction works contemplated under the letter of award entered between the parties on 18 January 2022 (the “Letter of Guarantee”). Fuzhou Tianping shall deposit such amount equivalent to the maximum guarantee amount under the Letter of Guarantee in cash into the designated bank account opened with CMB pursuant to the terms and conditions of the guarantee cooperation agreement dated 6 April 2022 entered into between Fuzhou Tianping and CMB. The said guarantee shall lapse on 13 February 2024 or upon the full payment of the maximum amount under the Letter of Guarantee to the Contractor pursuant to the terms therein, whichever is earlier. For further details of the transaction, please refer to the announcement of the Company dated 6 April 2022.

Save as disclosed above, no asset of the Group was pledged as a security for bank borrowing or any other financing activities as at 30 June 2022 (31 December 2021: nil).

Contingent liabilities

The Group had no contingent liabilities as at 30 June 2022 (31 December 2021: nil).

* *For identification purpose only*

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organisation which is open and accountable to its Shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, while focusing on areas such as internal control and risk management, as well as fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company.

The Company believes that effective corporate governance is essential to create more value for the Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimise return for the Shareholders.

The Company is committed to maintaining high standards of corporate governance in the best interests of Shareholders. During the Period, except for the deviation from code provision C.2.1 of the Corporate Governance Code, the Company has complied with the code provisions of the Corporate Governance Code.

Under code provision C.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer. Mr. Zongjian Cai is the chairman and chief executive officer of the Group. He has extensive experience in online game industry and is responsible for the overall corporate strategic planning and business development of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual can provide strong leadership to the Group and ensures efficient execution of corporate plans and objectives. In addition, the balance of power and authorities is ensured by the composition of the Board, which comprises experienced and high caliber individuals. The Board currently comprises five executive Directors, one non-executive Director and three independent non-executive Directors, who would be able to offer advice from different perspectives. All major decisions are made by the Board members in consultation with the management team of the Company. Based on the above, the Board considers that the current arrangement has appropriate checks and balance of power in place to safeguard the interest of the Group and the Shareholders as a whole.

MODEL CODE

During the Period, the Company has also adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code regarding directors' securities transactions during the Period.

CORPORATE GOVERNANCE

UPDATE OF DIRECTORS' INFORMATION

There has been no change in information of the Directors since the date of the Company's last published annual report.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the unaudited interim results and the unaudited condensed consolidated interim financial report for the Period.

The external auditor, KPMG has reviewed the interim financial report for the Period in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

OTHER INFORMATION

DISCLOSURE OF INTEREST AS PER REGISTERS KEPT PURSUANT TO THE SFO

(a) Directors' and chief executive's interests and short positions in Shares, underlying shares and debentures

As at 30 June 2022, the interests and short positions of the Directors and chief executive of the Company in Shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules were as follows:

Long positions in shares of the Company and the associated corporation

Interests in	Name	Capacity/Nature of interest	Number of Shares/ underlying shares held	Approximate percentage of shareholding
1. The Company	Mr. Zongjian Cai (Notes 1, 2)	Beneficial owner, interest in a controlled corporation, spouse interest, interests held jointly with another person	305,970,647	25.56%
	Mr. Yuan Xu (Notes 1, 2)	Beneficial owner, interests held jointly with another person	305,970,647	25.56%
	Mr. Hong Zhang (Notes 1, 2)	Beneficial owner, interests held jointly with another person	305,970,647	25.56%
	Ms. Jessie Shen (Note 3)	Beneficial owner	8,724,607	0.73%
	Mr. Feng Chen (Note 4)	Beneficial owner	16,323,331	1.36%
	Mr. Yuan Chi (Note 5)	Beneficial owner, interest in a controlled corporation	154,002,000	12.86%
	Dr. Horn Kee Leong (Note 6)	Beneficial owner	132,000	0.01%
	Mr. Dajian Yu (Note 7)	Beneficial owner	810,188	0.07%
	Ms. Zhao Lu (Note 8)	Beneficial owner	249,000	0.02%
2. Associated corporation: UGen World Inc.	Mr. Yuan Xu (Note 9)	Beneficial owner	384,978	4.67%
	Mr. Hong Zhang (Note 10)	Beneficial owner	230,986	2.80%

OTHER INFORMATION

Notes:

- (1) Pursuant to an act in concert agreement dated 16 September 2013, as amended by an amendment dated 18 October 2016, Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen (spouse of Mr. Zongjian Cai) and Mr. Zhixiang Chen agreed that they would act in concert with each other with respect to material matters relating to the Company's operation. Each of Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen and Mr. Zhixiang Chen is therefore deemed to be interested in the Shares held by one another under the SFO.
- (2) Mr. Zongjian Cai was the beneficial owner of 373,000 Shares. Mr. Zongjian Cai was also interested in all the issued share capital of Duke Online and he is the sole director of Duke Online. Therefore, he was deemed to be interested in 193,752,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai was deemed to be interested in all Shares held by Ms. Kai Chen under the SFO. On 6 May 2021, 746,000 awarded shares were granted to Mr. Zongjian Cai under the Share Award Scheme, among which 373,000 awarded shares have been vested. On 21 May 2021, 38,444,306 Performance-based Awarded Shares were awarded to Mr. Zongjian Cai under the Performance-based Share Award Scheme. On 20 July 2021, an ordinary resolution was passed by the Shareholders to approve such grant. On 27 April 2022, 7,688,862 Performance-based Awarded Shares have lapsed due to the failure in satisfying all the vesting conditions. Upon the full vest of such awarded shares and Performance-based Awarded Shares, Mr. Zongjian Cai will be beneficially interested in 31,128,444 Shares.

Mr. Yuan Xu was the beneficial owner of 22,784,417 Shares. On 23 March 2015, he was also granted 613,000 share options under the Share Option Scheme. On 6 May 2021, 579,000 awarded shares were granted to Mr. Yuan Xu under the Share Award Scheme, among which 289,500 awarded shares have been vested. On 21 May 2021, 7,163,535 Performance-based Awarded Shares were awarded to Mr. Yuan Xu under the Performance-based Share Award Scheme. On 20 July 2021, an ordinary resolution was passed by the Shareholders to approve such grant. On 27 April 2022, 1,432,707 Performance-based Awarded Shares have lapsed due to the failure in satisfying all the vesting conditions. Upon the full exercise and vest of such share options, awarded shares and Performance-based Awarded Shares, Mr. Yuan Xu will be beneficially interested in 6,633,328 Shares.

Mr. Hong Zhang was the beneficial owner of 11,413,335 Shares, and was granted 9,200,000 share options under the Pre-IPO Share Option Scheme, all of which have been exercised. On 23 March 2015, Mr. Hong Zhang was also granted 605,000 share options under the Share Option Scheme. On 6 May 2021, 493,000 awarded shares were granted to Mr. Hong Zhang under the Share Award Scheme, among which 246,500 awarded shares have been vested. On 21 May 2021, 6,447,181 Performance-based Awarded Shares were awarded to Mr. Hong Zhang under the Performance-based Share Award Scheme. On 20 July 2021, an ordinary resolution was passed by the Shareholders to approve such grant. On 27 April 2022, 1,289,437 Performance-based Awarded Shares have lapsed due to the failure in satisfying all the vesting conditions. Upon the full exercise and vest of such share options, awarded shares and Performance-based Awarded Shares, Mr. Hong Zhang will be beneficially interested in 6,009,244 Shares.

Ms. Kai Chen was the beneficial owner of 17,847,952 Shares. On 19 August 2021, 28,900 awarded shares were granted to Ms. Kai Chen under the Share Award Scheme. Upon the full vest of such awarded shares, Ms. Kai Chen will be beneficially interested in 28,900 Shares. She was also deemed to be interested in all Shares held by Mr. Zongjian Cai under the SFO.

Mr. Zhixiang Chen was the beneficial owner of 16,000,000 Shares.

- (3) Ms. Jessie Shen was the beneficial owner of 3,742,000 Shares. On 21 November 2014 and 23 March 2015, 367,000 share options and 141,000 share options were granted to Ms. Jessie Shen under the Share Option Scheme, respectively. On 6 May 2021, 544,000 awarded shares were granted to Ms. Jessie Shen under the Share Award Scheme, among which 272,000 awarded shares have been vested. On 21 May 2021, 5,253,259 Performance-based Awarded Shares were awarded to Ms. Jessie Shen under the Performance-based Share Award Scheme. On 20 July 2021, an ordinary resolution was passed by the Shareholders to approve such grant. On 27 April 2022, 1,050,652 Performance-based Awarded Shares have lapsed due to the failure in satisfying all the vesting conditions. Upon the full exercise and vest of such share options, awarded shares and Performance-based Awarded Shares, Ms. Jessie Shen will be beneficially interested in 4,982,607 Shares.

OTHER INFORMATION

- (4) Mr. Feng Chen was the beneficial owner of 13,535,500 Shares. On 23 March 2015, 300,000 share options were granted to Mr. Feng Chen under the Share Option Scheme. On 6 May 2021, 391,000 awarded shares were granted to Mr. Feng Chen under the Share Award Scheme, among which 195,500 awarded shares have been vested. On 21 May 2021, 2,865,414 Performance-based Awarded Shares were awarded to Mr. Feng Chen under the Performance-based Share Award Scheme. On 20 July 2021, an ordinary resolution was passed by the Shareholders to approve such grant. On 27 April 2022, 573,083 Performance-based Awarded Shares have lapsed due to the failure in satisfying all the vesting conditions. Upon the full exercise and vest of such share options, awarded shares and Performance-based Awarded Shares, Mr. Feng Chen will be beneficially interested in 2,787,831 Shares.
- (5) Mr. Yuan Chi was the beneficial owner of 527,000 Shares. Mr. Yuan Chi was also interested in all the issued share capital of Edmond Online and he is one of the directors of Edmond Online. Therefore, he was deemed to be interested in 153,434,000 Shares held by Edmond Online under the SFO. On 6 May 2021, 82,000 awarded shares were granted to Mr. Yuan Chi under the Share Award Scheme, among which 41,000 awarded shares have been vested. Upon the full vest of such awarded shares, Mr. Yuan Chi will be beneficially interested in 41,000 Shares.
- (6) Dr. Horn Kee Leong was the beneficial owner of 96,000 Shares. On 6 May 2021, 72,000 awarded shares were granted to Dr. Horn Kee Leong under the Share Award Scheme, among which 36,000 awarded shares have been vested. Upon the full vest of such awarded shares, Dr. Horn Kee Leong will be beneficially interested in 36,000 Shares.
- (7) Mr. Dajian Yu was the beneficial owner of 640,688 Shares. On 23 March 2015, Mr. Dajian Yu was granted 250,000 share options under the Share Option Scheme, among which 100,000 share options have been exercised. On 6 May 2021, 39,000 awarded shares were granted to Mr. Dajian Yu under the Share Award Scheme, among which 19,500 awarded shares have been vested. Upon the full exercise and vest of such share options and awarded shares, Mr. Dajian Yu will be beneficially interested in 169,500 Shares.
- (8) Ms. Zhao Lu was the beneficial owner of 79,500 Shares. On 23 March 2015, Ms. Zhao Lu was granted 250,000 share options under the Share Option Scheme, among which 100,000 share options have been exercised. On 6 May 2021, 39,000 awarded shares were granted to Ms. Zhao Lu under the Share Award Scheme, among which 19,500 awarded shares have been vested. Upon the full exercise and vest of such share options and awarded shares, Ms. Zhao Lu will be beneficially interested in 169,500 Shares.
- (9) Mr. Yuan Xu will be the beneficial owner of 384,978 most senior class of shares of UGen World Inc. upon full conversion of the relevant share subscription warrants pursuant to the terms thereof and is the holder of US\$100,000 convertible promissory note of UGen World Inc. which can be converted into such number of the most senior class or series of equity securities of UGen World Inc. or such class or series of equity securities of UGen World Inc. existing immediately prior to such conversion as elected by him in his sole discretion pursuant to the terms of the relevant convertible promissory note.
- (10) Mr. Hong Zhang will be the beneficial owner of 230,986 most senior class of shares of UGen World Inc. upon full conversion of the relevant share subscription warrants pursuant to the terms thereof and is the holder of US\$60,000 convertible promissory note of UGen World Inc. which can be converted into such number of the most senior class or series of equity securities of UGen World Inc. or such class or series of equity securities of UGen World Inc. existing immediately prior to such conversion as elected by him in his sole discretion pursuant to the terms of the relevant convertible promissory note.

Save as disclosed above, as of 30 June 2022, none of the Directors and chief executive of the Company was, under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to Listing Rules.

OTHER INFORMATION

(b) Substantial shareholders' and other persons' interests and short positions in Shares and underlying shares

So far as were known to the Directors or chief executive of the Company, as at 30 June 2022, the following persons had interests and/or short positions of 5% or more of the Shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares/ underlying shares held	Approximate percentage of shareholding
Duke Online (Notes 1, 2)	Beneficial owner, interests held jointly with another person	305,970,647	25.56%
Mr. Zongjian Cai (Notes 1, 2)	Beneficial owner, interest in a controlled corporation, spouse interest, interests held jointly with another person	305,970,647	25.56%
Mr. Yuan Xu (Notes 1, 2)	Beneficial owner, interests held jointly with another person	305,970,647	25.56%
Mr. Hong Zhang (Notes 1, 2)	Beneficial owner, interests held jointly with another person	305,970,647	25.56%
Ms. Kai Chen (Notes 1, 2)	Beneficial owner, spouse interest, interests held jointly with another person	305,970,647	25.56%
Mr. Zhixiang Chen (Notes 1, 2)	Beneficial owner, interests held jointly with another person	305,970,647	25.56%
Edmond Online (Note 3)	Beneficial owner	153,434,000	12.82%
Mr. Yuan Chi (Note 3)	Beneficial owner, interest in a controlled corporation	154,002,000	12.86%
LSV Asset Management (Note 4)	Investment manager, interests held through general partnership	61,935,000	5.17%

Notes:

- (1) Pursuant to an act in concert agreement dated 16 September 2013, as amended by an amendment dated 18 October 2016, Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen (spouse of Mr. Zongjian Cai) and Mr. Zhixiang Chen agreed that they would act in concert with each other with respect to material matters relating to the Company's operation. Each of Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen and Mr. Zhixiang Chen is therefore deemed to be interested in the Shares held by one another under the SFO.

OTHER INFORMATION

- (2) Mr. Zongjian Cai was the beneficial owner of 373,000 Shares. Mr. Zongjian Cai was also interested in all the issued share capital of Duke Online and he is the sole director of Duke Online. Therefore, he was deemed to be interested in 193,752,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai was deemed to be interested in all Shares held by Ms. Kai Chen under the SFO. On 6 May 2021, 746,000 awarded shares were granted to Mr. Zongjian Cai under the Share Award Scheme, among which 373,000 awarded shares have been vested. On 21 May 2021, 38,444,306 Performance-based Awarded Shares were awarded to Mr. Zongjian Cai under the Performance-based Share Award Scheme. On 20 July 2021, an ordinary resolution was passed by the Shareholders to approve such grant. On 27 April 2022, 7,688,862 Performance-based Awarded Shares have lapsed due to the failure in satisfying all the vesting conditions. Upon the full vest of such awarded shares and Performance-based Awarded Shares, Mr. Zongjian Cai will be beneficially interested in 31,128,444 Shares.

Mr. Yuan Xu was the beneficial owner of 22,784,417 Shares. On 23 March 2015, he was also granted 613,000 share options under the Share Option Scheme. On 6 May 2021, 579,000 awarded shares were granted to Mr. Yuan Xu under the Share Award Scheme, among which 289,500 awarded shares have been vested. On 21 May 2021, 7,163,535 Performance-based Awarded Shares were awarded to Mr. Yuan Xu under the Performance-based Share Award Scheme. On 20 July 2021, an ordinary resolution was passed by the Shareholders to approve such grant. On 27 April 2022, 1,432,707 Performance-based Awarded Shares have lapsed due to the failure in satisfying all the vesting conditions. Upon the full exercise and vest of such share options, awarded shares and Performance-based Awarded Shares, Mr. Yuan Xu will be beneficially interested in 6,633,328 Shares.

Mr. Hong Zhang was the beneficial owner of 11,413,335 Shares, and was granted 9,200,000 share options under the Pre-IPO Share Option Scheme, all of which have been exercised. On 23 March 2015, Mr. Hong Zhang was also granted 605,000 share options under the Share Option Scheme. On 6 May 2021, 493,000 awarded shares were granted to Mr. Hong Zhang under the Share Award Scheme, among which 246,500 awarded shares have been vested. On 21 May 2021, 6,447,181 Performance-based Awarded Shares were awarded to Mr. Hong Zhang under the Performance-based Share Award Scheme. On 20 July 2021, an ordinary resolution was passed by the Shareholders to approve such grant. On 27 April 2022, 1,289,437 Performance-based Awarded Shares have lapsed due to the failure in satisfying all the vesting conditions. Upon the full exercise and vest of such share options, awarded shares and Performance-based Awarded Shares, Mr. Hong Zhang will be beneficially interested in 6,009,244 Shares.

Ms. Kai Chen was the beneficial owner of 17,847,952 Shares. On 19 August 2021, 28,900 awarded shares were granted to Ms. Kai Chen under the Share Award Scheme. Upon the full vest of such awarded shares, Ms. Kai Chen will be beneficially interested in 28,900 Shares. She was also deemed to be interested in all Shares held by Mr. Zongjian Cai under the SFO.

Mr. Zhixiang Chen was the beneficial owner of 16,000,000 Shares.

- (3) Mr. Yuan Chi was the beneficial owner of 527,000 Shares. Mr. Yuan Chi was also interested in all the issued share capital of Edmond Online and he is one of the directors of Edmond Online. Therefore, he was deemed to be interested in 153,434,000 Shares held by Edmond Online under the SFO. On 6 May 2021, 82,000 awarded shares were granted to Mr. Yuan Chi under the Share Award Scheme, among which 41,000 awarded shares have been vested. Upon the full vest of such awarded shares, Mr. Yuan Chi will be beneficially interested in 41,000 Shares.
- (4) According to the disclosure of interest notice filed by LSV Asset Management on 2 November 2020, it had a security interest of 61,935,000 Shares, 48,031,000 Shares of which were held in the capacity of investment manager, and 13,904,000 Shares of which are deemed interest through its general partnership interest in certain limited partnerships.

Save as disclosed above, as at 30 June 2022, the Directors are not aware of any other persons, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in Shares, underlying shares and debentures" above, had interests or short positions in the Shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

OTHER INFORMATION

PRE-IPO SHARE OPTION SCHEME

The Pre-IPO Share Option Scheme was adopted by the Company on 12 November 2008 and amended on 16 September 2013 by written resolutions of all the Shareholders. The terms of the Pre-IPO Share Option Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Scheme will not involve the grant of options by the Company to subscribe for Shares once the Company has become a listed issuer.

The purpose of the Pre-IPO Share Option Scheme is to offer selected persons an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, by purchasing Shares.

The outstanding options under the Pre-IPO Share Option Scheme represent share options originally granted by the Company to the grantees on 20 January 2007, 1 July 2007, 1 July 2008, 5 December 2008, 19 March 2009, 1 August 2009, 1 November 2009, 18 April 2011, 21 April 2011, 25 April 2011, 3 May 2011, 16 May 2011, 13 June 2011, 2 July 2011, 14 August 2011, 15 January 2012, 21 May 2012, and 31 March 2013, respectively, in respect of the Shares in the Company. As of the Listing Date, a total of 224 participants, including three members of the senior management and seven connected persons of our Group have been conditionally granted options under the Pre-IPO Share Option Scheme. The Company should not and did not grant any share options under the Pre-IPO Share Option Scheme after the Listing.

Share options granted under the Pre-IPO Share Option Scheme shall mainly vest according to the following schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant:

Period within which option can be exercised	Maximum percentage of entitlement
Any time after the date when the options are granted (the "First Granting Date"), subject to grantee's completion of 12 months' continuous service	25%
Any time after the first anniversary of the First Granting Date, subject to grantee's completion of 12 months' continuous service	25%
Any time after the second anniversary of the First Granting Date, subject to grantee's completion of 12 months' continuous service	25%
Any time after the third anniversary of the First Granting Date, subject to grantee's completion of 12 months' continuous service	25%

OTHER INFORMATION

Below table sets forth the exercise price of the share options granted on respective dates:

Date of grant	Exercise price
20 January 2007, 1 July 2007	US\$0.004026
1 July 2008	US\$0.008052
5 December 2008, 19 March 2009	US\$0.03775
1 August 2009, 1 November 2009	US\$0.05
18 April 2011, 21 April 2011, 25 April 2011, 3 May 2011, 16 May 2011, 13 June 2011	US\$0.0525
2 July 2011, 14 August 2011, 15 January 2012, 21 May 2012, 31 March 2013	US\$0.0865

Particulars and movements of share options under the Pre-IPO Share Option Scheme during the Period by category of grantees were as follows:

Category of grantees	Number of Pre-IPO share options			
	Outstanding as at 31 December 2021	Exercised during the Period ^(Note)	Lapsed/ forfeited during the Period	Outstanding as at 30 June 2022
Director	3,000,000	3,000,000	–	–
Connected person (other than Director)	300,000	300,000	–	–
Other employee who has been granted share options under the Pre-IPO Share Option Scheme to subscribe for one million Shares or more (Total No.: 1)	25,000	–	–	25,000
Other employees (Total No.: 13)	1,245,000	338,000	120,000	787,000
Total	4,570,000	3,638,000	120,000	812,000

Note: The weighted average closing price of the Shares immediately before the dates on which the share options under the Pre-IPO Share Options Scheme were exercised was HK\$4.33 (for the year ended 31 December 2021: HK\$10.91).

Save as disclosed above, no other share options under the Pre-IPO Share Option Scheme have been exercised, lapsed or cancelled during the Period.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 16 September 2013 for the purpose of giving the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible persons shall be (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (b) a director or proposed director (including a non-executive director and/or an independent non-executive director) of any member of the Group; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; (g) an associate of any of the persons referred to in paragraphs (a) to (c) above; and (h) who, in the sole opinion of the Board, will contribute to or have contributed to the Group.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, that is, 130,973,709 Shares. No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time. As at the date of this report, the total number of securities available for issue under the Share Option Scheme is 125,930,209, representing approximately 10.5% of the issued Shares as at the date of this report.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheets on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five Business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date (i.e. 18 October 2013) and will expire on 17 October 2023, after which no further options will be granted or offered.

OTHER INFORMATION

Pursuant to Rule 17.07 of the Listing Rules, particulars and movements of share options under the Share Option Scheme during the Period by category of grantees were as follows:

Category of grantees	Date of grant	Exercise price per Share	Number of share options				
			Outstanding as at 31 December 2021	Granted during the Period	Exercised during the Period	Lapsed/ forfeited during the Period	Outstanding as at 30 June 2022
Directors							
Mr. Yuan Xu	23 March 2015	HK\$3.90	613,000	-	-	-	613,000
Mr. Hong Zhang	23 March 2015	HK\$3.90	605,000	-	-	-	605,000
Ms. Jessie Shen	21 November 2014	HK\$3.51	367,000	-	-	-	367,000
	23 March 2015	HK\$3.90	141,000	-	-	-	141,000
Mr. Feng Chen	23 March 2015	HK\$3.90	300,000	-	-	-	300,000
Mr. Dajian Yu	23 March 2015	HK\$3.90	150,000	-	-	-	150,000
Ms. Zhao Lu	23 March 2015	HK\$3.90	150,000	-	-	-	150,000
Directors' respective associate							
Ms. Meijia Chen (cousin of Mr. Yuan Xu)	23 March 2015	HK\$3.90	553,000	-	-	-	553,000
Employees (Total No.: 16)							
	11 August 2014	HK\$5.47	100,000	-	-	-	100,000
	21 November 2014	HK\$3.51	75,000	-	-	-	75,000
	23 March 2015	HK\$3.90	999,000	-	-	-	999,000
	19 August 2019	HK\$5.75	406,000	-	-	-	406,000
	6 May 2020	HK\$4.91	342,000	-	-	-	342,000
Total			4,801,000	-	-	-	4,801,000

OTHER INFORMATION

11 August 2014

Share options granted on 11 August 2014 were vested in eligible grantees from 11 August 2015 to 11 August 2018. During the vesting period, 25% of the total number of share options granted were vested on each anniversary date of grant. The grantees can exercise the share options commencing from the relevant vesting dates and ending 10 years after the date of grant.

21 November 2014

Share options granted on 21 November 2014 were vested in eligible grantees from 21 November 2015 to 21 November 2018. During the vesting period, 25% of the total number of share options granted were vested on each anniversary date of grant. The grantees can exercise the share options commencing from the relevant vesting dates and ending 10 years after the date of grant.

23 March 2015

Share options granted on 23 March 2015 can be exercised from a period commencing from the relevant vesting dates and ending 10 years after the date of grant.

Certain number of share options were granted to certain non-executive Directors and all independent non-executive Directors, of which one-third of the total number of share options were vested on each of the date of the annual general meeting in 2016, 2017 and 2018.

The remaining share options were vested in the other eligible grantees from 23 March 2016 to 23 March 2019, of which 25% of the total number of the share options granted were vested on each anniversary date of grant.

19 August 2019

Share options granted on 19 August 2019 are vested in eligible grantees from 19 August 2020 to 19 August 2023. During the vesting period, 25% of the total number of share options granted would be vested on each anniversary date of grant. The grantees can exercise the share options commencing from the relevant vesting date and ending 10 years after the date of grant.

OTHER INFORMATION

6 May 2020

Share options granted on 6 May 2020 are vested in eligible grantees from 6 May 2021 to 6 May 2024. During the vesting period, 25% of the total number of share options granted would be vested on each anniversary date of grant. The grantees can exercise the share options commencing from the relevant vesting date and ending 10 years after the date of grant.

Save as disclosed above, during the Period, no other share options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

SHARE AWARD SCHEME

The Share Award Scheme of the Company was adopted by the Board on 24 December 2013 (the “Adoption Date”) and amended on 19 August 2021. The purpose of the Share Award Scheme is to recognise the contributions by certain selected grantees and to give incentives thereto in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group.

The Board may, from time to time, at their absolute discretion select any eligible person (excluding any excluded grantee) for participation in the Share Award Scheme as a selected grantee. However, until so selected, no eligible person shall be entitled to participate in the Share Award Scheme. The awarded shares (where the Board has determined such number pursuant to the terms of the Share Award Scheme) shall be either (i) allotted and issued by the Company, by using the general mandate granted to the Board by the Shareholders of the Company in the annual general meeting of the Company from time to time, unless separate Shareholders’ approval is obtained in a general meeting of the Company, or (ii) acquired by Computershare Hong Kong Trustees Limited, as the trustee (“Trustee”) from the open market by utilising the Company’s resources provided to the Trustee, subject to the absolute discretion of the Board. The Company will contribute or grant cash to the Trustee to enable the Share Award Scheme to operate with necessary funds to purchase and/or subscribe for Shares. The vesting period shall, in any event, be no longer than ten years.

It is intended that the awarded shares under the Share Award Scheme will be offered to the selected grantees to take up the relevant awarded shares for no consideration subject to the compliance with the relevant laws and regulations, and certain conditions to be decided by the Board at the time of grant of the awarded shares under the Share Award Scheme.

Awarded shares held by the Trustee upon the trust and which are referable to a selected grantee shall vest to that selected grantee in accordance with a vesting schedule determined at the discretion of the Board, provided that the selected grantee remains at all times after the reference date (the date of final approval by the Board of the total number of shares to be awarded to the selected grantees in a single occasion pursuant to the Share Award Scheme or the date of an award by the Trustee pursuant to the trust deed) and on each relevant vesting date(s) an eligible person. The Board may also, in its absolute discretion, determine the performance, operating and financial targets and other criteria, if any, to be satisfied by the selected grantee before the awarded shares can vest.

OTHER INFORMATION

The Board shall not make any further award which will result in the number of shares awarded by the Board under the Share Award Scheme in excess of 10% of the issued share capital of the Company as at the Adoption Date. In any event, the unvested shares held by the Trustee at any time shall be less than 5% of the issued share capital of the Company. The maximum number of shares to all Controlling Shareholders which may be subject to an award or awards in any of the 12 months shall not in aggregate exceed 2% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a participant under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Subject to any early termination as may be determined by the Board, the Share Award Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date.

Details of the Share Award Scheme are set out in the Company's announcements dated 24 December 2013 and 19 August 2021.

Particulars and movements of the awarded shares under the Share Award Scheme during the Period were as follows:

Category of grantees	Date of grant	Number of awarded shares				
		Outstanding as at 31 December 2021	Granted during the Period	Vested during the Period (Note1)	Lapsed/ forfeited during the Period (Note2)	Outstanding as at 30 June 2022
Directors						
Mr. Zongjian Cai	6 May 2021	746,000	–	373,000	–	373,000
Mr. Yuan Xu	6 May 2021	579,000	–	289,500	–	289,500
Mr. Hong Zhang	6 May 2021	493,000	–	246,500	–	246,500
Ms. Jessie Shen	6 May 2021	544,000	–	272,000	–	272,000
Mr. Feng Chen	6 May 2021	391,000	–	195,500	–	195,500
Mr. Yuan Chi	6 May 2021	82,000	–	41,000	–	41,000
Dr. Horn Kee Leong	6 May 2021	72,000	–	36,000	–	36,000
Mr. Dajian Yu	6 May 2021	39,000	–	19,500	–	19,500
Ms. Zhao Lu	6 May 2021	39,000	–	19,500	–	19,500

OTHER INFORMATION

Category of grantees	Date of grant	Number of awarded shares				Outstanding as at 30 June 2022
		Outstanding as at 31 December 2021	Granted during the Period	Vested during the Period (Note1)	Lapsed/ forfeited during the Period (Note2)	
Employees and other connected persons						
(Total No.: 688)	23 March 2018	203,405	–	194,879	8,526	–
	23 August 2018	251,784	–	–	31,938	219,846
	9 November 2018	26,250	–	–	–	26,250
	20 March 2019	102,500	–	50,000	2,500	50,000
	6 May 2019	94,242	–	46,120	2,000	46,122
	19 August 2019	310,000	–	–	10,000	300,000
	6 May 2020	1,186,501	–	380,924	48,725	756,852
	20 August 2020	591,250	–	–	86,250	505,000
	6 November 2020	666,547	–	–	–	666,547
	11 March 2021	1,028,690	–	255,621	10,988	762,081
	6 May 2021	179,535	–	54,763	13,015	111,757
	19 August 2021	12,130,992	–	–	1,117,828	11,013,164
	5 November 2021	1,100,000	–	–	140,000	960,000
	11 April 2022	–	3,498,580	–	76,652	3,421,928
Consultant						
(Total No.: 1)	23 March 2018	16,397	–	16,397	–	–
	23 August 2018	6,134	–	–	–	6,134
	6 May 2019	5,500	–	2,750	–	2,750
	6 May 2020	6,000	–	2,000	–	4,000
Total		<u>20,890,727</u>	<u>3,498,580</u>	<u>2,495,954</u>	<u>1,548,422</u>	<u>20,344,931</u>

Notes: 1. The weighted average closing price of the Shares immediately before the dates on which the awarded shares under the Share Award Scheme were vested was HK\$3.35 (for the year ended 31 December 2021: HK\$9.66).

2. The lapse of awarded shares during the Period was due to termination of employment of certain grantees.

OTHER INFORMATION

23 March 2018

On 23 March 2018, the Board granted a total of 909,798 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees pursuant to the Share Award Scheme at nil consideration. Such awarded shares were vested in eligible grantees from 23 March 2019 to 23 March 2022. During the vesting period, 25% of the total number of awarded shares granted were vested on each anniversary date of grant.

23 August 2018

On 23 August 2018, the Board granted a total of 1,406,618 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees (including a director of certain wholly-owned subsidiaries of the Company) pursuant to the Share Award Scheme at nil consideration. Such awarded shares were vested in eligible grantees from 23 August 2019 to 23 August 2022. During the vesting period, 25% of the total number of awarded shares granted were vested on each anniversary date of grant.

9 November 2018

On 9 November 2018, the Board granted a total of 415,000 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees pursuant to the Share Award Scheme at nil consideration. Such awarded shares are vested in eligible grantees from 9 November 2019 to 9 November 2022. During the vesting period, 25% of the total number of awarded shares granted would be vested on each anniversary date of grant.

20 March 2019

On 20 March 2019, the Board granted a total of 245,000 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees (including certain directors and substantial shareholders of certain wholly-owned subsidiaries of the Company) pursuant to the Share Award Scheme at nil consideration. Such awarded shares are vested in eligible grantees from 20 March 2020 to 20 March 2023. During the vesting period, 25% of the total number of awarded shares granted would be vested on each anniversary date of grant.

6 May 2019

On 6 May 2019, the Board granted a total of 215,482 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees pursuant to the Share Award Scheme at nil consideration. Such awarded shares are vested in eligible grantees from 6 May 2020 to 6 May 2023. During the vesting period, 25% of the total number of awarded shares granted would be vested on each anniversary date of grant.

OTHER INFORMATION

19 August 2019

On 19 August 2019, the Board granted a total of 1,000,000 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees pursuant to the Share Award Scheme at nil consideration. Such awarded shares are vested in eligible grantees from 19 August 2020 to 19 August 2023. During the vesting period, 25% of the total number of awarded shares granted would be vested on each anniversary date of grant.

6 May 2020

On 6 May 2020, the Board granted a total of 1,881,000 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees pursuant to the Share Award Scheme at nil consideration. Such awarded shares are vested in eligible grantees from 6 May 2021 to 6 May 2024. During the vesting period, 25% of the total number of awarded shares granted would be vested on each anniversary date of grant.

20 August 2020

On 20 August 2020, the Board granted a total of 1,288,333 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees (including all independent non-executive Directors, and certain directors of certain wholly-owned subsidiaries of the Company) pursuant to the Share Award Scheme at nil consideration. 100% of the total number of the awarded shares granted to independent non-executive Directors were vested on the date of the annual general meeting in 2021. 100% of the total number of the awarded shares granted to certain directors of certain wholly-owned subsidiaries of the Company and certain eligible grantees were vested on 20 August 2021. Certain number of awarded shares were vested in certain eligible grantees from 20 August 2021 to 20 August 2022, during which 50% of the total number of the awarded shares granted were vested on each anniversary date of grant. The remaining awarded shares would be vested in certain eligible grantees from 20 August 2021 to 20 August 2024, during which 25% of the total number of awarded shares granted would be vested on each anniversary date of grant.

6 November 2020

On 6 November 2020, the Board granted a total of 963,730 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees pursuant to the Share Award Scheme at nil consideration. Such awarded shares are vested in eligible grantees from 6 November 2021 to 6 November 2024, during which 25% of the total number of awarded shares granted would be vested on each anniversary date of grant.

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11 March 2021

On 11 March 2021, the Board granted a total of 1,117,890 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees pursuant to the Share Award Scheme at nil consideration. Such awarded shares are vested in eligible grantees from 11 March 2022 to 11 March 2025. During the vesting period, 25% of the total number of awarded shares granted would be vested on each anniversary date of grant.

6 May 2021

On 6 May 2021, the Board granted a total of 3,192,565 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees (including all Directors) pursuant to the Share Award Scheme at nil consideration. Certain number of awarded shares were granted to the Directors, of which 50% of the total number of the awarded shares would be vested on each of the date of the annual general meeting in 2022 and 2023. Certain number of awarded shares would be vested in certain eligible grantees from 6 May 2022 to 6 May 2023, during which 50% of the total number of the awarded shares granted would be vested on each anniversary date of grant. The remaining awarded shares would be vested in certain eligible grantees from 6 May 2022 to 6 May 2025, during which 25% of the total number of awarded shares granted would be vested on each anniversary date of grant.

19 August 2021

On 19 August 2021, the Board granted a total of 12,516,650 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees (including connected persons) pursuant to the Share Award Scheme at nil consideration. Certain number of awarded shares would be vested in certain eligible grantees (including connected persons) from 19 August 2022 to 19 August 2023, during which 50% of the total number of the awarded shares granted would be vested on each anniversary date of grant. The remaining awarded shares would be vested in certain eligible grantees from 19 August 2022 to 19 August 2025, during which 25% of the total number of awarded shares granted would be vested on each anniversary date of grant.

5 November 2021

On 5 November 2021, the Board granted a total of 1,100,000 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible grantees pursuant to the Share Award Scheme at nil consideration. Certain number of awarded shares would be vested in certain eligible grantees from 5 November 2022 to 5 November 2023, during which 50% of the total number of the awarded shares granted would be vested on each anniversary date of grant. The remaining awarded shares will be vested in certain eligible grantees from 5 November 2022 to 5 November 2025, during which 25% of the total number of awarded shares granted would be vested on each anniversary date of grant.

OTHER INFORMATION

During the Period, the Company granted the awarded shares as follows:

11 April 2022

On 11 April 2022, the Board granted a total of 3,498,580 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to connected persons and certain employees of the Group pursuant to the Share Award Scheme at nil consideration. The closing price immediately before the date on which the awarded shares were granted on 11 April 2022 was HK\$3.37. The awarded shares granted shall be vested in the share award grantees in accordance with the schedule below:

Awarded shares granted to connected persons and certain employees

Among the 3,498,580 awarded shares granted, 2,827,663 awarded shares, which were granted to certain employees and directors of certain subsidiaries of the Company, including Mr. Shuo Wang, Mr. Chengfeng Luo, Mr. Xiandong Liu, Mr. Richard Chua Choon Kiat, shall be subject to a vesting period as follows:

Share award vesting date	Percentage of awarded shares to vest
On 11 April 2023	25% of the total number of awarded shares granted
On 11 April 2024	25% of the total number of awarded shares granted
On 11 April 2025	25% of the total number of awarded shares granted
On 11 April 2026	25% of the total number of awarded shares granted

Other awarded shares

The remaining 670,917 awarded shares which were granted to certain employees shall be subject to a vesting period as follows:

Share award vesting date	Percentage of awarded shares to vest
On 11 April 2023	50% of the total number of awarded shares granted
On 11 April 2024	50% of the total number of awarded shares granted

Save as disclosed above, during the Period, no other awarded shares were granted, vested, or lapsed under the Share Award Scheme.

OTHER INFORMATION

PERFORMANCE-BASED SHARE AWARD SCHEME

The Performance-based Share Award Scheme of the Company was adopted by the Board on 21 May 2021. The purpose of the Performance-based Share Award Scheme is to recognise the contributions by certain eligible persons, particularly the Directors, senior management and key personnel of certain divisions of the Group.

The Board may, at its absolute discretion, impose certain vesting conditions, such as performance index to the grant of Performance-based Awarded Shares which shall incentivize the selected grantees in achieving targeted performance indicators for the continuing development and growth of the Group, and to retain suitable personnel for further development of the Group. The Board may, from time to time, at its absolute discretion select any eligible person (excluding any excluded grantee) for participation in the Performance-based Share Award Scheme as a selected grantee. However, until so selected, no eligible person shall be entitled to participate in the Performance-based Share Award Scheme. The Performance-based Share Award Scheme shall be either (i) allotted and issued by the Company under general mandates or specific mandates granted to the Board by the Shareholders in the general meetings of the Company from time to time; (ii) allotted and issued by the Company under specific mandates granted to the Board by the Shareholders in the general meetings of the Company where (a) any grant of the performance-based awarded shares would cause the Company to issue and allot Shares in excess of the permitted amount in the general mandate available from time to time; or (b) any award of the Performance-based Awarded Shares by the Board to a selected grantee is made to a connected person of the Company; or (iii) acquired by the trustee from the open market by utilising the Company's resources provided to the trustee, subject to the absolute discretion of the Board.

It is intended that the Performance-based Awarded Shares under the Performance-based Share Award Scheme will be offered to the selected grantees to take up the relevant awarded shares for no consideration subject to the compliance with the relevant laws and regulations, and certain conditions to be decided by the Board at the time of grant of the Performance-based Awarded Shares under the Performance-based Share Award Scheme.

No Shares shall be subscribed for and/or purchased pursuant to the Performance-based Share Award Scheme nor any amounts paid to the trustee for the purpose of making such a subscription and/or purchase, if as a result of such subscription and/or purchase, the number of Shares administered under the Performance-based Share Award Scheme would represent more than 6% of the number of the issued Shares as at 21 May 2021 (subject to adjustment in the event of sub-division, consolidation or bonus issue of Shares in accordance with the rules of the Performance-based Share Award Scheme).

OTHER INFORMATION

Subject to any early termination as may be determined by the Board pursuant to the terms of the Performance-based Share Award Scheme, the Performance-based Share Award Scheme shall be valid and effective for a term of five (5) years commencing on 21 May 2021.

On 21 May 2021, the Board resolved to conditionally grant up to 71,635,355 Performance-based Awarded Shares, representing approximately 6% of the total issued share capital of the Company as at 21 May 2021 and being the maximum number of Performance-based Awarded Shares that can be granted under the Performance-based Share Award Scheme, to the grantees as set out below. On 20 July 2021, an ordinary resolution was passed by the Shareholders to approve such grant.

Particulars and movements of the Performance-based Awarded Shares under the Performance-based Share Award Scheme during the Period were as follows:

Category of grantees	Number of Performance-Based Awarded Shares granted as approved by the Shareholders on 20 July 2021	Vested during the Period	Lapsed/forfeited during the Period	Outstanding as at 30 June 2022
Directors				
Mr. Zongjian Cai	38,444,306	–	7,688,862	30,755,444
Mr. Yuan Xu	7,163,535	–	1,432,707	5,730,828
Mr. Hong Zhang	6,447,181	–	1,289,437	5,157,744
Ms. Jessie Shen	5,253,259	–	1,050,652	4,202,607
Mr. Feng Chen	2,865,414	–	573,083	2,292,331
Other connected persons of the Company				
Ms. Meijia Chen (director of subsidiaries of the Company and senior vice president of the Group)	7,163,536	–	1,432,708	5,730,828
Mr. Hanling Fang (director of subsidiaries of the Company and vice president of the Group)	716,354	–	143,270	573,084
Mr. Shuo Wang (director of subsidiaries of the Company and vice president of the Group)	716,354	–	143,271	573,083
Mr. Chengfeng Luo (director of subsidiaries of the Company and senior director of research and development)	716,354	–	143,271	573,083
Employees (Total No.: 3)	<u>2,149,062</u>	<u>–</u>	<u>429,813</u>	<u>1,719,249</u>
Total	<u>71,635,355</u>	<u>–</u>	<u>14,327,074</u>	<u>57,308,281</u>

OTHER INFORMATION

Note:

1. The closing price of the Shares as at 21 May 2021, being the date on which the Board approved to conditionally grant 71,635,355 Performance-based Awarded Shares under the Performance-based Share Award Scheme, was HK\$11.02 per Share. The closing price of the Shares as at 20 July 2021, being the date on which the ordinary resolution was passed by the Shareholders to approve such grant, was HK\$9.50 per Share.

Subject to the terms and conditions of the Performance-based Share Award Scheme and the satisfaction of the vesting conditions, an aggregate of up to 71,635,355 Performance-based Awarded Shares will be vested in five tranches, each to be vested to the grantees as soon as reasonably practicable after the end of each of the relevant measurement period (being the trading days within the thirty calendar days immediately after the date on which the annual results for the relevant financial year are published by the Company on the Stock Exchange) for the relevant financial year as set out below and upon determination by the Board (excluding Directors who are grantees) as to whether the vesting conditions have been satisfied for each such tranche and the actual number of Performance-based Awarded Shares to be vested under each such tranche.

Financial year	Percentage of Performance-based Awarded Shares to vest
Financial year ended 31 December 2021	20%
Financial year ending 31 December 2022	20%
Financial year ending 31 December 2023	20%
Financial year ending 31 December 2024	20%
Financial year ending 31 December 2025	20%

On 27 April 2022, 14,327,074 Performance-based Awarded Shares have lapsed due to the failure in satisfying all the vesting conditions. Save as disclosed above, as at the date of this report, no Performance-based Awarded Shares were vested or lapsed under the Performance-based Share Award Scheme. Details of the Performance-based Share Award Scheme are set out in the Company's announcement dated 21 May 2021 and circular dated 28 June 2021.

OTHER INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Period and up until the date of this report, except that as disclosed in the sections headed “Pre-IPO Share Option Scheme”, “Share Option Scheme”, “Share Award Scheme”, and “Performance-based Share Award Scheme”, none of the Directors or chief executives of the Company was granted any share options under the Pre-IPO Share Option Scheme or the Share Option Scheme or any awarded shares under the Share Award Scheme or the Performance-based Share Award Scheme.

Save as disclosed above and in the section headed “Disclosure of Interest as per registers kept pursuant to the SFO” in this report, at no time for the six months ended 30 June 2022 were there rights to acquire benefits by means of the acquisition of shares in, or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

COMPETING INTEREST

To the best knowledge of the Company, none of the Directors or the substantial shareholders of the Company or their respective associates has any interest in any business which competed or may compete with the business of the Group during the Period.

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

The Company or any of its subsidiaries has not purchased, sold or redeemed any of the Company's listed securities during the Period.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and risk management and internal control systems of the Group. The audit committee comprises all independent non-executive Directors, namely, Dr. Horn Kee Leong (chairman of the audit committee), Mr. Dajian Yu and Ms. Zhao Lu.

The audit committee has reviewed the unaudited condensed consolidated financial report of the Group for the Period and was of the opinion that the preparation of such statements complied with applicable accounting standards and that adequate disclosure in accordance with the Listing Rules has been made in respect thereof.

OTHER INFORMATION

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Fuzhou Tianmeng Structured Contracts

The existing PRC laws and regulations restrict foreign ownership in the value-added telecommunication businesses, and prohibit foreign ownership on internet content and information services, including carrying out internet culture operation (except for music) and online publishing services in the PRC. The wholly-owned subsidiary of the Company, Fuzhou Tianji, being a foreign-owned enterprise, does not have the requisite licenses to operate the online games business regarding value-added telecommunication businesses, and internet content and information services in the PRC.

In order to comply with PRC laws restricting foreign ownership in the value-added telecommunication businesses, and prohibiting foreign ownership on internet content and information services, the Group historically operated the online games business in China through Fuzhou Tianmeng. Fuzhou Tianmeng, as a domestic company established in China, holds certain of important licenses, including the ICP License and Online Publishing Service License, to operate our business.

In 2007, Fuzhou Tianji, the Founders and Fuzhou Tianmeng entered into the Previous Structured Contracts, as supplemented by the agreements in 2009 and 2013, pursuant to which the financial results of Fuzhou Tianmeng would be combined with the Company as if Fuzhou Tianmeng were a subsidiary of the Group. For details of terms of the Previous Structured Contracts, please refer to page 84 to page 85 of 2018 Annual Report of the Company.

Termination of the Previous Structured Contracts and the entering into of the Fuzhou Tianmeng Structured Contracts

On 28 December 2018, each of the Founders and the Fuzhou Tianmeng Registered Holders entered into an equity transfer agreement (the “Equity Transfer Agreement”), pursuant to which each of the Founders agreed to transfer 50% and 50% of the equity interests in Fuzhou Tianmeng to Mr. Deyang Zheng and Mr. Chengfeng Luo, respectively, at a total consideration of RMB10.51 million. On the same date, the relevant parties as detailed below also entered into the following agreements as detailed below to change the registered shareholders of Fuzhou Tianmeng:

- (i) the termination agreement, pursuant to which the Founders, Fuzhou Tianmeng and Fuzhou Tianji agreed that subject to the entering into of the Fuzhou Tianmeng Structured Contracts by Fuzhou Tianmeng, Fuzhou Tianji and the Fuzhou Tianmeng Registered Holders, the Previous Structured Contracts would be terminated;
- (ii) the loan agreement, pursuant to which, among others, Fuzhou Tianji agreed to offer each of Mr. Deyang Zheng and Mr. Chengfeng Luo a loan for the purpose of providing to the Fuzhou Tianmeng Registered Holders the consideration under the Equity Transfer Agreement; and
- (iii) the tripartite agreement, pursuant to which, among others, Fuzhou Tianji, the Founders and the Fuzhou Tianmeng Registered Holders agreed to set-off the consideration under the Equity Transfer Agreement payable by the Fuzhou Tianmeng Registered Holders against the loans owed by the Founders to Fuzhou Tianji.

OTHER INFORMATION

The Fuzhou Tianmeng Structured Contracts comprise eight agreements, the details of which are summarised as below:

- (i) **New Call Option Agreement:** on 28 December 2018, Fuzhou Tianmeng, Fuzhou Tianji and the Fuzhou Tianmeng Registered Holders entered into the call option agreement (the “New Call Option Agreement”), pursuant to which each of the Fuzhou Tianmeng Registered Holders irrevocably granted the exclusive right to Fuzhou Tianji or its designee(s) to acquire equity interest in or assets of Fuzhou Tianmeng as and when permitted by the PRC laws. The amount of consideration payable by Fuzhou Tianji to the equity holders of Fuzhou Tianmeng shall be RMB1.0 or the lowest possible amount permissible under the applicable PRC laws. The Fuzhou Tianmeng Registered Holders shall return any consideration they receive in the event that Fuzhou Tianji exercises the call option under the New Call Option Agreement to acquire equity interest in or assets of Fuzhou Tianmeng.
- (ii) **New Equity Pledge Agreement:** on 28 December 2018, Fuzhou Tianji and the Fuzhou Tianmeng Registered Holders entered into the equity pledge agreement (the “New Equity Pledge Agreement”), pursuant to which the Fuzhou Tianmeng Registered Holders granted Fuzhou Tianji a continuing first priority security interest over their respective equity interest in Fuzhou Tianmeng, representing all of the equity interest in Fuzhou Tianmeng’s registered capital, for the purpose of securing the performance of contractual obligations by Fuzhou Tianmeng under the Fuzhou Tianmeng Structured Contracts. In addition, the Fuzhou Tianmeng Registered Holders agreed to allocate, use or deal with the dividends and other non-cash distributions paid for the equity interest in Fuzhou Tianmeng in any way according to the instruction of Fuzhou Tianji.
- (iii) **Power of Attorney of Mr. Deyang Zheng:** on 28 December 2018, Mr. Deyang Zheng issued a power of attorney (the “Power of Attorney of Mr. Deyang Zheng”), pursuant to which Mr. Deyang Zheng irrevocably authorised the Directors and their successors or the Company’s liquidator to exercise all the shareholders’ rights of Mr. Deyang Zheng in Fuzhou Tianmeng.
- (iv) **Power of Attorney of Mr. Chengfeng Luo:** on 28 December 2018, Mr. Chengfeng Luo issued a power of attorney (the “Power of Attorney of Mr. Chengfeng Luo” together with the Power of Attorney of Mr. Deyang Zheng, the “New Power of Attorney”), pursuant to which Mr. Chengfeng Luo irrevocably authorised the Directors and their successors or the Company’s liquidator to exercise all the shareholders’ rights of Mr. Chengfeng Luo in Fuzhou Tianmeng.
- (v) **New Exclusive Technical Consulting Service Agreement:** on 28 December 2018, Fuzhou Tianmeng, Fuzhou Tianji and the Fuzhou Tianmeng Registered Holders entered into the exclusive technical consulting service agreement (the “New Exclusive Technical Consulting Service Agreement”), pursuant to which Fuzhou Tianmeng agreed to pay a fee to Fuzhou Tianji in return for Fuzhou Tianji providing exclusive technical consulting services as required by Fuzhou Tianmeng to support its operations. According to the New Exclusive Technical Consulting Service Agreement, unless otherwise agreed by both parties, Fuzhou Tianji would provide technical support and consultation services to Fuzhou Tianmeng, as the consideration, and the technical services fees will be paid on a quarterly basis and equal to Fuzhou Tianmeng’s total revenue deducting all related expenses, costs and taxes payable by Fuzhou Tianmeng.

OTHER INFORMATION

- (vi) **New Online Game Licensing Agreement:** on 28 December 2018, Fuzhou Tianji and Fuzhou Tianmeng entered into the online game licensing agreement (the “New Online Game Licensing Agreement”), pursuant to which Fuzhou Tianji agreed to grant to Fuzhou Tianmeng usage rights on various online game software for operation in the PRC. As the consideration, Fuzhou Tianmeng is required to pay to Fuzhou Tianji (i) an initial licensing fee, payable after the signing date; and (ii) commissions payable on a quarterly basis according to a percentage generally accepted in the market and such commission shall be a fair value.

- (vii) **Spouse Undertaking of Mr. Deyang Zheng:** on 28 December 2018, the spouse of Mr. Deyang Zheng issued a spouse undertaking (the “Spouse Undertaking of Mr. Deyang Zheng”) to the effect that (i) Mr. Deyang Zheng’s interests in Fuzhou Tianmeng (together with any other interests therein) do not fall within the scope of communal properties; (ii) she has no right to or control over such interests of Mr. Deyang Zheng and will not have any claim on such interest. No authorisation or consent will be needed from her for the performance, amendment or termination of the Fuzhou Tianmeng Structured Contracts by Mr. Deyang Zheng; (iii) she will execute all necessary documents and take all necessary actions to ensure the performance of the Fuzhou Tianmeng Structured Contracts; and (iv) in the event that she obtains any interests in Fuzhou Tianmeng, she will be subject to and abide by the terms of the Fuzhou Tianmeng Structured Contracts, and at the request of Fuzhou Tianji, she will sign any documents in the form and substance consistent with the Fuzhou Tianmeng Structured Contracts.

- (viii) **Spouse Undertaking of Mr. Chengfeng Luo:** on 28 December 2018, the spouse of Mr. Chengfeng Luo issued a spouse undertaking (the “Spouse Undertaking of Mr. Chengfeng Luo,” together with the Spouse Undertaking of Mr. Deyang Zheng, the “Spouse Undertakings”) to the effect that (i) Mr. Chengfeng Luo’s interests in Fuzhou Tianmeng (together with any other interests therein) do not fall within the scope of communal properties; (ii) she has no right to or control over such interests of Mr. Chengfeng Luo and will not have any claim on such interest. No authorisation or consent will be needed from her for the performance, amendment or termination of the Fuzhou Tianmeng Structured Contracts by Mr. Chengfeng Luo; (iii) she will execute all necessary documents and take all necessary actions to ensure the performance of the Fuzhou Tianmeng Structured Contracts; and (iv) in the event that she obtains any interests in Fuzhou Tianmeng, she will be subject to and abide by the terms of the Fuzhou Tianmeng Structured Contracts, and at the request of Fuzhou Tianji, she will sign any documents in the form and substance consistent with the Fuzhou Tianmeng Structured Contracts.

Please refer to the announcement dated 28 December 2018 for details of the continuing connected transactions relating to the entering into of the Fuzhou Tianmeng Structured Contracts.

OTHER INFORMATION

The Xinhan Liaokuo Structured Contracts

Xinhan Liaokuo is a domestic company established in China in September 2020 and holds an ICP License to operate the online games business in the PRC.

After the analysis of the Group's game operating strategy and in order to extend the game publishing network in the PRC, the Directors believe that the entry into another set of structured contracts is in the best interests of the Company and the Shareholders as a whole. Therefore, in 2020, Hainan Tianzhi, Xinhan Liaokuo and Xinhan Liaokuo Registered Holders entered into the Xinhan Liaokuo Structured Contracts, pursuant to which the financial results of Xinhan Liaokuo would be combined with the Company as if Xinhan Liaokuo were a subsidiary of the Group.

The Xinhan Liaokuo Structured Contracts comprise eight agreements, the details of which are summarised as below:

- (i) Xinhan Liaokuo Call Option Agreement: on 30 October 2020, Hainan Tianzhi, Xinhan Liaokuo and the Xinhan Liaokuo Registered Holders entered into the call option agreement (the "Xinhan Liaokuo Call Option Agreement"), pursuant to which each of the Xinhan Liaokuo Registered Holders irrevocably granted the exclusive right to Hainan Tianzhi or its designee(s) to acquire equity interest in or assets of Xinhan Liaokuo as and when permitted by the PRC laws. The amount of consideration payable by Hainan Tianzhi to the equity holders of Xinhan Liaokuo shall be RMB1.0 or the lowest possible amount permissible under the applicable PRC laws. The Xinhan Liaokuo Registered Holders shall return any consideration they receive in the event that Hainan Tianzhi exercises the call option under the Xinhan Liaokuo Call Option Agreement to acquire equity interest in or assets of Xinhan Liaokuo.
- (ii) Xinhan Liaokuo Equity Pledge Agreement: on 30 October 2020, Hainan Tianzhi and the Xinhan Liaokuo Registered Holders entered into the equity pledge agreement (the "Xinhan Liaokuo Equity Pledge Agreement"), pursuant to which the Xinhan Liaokuo Registered Holders granted Hainan Tianzhi a continuing first priority security interest over their respective equity interest in Xinhan Liaokuo, representing all of the equity interest in Xinhan Liaokuo's registered capital, for the purpose of securing the performance of contractual obligations by Xinhan Liaokuo under the Xinhan Liaokuo Structured Contracts. In addition, the Xinhan Liaokuo Registered Holders agreed to allocate, use or deal with the dividends and other non-cash distributions paid for the equity interest in Xinhan Liaokuo in any way according to the instruction of Hainan Tianzhi.

OTHER INFORMATION

- (iii) Second Power of Attorney of Mr. Deyang Zheng: on 30 October 2020, Mr. Deyang Zheng issued a power of attorney (the “Second Power of Attorney of Mr. Deyang Zheng”), pursuant to which Mr. Deyang Zheng irrevocably authorised the Directors and their successors or the Company’s liquidator to exercise all the shareholders’ rights of Mr. Deyang Zheng in Xinhan Liaokuo.
- (iv) Second Power of Attorney of Mr. Chengfeng Luo: on 30 October 2020, Mr. Chengfeng Luo issued a power of attorney (the “Second Power of Attorney of Mr. Chengfeng Luo” together with the Second Power of Attorney of Mr. Deyang Zheng, the “Second Power of Attorney”), pursuant to which Mr. Chengfeng Luo irrevocably authorised the Directors and their successors or the Company’s liquidator to exercise all the shareholders’ rights of Mr. Chengfeng Luo in Xinhan Liaokuo.
- (v) Xinhan Liaokuo Exclusive Technical Consulting Service Agreement: on 30 October 2020, Xinhan Liaokuo, Hainan Tianzhi and the Xinhan Liaokuo Registered Holders entered into the exclusive technical consulting service agreement (the “Xinhan Liaokuo Exclusive Technical Consulting Service Agreement”), pursuant to which Xinhan Liaokuo agreed to pay a fee to Hainan Tianzhi in return for Hainan Tianzhi providing exclusive technical consulting services as required by Xinhan Liaokuo to support its operations. According to the Xinhan Liaokuo Exclusive Technical Consulting Service Agreement, unless otherwise agreed by both parties, Hainan Tianzhi would provide technical support and consultation services to Xinhan Liaokuo, as the consideration, and the technical services fees will be paid on a quarterly basis and equal to Xinhan Liaokuo’s total revenue deducting all related expenses, costs and taxes payable by Xinhan Liaokuo.
- (vi) Xinhan Liaokuo Online Game Licensing Agreement: on 30 October 2020, Hainan Tianzhi and Xinhan Liaokuo entered into the online game licensing agreement (the “Xinhan Liaokuo Online Game Licensing Agreement”), pursuant to which Hainan Tianzhi agreed to grant to Xinhan Liaokuo usage rights on various online game software for operation in the PRC. As the consideration, Xinhan Liaokuo is required to pay to Hainan Tianzhi (i) an initial licensing fee, payable after the signing date; and (ii) commissions payable on a quarterly basis according to a percentage generally accepted in the market and such commission shall be a fair value.
- (vii) Second Spouse Undertaking of Mr. Deyang Zheng: on 30 October 2020, the spouse of Mr. Deyang Zheng issued a spouse undertaking (the “Second Spouse Undertaking of Mr. Deyang Zheng”) to the effect that (i) Mr. Deyang Zheng’s interests in Xinhan Liaokuo (together with any other interests therein) do not fall within the scope of communal properties; (ii) she has no right to or control over such interests of Mr. Deyang Zheng and will not have any claim on such interest. No authorisation or consent will be needed from her for the performance, amendment or termination of the Xinhan Liaokuo Structured Contracts by Mr. Deyang Zheng; (iii) she will execute all necessary documents and take all necessary actions to ensure the performance of the Xinhan Liaokuo Structured Contracts; and (iv) in the event that she obtains any interests in Xinhan Liaokuo, she will be subject to and abide by the terms of the Xinhan Liaokuo Structured Contracts, and at the request of Hainan Tianzhi, she will sign any documents in the form and substance consistent with the Xinhan Liaokuo Structured Contracts.

OTHER INFORMATION

- (viii) Second Spouse Undertaking of Mr. Chengfeng Luo: on 30 October 2020, the spouse of Mr. Chengfeng Luo issued a spouse undertaking (the “Second Spouse Undertaking of Mr. Chengfeng Luo” together with the Spouse Undertaking of Mr. Deyang Zheng, the “Second Spouse Undertakings”) to the effect that (i) Mr. Chengfeng Luo’s interests in Xinhan Liaokuo (together with any other interests therein) do not fall within the scope of communal properties; (ii) she has no right to or control over such interests of Mr. Chengfeng Luo and will not have any claim on such interest. No authorisation or consent will be needed from her for the performance, amendment or termination of the Xinhan Liaokuo Structured Contracts by Mr. Chengfeng Luo; (iii) she will execute all necessary documents and take all necessary actions to ensure the performance of the Xinhan Liaokuo Structured Contracts; and (iv) in the event that she obtains any interests in Xinhan Liaokuo, she will be subject to and abide by the terms of the Xinhan Liaokuo Structured Contracts, and at the request of Hainan Tianzhi, she will sign any documents in the form and substance consistent with the Xinhan Liaokuo Structured Contracts.

For the purpose of the Listing, the Company applied to the Stock Exchange, and the Stock Exchange granted a waiver from (i) strict compliance with the announcement and independent Shareholders’ approval of the Company, (ii) setting a maximum aggregate annual value under Fuzhou Tianmeng Structured Contracts, and (iii) fixing the terms of Fuzhou Tianmeng Structured Contracts to three years or less, for as long as Shares are listed on the Stock Exchange, subject to numerous conditions as set out in the section headed “Continuing Connected Transactions” of the Prospectus. The Xinhan Liaokuo Structured Contracts are cloned from the Fuzhou Tianmeng Structured Contracts with substantially the same terms. Pursuant to the aforementioned conditions, cloning of structured contracts similar to the Fuzhou Tianmeng Structured Contracts will not be subject to the strict requirements of announcement and shareholders’ approval under Chapter 14A of the Listing Rules.

OTHER INFORMATION

Contribution of the Structured Contracts to the Group

The Directors are of the view that the Group kept the Structured Contracts to maintain presence in the PRC for further development but the business and operation of the Group do not rely on Fuzhou Tianmeng, Xinhua Liaokuo or the Structured Contracts.

The tables below compare the number of games operated, game revenue and assets attributable to Fuzhou Tianmeng and Xinhua Liaokuo during the Period:

Number of games operated:

	Developed in-house As at 30 June 2022	Licensed
Fuzhou Tianmeng	1	1
Xinhua Liaokuo	–	–

Game revenue*:

	Revenue attributable to the relevant entity For the six months ended 30 June 2022 HK\$' 000	Percentage of the total revenue of the Group %
Fuzhou Tianmeng	102,307	4.12
Xinhua Liaokuo	–	–

* Game revenue is from external customers.

OTHER INFORMATION

Assets:

	Assets attributable to the relevant entity	Percentage of the total assets of the Group
	HK\$' 000	%
Fuzhou Tianmeng	309,611	7.83
Xinhan Liaokuo	49	0.00

On-going reporting and approvals

The Directors confirmed that, as at the date hereof, the Structured Contracts had not been challenged by the relevant authorities in the PRC and the Group had not encountered any interference or encumbrance from any PRC governing bodies in operating their business through Fuzhou Tianmeng and Xinhan Liaokuo under the Structured Contracts.

The Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Structured Contracts and our compliance with the Structured Contracts:

- The Company confirms that in order to ensure the operation of the Structured Contracts, the Company has reviewed the overall performance and compliance with the Structured Contracts for the Period.
- The independent non-executive Directors will review the Structured Contracts annually and confirm in the annual reports that (i) the transactions carried out during such year have been entered into in accordance with relevant terms of the Structured Contracts such that all revenue generated by Fuzhou Tianmeng and Xinhan Liaokuo deducting all related expenses, costs and the taxes payable by them has been retained by the Group; (ii) no dividends or other distributions have been made by Fuzhou Tianmeng and Xinhan Liaokuo to their respective equity interest holders; and (iii) no new contracts or renewed contracts have been entered into on the same terms as the Structured Contracts.
- Major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis.
- The Company will disclose the overall performance and compliance with the Structured Contracts in its annual/interim report to update the Shareholders and potential investors.
- The Directors will provide periodic updates in the annual/interim reports regarding the qualification requirements as stipulated under the FITE Regulations and the development of laws and regulations on foreign investment, including the latest relevant regulatory development.

OTHER INFORMATION

- The Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Structured Contracts, review the legal compliance of Fuzhou Tianji, Fuzhou Tianmeng, Hainan Tianzhi and Xinhan Liaokuo to deal with specific issues or matters arising from the Structured Contracts.
- The Company has engaged KPMG as its auditor to perform procedures annually on the transactions contemplated under the Structured Contracts and the auditor will carry out procedures annually to ensure that no dividend or other distributions has been distributed by Fuzhou Tianmeng and Xinhan Liaokuo to their respective equity holders which was not subsequently assigned or transferred to our Group and relevant transactions have received approval of the Board and were entered into in accordance with the terms of the Structured Contracts.
- Save as disclosed in the interim report and in compliance with the applicable requirements under the Listing Rules, the Group has not renewed and/or reproduced any of the framework of and terms and conditions similar to those of the Structured Contracts in relation to any existing or new wholly foreign-owned enterprise or operating company.
- Each of Fuzhou Tianmeng and Xinhan Liaokuo has provided the Company's management and auditors with full access to relevant records for the purpose of the auditors' performance of review procedures on relevant transactions under the Structured Contracts.

Regulatory Matters in Relation to the Structured Contracts

FITE Regulations

Foreign investment in telecommunications sector is governed by the Regulations on Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the "FITE Regulations"), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008, 6 February 2016 and 29 March 2022. A foreign-invested telecommunications enterprise, or FITE, is allowed to be engaged in value-added telecommunications business, provided that the foreign investor's ultimate equity holding percentage in a value-added telecommunications business shall not exceed 50% unless otherwise prescribed by the State. The current operation of the Company in the online games business in the PRC is subject to the aforementioned regulation where the foreign investor's ultimate equity holding percentage of which shall not exceed 50%. Under the amendment to the FITE Regulations on 29 March 2022, it removed the requirement that the principal foreign investors of FITE operating value-added telecommunications businesses should have "a good track record and operational experience" in their value-added telecommunications businesses.

OTHER INFORMATION

In this regard, our PRC legal advisers, Jingtian & Gongcheng, advised that (i) the current operation of the Group in the online games business in the PRC involves internet cultural activities regulated in the Interim Provisions on the Administration of Internet Culture (《互聯網文化管理暫行規定》); (ii) Fuzhou Tianmeng currently holds an Online Publishing Service License (網絡出版服務許可證) to carry out businesses in relation to online games publications; and (iii) internet culture operation (except for music) and online publishing services fall within the scope of prohibited areas of foreign investments under the Special Administrative Measure (Negative List) for the Access of Foreign Investment (2021) (《外商投資准入特別管理措施(負面清單)(2021年版)》). Our PRC legal advisers, Jingtian & Gongcheng, also advised that the Group shall continue to comply with the requirement as disclosed in the Prospectus with regard to the PRC laws and regulations restricting foreign ownership in the value-added telecommunication businesses, and foreign ownership prohibitions on internet content and information services, including carrying out internet culture operation (except for music) and online publishing services since the Listing Date up to the date hereof. We intend to be qualified to acquire the entire equity interests in Fuzhou Tianmeng and Xinhan Liaokuo to the extent permitted by PRC laws when the abovementioned laws and regulations are lifted.

Foreign Investment Law

The Foreign Investment Law (外商投資法) (the “FIL”), approved by the second session of the 13th National People’s Congress, and the Regulation on the Implementation of the Foreign Investment Law (外商投資法實施條例) (the “FIL Implementation Regulation”), promulgated by the State Council, have come into effect on 1 January 2020.

According to the FIL, the investment in China directly or indirectly by foreign natural persons, enterprises or other organisations (“Foreign Investors”) is defined as foreign investment (“Foreign Investment”), which includes the following situations: (1) Foreign Investors alone or cooperate with other investors to establish foreign-invested enterprises in China; (2) Foreign Investors acquire shares, equities, property shares or other similar rights of Chinese domestic enterprises; (3) Foreign Investors alone or cooperate with other investors invest projects in China; (4) other means of investment prescribed by laws, administrative regulations or rules promulgated by the State Council. According to Jingtian & Gongcheng, our PRC legal advisers, the FIL and the FIL Implementation Regulation do not clearly stipulate whether the Structured Contracts are a form of Foreign Investment.

In accordance with the existing provisions of the FIL and the FIL Implementation Regulation and if the laws, administrative regulations and the State Council do not include the Structured Contracts as a form of Foreign Investment, the Structured Contracts will not be materially affected. However, in view of the provisions of the above-mentioned situation (4) of Foreign Investment in the FIL, it is not excluded that the Structured Contracts may be regarded as a form of Foreign Investment according to laws, administrative regulations or rules promulgated by the State Council in the future. In this regard, the Company cannot guarantee that the Structured Contracts and the operations of Fuzhou Tianmeng and Xinhan Liaokuo will not be materially and adversely affected by changes in PRC laws and regulations in the future.

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Since the FIL and the FIL Implementation Regulation do not clarify whether the Structured Contracts are a form of Foreign Investment, the Company believes that it may not be appropriate at this stage to formulate specific measures to avoid the Structured Contracts being recognised as a form of Foreign Investment under the FIL. If the Structured Contracts is recognised as a form of Foreign Investment in the future, and there is no special provision for the Structured Contracts that allows Fuzhou Tianmeng and Xinhan Liaokuo, provided that certain conditions are met, to continue to carry out relevant foreign investment restricted or prohibited businesses, the Company might be requested to dispose of its interests in Fuzhou Tianmeng and Xinhan Liaokuo. The appropriate risk factors had already been disclosed in the paragraph headed “Risks And Limitations Relating To The New VIE Structure – There is no assurance that the contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng will be deemed to be in compliance with existing or future PRC laws and regulations” in the announcement of the Company dated 28 December 2018.

The Company confirms that if the Structured Contracts are required to be unwind or the Company is required to dispose the interests in Fuzhou Tianmeng and Xinhan Liaokuo in the future, it can engage other domestic publishers with the due qualifications and licenses to operate its online games in the PRC, which may adversely affect the Group’s operational and financial performance because engaging other domestic publishers may impose more costs to the Group. However, the Company expects that such adverse impact on the Group’s operational and financial performance will not be material considering that (1) the revenue and assets attributable to the Structured Contracts are about 4.12% and 7.83%, respectively, and (2) there is no legal obstacle for Fuzhou Tianmeng and Xinhan Liaokuo to transfer their respective assets to Fuzhou Tianji, Hainan Tianzhi or IGG Singapore, as the case maybe, a subsidiary of the Group.

REVIEW REPORT ON THE INTERIM FINANCIAL REPORT



REVIEW REPORT TO THE BOARD OF DIRECTORS OF IGG INC

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 52 to 85 which comprises the consolidated statement of financial position of IGG Inc (the “Company”) and its subsidiaries (together the “Group”) as of 30 June 2022 and the related consolidated statement of profit or loss, statement of comprehensive (loss)/income, statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2022 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants
8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

24 August 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2022 – unaudited

	Note	Six months ended 30 June	
		2022 HK\$' 000	2021 HK\$' 000
Revenue	3	2,485,739	3,237,459
Cost of revenue		<u>(787,102)</u>	<u>(955,024)</u>
Gross profit		1,698,637	2,282,435
Other net (losses)/gains	4	(88,167)	107,399
Selling and distribution expenses		(822,038)	(935,264)
Administrative expenses		(197,031)	(253,755)
Research and development expenses		<u>(738,152)</u>	<u>(497,776)</u>
(Loss)/profit from operations		(146,751)	703,039
Finance costs	5(b)	(2,511)	(2,099)
Share of results of associates and joint ventures		<u>(8,294)</u>	<u>(28,249)</u>
(Loss)/profit before taxation	5	(157,556)	672,691
Income tax expenses	6	<u>(14,215)</u>	<u>(95,769)</u>
(Loss)/profit for the period		<u>(171,771)</u>	<u>576,922</u>
Attributable to:			
Equity shareholders of the Company		(171,771)	577,346
Non-controlling interests		<u>–</u>	<u>(424)</u>
(Loss)/profit for the period		<u>(171,771)</u>	<u>576,922</u>
(Loss)/earnings per share	7		
Basic		<u>HK\$(0.1481)</u>	<u>HK\$0.4901</u>
Diluted		<u>HK\$(0.1471)</u>	<u>HK\$0.4847</u>

The notes on pages 59 to 85 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 19.

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

for the six months ended 30 June 2022 – unaudited

	Six months ended 30 June	
	2022	2021
	HK\$' 000	HK\$' 000
(Loss)/profit for the period	(171,771)	576,922
Other comprehensive (loss)/income for the period, after tax		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation from foreign operation	(119,245)	15,639
<i>Item that may not be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation from functional currency to presentation currency	21,269	–
Total comprehensive (loss)/income for the period	<u>(269,747)</u>	<u>592,561</u>
Attributable to:		
Equity shareholders of the Company	(269,747)	592,985
Non-controlling interests	–	(424)
Total comprehensive (loss)/income for the period	<u>(269,747)</u>	<u>592,561</u>

The notes on pages 59 to 85 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2022 – unaudited

	Note	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Non-current assets			
Property, plant and equipment	8	532,319	427,807
Intangible assets		9,685	12,148
Land use rights	9	235,642	249,645
Other non-current assets	10	52,746	215,231
Interests in associates and joint ventures	11	354,561	487,407
Financial assets at fair value through profit or loss	12	559,588	534,088
Deferred tax assets		28,682	30,349
Restricted deposits	15	32,008	—
Total non-current assets		1,805,231	1,956,675
Current assets			
Inventories		677	2,326
Trade and other receivables	13	68,153	59,754
Prepayments		52,851	58,137
Funds receivable	14	336,786	420,931
Restricted deposits		14,276	6,398
Fixed deposits held at bank with maturity over 3 months when acquired		5,267	—
Cash and cash equivalents	16	1,670,418	1,949,971
Total current assets		2,148,428	2,497,517
Current liabilities			
Trade and other payables	17	389,987	524,983
Tax payables		161,768	216,325
Deferred revenue		179,385	232,660
Lease liabilities	18	63,642	86,127
Total current liabilities		794,782	1,060,095
Net current assets		1,353,646	1,437,422
Total assets less current liabilities		3,158,877	3,394,097

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 30 June 2022 – unaudited

	Note	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Non-current liabilities			
Lease liabilities	18	39,696	72,781
Deferred tax liabilities		6,001	7,860
Total non-current liabilities		<u>45,697</u>	<u>80,641</u>
NET ASSETS		<u>3,113,180</u>	<u>3,313,456</u>
CAPITAL AND RESERVES			
Share capital	19(b)	23	23
Reserves		<u>3,113,157</u>	<u>3,313,433</u>
TOTAL EQUITY		<u>3,113,180</u>	<u>3,313,456</u>

The notes on pages 59 to 85 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2022 – unaudited

	Attributable to equity shareholders of the Company									
	Note	Share	Share	Share-	Shares held	Statutory	Other	Exchange	Retained	Total
		capital	premium	payment	award	reserve	reserve	reserve	profits	equity
	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000
Balance at 31 December 2021 and 1 January 2022	23	-	126,404	(301,661)	900	56,095	44,887	3,386,808	3,313,456	
Changes in equity for the six months ended										
30 June 2022:										
Loss for the period	-	-	-	-	-	-	-	(171,771)	(171,771)	
Other comprehensive loss	-	-	-	-	-	-	(97,976)	-	(97,976)	
Total comprehensive loss	-	-	-	-	-	-	(97,976)	(171,771)	(269,747)	
Equity-settled share-based payment	-	-	67,032	-	-	-	-	-	67,032	
Exercise of share options	19(b)	*	3,609	(1,170)	-	-	-	-	2,439	
Vesting of awarded shares	19(b)	-	5,878	(26,467)	20,589	-	-	-	-	
Appropriation to statutory reserves	-	-	-	-	699	-	-	(699)	-	
Balance at 30 June 2022	23	9,487	165,799	(281,072)	1,599	56,095	(53,089)	3,214,338	3,113,180	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2022 – unaudited

Note	Attributable to equity shareholders of the Company											
	Share capital	Share premium	Share-based payment reserve	Shares held for share award scheme	Shares repurchased for cancellation	Statutory reserve	Other reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000
Balance at 31 December 2020 and 1 January 2021	23	-	74,633	(136,803)	(51,635)	683	40,913	(579)	3,931,185	3,858,420	(233)	3,858,187
Changes in equity for the six months ended 30 June 2021:												
Profit for the period	-	-	-	-	-	-	-	-	577,346	577,346	(424)	576,922
Other comprehensive income	-	-	-	-	-	-	-	15,639	-	15,639	-	15,639
Total comprehensive income	-	-	-	-	-	-	-	15,639	577,346	592,985	(424)	592,561
Equity-settled share-based payment	-	-	13,459	-	-	-	-	-	-	13,459	-	13,459
Shares purchased for the share award scheme	19(b)	-	-	(116,240)	-	-	-	-	-	(116,240)	-	(116,240)
Repurchase of ordinary shares	19(b)	-	-	-	(57,437)	-	-	-	-	(57,437)	-	(57,437)
Cancellation of ordinary shares	19(b)	*	(10,823)	-	109,072	-	-	-	(98,249)	-	-	-
Exercise of share options	19(b)	*	8,188	(3,077)	-	-	-	-	-	5,111	-	5,111
Vesting of awarded shares	19(b)	-	2,635	(14,279)	11,644	-	-	-	-	-	-	-
Appropriation to statutory reserves		-	-	-	-	217	-	-	(217)	-	-	-
Dividends received for share award scheme		-	-	-	-	-	10,955	-	-	10,955	-	10,955
2020 second interim dividend and special dividend paid	19(a)	-	-	-	-	-	-	-	(640,500)	(640,500)	-	(640,500)
Balance at 30 June 2021	23	-	70,736	(241,399)	-	900	51,868	15,060	3,769,565	3,666,753	(657)	3,666,096

* These amounts represent amounts less than HK\$1,000.

The notes on pages 59 to 85 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2022 – unaudited

	Note	Six months ended 30 June	
		2022 HK\$' 000	2021 HK\$' 000
Operating activities			
Cash (used in)/generated from operations		(82,391)	638,196
Income tax paid		(60,287)	(100,778)
Interest received		2,942	3,336
Net cash (used in)/generated from operating activities		(139,736)	540,754
Investing activities			
Payment for acquisitions of financial assets at fair value through profit or loss		(23,883)	(75,587)
Proceeds from disposal of financial assets at fair value through profit or loss		–	982,874
Investments in associates		(6,278)	(63,006)
Payment for the acquisitions of property, plant and equipment and intangible assets		(50,627)	(48,070)
Prepayment for the acquisition of office premises		–	(142,396)
Payment for the acquisition of land use rights		–	(122,225)
Dividends received		741	20,340
Proceeds from disposal of property, plant and equipment and intangible assets		678	35
Loan to a third party		(7,862)	–
Placement of fixed deposits held at bank with original maturity over 3 months when acquired		(5,267)	–
Net cash (used in)/generated from investing activities		(92,498)	551,965
Financing activities			
Capital element of lease rentals paid		(26,872)	(21,317)
Interest element of lease rentals paid		(2,511)	(2,099)
Dividends paid		–	(629,545)
Payments for repurchase of shares		–	(57,437)
Payments for purchase of shares for share award scheme		–	(116,240)
Proceeds from exercise of share options		2,439	5,111
Net cash used in financing activities		(26,944)	(821,527)
Net change in cash and cash equivalents		(259,178)	271,192
Cash and cash equivalents at 1 January		1,949,971	2,172,658
Effect of foreign exchanges rates changes		(20,375)	7,127
Cash and cash equivalents at 30 June	16	1,670,418	2,450,977

The notes on pages 59 to 85 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standard Board (“IASB”). The interim financial report was authorised for issue on 24 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of IGG Inc (the “Company”) and its subsidiaries (together the “Group”) since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 51.

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. The Company’s auditor has expressed an unqualified opinion on those financial statements in its report dated 28 March 2022.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

- Amendments to IAS 16, Property, plant and equipment: Proceeds before intended use
- Amendments to IAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract

None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND OPERATING SEGMENT INFORMATION

The Group was principally engaged in the development and operation of online games in the international market.

For the six months ended 30 June 2022, substantially all revenue is generated from online games and recognised over time. All revenue generated from the Group's business is within the scope of IFRS 15.

The Group's customer base was diversified, and no customer had transactions with the Group exceeding 10% of the Group's aggregate revenue during the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

As at 30 June 2022, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is HK\$179,385,000 (31 December 2021: HK\$232,660,000), and the Group will recognise this revenue in the second half of 2022.

Revenue of HK\$232,660,000 recognised in the six months ended 30 June 2022 was included in the balance of deferred revenue at the beginning of the period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports 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, focuses on financial results of the Group as a whole reported under IFRSs. Other information provided to the chief operating decision-makers also included a breakdown of the Group's revenue which is as follows:

	Six months ended 30 June	
	2022	2021
	HK\$' 000	HK\$' 000
"Lords Mobile"	2,008,898	2,737,262
"Time Princess"	131,696	155,581
"Mythic Heroes"	80,796	–
"Castle Clash"	71,907	153,740
Others	192,442	190,876
	<u>2,485,739</u>	<u>3,237,459</u>

And no further information about the operating segment is presented.

The following table sets out information about the geographical locations of the Group's revenue from external customers and the Group's specified non-current assets. Specified non-current assets exclude financial assets at fair value through profit or loss and deferred tax assets. For online game revenue, the geographical locations of customers are based on the Internet Protocol locations of the game players. The geographical locations of the specified non-current assets are based on the physical locations or the location of operations of the assets:

(a) Revenues by geographical regions

	Six months ended 30 June	
	2022	2021
	HK\$' 000	HK\$' 000
Asia	911,900	1,148,225
North America	813,774	1,170,330
Europe	606,640	727,106
Others	153,425	191,798
	<u>2,485,739</u>	<u>3,237,459</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

(b) Specified non-current assets

	At 30 June 2022 HK\$' 000	At 31 December 2021 HK\$' 000
Asia	986,982	1,144,073
Europe	163,239	175,648
North America	58,937	71,625
Others	7,803	892
	<u>1,216,961</u>	<u>1,392,238</u>

4 OTHER NET (LOSSES)/GAINS

	Six months ended 30 June	
	2022 HK\$' 000	2021 HK\$' 000
Impairment loss on interests in associates and joint ventures (Note 11)	(115,522)	(30,151)
Net gains on deemed disposal of an associate (Note 11(a))	–	2,280
Government grants [^]	6,644	14,796
Dividend income	–	32,458
Bank interest income	2,942	3,336
Exchange gain/(loss)	8,717	(21,413)
Gain on disposal of financial assets at fair value through profit or loss	–	221,552
Net fair value gains/(losses) on investments	10,070	(109,721)
Others	(1,018)	(5,738)
	<u>(88,167)</u>	<u>107,399</u>

[^] Government grants mainly included cash grants related to the utilization of foreign investments received by subsidiaries in China and rewards for enterprises in cultural industry. There are no unfulfilled conditions or contingencies relating to the grants.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

5 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

(a) Staff costs

	Six months ended 30 June	
	2022	2021
	HK\$' 000	HK\$' 000
Salaries, wages and other benefits	611,170	481,905
Equity-settled share-based payment expenses	67,032	13,459
Contributions to defined contribution retirement plan	35,935	19,984
	<u>714,137</u>	<u>515,348</u>

(b) Finance costs

	Six months ended 30 June	
	2022	2021
	HK\$' 000	HK\$' 000
Interest on lease liabilities	<u>2,511</u>	<u>2,099</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

5 (LOSS)/PROFIT BEFORE TAXATION (Continued)

(c) Other items

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Promotion and advertising expenses	774,484	935,264
Channel cost	660,312	875,705
Net fair value (gains)/losses on investments	(10,070)	109,721
Amortisation		
– intangible assets	4,693	5,768
– land use rights	3,141	519
Depreciation charge		
– owned property, plant and equipment	24,656	19,192
– right-of-use assets	33,010	22,776
Impairment loss on interests in associates and joint ventures	115,522	30,151
(Reversal of)/provision of impairment loss for trade and other receivables and funds receivable	(28)	186
Net foreign exchange (gain)/loss	(8,717)	21,413
Loss on disposal of property, plant and equipment	551	26

6 INCOME TAX

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Current tax	15,665	92,976
Deferred taxation	(1,450)	2,793
	<u>14,215</u>	<u>95,769</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

IGG Singapore Pte. Ltd. is subject to the prevailing corporate tax rate of 17% in Singapore and is entitled to a concessionary tax rate on qualifying income (six months ended 30 June 2021: 10.5%).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX (Continued)

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, ranging from 15% to 34% (six months ended 30 June 2021: 15% to 34%).

7 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to equity shareholders of the Company and the weighted average number of ordinary shares in issue during the interim period.

	Six months ended 30 June	
	2022	2021
(Loss)/profit attributable to equity shareholders of the Company (HK\$'000)	<u>(171,771)</u>	<u>577,346</u>
Weighted average number of ordinary shares in issue ('000 shares)	<u>1,159,535</u>	<u>1,178,116</u>
Basic (loss)/earnings per share (HK\$ per share)	<u>(0.1481)</u>	<u>0.4901</u>

Weighted average number of ordinary shares

	Six months ended 30 June	
	2022	2021
	shares	shares
	'000	'000
Issued ordinary shares at 1 January	1,193,527	1,202,367
Effect of share award scheme	(36,272)	(23,318)
Effect of share options exercised	2,280	2,279
Effect of repurchase of ordinary shares	<u>—</u>	<u>(3,212)</u>
Weighted average number of ordinary shares at 30 June	<u>1,159,535</u>	<u>1,178,116</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

7 (LOSS)/EARNINGS PER SHARE (Continued)

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the (loss)/profit attributable to equity shareholders of the Company and the weighted average number of ordinary shares during the interim period.

	Six months ended 30 June	
	2022	2021
(Loss)/profit attributable to equity shareholders of the Company (HK\$'000)	<u>(171,771)</u>	<u>577,346</u>
Weighted average number of ordinary shares (diluted) ('000 shares)	<u>1,167,486</u>	<u>1,191,021</u>
Diluted (loss)/earnings per share (HK\$ per share)	<u>(0.1471)</u>	<u>0.4847</u>
Weighted average number of ordinary shares (diluted)		
	Six months ended 30 June	
	2022	2021
	shares	shares
	'000	'000
Weighted average number of ordinary shares at 30 June	1,159,535	1,178,116
Effect of deemed issue of shares under the Company's share option scheme	1,924	8,655
Effect of deemed issue of shares under the Company's share award scheme	<u>6,027</u>	<u>4,250</u>
Weighted average number of ordinary shares (diluted) at 30 June	<u>1,167,486</u>	<u>1,191,021</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

8 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	At 30 June 2022 HK\$' 000	At 31 December 2021 HK\$' 000
Properties leased for own use, carried at depreciated cost	<u>95,739</u>	<u>150,308</u>

During the six months ended 30 June 2022, the Group entered into a number of lease agreements for office premises, and recognised the addition to right-of-use assets of HK\$1,020,000 (six months ended 30 June 2021: HK\$24,492,000).

(b) Acquisitions of owned assets

During the six months ended 30 June 2022, the Group acquired items of leasehold improvements, computer equipment, motor vehicles and office equipment with a cost of HK\$12,629,000 (six months ended 30 June 2021: HK\$28,249,000).

(c) Construction in progress

As at 30 June 2022, construction in progress mainly comprised office premises under construction located in the PRC. During the six months ended 30 June 2022, the Group recognised the addition to construction in progress of HK\$192,662,000 (six months ended 30 June 2021: Nil).

9 LAND USE RIGHTS

The land use rights mainly represent the rights of the Land for periods of 40 years in Fuzhou, China.

10 OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent rental deposits.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTERESTS IN ASSOCIATES AND JOINT VENTURES

(a) Interest in associates

Aggregate information of associates that are not individually material:

	At 30 June 2022 HK\$' 000	At 31 December 2021 HK\$' 000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	346,962	469,301
Aggregate amounts of the Group's shares of these associates' losses	<u>(8,463)</u>	<u>(54,907)</u>
	Six months ended 30 June	
	2022	2021
	HK\$' 000	HK\$' 000
At 1 January	469,301	376,652
Additions ¹	6,278	63,006
Deemed disposal gains	–	2,280
Dividends	(741)	–
Share of results of associates	(8,463)	(24,534)
Impairment loss on interests in associates ²	(105,461)	(24,879)
Currency translation differences	<u>(13,952)</u>	<u>3,599</u>
At 30 June	<u>346,962</u>	<u>396,124</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTERESTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(a) Interest in associates (Continued)

Notes:

- 1 For the six months ended 30 June 2022, the Group's additions to interests in associates mainly comprised a new associate with an aggregate amount of approximately HK\$6,278,000. The associate is principally engaged in mobile payment business.
- 2 Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investment may be impaired, including but not limited to financial position and business performance.

As at 30 June 2022, the Group assessed the performance of the associates and considered the investments in certain associates to be irrecoverable. The Group measured the recoverable amounts of these associates based on value in use using cash flow projections estimated by management and the key assumptions adopted in these cash flow projections include revenue growth rate, profit margin and discount rate. The discount rates adopted range from 15.6% to 22.0%. An impairment loss of HK\$105,461,000 (six months ended 30 June 2021: HK\$24,879,000) was recognised in "Other net (losses)/gains" during the period.

(b) Interest in joint ventures

Aggregate information of joint ventures that are not individually material:

	At 30 June 2022 HK\$' 000	At 31 December 2021 HK\$' 000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	7,599	18,106
Aggregate amounts of the Group's shares of these joint ventures' gains/(losses)	<u>169</u>	<u>(5,131)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTERESTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(b) Interest in joint ventures (Continued)

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
At 1 January	18,106	26,323
Share of results of joint ventures	169	(3,715)
Impairment loss on interests in joint ventures ¹	(10,061)	(5,272)
Currency translation differences	(615)	353
	<u>7,599</u>	<u>17,689</u>
At 30 June	<u>7,599</u>	<u>17,689</u>

Note:

- 1 Both external and internal sources of information of joint ventures are considered in assessing whether there is any indication that the investment may be impaired, including but not limited to financial position and business performance.

As at 30 June 2022, the Group assessed the performance of the joint ventures and considered the investments in a joint venture to be irrecoverable. The Group measured the recoverable amounts of the joint venture based on value in use using cash flow projections estimated by management and the key assumptions adopted in these cash flow projections include revenue growth rate, profit margin and discount rate. The discount rate adopted is 22.0%. An impairment loss of HK\$10,061,000 (six months ended 30 June 2021: HK\$5,272,000) was recognised in "Other net (losses)/gains" during the period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2022 HK\$' 000	At 31 December 2021 HK\$' 000
Listed equity securities ¹	912	4,613
Unquoted equity investments ²	<u>558,676</u>	<u>529,475</u>
	<u><u>559,588</u></u>	<u><u>534,088</u></u>

Note:

- 1 Listed equity securities mainly comprised equity securities listed in Hong Kong and the United States.
- 2 Unquoted equity investments mainly comprised the following:
 - (i) an equity investment in Mfund, L.P., a private equity fund which is principally engaged in investments in both listed and non-listed entities in mobile internet industry. No dividends were received on this investment for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$20,340,000).
 - (ii) an equity investment in Griffin Gaming Partners, L.P., a private equity fund which is principally engaged in investment holding of gaming related entities. No listed equity securities were received on this investment for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$12,118,000).
 - (iii) equity investments in certain non-listed internet companies and several private equity funds which are principally engaged in investment holding of entities in the mobile internet, media, telecommunication and other innovative technologies sectors.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

13 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors, based on the invoice date and net of loss allowance, is as follows:

	At 30 June 2022 HK\$' 000	At 31 December 2021 HK\$' 000
Within 3 months	<u>14,527</u>	<u>11,015</u>
Trade receivables, net of loss allowance	14,527	11,015
Deposits	842	6,691
Other receivables	<u>52,784</u>	<u>42,048</u>
	<u><u>68,153</u></u>	<u><u>59,754</u></u>

Trade receivables were all from third-party customers. The Group's credit terms with its customers are generally one to six months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest bearing.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

14 FUNDS RECEIVABLE

Funds receivable represent balances due from third-party payment service providers for the cash collected from game players who pay for the Premium Gaming Resource. The Company carefully considers and monitors the creditworthiness of the third-party payment service providers.

As at 30 June 2022, all the funds receivable were aged within three months and HK\$257,000 of loss allowance was provided for the funds receivable (31 December 2021: HK\$325,000).

15 RESTRICTED DEPOSITS

Restricted deposits mainly represent pledged deposits under a letter of guarantee issued by China Merchants Bank Co., Ltd. Fuzhou Branch. The guarantee is in relation to the office building construction contract in Fuzhou, China and shall lapse on 13 February 2024 or upon the full payment under the letter of guarantee to the contractor pursuant to the terms therein, whichever is earlier.

16 CASH AND CASH EQUIVALENTS

	At 30 June 2022 HK\$' 000	At 31 December 2021 HK\$' 000
Cash at bank and on hand	1,542,681	1,802,767
Deposits with other financial institutions	<u>127,737</u>	<u>147,204</u>
Cash and cash equivalents in the condensed consolidated cash flow statement	<u><u>1,670,418</u></u>	<u><u>1,949,971</u></u>

Remittance of funds out of Mainland China is subject to relevant rules and regulations of foreign exchange control. As of the end of the reporting period, cash and cash equivalents situated in Mainland China amounted to HK\$527,239,000 (31 December 2021: HK\$530,765,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

17 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Within 3 months	215,514	305,544
3 to 6 months	<u>331</u>	<u>9</u>
Total creditors	215,845	305,553
Salary and welfare payables	66,053	102,587
Other tax payables	47,243	60,220
Other payables and accruals	<u>60,846</u>	<u>56,623</u>
	<u>389,987</u>	<u>524,983</u>

The trade and other payables are non-interest-bearing and are expected to be settled within three months or repayable on demand.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

18 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	At 30 June 2022		At 31 December 2021	
	Present value of the minimum lease payments HK\$' 000	Total minimum lease payments HK\$' 000	Present value of the minimum lease payments HK\$' 000	Total minimum lease payments HK\$' 000
Within 1 year	<u>63,642</u>	<u>64,763</u>	<u>86,127</u>	<u>89,259</u>
After 1 year but within 2 years	<u>35,502</u>	<u>37,820</u>	<u>52,217</u>	<u>55,592</u>
After 2 years but within 5 years	<u>4,194</u>	<u>4,733</u>	<u>20,564</u>	<u>22,928</u>
	<u>39,696</u>	<u>42,553</u>	<u>72,781</u>	<u>78,520</u>
	<u>103,338</u>	<u>107,316</u>	<u>158,908</u>	<u>167,779</u>
Less: total future interest expenses		<u>(3,978)</u>		<u>(8,871)</u>
Present value of lease liabilities		<u>103,338</u>		<u>158,908</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) *Dividends payable to equity shareholders of the Company attributable to the interim period*

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Interim dividend declared after the interim period of nil (2021: HK14.5 cents per ordinary share)	—	173,077

The Board does not recommend the payment of any interim dividend for the period ended 30 June 2022.

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period*

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Second interim dividend in respect of the previous financial year, approved and paid during the period, of nil (2021: HK26.7 cents per ordinary share)	—	320,250
Special dividend in respect of the previous financial year, approved and paid during the period, of nil (2021: HK26.7 cents per ordinary share)	—	320,250

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital and reserves

As at 30 June 2022 and 31 December 2021, the authorised share capital of the Company comprises 2,000,000,000 ordinary shares with par value of US\$0.0000025 per share.

A summary of the transactions during the period in the Company's issued share capital is as follows:

	Number of shares issued and fully paid [^]	Issued capital HK\$' 000	Share premium HK\$' 000	Shares held for share award scheme HK\$' 000	Shares repurchased for cancellation HK\$' 000
At 1 January 2022	1,193,526,599	23	-	(301,661)	-
Vesting of awarded shares	-	-	5,878	20,589	-
Share options exercised (note 20)	3,638,000	-*	3,609	-	-
At 30 June 2022	<u>1,197,164,599</u>	<u>23</u>	<u>9,487</u>	<u>(281,072)</u>	<u>-</u>
At 1 January 2021	1,202,367,099	23	-	(136,803)	(51,635)
Vesting of awarded shares	-	-	2,635	11,644	-
Share options exercised (note 20)	3,689,500	-*	8,188	-	-
Shares purchased for the share award scheme	-	-	-	(116,240)	-
Repurchase of ordinary shares	-	-	-	-	(57,437)
Cancellation of ordinary shares	(12,069,000)	-*	(10,823)	-	109,072
At 30 June 2021	<u>1,193,987,599</u>	<u>23</u>	<u>-</u>	<u>(241,399)</u>	<u>-</u>

* These amounts represent amounts less than HK\$1,000.

[^] As at 30 June 2022, the total number of issued ordinary shares of the Company included 34,572,675 shares (31 December 2021: 37,068,629 shares) held under the share award scheme. And as at 30 June 2022, there were no shares of the Company held for cancellation (31 December 2021: Nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, repurchase the Company's own shares or issue new shares. No change was made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital by regularly reviewing the gearing ratio, which is total liabilities, divided by total assets. Capital represents total equity shown in the consolidated statement of financial position.

The Group's gearing ratio at the end of the current and previous reporting periods was as follows:

	At 30 June 2022 HK\$' 000	At 31 December 2021 HK\$' 000
Total current liabilities	794,782	1,060,095
Total non-current liabilities	<u>45,697</u>	<u>80,641</u>
	<u>840,479</u>	<u>1,140,736</u>
Total current assets	2,148,428	2,497,517
Total non-current assets	<u>1,805,231</u>	<u>1,956,675</u>
	<u>3,953,659</u>	<u>4,454,192</u>
Gearing ratio	<u>21.3%</u>	<u>25.6%</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

20 SHARE-BASED PAYMENTS

The Company adopted a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) and a share option scheme (the “Share Option Scheme”), approved by the written resolution of shareholders passed on 16 September 2013 (the “Resolution”).

(a) Pre-IPO Share Option Scheme

The following share options were outstanding and exercisable under the Pre-IPO Share Option Scheme during the period:

	<u>Six months ended 30 June 2022</u>		<u>Six months ended 30 June 2021</u>	
	Weighted average exercise price US\$	Number of options	Weighted average exercise price US\$	Number of options
Outstanding at the beginning of the period	0.0865	4,570,000	0.0778	7,438,500
Exercised during the period	0.0865	(3,638,000)	0.0625	(2,735,500)
Forfeited/lapsed during the period	0.0865	<u>(120,000)</u>	–	–
Outstanding at the end of the period	0.0865	<u>812,000</u>	0.0868	<u>4,703,000</u>
Exercisable at the end of the period	0.0865	<u>812,000</u>	0.0868	<u>4,703,000</u>

The exercise prices and option periods of the share options outstanding as at the end of the reporting period are as follows:

At 30 June 2022			
Number of options	Exercise price per share US\$	Grant date	Expiry date
<u>812,000</u>	0.0865	31-03-2013	30-03-2023

The share options granted under the Pre-IPO Share Option Scheme outstanding as at the end of the reporting period will vest in anniversary of grant date with each of 25% being vested annually.

As at 30 June 2022, the Pre-IPO share options outstanding had a weighted average remaining contractual life of 0.75 years (31 December 2021: 0.60 years). For Pre-IPO share options, the weighted average closing price of the Company’s shares at the date share options were exercised during the period was HK\$4.14 (six months ended 30 June 2021: HK\$10.67).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

20 SHARE-BASED PAYMENTS (Continued)

(b) Share Option Scheme

The following share options were outstanding and exercisable under the Share Option Scheme during the period:

	<u>Six months ended 30 June 2022</u>		<u>Six months ended 30 June 2021</u>	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Outstanding at the beginning of the period	4.13	4,801,000	4.10	5,767,000
Exercised during the period	–	–	3.96	(954,000)
Outstanding at the end of the period	4.13	<u>4,801,000</u>	4.13	<u>4,813,000</u>
Exercisable at the end of the period	4.01	<u>4,409,000</u>	3.95	<u>4,216,000</u>

The exercise prices and option periods of the share options outstanding as at the end of the reporting period are as follows:

At 30 June 2022			
Number of options	Exercise price per share HK\$	Grant date	Expiry date
100,000	5.47	11-08-2014	10-08-2024
442,000	3.51	21-11-2014	20-11-2024
3,511,000	3.90	23-03-2015	22-03-2025
406,000	5.75	19-08-2019	18-08-2029
<u>342,000</u>	4.91	06-05-2020	05-05-2030
<u>4,801,000</u>			

The share options granted under the Share Option Scheme outstanding as at the end of the reporting period will vest in anniversary of grant date with each of 25% being vested annually. As at 30 June 2022, 392,000 share options have not be vested and were not exercisable.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

20 SHARE-BASED PAYMENTS (Continued)

(b) Share Option Scheme (Continued)

As at 30 June 2022, the share options under the Share Option Scheme outstanding had a weighted average remaining contractual life of 3.00 years (31 December 2021: 3.66 years). For share options under the Share Option Scheme, there were no share options exercised during the six months ended 30 June 2022, and the weighted average closing price of the Company's shares at the date share options were exercised during the six months ended 30 June 2021 was HK\$10.75.

Share options exercised under Pre-IPO Share Option Scheme and Share Option Scheme during the six months ended 30 June 2022 resulted in the issuance of 3,638,000 (six months ended 30 June 2021: 3,689,500) ordinary shares of the Company and share premium of HK\$3,609,000 (six months ended 30 June 2021: HK\$8,188,000), as further detailed in Note 19 to the financial statements.

(c) Share award scheme

The share award scheme of the Company was adopted by the Board on 24 December 2013. The purpose of the share award scheme is to recognise the contributions by certain selected grantees and to give incentives thereto in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group.

Movements in the number of shares held for the share award scheme and awarded shares for the six months ended 30 June 2022 are as follows:

	Number of shares held for the share award scheme not yet granted	Number of awarded shares granted but not yet vested	Total
At 1 January 2022	16,177,902	20,890,727	37,068,629
Granted	(3,498,580)	3,498,580	–
Forfeited/Lapsed	1,548,422	(1,548,422)	–
Vested	–	(2,495,954)	(2,495,954)
At 30 June 2022	<u>14,227,744</u>	<u>20,344,931</u>	<u>34,572,675</u>
Vested but not transferred as at 30 June 2022			<u>–</u>

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the six months ended 30 June 2022 was HK\$3.18 per share.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

20 SHARE-BASED PAYMENTS (Continued)

(c) Share award scheme (Continued)

On 11 April 2022, the Group granted a total of 3,498,580 awarded shares, among which 670,917 awarded shares will vest in anniversary of grant date with each of 50% being vested annually.

The remaining awarded shares granted during the six months ended 30 June 2022 and outstanding as at the period then ended will vest in anniversary of grant date with each of 25% being vested annually. The consideration paid by the Company, including any directly attributable incremental costs, is deducted from the Group's equity.

(d) Performance-based share award scheme

The Company adopted a performance-based share award scheme on 21 May 2021, and the scheme was approved by the resolution of shareholders passed on 20 July 2021. The purpose of the performance-based share award scheme is to recognise the contributions by certain eligible persons.

Under the performance-based share award scheme, the Company grants up to 71,635,355 performance-based awarded shares to the grantees. The award shares will vest, in whole or in part, after 8.5 months to 56.5 months from the grant date, on condition that certain market performance criteria is met. The actual number of awarded shares to be vested to the grantees varies based on the growth rate of share price of the Company.

Movements in the number of awarded shares for the six months ended 30 June 2022 are as follows:

	Number of awarded shares granted but not yet vested
At 31 December 2021	71,635,355
Forfeited/Lapsed	<u>(14,327,074)</u>
At 30 June 2022	<u>57,308,281</u>
Vested but not transferred as at 30 June 2022	<u>–</u>

As at 30 June 2022, there were no shares of the Company held for the performance-based share award scheme (31 December 2021: Nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 30 June 2022	Fair value measurements as at 30 June 2022 categorised into	
		Level 1 HK\$' 000	Level 3 HK\$' 000
Recurring fair value measurement			
<i>Assets:</i>			
Listed equity securities	912	912	–
Unquoted equity securities	558,676	–	558,676
	Fair value at 31 December 2021	Fair value measurements as at 31 December 2021 categorised into	
		Level 1 HK\$' 000	Level 3 HK\$' 000
Recurring fair value measurement			
<i>Assets:</i>			
Listed equity securities	4,613	4,613	–
Unquoted equity securities	529,475	–	529,475

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

During the six months ended 30 June 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2021: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

The Group's financial team performs valuation on level 3 financial instruments for financial reporting purpose. The team performs valuation, or necessary updates at each interim and annual reporting date. The team adopts various valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts may also be involved and consulted when it is necessary.

Unquoted equity securities mainly represented investments in certain private equity funds and non-listed internet companies. The fair value of these unquoted equity securities was mainly determined with reference to the latest available financial information, adjusted by unobservable inputs such as latest-round financing of the funds' underlying investments, when applicable. The higher the price of the latest-round financing for these underlying investments, the higher the fair value of the unquoted equity securities would be.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	Six months ended 30 June	
	2022	2021
	HK\$' 000	HK\$' 000
Unquoted equity securities:		
At 1 January	529,475	500,023
Additional investments acquired	23,883	75,582
Net unrealised gains/(losses) recognised in profit or loss during the period	13,782	(110,072)
Exchange adjustments	(8,464)	584
At 30 June	<u>558,676</u>	<u>466,117</u>
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	<u>13,782</u>	<u>(110,072)</u>

(b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2021 and 30 June 2022.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

22 COMMITMENTS

Capital commitments outstanding at 30 June 2022 not provided for in the interim financial report were as follows:

	At 30 June 2022 HK\$' 000	At 31 December 2021 HK\$' 000
Contracted for:		
Construction of self-use office building	447,708	–
Acquisition of self-use office premises	14,123	16,102
Renovations and design	4,898	28,869
Investment contracts	3,767	27,630
Purchase of equipment	–	1,267
	<u>470,496</u>	<u>73,868</u>

23 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group is as follows:

	Six months ended 30 June	
	2022 HK\$' 000	2021 HK\$' 000
Short-term employee benefits	9,084	13,061
Equity-settled share-based payment	27,448	3,304
	<u>36,532</u>	<u>16,365</u>

Total remuneration is included in “staff costs” (see note 5(a)).

(b) Other transactions with related parties

For the six months ended 30 June 2022, certain associates and joint ventures of the Group provided outsourcing game development services to the Group. The service fee recognised for the six months ended 30 June 2022 was HK\$5,568,000 (six months ended 30 June 2021: HK\$10,449,000).

Save as disclosed above, the Group did not have any other material transactions or outstanding balances with related parties during the period.

DEFINITION

“Board” or “Board of Directors”	the board of Directors of the Company
“Business day(s)”	a day on which banks in Hong Kong and the Cayman Islands are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong or the Cayman Islands
“BVI”	British Virgin Islands
“China” or “PRC”	the People’s Republic of China, for the purpose of this interim report, excluding Hong Kong, Macau and Taiwan
“Company”	IGG Inc, an exempted company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
“Chengdu Tianyong”	Chengdu Tianyong Digital Technology Co., Ltd.* (成都天勇數碼科技有限公司), a limited liability company established under the laws of the PRC on 19 January 2021, a wholly-owned subsidiary of the Company
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto in the Listing Rules
“Corporate Governance Code”	corporate governance code contained in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Duke Online”	Duke Online Holdings Limited, an exempted company incorporated under the laws of the BVI on 10 September 2007 with limited liability, the entire issued share capital of which is owned by Mr. Zongjian Cai
“Edmond Online”	Edmond Online Holdings Limited, an exempted company incorporated under the laws of the BVI on 10 September 2007 with limited liability, the entire issued share capital of which is owned by Mr. Yuan Chi
“Founders”	Mr. Zongjian Cai (蔡宗建) and Mr. Yuan Chi (池元)
“Fuzhou Tianji”	Fuzhou TJ Digital Entertainment Co., Ltd.* (福州天極數碼有限公司), a limited liability company established under the laws of the PRC on 15 November 2007, a wholly-owned subsidiary of the Company

* For identification purpose only

DEFINITION

“Fuzhou Tianmeng”	Fuzhou Skyunion Digital Co., Ltd* (福州天盟數碼有限公司), a limited liability company established under the laws of the PRC on 12 December 2006, which is owned as to 50% by Mr. Deyang Zheng and 50% by Mr. Chengfeng Luo, respectively
“Fuzhou Tianmeng Registered Holders”	Mr. Deyang Zheng (鄭德陽) and Mr. Chengfeng Luo (羅承鋒)
“Fuzhou Tianmeng Structured Contracts”	a series of contracts which include the New Call Option Agreement, the New Exclusive Technical Consulting Service Agreement, the New Equity Pledge Agreement, the New Power of Attorney, the New Online Game Licensing Agreement and the Spouse Undertakings
“Fuzhou Tianping”	Fuzhou Tianping Digital Technology Co., Ltd.* (福州天平數碼科技有限公司), a limited liability company established under the laws of the PRC on 21 February 2020, a wholly-owned subsidiary of the Company
“Group,” “IGG,” “we,” “our” or “us”	the Company and its subsidiaries
“Hainan Tianzhi”	Hainan Tianzhi Network Technology Co., Ltd* (海南天志網絡科技有限公司), a limited liability company established under the laws of the PRC on 28 August 2020, a wholly-owned subsidiary of the Company
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“IGG Singapore”	IGG Singapore Pte. Ltd., a company incorporated under the laws of Singapore on 30 June 2009, a wholly-owned subsidiary of the Company
“ICP License”	a value-added telecommunications business operation license with a service scope of information services of category 2 value-added telecommunication services

* For identification purpose only

DEFINITION

“Independent Third Party(ies)”	individual(s) or company(ies) who is/are not connected with (within the meaning of the Listing Rules) any of the Company, Directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates
“Land”	a piece of land located at eastern side of Fuguang Road, southern side of Hutang Road, old housing reconstruction project land lot no. 2 at Hutang Village and surrounding area, Jin’an District, Fuzhou, the PRC (Land Lot No. 2020-44 (2020-44號)), with a total site area of approximately 8,910 square metres, designated for business and commercial use with a term of land use rights of 40 years, the land use rights of which were acquired by Fuzhou Tianping pursuant to the State-owned Construction Land Use Rights Assignment Contract (國有建設用地使用權出讓合同) entered into between Fuzhou Tianping and Fuzhou Natural Resources and Planning Bureau on 15 September 2020
“Listing”	the listing of the Shares on the GEM
“Listing Date”	18 October 2013, on which dealings in Shares first commenced on the GEM
“Listing Rules”	the Rules Governing the Listing of the Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“MAU”	monthly active users
“Model Code”	the required standard of dealings for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules
“Performance-based Awarded Shares”	such number of Shares awarded by the Board pursuant to the Performance-based Share Award Scheme
“Performance-based Share Award Scheme”	the performance-based share award scheme adopted by the Company on 21 May 2021, the principal terms of which are summarised in the announcement and circular of the Company dated 21 May 2021 and 28 June 2021, respectively
“Period” and “1H2022”	the six months ended 30 June 2022
“1H2021”	the six months from 1 January 2021 to 30 June 2021
“2H2021”	the six months from 1 July 2021 to 31 December 2021
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 12 November 2008 and amended by written resolutions of all Shareholders passed on 16 September 2013, the principal terms of which are summarised in the paragraph headed “Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus

DEFINITION

“Previous Structured Contracts”	a series of contracts (as supplemented) which include the Call Option Agreement, the Exclusive Technical Consulting Service Agreement, the Equity Pledge Agreement, the Power of Attorney and the Online Game Licensing Agreement
“Prospectus”	the prospectus of the Company dated 11 October 2013
“R&D”	research and development
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“SGD”	Singapore dollar, the lawful currency of Singapore
“Share(s)”	the ordinary share(s) of US\$0.0000025 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Share Award Scheme”	the share award scheme adopted by the Company on 24 December 2013 and amended on 19 August 2021, the principal terms of which are summarised in the announcements of the Company dated 24 December 2013 and 19 August 2021
“Share Option Scheme”	the share option scheme adopted by the Company on 16 September 2013, the principal terms of which are summarised under the paragraph headed “Share Option Scheme” in Appendix IV to the Prospectus
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Contracts”	the Fuzhou Tianmeng Structured Contracts and the Xinhan Liaokuo Structured Contracts
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules

DEFINITION

“Xinhan Liaokuo”	Hainan Xinhan Liaokuo Network Technology Co., Ltd.* (海南新瀚遼闊網絡科技有限公司), a limited liability company established under the laws of the PRC on 29 September 2020, which is owned as to 50% by Mr. Deyang Zheng and 50% by Mr. Chengfeng Luo, respectively
“Xinhan Liaokuo Registered Holders”	Mr. Deyang Zheng (鄭德陽) and Mr. Chengfeng Luo (羅承鋒)
“Xinhan Liaokuo Structured Contracts”	a series of contracts which include the Xinhan Liaokuo Call Option Agreement, the Xinhan Liaokuo Exclusive Technical Consulting Service Agreement, the Xinhan Liaokuo Equity Pledge Agreement, the Second Power of Attorney, the Xinhan Liaokuo Online Game Licensing Agreement and the Second Spouse Undertakings
“US\$” or “USD”	United States dollars, the lawful currency of the United States of America
“%”	per cent

If there is any inconsistency between the English and Chinese texts of this report, the English text of this report shall prevail over the Chinese text.

* For identification purpose only