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IGG INC

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 799)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

The board of directors (the “**Board**”) of IGG Inc (the “**Company**”) hereby announces the unaudited results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2020. This announcement, containing the full text of the 2020 interim report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to information to accompany preliminary announcements of interim results.

Both the English and Chinese versions of this results announcement are available on the websites of the Company (www.igg.com) and the Stock Exchange (www.hkex.com.hk).

The 2020 interim report of the Company will be published on the websites of the Company (www.igg.com) and the Stock Exchange (www.hkex.com.hk) and will be dispatched to the Shareholders of the Company in due course.

By order of the Board
IGG INC
Zongjian Cai
Chairman

Hong Kong, 5 August 2020

As at the date of this announcement, the Board comprises five executive Directors, namely, Mr. Zongjian Cai, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Jessie Shen and Mr. Feng Chen; one non-executive Director, namely, Mr. Yuan Chi; and three independent non-executive Directors, namely, Dr. Horn Kee Leong, Mr. Dajian Yu and Ms. Zhao Lu.

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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 (*a fellow of The Hong Kong Institute of Chartered Secretaries*)

AUTHORISED REPRESENTATIVES

Mr. Zongjian Cai

Ms. Jessie Shen

Ms. Yin Ping Yvonne Kwong

REGISTERED OFFICE

P.O. Box 31119, Grand Pavilion, Hibiscus Way

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KY1-1205 Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN SINGAPORE

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#18-84 Mapletree Business City

Singapore 117372

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower

No. 248 Queen's Road East

Wanchai

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House - 3rd Floor, 24 Shedden Road
P.O. Box 1586, Grand Cayman, KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

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

COMPANY WEBSITE

www.igg.com

HIGHLIGHTS

	Six months ended 30 June			
	2020		2019	
	US\$' 000 (Unaudited)	HK\$' 000 ²	US\$' 000 (Unaudited)	HK\$' 000 ²
Revenue	312,318	2,426,461	354,666	2,782,177
Profit for the period	132,806	1,031,796	70,702	554,622
Profit for the period attributable to equity shareholders of the Company	132,806	1,031,796	70,714	554,716
Adjusted net income ¹	134,288	1,043,310	72,880	571,707

- The Group's revenue for the Period was US\$312.3 million, representing a decrease of 12% compared to the revenue of US\$354.7 million for the corresponding period in 2019, but remained stable as compared with US\$313.0 million for the second half of 2019. The year-on-year decrease was mainly due to a natural drop in revenue from long-running classic titles. However, the Group enhanced its marketing promotion and provided quality services to seize the opportunity of "home-based" economy spurred by the COVID-19 outbreak. Monthly gross billing of flagship title "Lords Mobile" experienced a resurgence to over US\$54 million during the Period, and reached a record high of over US\$60 million in July.
- The Group's profit for the Period was US\$132.8 million, representing an increase of 88% compared to the profit of US\$70.7 million for the corresponding period in 2019 and an increase of 41% compared to the profit of US\$94.1 million for the second half of 2019. The increase was attributable to effective cost control and the outstanding performance of global investments.
- The Group's profit attributable to equity shareholders of the Company for the Period was US\$132.8 million, representing an increase of 88% compared to US\$70.7 million for the corresponding period in 2019 and an increase of 41% compared to US\$94.1 million for the second half of 2019.
- The Group's adjusted net income for the Period was US\$134.3 million, representing an increase of 84% compared to US\$72.9 million for the corresponding period in 2019 and an increase of 40% compared to US\$95.8 million for the second half of 2019.
- The Board has resolved to declare an interim dividend of HK25.1 cents per ordinary Share (equivalent to US3.2 cents per ordinary Share) and a special dividend of HK25.1 cents per ordinary Share (equivalent to US3.2 cents per ordinary Share). Total dividends for the Period would be HK50.2 cents per ordinary Share (equivalent to US6.4 cents per ordinary Share), amounting to approximately US\$79.7 million (for the six months ended 30 June 2019: interim dividend of HK13.0 cents per ordinary Share, equivalent to US1.7 cents per ordinary Share).

1 Adjusted net income represents profit 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.

2 Amounts denominated in U.S. dollars have been converted into Hong Kong dollars at an exchange rate of HK\$7.7692=US\$1.00 for the Period (for the six months ended 30 June 2019: HK\$7.8445=US\$1.00), for illustration purpose only. Such conversions shall not be construed as representations that such amount in U.S. dollars were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

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 approximately 720 million registered users. Leveraging its success in client-based and browser online games, the Group changed its strategy to target the mobile games market in 2013. Over the years, the Group has developed a wide range of popular mobile games available in 23 languages, and has been listed among the “Top 52 Publishers” by App Annie for six 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 regional offices in the United States, China, Canada, Japan, South Korea, Thailand, Belarus, the Philippines, the United Arab Emirates, Indonesia, Brazil, Turkey, Italy, Spain, etc. The Group has 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 more than 100 business partners, including art studios, advertising channels, as well as global platforms such as Apple, Google, Amazon, and Microsoft. The Group’s international presence and partnerships have enhanced its competitive advantage in the industry.

BUSINESS REVIEW

In the first half of 2020, even as the coronavirus pandemic posed challenges across countries and industries, it also boosted the “home-based” economy. Operating in the mobile games industry, IGG seized the opportunity to enhance marketing and promotions during the Period. Our games kept gamers around the world company, offering them high-quality entertainment during the coronavirus lockdowns, leading to a rebound in business. After more than a year of decline, the Group’s blockbuster game “Lords Mobile” experienced a resurgence with monthly gross billing rising to over US\$54 million during the Period and hitting a record high of over US\$60 million in July.

During the Period, the Group recorded a total revenue of over US\$310 million, representing a decrease of 12% compared to revenue for the corresponding period in 2019, but remained stable as compared to the second half of 2019. IGG’s net profit reached a new record for interim profit since the Listing of over US\$130 million in the first half of 2020, soaring 88% year-on-year and up 41% compared to the second half of 2019. The increase was attributable to effective cost control and the outstanding performance of global investments. After excluding fair value change on investments, IGG achieved a net profit of US\$78.5 million, representing an increase of 10% year-on-year, and an increase of 16% compared to the second half of 2019. During the Period, revenue generated from markets in Asia, North America and Europe accounted for 40%, 30% and 24%, respectively, of the Group’s total revenue.

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. With its compelling game play, “Lords Mobile” continues to enjoy enduring popularity and generates steady revenue even as it enters its fifth year of operation. During the Period, the game has approximately 320 million registered users worldwide and over 13 million MAU, and recorded a rebound in gross billing with an increase of 18% in the second quarter of 2020. The monthly gross billing hit a record high of over US\$60 million in July.

In the first half of 2020, the Group rolled out a series of promotional initiatives to drive its game operations, including the release of a painstakingly-produced animated short film “The Wonder”, cross-promotions with KOLs in Japan, and gaining over 3 million followers each on Instagram and Facebook. During the Period, the Group continued with game content updates, following up on “Dragon Arena” with new, unique features such as “Tier 5 Troops” and “Sanctuary”, offering gamers a refreshing new experience. Creative game contents and innovative marketing campaigns drove monthly gross billing in the United States, Japan, Germany, France, the United Kingdom and Brazil to new records in the first half of 2020. According to App Annie’s daily grossing ranking as at 30 June 2020, “Lords Mobile” ranked top five in 27 and top 10 in 58 countries and regions on Google Play, and top five in 12 and top 10 in 22 countries and regions on Apple’s App Store.

“Castle Clash”

“Castle Clash” is a fast-paced tower defence game launched in 2013. Entering its eighth year of operation, the game remains popular. Frequent content updates and regular addition of new features have successfully sustained the game’s appeal.

New Titles

As for new games, IGG continued to boldly venture into new genres to diversify its product portfolios. The Group released more than 10 new games in different genres in the first half of 2020, including casual games, multiplayer online battle arena (MOBA) games, and a female-oriented game. “Dress Up! Time Princess”, the Group’s first female-oriented dressing game, offers players unique and beautiful costumes and accessories, dramatic stories with multiple endings, character customisation, and highly customisable clothing DIY features. “Omega Legends”, a recently released battle royale shooter game, has been featured on Apple’s App Store and Google Play Store in many countries by offering gamers distinct heroes with unique abilities, various game modes, and fair team competition. Going beyond the boundary of games, the Group expanded into utility apps. In the first half of 2020, “KeepClean” and “KeepLock”, two utility apps designed for Android users, have gained 30 million registered users. Furthermore, a diverse line-up of new titles, including strategy games and a sandbox game, are scheduled for launch in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Investment

The Group has been closely monitoring the evolving global gaming market and investing in the mobile internet and gaming related companies with growth potential over the past few years.

During the Period, led by the remarkable performance of the Group's investment in XD Inc. and other mobile internet and gaming companies, the gain from fair value change on investments soared to US\$54.3 million. Meanwhile, the Group is exploring strategic investments and in-depth cooperation with high-quality global R&D teams to expand its product portfolios and further drive long-term growth.

PROSPECTS

Moving forward, IGG will try to maintain its competitive edge by grasping opportunities in the "home-based" economy. The Group will continue to invest heavily in its R&D and operation teams to deliver innovative and diversified products. In addition to global talent recruitment, the Group is exploring investment opportunities worldwide to further drive long-term growth. Embracing the corporate spirit of "Innovators at Work, Gamers at Heart", IGG will relentlessly pursue its strategy of quality, innovation and excellence to create innovative yet classic games.

FINANCIAL REVIEW

Revenue

The Group's revenue for the Period was US\$312.3 million, decreased by 12% compared with US\$354.7 million for the corresponding period in 2019, but remained stable as compared with US\$313.0 million for the second half of 2019. The year-on-year decrease was mainly due to a natural drop in revenue from long-running classic titles. However, the Group enhanced its marketing promotion and provided quality services to seize the opportunity of "home-based" economy spurred by the COVID-19 outbreak, and experienced a resurgence in the monthly gross billing of flagship title "Lords Mobile".

Revenue by games

The following table sets forth a breakdown of the Group's revenue by games for the Period and the corresponding period in 2019, respectively:

	Six months ended 30 June			
	2020		2019	
	US\$' 000	%	US\$' 000	%
"Lords Mobile"	263,636	84.4	282,099	79.5
"Castle Clash"	23,876	7.7	44,699	12.6
Others	24,806	7.9	27,868	7.9
Total	312,318	100.0	354,666	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of revenue

The Group's cost of revenue for the Period was US\$95.6 million, representing a decrease of 12% compared to US\$108.5 million for the corresponding period in 2019, primarily due to the decrease in channel costs as a result of lower revenue.

Gross profit and gross profit margin

The Group's gross profit for the Period was US\$216.7 million, representing a decrease of 12% compared to US\$246.2 million for the corresponding period in 2019, primarily due to the natural drop in revenue from "Lords Mobile" and "Castle Clash".

The Group's gross profit margin for the Period was 69%, which remained stable as compared with the corresponding period in 2019.

Other net income

The Group's other net income for the Period was US\$55.4 million, representing an increase of 1,952% compared to US\$2.7 million for the corresponding period in 2019, primarily due to the increase in fair value gain from the Group's successful investments in XD Inc. and other mobile internet and gaming related companies. Details of the investment in XD Inc. are set out below in the section headed "Significant investment".

Selling and distribution expenses

The Group's selling and distribution expenses for the Period was US\$67.5 million, representing a decrease of 32% compared to US\$99.6 million for the corresponding period in 2019, primarily due to less advertising expenses during the Period. Selling and distribution expenses-to-revenue ratio for the Period was 22%, decreased by 6% from 28% in the corresponding period in 2019.

Administrative expenses

The Group's administrative expenses for the Period was US\$18.3 million, representing a decrease of 11% compared to US\$20.6 million for the corresponding period in 2019. Administrative expenses-to-revenue ratio for the Period was 6%, which remained stable as compared to the corresponding period last year.

Research and development expenses

The Group's research and development expenses for the Period was US\$36.9 million, representing a decrease of 14% compared to US\$42.9 million for the corresponding period in 2019. Research and development expenses-to-revenue ratio for the Period was 12%, which remained stable as compared to the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expenses

The Group's income tax expenses for the Period was US\$14.9 million, representing an increase of 12% compared to US\$13.3 million for the corresponding period in 2019, primarily due to higher profit before taxation during the Period.

The Company's subsidiary, IGG Singapore, has obtained an extension of the Development and Expansion Incentive ("Incentive") from the Economic Development Board of Singapore. Under the Incentive, IGG Singapore will enjoy a concessionary tax rate of 10% on qualifying income from 2017 to 2019, and 10.5% from 2020 to 2021. Non-qualifying income is subject to normal corporate tax rate of 17%.

Capital expenditures

During the Period, the Group's capital expenditures were mainly related to purchases of property, plant and equipment, including servers, motor vehicles, computer equipment and intangible assets, such as software. Capital expenditures for the Period and the corresponding period in 2019 are set forth below:

	Six months ended 30 June	
	2020	2019
	US\$' 000	US\$' 000
Purchase of property, plant and equipment	595	27,790
Purchase of intangible assets	221	516

Capital commitment

As at 30 June 2020, the Group had a capital commitment of US\$0.3 million (31 December 2019: US\$0.2 million).

Liquidity, capital resources and gearing ratio

As at 30 June 2020, the Group had net current assets of US\$289.9 million (31 December 2019: US\$260.3 million), and the gearing ratio of the Group, calculated as total liabilities divided by total assets, was 21.4% (31 December 2019: 21.4%).

As at 30 June 2020, the Group had cash and cash equivalents of US\$339.9 million (31 December 2019: US\$307.1 million).

The Group did not have any bank borrowings or other financing facilities as at 30 June 2020 (31 December 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Operating activities

Net cash generated from operating activities was US\$86.7 million for the Period, compared to US\$46.1 million for the corresponding period in 2019. The increase in net cash generated from operating activities was primarily due to the decrease in advertising and R&D expenses and deferred settlement of payables as a result of COVID-19 outbreak.

Investing activities

Net cash used in investing activities was US\$7.4 million for the Period, primarily attributable to the equity investments in mobile internet and gaming related companies and purchase of fixed assets during the Period. Net cash used in investing activities for the corresponding period in 2019 was US\$28.3 million.

Financing activities

Net cash used in financing activities was US\$45.5 million for the Period, primarily attributable to the payment of the second interim dividend for the year ended 31 December 2019, as well as the share buy-backs made by the Company during the Period. Net cash used in financing activities for the corresponding period in 2019 was US\$35.0 million.

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 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.

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, 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 is protected through effective management systems which keep the personal data anonymous to the maximum extent possible and through internal processing mechanisms of data management, separation of access and access restrictions which are implemented to ensure the highest level of protection of personal data.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

The Board resolved to declare an interim dividend of HK25.1 cents per ordinary Share (equivalent to US3.2 cents per ordinary Share) and a special dividend of HK25.1 cents per ordinary Share (equivalent to US3.2 cents per ordinary Share). Total dividends for the Period would be HK50.2 cents per ordinary Share (equivalent to US6.4 cents per ordinary Share), amounting to approximately US\$79.7 million (for the six months ended 30 June 2019: interim dividend of HK13.0 cents per ordinary Share, equivalent to US1.7 cents per ordinary Share).

The register of members of the Company will be closed from Thursday, 20 August 2020 to Tuesday, 25 August 2020, both days inclusive, during which period no transfer of Shares will be registered for the purpose of determining Shareholders' entitlements to the interim dividend and special dividend. The record date for entitlement to the interim dividend and special dividend is on Tuesday, 25 August 2020. In order to qualify for the interim dividend and special dividend, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 19 August 2020. The payment date of the interim dividend and special dividend is expected to be on Friday, 4 September 2020.

Share repurchase

The Group had repurchased 20,059,000 Shares during the Period, amounting to US\$14.1 million. Taken into account the declared dividends of US\$79.7 million for the Period, total payment of share repurchase and declared dividends would be approximately US\$93.8 million, which was 71% of the net profit for the Period (for the period ended 30 June 2019, the total amount paid on share repurchase and declared dividends was US\$27.9 million, representing 39% of net profit of the corresponding period in 2019).

Human resources

As at 30 June 2020, the Group had 1,618 employees (31 December 2019: 1,587).

The Group's total staff-related costs amounted to US\$33.8 million for the Period (for the six months ended 30 June 2019: US\$34.9 million).

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee of the Company periodically. The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board as authorised by annual general meetings of Shareholders, after evaluating the Group's operating results, individual performance and comparable market statistics.

The Group has adopted the Pre-IPO Share Option Scheme, the Share Option Scheme and the Share Award Scheme to motivate and reward Directors and eligible employees. Details of the Pre-IPO Share Option Scheme, Share Option Scheme and Share Award Scheme are set out in note 18 to the unaudited interim financial report.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant investment

As at 30 June 2020, the Group held equity securities listed in Hong Kong at fair value through profit or loss amounting to approximately US\$94.8 million, which comprised the equity securities of XD Inc., the shares of which are listed on the Stock Exchange (stock code: 2400). Details of such investment are set out below:

Name of investee company	Number of shares held	Percentage of share capital owned by the Group	Fair value as at 31 December 2019 (US\$' 000)	Fair value as at 30 June 2020 (US\$' 000)	Unrealised gain on change in fair value of the Period (US\$' 000)	Dividend received/receivable during the Period (US\$' 000)
XD Inc.	24,648,000	5.76%	53,805	94,767 ^(Note)	41,419	–

Note: The investment resulted in an unrealised exchange loss of approximately US\$457,000 for the Period.

The Group first acquired approximately 6.84% equity interest of X.D. Network Inc. (心動網絡股份有限公司) (“**X.D. Network**”), a consolidated subsidiary of XD Inc., from an Independent Third Party on 25 December 2018 at a consideration of approximately US\$31.6 million. In order to reflect the onshore shareholding structure of X.D. Network as part of the corporate reorganisation (the “**Reorganisation**”) of XD Inc. in preparation for the listing, XD Inc. allotted and issued 24,648,000 shares to the Group on 27 May 2019, representing approximately 6.84% of the issued share capital of XD Inc. immediately after the Reorganisation and approximately 5.81% of the issued share capital of XD Inc. immediately after the global offering of XD Inc.. On 8 January 2020, after the issuance and allotment of shares of XD Inc. as a result of the full exercise of an over-allotment option, the Group’s equity interest in XD Inc. decreased to 5.76%. The investment cost and fair value of the Group’s interests in XD Inc. comprised approximately 5.38% and 16.11% of the total assets of the Group as at 30 June 2020, respectively. XD Inc. is principally engaged in the development and operation of games in the PRC and overseas, and it also operates TapTap, a leading game community and platform in the PRC. Based on the annual report of XD Inc. published on 28 April 2020, for the year ended 31 December 2019, its audited total revenue was approximately RMB2,838.1 million and profit attributable to its equity holders was approximately RMB346.6 million. XD Inc. has achieved rapid growth in its financial performance after going public in 2019 and the Group is optimistic about the future prospects of XD Inc. amid robust development of the PRC and overseas mobile game market.

The Group’s investment objective is to increase the value of its investment with an ultimate objective of enhancing returns for the Shareholders. The Group invests in investee companies with large-scale operations and stable results that the Board believes will benefit the growth of the Group’s core business. The Group will continue to adopt a prudent investment strategy and cautious approach in assessing the performance of the investments, so as to make timely and appropriate adjustments to its investments holdings with a view to minimising risks and generating favourable returns for the Shareholders.

Save as disclosed above, there were no other significant investments held by the Group as at 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Material acquisitions and disposal 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 2019, Skyunion Hong Kong Holdings Limited, a wholly-owned subsidiary of the Company, entered into an agreement on 10 April 2019 in relation to acquisition of a historical complex known as Palazzo Magnani Feroni located at Florence, Italy and the 100% issued share capital in the management company of the Property, Cedro S.r.l for a total consideration of Euro20.13 million, subject to adjustment. Please refer to the announcement dated 11 April 2019 for details of the transaction.

In July 2019, the acquisition was completed. The final consideration paid by Skyunion Hong Kong Holdings Limited's designated entities in respect of the acquisition was approximately Euro20.1 million (equivalent to approximately US\$22.6 million).

Charges on assets

As at 30 June 2020, no asset of the Group was pledged as a security for bank borrowing or any other financing activities (31 December 2019: nil).

Contingent liabilities

The Group had no contingent liabilities as at 30 June 2020 (31 December 2019: nil).

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view towards being a transparent and responsible organisation which is open and accountable to the 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 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 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 A.2.1 of the Corporate Governance Code, the Company has complied with the code provisions of the Corporate Governance Code.

Under provision A.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 overall business development of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. In addition, the balance of power and authorities is ensured by the operation 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.

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.

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 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (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 corporations

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	266,501,891	21.56%
	Mr. Yuan Xu (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	21.56%
	Mr. Hong Zhang (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	21.56%
	Ms. Jessie Shen (Note 3)	Beneficial owner	3,978,000	0.32%
	Mr. Feng Chen (Note 4)	Beneficial owner	13,640,000	1.10%
	Mr. Yuan Chi (Note 5)	Beneficial owner, interest in a controlled corporation	153,920,000	12.45%
	Dr. Horn Kee Leong (Note 6)	Beneficial owner	180,000	0.01%
	Ms. Zhao Lu (Note 7)	Beneficial owner	440,000	0.04%
	Mr. Dajian Yu (Note 8)	Beneficial owner	930,000	0.08%
2. Associated corporations: 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%
	Chinese ABC Limited	Mr. Feng Chen	Beneficial owner	990

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 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 182,268,027 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 23 March 2015, 332,000 share options were granted to Mr. Zongjian Cai under the Share Option Scheme. Upon the full exercise of such share options, Mr. Zongjian Cai will be beneficially interested in 332,000 Shares.

Mr. Yuan Xu was the beneficial owner of 31,269,077 Shares. On 23 March 2015, 613,000 share options were granted to Mr. Yuan Xu under the Share Option Scheme. Upon the full exercise of such share options, Mr. Yuan Xu will be beneficially interested in 613,000 Shares.

Mr. Hong Zhang was the beneficial owner of 11,166,835 Shares. Mr. Hong Zhang was also granted 6,400,000 share options under the Pre-IPO Share Option Scheme. On 23 March 2015, 605,000 share options were granted to Mr. Hong Zhang under the Share Option Scheme. Upon the full exercise of such share options, Mr. Hong Zhang will be beneficially interested in 7,005,000 Shares.

Ms. Kai Chen was the beneficial owner of 17,847,952 Shares and 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 3,470,000 Shares. On 21 November 2014 and 23 March 2015, respectively, 367,000 share options and 141,000 share options were granted to Ms. Jessie Shen under the Share Option Scheme. Upon the full exercise of such share options, Ms. Jessie Shen will be beneficially interested in 508,000 Shares.
- (4) Mr. Feng Chen was the beneficial owner of 13,340,000 Shares. On 23 March 2015, 300,000 share options were granted to Mr. Feng Chen under the Share Option Scheme. Upon the full exercise of such share options, Mr. Feng Chen will be beneficially interested in 300,000 Shares.
- (5) Mr. Yuan Chi was 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 23 March 2015, 486,000 share options were granted to Mr. Yuan Chi under the Share Option Scheme. Upon the full exercise of such share options, Mr. Yuan Chi will be beneficially interested in 486,000 Shares.
- (6) On 4 May 2018, 180,000 share options were granted to Dr. Horn Kee Leong under the Share Option Scheme. Upon the full exercise of such share options, Dr. Horn Kee Leong will be beneficially interested in 180,000 Shares.
- (7) Ms. Zhao Lu was the beneficial owner of 60,000 Shares. 200,000 Shares and 180,000 Shares which may be issued to her upon exercise of the share options granted to her on 23 March 2015 and 4 May 2018 under the Share Option Scheme, respectively. Upon the full exercise of such share options, Ms. Zhao Lu will be beneficially interested in 380,000 Shares.
- (8) Mr. Dajian Yu was the beneficial owner of 500,000 Shares. On 23 March 2015 and 4 May 2018, respectively, 250,000 share options and 180,000 share options were granted to Mr. Dajian Yu under the Share Option Scheme. Upon the full exercise of such share options, Mr. Dajian Yu will be beneficially interested in 430,000 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.

OTHER INFORMATION

Save as disclosed above, as of 30 June 2020, 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.

(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 2020, 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	266,501,891	21.56%
Mr. Zongjian Cai (Notes 1, 2)	Beneficial owner, interest in a controlled corporation, spouse interest, interests held jointly with another person	266,501,891	21.56%
Mr. Yuan Xu (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	21.56%
Mr. Hong Zhang (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	21.56%
Ms. Kai Chen (Notes 1, 2)	Beneficial owner, spouse interest, interests held jointly with another person	266,501,891	21.56%
Mr. Zhixiang Chen (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	21.56%
Edmond Online (Note 3)	Beneficial owner	153,920,000	12.45%
Mr. Yuan Chi (Note 3)	Beneficial owner, interest in a controlled corporation	153,920,000	12.45%

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 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 (spouse of Mr. Zongjian Cai) 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 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 182,268,027 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 23 March 2015, 332,000 share options were granted to Mr. Zongjian Cai under the Share Option Scheme. Upon the full exercise of such share options, Mr. Zongjian Cai will be beneficially interested in 332,000 Shares.

Mr. Yuan Xu was the beneficial owner of 31,269,077 Shares. On 23 March 2015, 613,000 share options were granted to Mr. Yuan Xu under the Share Option Scheme. Upon the full exercise of such share options, Mr. Yuan Xu will be beneficially interested in 613,000 Shares.

Mr. Hong Zhang was the beneficial owner of 11,166,835 Shares. Mr. Hong Zhang was also granted 6,400,000 share options under the Pre-IPO Share Option Scheme. On 23 March 2015, 605,000 share options were granted to Mr. Hong Zhang under the Share Option Scheme. Upon the full exercise of such share options, Mr. Hong Zhang will be beneficially interested in 7,005,000 Shares.

Ms. Kai Chen was the beneficial owner of 17,847,952 Shares and 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 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 23 March 2015, 486,000 share options were granted to Mr. Yuan Chi under the Share Option Scheme. Upon the full exercise of such share options, Mr. Yuan Chi will be beneficially interested in 486,000 Shares.

Save as disclosed above, as at 30 June 2020, 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 our Pre-IPO Share Option Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as our Pre-IPO Share Option Scheme will not involve the grant of options by us to subscribe for Shares once we have 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 30 June 2020
	Outstanding as at 31 December 2019	Exercised during the Period	Lapsed/ forfeited during the Period	
Senior management	6,400,000	–	–	6,400,000
Connected persons (other than members of the senior management)	530,000	100,000	–	430,000
Other grantees who have been granted share options under the Pre-IPO Share Option Scheme to subscribe for one million Shares or more	717,000	22,000	–	695,000
Other grantees	<u>4,254,800</u>	<u>512,000</u>	<u>–</u>	<u>3,742,800</u>
Total	<u>11,901,800</u>	<u>634,000</u>	<u>–</u>	<u>11,267,800</u>

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 issued 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.

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 quotation 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, 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 2019	Granted during the Period	Exercised during the Period	Lapsed/ forfeited during the Period	Outstanding as at 30 June 2020
Directors							
Mr. Zongjian Cai	23 March 2015	HK\$3.90	332,000	–	–	–	332,000
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. Yuan Chi	23 March 2015	HK\$3.90	486,000	–	–	–	486,000
Dr. Horn Kee Leong	4 May 2018	HK\$12.14	180,000	–	–	–	180,000
Ms. Zhao Lu	23 March 2015	HK\$3.90	200,000	–	–	–	200,000
	4 May 2018	HK\$12.14	180,000	–	–	–	180,000
Mr. Dajian Yu	23 March 2015	HK\$3.90	250,000	–	–	–	250,000
	4 May 2018	HK\$12.14	180,000	–	–	–	180,000
Directors' respective associate							
Ms. Meijia Chen (cousin of Mr. Yuan Xu)	23 March 2015	HK\$3.90	553,000	–	–	–	553,000
Employees							
	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	1,321,500	–	300,000	–	1,021,500
	20 April 2017	HK\$10.50	540,000	–	–	–	540,000
	17 November 2017	HK\$10.08	175,000	–	–	75,000	100,000
	23 August 2018	HK\$10.24	150,000	–	–	–	150,000
	19 August 2019	HK\$5.75	439,000	–	–	–	439,000
	6 May 2020	HK\$4.91	–	357,000	–	–	357,000
Consultants							
	21 November 2014	HK\$3.51	75,000	–	–	–	75,000
	23 March 2015	HK\$3.90	75,000	–	–	–	75,000
Total			7,337,500	357,000	300,000	75,000	7,319,500

OTHER INFORMATION

11 August 2014

Share options granted on 11 August 2014 shall 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.

Share options vesting date	Percentage of share options to vest
On 11 August 2015	25% of the total number of share options granted
On 11 August 2016	25% of the total number of share options granted
On 11 August 2017	25% of the total number of share options granted
On 11 August 2018	25% of the total number of share options granted

21 November 2014

Share options granted on 21 November 2014 shall 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.

Share options vesting date	Percentage of share options to vest
On 21 November 2015	25% of the total number of share options granted
On 21 November 2016	25% of the total number of share options granted
On 21 November 2017	25% of the total number of share options granted
On 21 November 2018	25% of the total number of share options granted

23 March 2015

Share options granted on 23 March 2015 shall 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.

Out of the share options granted on 23 March 2015, 1,450,000 share options, which were granted to all of the non-executive Directors (excluding Mr. Yuan Chi, who was subsequently re-designed as a non-executive Director on 21 August 2015) and independent non-executive Directors, shall be subject to a vesting period as follows:

Share options vesting date	Percentage of share options to vest
On the date of the annual general meeting to be convened in 2016	One-third of the total number of share options granted
On the date of the annual general meeting to be convened in 2017	One-third of the total number of share options granted
On the date of the annual general meeting to be convened in 2018	One-third of the total number of share options granted

OTHER INFORMATION

The remaining 4,889,000 share options shall be subject to a vesting period as follows:

Share options vesting date	Percentage of share options to vest
On 23 March 2016	25% of the total number of share options granted
On 23 March 2017	25% of the total number of share options granted
On 23 March 2018	25% of the total number of share options granted
On 23 March 2019	25% of the total number of share options granted

20 April 2017

On 20 April 2017, the Company granted a total of 780,000 share options to certain eligible persons pursuant to the Share Option Scheme. Among the total 780,000 share options, 150,000 share options were granted to Mr. Neng Xu, the brother of Mr. Yuan Xu, an executive Director of the Company, who resigned on 31 October 2018.

The share options granted shall vest in grantees in accordance with the timetable below, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

Share options vesting date	Percentage of share options to vest
On 20 April 2018	25% of the total number of share options granted
On 20 April 2019	25% of the total number of share options granted
On 20 April 2020	25% of the total number of share options granted
On 20 April 2021	25% of the total number of share options granted

17 November 2017

Share options granted on 17 November 2017 shall vest according to the following time schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

Share options vesting date	Percentage of share options to vest
On 17 November 2018	25% of the total number of share options granted
On 17 November 2019	25% of the total number of share options granted
On 17 November 2020	25% of the total number of share options granted
On 17 November 2021	25% of the total number of share options granted

OTHER INFORMATION

4 May 2018

On 4 May 2018, the Company granted a total of 540,000 share options to Dr. Horn Kee Leong, Mr. Dajian Yu and Ms. Zhao Lu, all of whom are independent non-executive Directors, with each granted 180,000 share options.

Share options granted on 4 May 2018 shall vest according to the following time schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

Share options vesting date	Percentage of share options to vest
On the date of the annual general meeting to be convened in 2019	One-third of the total number of share options granted
On the date of the annual general meeting to be convened in 2020	One-third of the total number of share options granted
On the date of the annual general meeting to be convened in 2021	One-third of the total number of share options granted

23 August 2018

Share options granted on 23 August 2018 shall vest according to the following time schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

Share options vesting date	Percentage of share options to vest
On 23 August 2019	25% of the total number of share options granted
On 23 August 2020	25% of the total number of share options granted
On 23 August 2021	25% of the total number of share options granted
On 23 August 2022	25% of the total number of share options granted

19 August 2019

Share options granted on 19 August 2019 shall vest according to the following time schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

Share options vesting date	Percentage of share options to vest
On 19 August 2020	25% of the total number of share options granted
On 19 August 2021	25% of the total number of share options granted
On 19 August 2022	25% of the total number of share options granted
On 19 August 2023	25% of the total number of share options granted

OTHER INFORMATION

6 May 2020

On 6 May 2020, the Board granted 375,000 share options to employees of the Group only. None of such share options were granted to the Group's suppliers and other participants. Share options granted on 6 May 2020 shall vest according to the following time schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant. The closing price immediately before the date on which the options were granted on 6 May 2020 was HK\$4.89.

Share option vesting date	Percentage of share options to vest
On 6 May 2021	25% of the total number of share options granted
On 6 May 2022	25% of the total number of share options granted
On 6 May 2023	25% of the total number of share options granted
On 6 May 2024	25% of the total number of share options granted

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"). 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.

OTHER INFORMATION

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.

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 announcement dated 24 December 2013.

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

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 persons pursuant to the Share Award Scheme at nil consideration. Each of the grantees is an Independent Third Party. The awarded shares granted shall vest in the share award grantees in accordance with the schedule below:

Share award vesting date	Percentage of awarded shares to vest
On 6 May 2021	25% of the total number of awarded shares granted
On 6 May 2022	25% of the total number of awarded shares granted
On 6 May 2023	25% of the total number of awarded shares granted
On 6 May 2024	25% of the total number of awarded shares granted

OTHER INFORMATION

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

Date of grant	Number of awarded shares				Balance as at 30 June 2020
	Outstanding as at 31 December 2019	Grant during the Period	Vested during the Period	Lapsed/ forfeited during the Period	
8 April 2016	102,861	–	102,861	–	–
3 June 2016	177,527	–	177,527	–	–
30 August 2016	641,022	–	–	32,500	608,522
18 November 2016	285,884	–	–	–	285,884
20 April 2017	1,043,697	–	521,837	7,500	514,360
27 June 2017	277,531	–	138,758	–	138,773
8 September 2017	329,500	–	–	12,500	317,000
17 November 2017	480,799	–	–	7,500	473,299
23 March 2018	667,354	–	222,444	5,327	439,583
23 August 2018	908,718	–	–	41,250	867,468
9 November 2018	123,750	–	–	–	123,750
20 March 2019	215,000	–	52,500	8,750	153,750
6 May 2019	209,482	–	52,370	–	157,112
19 August 2019	740,000	–	–	40,000	700,000
6 May 2020	–	1,881,000	–	–	1,881,000
Total	6,203,125	1,881,000	1,268,297	155,327^(Note)	6,660,501

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

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

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", and "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.

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 2020 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.

OTHER INFORMATION

COMPETING INTEREST

As of the date of this interim report, Mr. Feng Chen was also a non-executive director of XD Inc., a PRC game developer and operator. As a non-executive director of XD Inc., Mr. Feng Chen is primarily responsible for providing professional opinion and judgment to the board of directors of XD Inc. and is not involved in its daily management and operation. Accordingly, the Directors consider that the directorship of Mr. Feng Chen in XD Inc. doesn't give rise to any competition or conflict of interest between Mr. Feng Chen and our Company.

Save as disclosed above, 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 had bought back the Shares on the Stock Exchange during the Period with details as follows:

Month of Purchase	Number of Shares Purchased	Price per Share		Total Paid HK\$
		Highest Price Paid HK\$	Lowest Price Paid HK\$	
March 2020	3,696,000	4.60	4.09	16,600,100
May 2020	551,000	4.75	4.69	2,606,580
June 2020	<u>15,812,000</u>	6.33	5.14	<u>89,888,970</u>
Total	<u>20,059,000</u>			<u>109,095,650</u>

All the Shares bought back were cancelled. Save as disclosed above and that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the market a total of 2,805,000 Shares, neither the Company nor any of its subsidiaries has 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 Structured Contracts

Background

The existing PRC laws and regulations restrict foreign investment in value-added telecommunication, Internet content and information services, and online games in the PRC. The wholly-owned subsidiary of the Company, Fuzhou Tianji, being a foreign-owned enterprise, does not have the requisite licenses to provide services regarding value-added telecommunication, Internet content and information services, and online games in the PRC.

In order to comply with PRC laws restricting foreign ownership in the value-added telecommunication in China, or foreign ownership prohibitions on Internet content and information services, the Group historically operated the licensing and publishing of self-developed browser games and client-based games in China through Fuzhou Tianmeng. Fuzhou Tianmeng, as a domestic company, holds an ICP License, Internet Culture Operating License and Internet Publishing License. In addition, Fuzhou Tianmeng holds certain of the Group's intellectual properties and is also partially vested with the Group's online games development functions.

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 29 to page 30 of 2019 interim report of the Company.

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

On 28 December 2018, each of the Founders and the New 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 Structured Contracts by Fuzhou Tianmeng, Fuzhou Tianji and the New Registered Holders, the Previous Structured Contracts would be terminated;
- (ii) the loan agreement, pursuant to which, among others, the Group agreed to offer each of Mr. Deyang Zheng and Mr. Chengfeng Luo a loan for the purpose of providing to the New 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 New Registered Holders agreed to set-off the consideration under the Equity Transfer Agreement payable by the New Registered Holders against the loans owed by the Founders to Fuzhou Tianji.

OTHER INFORMATION

The 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 New Registered Holders entered into the call option agreement (the “**New Call Option Agreement**”), pursuant to which each of the New 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 New 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 Tianji.
- (ii) **New Equity Pledge Agreement:** on 28 December 2018, Fuzhou Tianji and the New Registered Holders entered into the equity pledge agreement (the “**New Equity Pledge Agreement**”), pursuant to which the New 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 Structured Contracts. In addition, the New 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 New 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 Structured Contracts by Mr. Deyang Zheng; (iii) she will execute all necessary documents and take all necessary actions to ensure the performance of the 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 Structured Contracts, and at the request of Fuzhou Tianji, she will sign any documents in the form and substance consistent with the 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 Structured Contracts by Mr. Chengfeng Luo; (iii) she will execute all necessary documents and take all necessary actions to ensure the performance of the 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 Structured Contracts, and at the request of Fuzhou Tianji, she will sign any documents in the form and substance consistent with the 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 Structured Contracts.

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 or the Structured Contracts.

OTHER INFORMATION

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

Number of games operated:

	Developed in-house As at 30 June 2020	Licensed
Fuzhou Tianmeng	0	1

Game revenue*:

	Revenue attributable to the relevant entity For the six months ended 30 June 2020 US\$' 000	Percentage of the total revenue of the Group %
Fuzhou Tianmeng	22,572	7.23

* Game revenue is from external customers.

Assets:

	Assets attributable to the relevant entity As at 30 June 2020 US\$' 000	Percentage of the total assets of the Group %
Fuzhou Tianmeng	25,623	4.35

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 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.

OTHER INFORMATION

- 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 deducting all related expenses, costs and the taxes payable by it has been retained by the Group; (ii) no dividends or other distributions have been made by Fuzhou Tianmeng to its equity interest holders; and (iii) no new contracts or renewed contracts have been entered into on the same terms as 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 has been distributed by Fuzhou Tianmeng to its 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.
- 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.
- Fuzhou Tianmeng has provided the Company's management and auditor with full access to relevant records for the purpose of the auditor's 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 and 6 February 2016. Pursuant to the FITE Regulations, a foreign investor must establish a Chinese-foreign equity joint venture with a Chinese partner to invest in telecommunications industry. A foreign-invested telecommunications enterprise, or FITE, is allowed to be engaged in basic telecommunications business and value-added telecommunications business. The foreign investor's ultimate equity holding percentage in a value-added telecommunications business shall not exceed 50% except in E-commerce, domestic multi-party communication, store and forward, call center, which can be operated by a wholly foreign-owned enterprise according to the Special Administrative Measure (Negative List) for the Access of Foreign Investment (2020). In addition, the FITE Regulations require a foreign investor to demonstrate a good track record and prior experience in providing value-added telecommunications services business before it can acquire any equity interest in a value-added telecommunications services business in the PRC (the “**Qualification Requirements**”). However, as advised by our PRC legal advisers, Jingtian & Gongcheng, as at the date of this report, there are no administrative or implementing rules in the PRC defining the term “a good track record and prior experience”. Our PRC legal advisers, Jingtian & Gongcheng, also advised the disclosures in the Prospectus with regard to the qualification requirements on the Group's business stipulated under the provisions on FITE Regulations remain unchanged since the Listing Date and up to the date hereof.

OTHER INFORMATION

The Group has been relying on our extensive experience in the overseas online game business operations in an attempt to comply with the Qualification Requirement, so as to be qualified to acquire the entire equity interests in Fuzhou Tianmeng when the restrictions on the percentage of foreign ownership in value-added telecommunications services and on foreign ownership in value-added telecommunication enterprises are lifted. Our PRC legal advisers, Jingtian & Gongcheng, advised that the Company has reasonably assessed the requirements under all applicable rules and committed financial and other resources in light of the Qualification Requirement and that none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirement, the above-mentioned measures are currently sufficient to comply with the Qualification Requirement.

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; (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 and rules promulgated by the State Council. According to Jingtian & Gongcheng, our PRC legal advisers, the FIL and the FIL Implementation Regulation don’t 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 will not be materially and adversely affected by changes in PRC laws and regulations in the future.

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, 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. 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.

OTHER INFORMATION

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 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 7.23% and 4.35%, respectively, and (2) there is no legal obstacle for Fuzhou Tianmeng to transfer its assets to Fuzhou Tianji or IGG Singapore, as the case maybe, a subsidiary of the Group.

During the Period, the Group has implemented the following measures to ensure the effective operation of the Structured Contracts and the Group's compliance with 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 Board will review the overall performance of and compliance with the Structured Contracts at least once a year;
- 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 as well as the plan and progress in acquiring the relevant experience to meet these qualification requirements; and
- 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 and Fuzhou Tianmeng to deal with specific issues or matters arising from the Structured Contracts.

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 38 to 66 which comprises the consolidated statement of financial position of IGG Inc (the “Company”) and its subsidiaries (together the “Group”) as of 30 June 2020 and the related consolidated statement of profit or loss, statement of comprehensive 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 2020 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

5 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020 – unaudited

	Note	Six months ended 30 June	
		2020	2019
		US\$' 000	US\$' 000
Revenue	3	312,318	354,666
Cost of revenue		<u>(95,637)</u>	<u>(108,500)</u>
Gross profit		216,681	246,166
Other net income	4	55,372	2,731
Selling and distribution expenses		(67,470)	(99,592)
Administrative expenses		(18,253)	(20,648)
Research and development expenses		(36,948)	(42,936)
Other operating expenses		<u>(822)</u>	<u>(587)</u>
Profit from operations		148,560	85,134
Finance costs	5(a)	(221)	(239)
Share of results of associates and joint ventures		<u>(657)</u>	<u>(845)</u>
Profit before taxation	5	147,682	84,050
Income tax expenses	6	<u>(14,876)</u>	<u>(13,348)</u>
Profit for the period		<u>132,806</u>	<u>70,702</u>
Attributable to:			
Equity shareholders of the Company		132,806	70,714
Non-controlling interests		<u>–</u>	<u>(12)</u>
Profit for the period		<u>132,806</u>	<u>70,702</u>
Earnings per share	7		
Basic		<u>US\$0.1084</u>	<u>US\$0.0562</u>
Diluted		<u>US\$0.1069</u>	<u>US\$0.0551</u>

The notes on pages 45 to 66 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 17.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2020 – unaudited

	Six months ended 30 June	
	2020	2019
	US\$' 000	US\$' 000
Profit for the period	132,806	70,702
Other comprehensive income for the period, after tax		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(2,695)</u>	<u>(1,235)</u>
Total comprehensive income for the period	<u>130,111</u>	<u>69,467</u>
Attributable to:		
Equity shareholders of the Company	130,111	69,479
Non-controlling interests	<u>–</u>	<u>(12)</u>
Total comprehensive income for the period	<u>130,111</u>	<u>69,467</u>

The notes on pages 45 to 66 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited

	Note	At 30 June 2020 US\$'000	At 31 December 2019 US\$'000
Non-current assets			
Property, plant and equipment	8	39,818	43,256
Intangible assets		597	662
Other non-current assets	9	2,516	2,551
Interests in associates and joint ventures	10	7,053	4,415
Other financial assets	11	129,363	71,407
Deferred tax assets		129	125
		<u>179,476</u>	<u>122,416</u>
Current assets			
Inventories		288	318
Trade and other receivables	12	11,747	12,444
Funds receivable	13	56,477	33,762
Restricted deposits		503	505
Cash and cash equivalents	14	339,868	307,086
		<u>408,883</u>	<u>354,115</u>
Current liabilities			
Trade and other payables	15	41,326	33,203
Tax payables		45,356	31,615
Deferred revenue		28,625	25,212
Lease liabilities	16	3,642	3,764
		<u>118,949</u>	<u>93,794</u>
Net current assets		<u>289,934</u>	<u>260,321</u>
Total assets less current liabilities		<u>469,410</u>	<u>382,737</u>
Non-current liabilities			
Lease liabilities	16	6,199	7,620
Deferred tax liabilities		558	512
		<u>6,757</u>	<u>8,132</u>
NET ASSETS		<u>462,653</u>	<u>374,605</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 30 June 2020 – unaudited

	Note	At 30 June 2020 US\$' 000	At 31 December 2019 US\$' 000
CAPITAL AND RESERVES			
Share capital	17(b)	3	3
Reserves		<u>462,650</u>	<u>374,602</u>
TOTAL EQUITY		<u><u>462,653</u></u>	<u><u>374,605</u></u>

The notes on pages 45 to 66 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020 – unaudited

		Attributable to equity shareholders of the Company								
Note	Share	Share	Share-	Shares held	Share	Statutory	Other	Exchange	Retained	Total equity
	capital	premium	payment	for share	repurchased					
	US\$' 000	US\$' 000	reserve	award	for	reserve	reserve	reserve	earnings	US\$' 000
	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
Balance at 31 December 2019 and										
1 January 2020	3	24,377	9,722	(17,191)	(577)	88	3,452	(7,027)	361,758	374,605
Changes in equity for the six months ended										
30 June 2020:										
Profit for the period	-	-	-	-	-	-	-	-	132,806	132,806
Other comprehensive income	-	-	-	-	-	-	-	(2,695)	-	(2,695)
Total comprehensive income	-	-	-	-	-	-	-	(2,695)	132,806	130,111
Equity-settled share-based payment	-	-	1,482	-	-	-	-	-	-	1,482
Shares purchased for the share award scheme	17(b)	-	-	(1,806)	-	-	-	-	-	(1,806)
Repurchase of ordinary shares	17(b)	-	-	-	(14,060)	-	-	-	-	(14,060)
Cancellation of ordinary shares	17(b)	-*	(8,419)	-	8,419	-	-	-	-	-
Exercise of share options	17(b)	-*	321	(125)	-	-	-	-	-	196
Vesting of awarded shares	17(b)	-	392	(1,507)	1,115	-	-	-	-	-
Dividends received for share award scheme	-	-	-	-	-	-	439	-	-	439
2019 second interim dividend paid	17(a)	-	-	-	-	-	-	-	(28,314)	(28,314)
Balance at 30 June 2020	3	16,671	9,572	(17,882)	(6,218)	88	3,891	(9,722)	466,250	462,653

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2020 – unaudited

Attributable to equity shareholders of the Company												
Note	Share capital	Share premium	Share-based payment reserve	Shares held for share award scheme	Share repurchased for cancellation	Statutory reserve	Other reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 31 December 2018 and 1 January 2019	3	52,985	9,348	(19,948)	(2,682)	88	2,454	(4,996)	245,351	282,603	(1,221)	281,382
Changes in equity for the six months ended 30 June 2019:												
Profit for the period	-	-	-	-	-	-	-	-	70,714	70,714	(12)	70,702
Other comprehensive income	-	-	-	-	-	-	-	(1,235)	-	(1,235)	-	(1,235)
Total comprehensive income	-	-	-	-	-	-	-	(1,235)	70,714	69,479	(12)	69,467
Liquidation of a subsidiary	-	-	-	-	-	-	-	-	-	-	1,233	1,233
Equity-settled												
share-based payment	-	-	2,166	-	-	-	-	-	-	2,166	-	2,166
Shares purchased for the												
share award scheme	17(b)	-	-	(508)	-	-	-	-	-	(508)	-	(508)
Repurchase of ordinary shares	17(b)	-	-	-	(6,666)	-	-	-	-	(6,666)	-	(6,666)
Cancellation of ordinary shares	17(b)	-*	(8,555)	-	8,555	-	-	-	-	-	-	-
Exercise of share options	17(b)	-*	283	(70)	-	-	-	-	-	213	-	213
Vesting of awarded shares	17(b)	-	(309)	(1,260)	1,569	-	-	-	-	-	-	-
Dividends received for												
share award scheme	-	-	-	-	-	-	491	-	-	491	-	491
2018 second interim dividend paid	17(a)	-	-	-	-	-	-	-	(27,251)	(27,251)	-	(27,251)
Balance at 30 June 2019	3	44,404	10,184	(18,887)	(793)	88	2,945	(6,231)	288,814	320,527	-	320,527

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

The notes on pages 45 to 66 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020 – unaudited

	Note	Six months ended 30 June	
		2020 US\$' 000	2019 US\$' 000
Operating activities			
Cash generated from operations		87,021	63,644
Income tax paid		(304)	(17,548)
Net cash generated from operating activities		86,717	46,096
Investing activities			
Payment for acquisitions of other financial assets		(4,140)	(2)
Investments in associates		(3,330)	–
Payment for the purchases of property, plant and equipment and intangible assets		(816)	(3,660)
Deposit placed for acquisition of a property		–	(24,646)
Dividends received from unquoted equity investments		840	–
Proceeds from disposal of property, plant and equipment		5	25
Net cash used in investing activities		(7,441)	(28,283)
Financing activities			
Capital element of lease rentals paid		(1,729)	(1,023)
Interest element of lease rentals paid		(221)	(239)
Dividends paid		(27,875)	(26,760)
Payments for repurchase of shares		(14,060)	(6,666)
Payments for purchase of shares for share award scheme		(1,806)	(508)
Proceeds from exercise of share options		196	213
Net cash used in financing activities		(45,495)	(34,983)
Net change in cash and cash equivalents		33,781	(17,170)
Cash and cash equivalents at 1 January		307,086	287,547
Effect of foreign exchanges rates changes		(999)	47
Cash and cash equivalents at 30 June	14	339,868	270,424

The notes on pages 45 to 66 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US 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 5 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for 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 pages 37.

The financial information relating to the financial year ended 31 December 2019 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 4 March 2020.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US 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.

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.

The Group has applied the Amendment to IFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendment and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. COVID-19 related rent concessions for the six months ended 30 June 2020 was US\$34,000. There is no impact on the opening balance of equity at 1 January 2020.

Other than the amendment to IFRS 16, 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 2020, 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 2020 (six months ended 30 June 2019: Nil).

As at 30 June 2020, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is US\$28,625,000 (31 December 2019: US\$25,212,000), and the Group will recognise this revenue in the second half of 2020.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

3 REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

Revenue of US\$25,212,000 recognised in the six months ended 30 June 2020 was included in the balance of deferred revenue at the beginning of the period.

(a) Revenues by geographical regions

	Six months ended 30 June	
	2020	2019
	US\$' 000	US\$' 000
Asia	124,306	153,689
North America	93,256	94,333
Europe	75,356	87,857
Others	19,400	18,787
	<u>312,318</u>	<u>354,666</u>

(b) Specified non-current assets

	At	At
	30 June	31 December
	2020	2019
	US\$' 000	US\$' 000
Asia	13,474	15,773
North America	4,185	4,973
Europe	22,124	22,330
Others	35	180
	<u>39,818</u>	<u>43,256</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

4 OTHER NET INCOME

	Six months ended 30 June	
	2020	2019
	US\$' 000	US\$' 000
Government grants*	1,326	611
Dividend income	840	–
Bank interest income	1,201	1,761
Exchange (loss)/gain	(2,303)	1,025
Fair value change on investments	54,279	(671)
Others	29	5
	<u>55,372</u>	<u>2,731</u>

* Government grants mainly included rewards for enterprises in cultural industry for subsidiaries in mainland China and cash grants to employers under Jobs Support Scheme of Singapore Government. There are no unfulfilled conditions or contingencies relating to the grants.

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2020	2019
	US\$' 000	US\$' 000
Interest on lease liabilities	<u>221</u>	<u>239</u>

(b) Staff costs

	Six months ended 30 June	
	2020	2019
	US\$' 000	US\$' 000
Salaries, wages and other benefits	31,475	31,598
Equity-settled share-based payments expenses	1,482	2,166
Contributions to defined contribution retirement plans	829	1,150
	<u>33,786</u>	<u>34,914</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION (Continued)

(c) Other items

	Six months ended 30 June	
	2020	2019
	US\$' 000	US\$' 000
Channel cost	87,755	99,245
Amortisation	273	180
Depreciation charge		
– owned property, plant and equipment	2,208	1,544
– right-of-use assets	1,768	1,650
Impairment losses on trade and other receivables and funds receivable	24	64
Net foreign exchange loss/(gain)	2,303	(1,025)
Fair value change on investments	(54,279)	671
Loss/(gain) on disposal of property, plant and equipment	17	(1)

6 INCOME TAX

	Six months ended 30 June	
	2020	2019
	US\$' 000	US\$' 000
Current tax	14,834	13,143
Deferred taxation	42	205
	<u>14,876</u>	<u>13,348</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 of 10.5% on qualifying income derived during the six months ended 30 June 2020 (six months ended 30 June 2019: 10%).

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2020. Skyunion Hong Kong Holdings Limited is eligible for 8.25% tax band for the first HK\$2 million of assessable profits under the two-tiered tax regime introduced by the Hong Kong SAR Government in 2018.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

6 INCOME TAX (Continued)

Sky Union, LLC ("IGG US"), a subsidiary in the United States, is subject to federal income tax at 21% (six months ended 30 June 2019: 21%). In addition, IGG US is subject to California state income tax at a rate of 8.84%.

Under the relevant income tax law, the PRC subsidiaries are subject to income tax at a statutory rate of 25%. Fuzhou TJ Digital Entertainment Co., Ltd. is entitled to 15% preferential tax rate as it has been recognised as an Advanced Technology Service Enterprise.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of US\$132,806,000 (six months ended 30 June 2019: US\$70,714,000) and the weighted average of 1,225,259,000 ordinary shares (six months ended 30 June 2019: 1,259,124,000 ordinary shares) in issue during the interim period, calculated as follows:

Weighted average number of ordinary shares (basic)

	Six months ended 30 June	
	2020	2019
	shares	shares
	'000	'000
Issued ordinary shares at 1 January	1,247,920	1,281,622
Effect of share award scheme	(18,918)	(22,259)
Effect of share options exercised	412	1,129
Effect of repurchase of ordinary shares	(4,155)	(1,368)
Weighted average number of ordinary shares (basic) at 30 June	<u>1,225,259</u>	<u>1,259,124</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

7 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of US\$132,806,000 (six months ended 30 June 2019: US\$70,714,000) and the weighted average number of ordinary shares of 1,242,478,000 (six months ended 30 June 2019: 1,282,471,000 ordinary shares) during the interim period, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2020	2019
	shares	shares
	'000	'000
Weighted average number of ordinary shares at 30 June	1,225,259	1,259,124
Effect of deemed issue of shares under the Company's share option scheme	11,854	15,346
Effect of deemed issue of shares under the Company's share award scheme	5,365	8,001
Weighted average number of ordinary shares (diluted) at 30 June	<u>1,242,478</u>	<u>1,282,471</u>

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	At
	30 June	31 December
	2020	2019
	US\$'000	US\$'000
Properties leased for own use, carried at depreciated cost	<u>9,144</u>	<u>10,733</u>

During the six months ended 30 June 2020, the Group entered into a lease agreement for an office premise, and recognised the addition to right-of-use assets of US\$469,000 (six months ended 30 June 2019: US\$301,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Acquisitions of owned assets

During the six months ended 30 June 2020, the Group acquired items of leasehold improvements, computer equipment, motor vehicles and office equipment with a cost of US\$463,000 (six months ended 30 June 2019: US\$3,124,000).

9 OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent housing loans to employees and rental deposits.

10 INTERESTS IN ASSOCIATES AND JOINT VENTURES

Aggregate information of associates and joint ventures that are not individually material:

	At 30 June 2020 US\$' 000	At 31 December 2019 US\$' 000
Aggregate carrying amount of individually immaterial associates and joint ventures in the consolidated financial statements	<u>7,053</u>	<u>4,415</u>
	Six months ended 30 June	
	2020	2019
	US\$' 000	US\$' 000
At 1 January	4,415	5,949
Additions*	3,330	–
Share of results of associates and joint ventures	(657)	(845)
Currency translation differences	<u>(35)</u>	<u>1</u>
At 30 June	<u>7,053</u>	<u>5,105</u>

* For the six months ended 30 June 2020, the Group acquired several new associates with an aggregate amount of approximately US\$3,330,000. These associates are principally engaged in online gaming business.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

11 OTHER FINANCIAL ASSETS

	At 30 June 2020 US\$' 000	At 31 December 2019 US\$' 000
Financial assets measured at FVPL		
– Equity securities listed in Hong Kong ¹	94,767	53,805
– Unquoted equity investments ²	32,096	16,602
– Convertible promissory notes	2,500	1,000
	<u>129,363</u>	<u>71,407</u>

Note:

- 1 The equity securities listed in Hong Kong represented the Group's equity investment in XD Inc., a company listed on the Stock Exchange and principally engaged in the development and operation of games in the PRC and overseas. As at 30 June 2020, the Group's equity interests in this company are approximately 5.76% of the issued share capital of XD Inc. (31 December 2019: 5.81%). The unrealised gain on change in fair value of the investment was approximately US\$41,419,000 (six months ended 30 June 2019: Nil). No dividends were received on this investment for the six months ended 30 June 2020.
- 2 Unquoted equity investments represented the Group's investments in several private entities, which mainly included non-listed internet companies and certain private equity funds that focused on mobile internet industry as well as online gaming companies.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

12 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 2020 US\$' 000	At 31 December 2019 US\$' 000
Within 3 months	737	672
3 to 6 months	587	464
6 months to 1 year	349	35
Over 1 year	39	–
Trade debtors net of loss allowance	1,712	1,171
Prepayments	6,110	7,010
Deposits	309	240
Other receivables	3,616	4,023
	<u>11,747</u>	<u>12,444</u>

The Group's trading terms with its customers are mainly on cash settlement, except for well-established corporate customers in the online game joint operation business, for which the credit term is generally one to six months.

13 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 2020, all the funds receivable were aged within three months and US\$41,000 of loss allowance was provided for the funds receivable (31 December 2019: US\$24,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

14 CASH AND CASH EQUIVALENTS

	At 30 June 2020 US\$' 000	At 31 December 2019 US\$' 000
Cash at bank and on hand	331,915	296,783
Deposits with other financial institutions	<u>7,953</u>	<u>10,303</u>
Cash and cash equivalents in the statement of financial position and cash flow statement	<u>339,868</u>	<u>307,086</u>

15 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 2020 US\$' 000	At 31 December 2019 US\$' 000
Within 3 months	25,263	13,460
3 to 6 months	252	1,748
6 months to 1 year	90	198
Over 1 year	<u>154</u>	<u>488</u>
Total creditors	25,759	15,894
Salary and welfare payables	3,420	4,929
Other tax payables	6,461	6,826
Other payables and accruals	<u>5,686</u>	<u>5,554</u>
	<u>41,326</u>	<u>33,203</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 US dollars unless otherwise indicated)

16 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods:

	At 30 June 2020		At 31 December 2019	
	Present value		Present value	
	of the minimum	Total minimum	of the minimum	Total minimum
	lease payments	lease payments	lease payments	lease payments
	US\$' 000	US\$' 000	US\$' 000	US\$' 000
Within 1 year	3,642	3,708	3,764	3,834
After 1 year but within 2 years	3,184	3,385	3,433	3,645
After 2 years but within 5 years	2,737	3,064	3,811	4,284
After 5 years	278	345	376	471
	<u>6,199</u>	<u>6,794</u>	<u>7,620</u>	<u>8,400</u>
	<u>9,841</u>	<u>10,502</u>	<u>11,384</u>	<u>12,234</u>
Less: total future interest expenses		(661)		(850)
Present value of lease liabilities		<u>9,841</u>		<u>11,384</u>

17 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	
	2020	2019
	US\$' 000	US\$' 000
Interim dividend declared after the interim period of HK25.1 cents per ordinary share (2019: HK13.0 cents per ordinary share)	39,842	21,200
Special dividend declared after the interim period of HK25.1 cents per ordinary share (2019: Nil)	<u>39,842</u>	<u>—</u>

The interim dividend and special dividend had not been recognised as a liability at the end of the reporting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

17 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(a) Dividends (Continued)

(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	
	2020	2019
	US\$' 000	US\$' 000
Second interim dividend in respect of the previous financial year, approved and paid during the period, of HK17.6 cents per ordinary share (2019: HK16.7 cents per ordinary share)	<u>28,314</u>	<u>27,251</u>

(b) Share capital and reserves

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

	Note	Number of shares in issue	Issued capital US\$' 000	Share premium US\$' 000	Shares held for share award scheme US\$' 000	Shares repurchased for cancellation US\$' 000
At 1 January 2020		1,247,920,299	3	24,377	(17,191)	(577)
Vesting of awarded shares		-	-	392	1,115	-
Share options exercised (note 18)		934,000	-*	321	-	-
Share purchased for the share award scheme	i	-	-	-	(1,806)	-
Repurchase of ordinary shares	ii	-	-	-	-	(14,060)
Cancellation of ordinary shares		<u>(12,938,000)</u>	<u>-*</u>	<u>(8,419)</u>	<u>-</u>	<u>8,419</u>
At 30 June 2020		<u>1,235,916,299</u>	<u>3</u>	<u>16,671</u>	<u>(17,882)</u>	<u>(6,218)</u>
At 1 January 2019		1,281,621,849	3	52,985	(19,948)	(2,682)
Vesting of awarded shares		-	-	(309)	1,569	-
Share options exercised (note 18)		1,645,450	-*	283	-	-
Share purchased for the share award scheme		-	-	-	(508)	-
Repurchase of ordinary shares		-	-	-	-	(6,666)
Cancellation of ordinary shares		<u>(6,991,000)</u>	<u>-*</u>	<u>(8,555)</u>	<u>-</u>	<u>8,555</u>
At 30 June 2019		<u>1,276,276,299</u>	<u>3</u>	<u>44,404</u>	<u>(18,887)</u>	<u>(793)</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

17 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital and reserves (Continued)

- (i) During the six months ended 30 June 2020, the Company purchased 2,805,000 shares from the open market pursuant to the share award scheme at an average price of approximately HK\$4.99 per share with total consideration of HK\$13,995,510 (equivalent to approximately US\$1,806,000).
- (ii) During the six months ended 30 June 2020, the Company repurchased 20,059,000 shares on the Stock Exchange with an average price of approximately HK\$5.44 per share. The total amount paid on the repurchased shares was HK\$109,095,650 (equivalent to approximately US\$14,060,000).

(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 2020 US\$' 000	At 31 December 2019 US\$' 000
Total current liabilities	118,949	93,794
Total non-current liabilities	<u>6,757</u>	<u>8,132</u>
	<u>125,706</u>	<u>101,926</u>
Total current assets	408,883	354,115
Total non-current assets	<u>179,476</u>	<u>122,416</u>
	<u>588,359</u>	<u>476,531</u>
Gearing ratio	<u>21.4%</u>	<u>21.4%</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

18 SHARE OPTION SCHEME AND SHARE AWARD SCHEME

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

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 2020</u>		<u>Six months ended 30 June 2019</u>	
	Weighted average exercise price US\$	Number of options	Weighted average exercise price US\$	Number of options
Outstanding at the beginning of the period	0.0730	11,901,800	0.0722	13,782,000
Exercised during the period	0.0709	<u>(634,000)</u>	0.0643	<u>(1,449,200)</u>
Outstanding at the end of the period	0.0731	<u>11,267,800</u>	0.0731	<u>12,332,800</u>
Exercisable at the end of the period	0.0731	<u>11,267,800</u>	0.0731	<u>12,332,800</u>

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

At 30 June 2020		
Number of options	Exercise price per share US\$	Exercise period
4,460,500	0.0525	since IPO to 20-04-2021
20,000	0.0525	since IPO to 02-05-2021
252,500	0.0865	since IPO to 13-08-2021
651,000	0.0865	since IPO to 14-01-2022
3,565,000	0.0865	since IPO to 20-05-2022
<u>2,318,800</u>	0.0865	since IPO to 30-03-2023
<u>11,267,800</u>		

As at 30 June 2020, the Pre-IPO share options outstanding had a weighted average remaining contractual life of 1.60 years (31 December 2019: 2.10 years).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

18 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

Post-IPO Share Option Scheme

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

	Six months ended 30 June 2020		Six months ended 30 June 2019	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Outstanding at the beginning of the period	5.37	7,337,500	5.45	7,369,750
Granted during the period	4.91	357,000	–	–
Exercised during the period	3.90	(300,000)	4.85	(196,250)
Forfeited during the period	10.08	(75,000)	9.23	(130,000)
Outstanding at the end of the period	5.36	<u>7,319,500</u>	5.40	<u>7,043,500</u>
Exercisable at the end of the period	4.92	<u>6,046,000</u>	4.50	<u>6,036,000</u>

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

At 30 June 2020			
Number of options	Exercise price per share HK\$	Exercise period	
100,000	5.47	11-08-2015 to 10-08-2024	
517,000	3.51	21-11-2015 to 20-11-2024	
3,776,500	3.90	23-03-2016 to 22-03-2025	
800,000	3.90	03-06-2016 to 22-03-2025	
540,000	10.50	20-04-2018 to 19-04-2027	
100,000	10.08	17-11-2018 to 16-11-2027	
540,000	12.14	04-05-2019 to 03-05-2028	
150,000	10.24	23-08-2019 to 22-08-2028	
439,000	5.75	19-08-2020 to 18-08-2029	
357,000	4.91	06-05-2021 to 05-05-2030	
<u>7,319,500</u>			

As at 30 June 2020, the Post-IPO share options outstanding had a weighted average remaining contractual life of 5.41 years (31 December 2019: 5.98 years).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

18 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

Post-IPO Share Option Scheme (Continued)

For both Pre-IPO share options and Post-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\$5.29 (six months ended 30 June 2019: HK\$10.88). Share options exercised under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme during the six months ended 30 June 2020 resulted in the issuance of 934,000 (six months ended 30 June 2019: 1,645,450) ordinary shares of the Company and share premium of US\$321,000 (six months ended 30 June 2019: US\$283,000), as further detailed in note 17 to the financial statements.

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 2020 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 2020	13,175,605	6,203,125	19,378,730
Purchased	2,805,000	–	2,805,000
Granted	(1,881,000)	1,881,000	–
Forfeited	155,327	(155,327)	–
Vested	–	(1,268,297)	(1,268,297)
At 30 June 2020	<u>14,254,932</u>	<u>6,660,501</u>	<u>20,915,433</u>

The weighted average fair value of awarded shares granted during the six months ended 30 June 2020 was HK\$4.91 per share.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

19 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 2020	Fair value measurements as at 30 June 2020 categorised into	
	US\$' 000	Level 1 US\$' 000	Level 3 US\$' 000
Recurring fair value measurements			
<i>Assets:</i>			
Equity securities listed in Hong Kong	94,767	94,767	–
Unquoted equity securities	32,096	–	32,096
Convertible promissory notes	2,500	–	2,500

	Fair value at 31 December 2019	Fair value measurements as at 31 December 2019 categorised into	
	US\$' 000	Level 1 US\$' 000	Level 3 US\$' 000
Recurring fair value measurements			
<i>Assets:</i>			
Equity securities listed in Hong Kong	53,805	53,805	–
Unquoted equity securities	16,602	–	16,602
Convertible promissory notes	1,000	–	1,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

19 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 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2019: one transfer out of Level 3). 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.

The fair value of unquoted equity securities was mainly determined using adjusted net asset value. As at 30 June 2020, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% would have increased/decreased the Group's profit after tax by US\$37,000 (2019: US\$37,000).

The fair value of convertible promissory notes is determined using the scenario analysis method. The convertible promissory notes are classified as level 3 instruments as the valuation was determined based on significant inputs not observed in the market.

	Significant unobservable inputs	Range	Relationship of unobservable inputs to fair value
Unquoted equity securities	Discount for lack of marketability	20% to 30% (2019: 20% to 30%)	The higher the discount for lack of marketability, the lower the fair value
Convertible promissory notes	Straight debt discount rate	12% to 13% (2019: 14% to 15%)	The higher the discount rate, the lower the fair value

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

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

(ii) Information about Level 3 fair value measurements (Continued)

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

	Six months ended 30 June	
	2020	2019
	US\$' 000	US\$' 000
Unquoted equity securities:		
At 1 January	16,602	44,075
Additional investments acquired	2,640	2
Net unrealised gains/(losses) recognised in profit or loss during the period	12,860	(671)
Exchange adjustments	(6)	(57)
At 30 June	<u>32,096</u>	<u>43,349</u>
Convertible promissory notes:		
At 1 January	1,000	–
Additional investments acquired	1,500	–
At 30 June	<u>2,500</u>	–
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	<u>12,860</u>	<u>(671)</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 2019 and 30 June 2020.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

20 COMMITMENTS

Capital commitments outstanding at 30 June 2020 not provided for in the interim financial report were as follows:

	At 30 June 2020 US\$' 000	At 31 December 2019 US\$' 000
Contracted for	<u>298</u>	<u>209</u>

21 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	
	2020 US\$' 000	2019 US\$' 000
Short-term employee benefits	1,050	2,195
Equity-settled share-based payment	<u>—</u>	<u>4</u>
	<u>1,050</u>	<u>2,199</u>

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

(b) Other transactions with related parties

For the six months ended 30 June 2020, Guangzhou Lingjiyuan Information Technology Co., Ltd., a joint venture of the Group, provided outsourcing game development services to the Group. The service fee recognised for the six months ended 30 June 2020 was US\$1,180,000 (six months ended 30 June 2019: Nil), and the balance of trade payables as at 30 June 2020 was US\$77,000 (31 December 2019: balance of prepayment of US\$200,000).

For the six months ended 30 June 2020, Tap Media Technology Pte. Ltd., a joint venture of the Group, provided advertising services to the Group. The advertising expense recognised for the six months ended 30 June 2020 was US\$547,000 (six months ended 30 June 2019: US\$1,937,000), and the balance of trade payables as at 30 June 2020 was US\$70,000 (31 December 2019: balance of prepayment of US\$312,000).

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

22 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group entered into certain agreements, pursuant to which the Group conditionally agreed to invest in some private entities with an aggregate amount of approximately US\$4,520,000. These investees are principally engaged in online gaming business. The Group determines that it has significant influence on these entities through board representation or other arrangements made. Consequently, these investments will be classified as interests in associates.

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
“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”	code on corporate governance practices 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
“Euro”	the common basic monetary unit of the European Union
“Founders”	Mr. Zongjian Cai (蔡宗建) and Mr. Yuan Chi (池元)

DEFINITION

“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 Group
“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
“Group”, “IGG”, “we”, “our” or “us”	the Company and its subsidiaries
“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
“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
“Listing”	the listing of the Shares on the GEM
“Listing Date”	18 October 2013, on which dealings in Shares first commence 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
“New Registered Holders”	Mr. Deyang Zheng (鄭德陽) and Mr. Chengfeng Luo (羅承鋒)
“Period”	the six months ended 30 June 2020

DEFINITION

“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, certain principal terms of which are summarised in the paragraph headed “Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus
“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
“SGD”	Singapore dollar, the lawful currency of Singapore
“Share(s)”	means 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, the principal terms of which are summarised in the announcement of the Company dated 24 December 2013
“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
“subsidiary(ies)”	Has the meaning ascribed thereto in section 15 of the Companies Ordinance

DEFINITION

“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
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“US\$” or “USD” and “US cents”	United States dollars and cents, respectively, 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.*