

2021 INTERIM REPORT



Incorporated in the Cayman Islands with limited liability

IGG INC STOCK CODE: 799

CONTENTS

Corporate Information	2
Highlights	4
Management Discussion and Analysis	5
Corporate Governance	18
Other Information	20
Review Report on the Interim Financial Report	46
Consolidated Statement of Profit or Loss	47
Consolidated Statement of Comprehensive Income	48
Consolidated Statement of Financial Position	49
Consolidated Statement of Changes in Equity	51
Condensed Consolidated Cash Flow Statement	53
Notes to the Unaudited Interim Financial Report	54
Definition	83

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 Chartered Governance Institute*)

AUTHORISED REPRESENTATIVES

Mr. Zongjian Cai

Ms. Jessie Shen

Ms. Yin Ping Yvonne Kwong

REGISTERED OFFICE

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

802 West Bay Road, Grand Cayman

KY1-1205 Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN SINGAPORE

80 Pasir Panjang Road

#18-84 Mapletree Business City

Singapore 117372

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre

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

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3, Building D
P.O. Box 1586, Gardenia Court
Camana Bay, Grand Cayman, KY1-1100
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

COMPANY WEBSITE

www.igg.com

PRINCIPAL BANKS

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

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited

HIGHLIGHTS

	Six months ended 30 June	
	2021	2020
	HK\$' 000	HK\$' 000 ³
	(Unaudited)	(Unaudited)
		(Restated)
Revenue	3,237,459	2,426,483
Profit for the period	576,922	1,031,801
Including: Net profit for core business ¹	488,753	608,673
Profit for the period attributable to equity shareholders of the Company	577,346	1,031,801
Adjusted net income ²	590,805	1,043,316

- The Group's revenue for the Period was HK\$3,237 million, representing an increase of 33% compared to the revenue of HK\$2,426 million for the corresponding period in last year, and hitting a record high for half-year revenue. "Lords Mobile", IGG's flagship title, set a new half-year revenue record in the first half of 2021, with the average monthly gross billing maintained at a historical high level of HK\$480 million. "Time Princess", another hit title of the Group, has been well-received by gamers since its launch in the second half of 2020. During the Period, its monthly gross billing exceeded HK\$34 million.
 - The Group's profit for the Period was HK\$577 million, representing a decrease of 44% compared to HK\$1,032 million for the corresponding period of prior year. Due to market fluctuations and other factors, gain on investments of HK\$88 million for the Period was lower than HK\$423 million for the corresponding period in 2020, which represents a variance of HK\$335 million. Details on the Group's investments are set out below in the "Investments" section. Excluding gain on investments, net profit for core business was HK\$489 million, decreased by 20% year-over-year, mainly because the Group had committed more resources to scale up marketing effort, strengthen R&D capabilities, and develop diversified products.
 - The Board has resolved to declare an interim dividend of HK14.5 cents per ordinary Share, amounting to approximately HK\$173 million (for the six months ended 30 June 2020: interim dividend and special dividend of HK50.2 cents per ordinary Share).
- 1 Net profit for core business: Net profit excluding gain on investments. Gain on investments including: (1) fair value change and gain/loss on disposal of other financial assets, and dividend income; and (2) share of results of associates and joint ventures, impairment loss on interest in associates and joint ventures and gain/loss on disposal and deemed disposal of associates and joint ventures.
 - 2 Adjusted net income represents profit for the period attributable to equity shareholders of the Company excluding share-based compensation. It is considered a useful supplement to the consolidated statement of profit or loss indicating the Group's profitability and operational performance for the financial periods presented.
 - 3 The Group has changed its presentation currency from United States Dollar ("USD") to Hong Kong Dollar ("HKD") for the preparation of its financial statements starting with the period of the six months ended 30 June 2021. The change of presentation currency will be applied retrospectively. The comparative figures for 2020 have been restated in HKD in this report. Please refer to the announcement of the Company dated 30 June 2021 for further details.

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 nearly 1.2 billion users. Leveraging its success in client and browser PC online games, the Group changed its strategy to target the mobile games market in 2013. Over the years, the Group's mobile games and apps are now available in 23 different languages worldwide with over 47 million MAU. Also, IGG has been listed among the "Top 52 Publishers" globally by App Annie for seven consecutive years, and received "National Business Award (2021) for Internet / New Media" by Singapore Business Review. Embracing our corporate spirit of "Innovators at Work, Gamers at Heart", the Group is dedicated to creating high-quality and enjoyable games that will stand the test of time.

IGG is headquartered in Singapore with local offices in the United States, China, Canada, Japan, South Korea, Thailand, Belarus, the Philippines, Indonesia, Brazil, Turkey, Italy and Spain, and users from more than 200 countries and regions worldwide. Over the years, IGG has aggressively pursued a strategy of globalisation in R&D and operations, establishing long-term relationships with 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

It has been more than a year since the outbreak of the coronavirus pandemic. IGG seized the opportunity presented by the "home-based" economy and acquired new users for its marquee titles. At the same time, the Group boldly ventured into new genres and released a meticulously-crafted female-oriented game. Led by creative game content and innovative marketing campaigns, the Group's marquee strategy game "Lords Mobile" set new records in both MAU and DAU, putting up a solid revenue performance. A new female-oriented game, "Time Princess", has rapidly taken off in the market following its debut and further diversified the Group's product portfolio.

During the Period, the Group achieved a new half-year revenue record of HK\$3,237 million, representing an increase of 33% year-on-year. Revenue growth was primarily due to solid contribution from flagship title "Lords Mobile" and new growth driver "Time Princess". During the Period, revenue generated from markets in North America, Asia and Europe accounted for 36%, 35% and 22%, respectively, of the Group's total revenue. In the first half of 2021, IGG's net profit reached HK\$577 million with gain on investments exceeding HK\$88 million. The gain on investments was primarily attributable to successful investments in the mobile internet and gaming sector, including investments in XD Inc. Excluding the gain on investments, IGG's net profit from its core business was HK\$489 million.

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 revenue growth after five years of operation. In the first half of 2021, the Group continued with content updates and released new features such as “Battle Pass – Kingdom Labors” and “Tower Defence – Vergeway”. IGG also embarked on its first ever IP collaboration with renowned Japanese animation studio, TOEI ANIMATION CO., LTD. in April and introduced characters from their smash hit, Saint Seiya, into “Lords Mobile”. As a result, “Lords Mobile” set a new half-year revenue record and repeatedly ranked among the top 3 grossing games in the United States on Google Play. For the Period, “Lords Mobile” has 440 million registered users worldwide and hit a record 20 million MAU, up from 13.7 million at the end of 2020. The game’s huge user base lays a solid foundation for its long-term operation and revenue performance.

According to App Annie’s daily grossing ranking as at 30 June 2021, “Lords Mobile” ranked top five in 13 and top 10 in 39 countries and regions on Google’s Play Store, and top five in 12 and top 10 in 22 countries and regions on Apple’s App Store.

“Time Princess”

“Time Princess”, released in the second half of 2020, is the first female-oriented game by the Group. During the Period, the game was released in new Asian markets. After its launch in May in Japan, “Time Princess” moved up to be the most downloaded casual game on Apple’s App Store in the country. Recently, it was featured by both Apple and Google immediately after its official release in South Korea, and emerged as South Korea’s most downloaded game on Apple’s App Store. “Time Princess” has also obtained approval from the National Press and Publication Administration for release in mainland China and is scheduled to launch on 20 August. During pre-registration, the Chinese version attracted over 2 million gamers within few weeks, showing high growth potential. As at 30 June 2021, the game has over 9.8 million registered users worldwide and 1 million MAU.

“Castle Clash”

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

New Titles

Throughout the Period, the Group continued to invest heavily in both in-house R&D teams and external gaming companies. Leveraging its twin growth engines, IGG has been pushing for both quality and quantity in its new games. In the first half of 2021, the Group has produced a number of idle games, including “Rage of Destiny” and project “Mythical Heroes”. “Rage of Destiny” has shown high growth potential since its launch. In terms of genre, the game marked a major breakthrough for the Group beyond strategy games. “Rage of Destiny”, jointly developed by an external invested company and IGG’s global operation team, set a new paradigm to IGG’s game development and operation model. In the coming months, “Rage of Destiny” will deliver better performance with its launch on Apple’s App Store and release of new languages. Furthermore, a diverse line-up of new titles, including strategy games and idle games, are scheduled for launch in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Investments

The Group continued to invest in the mobile internet and gaming sector. During the Period, led by the remarkable performance of the Group's investments in XD Inc. and other mobile game companies, gain on investments contributed over HK\$88 million to net profit. In the first half of 2021, IGG entered into strategic agreements with dozens of gaming companies across the world. Through investment and partnership models including outsourced game development and licensing deals, the Group strives to enrich its game portfolio and strengthen its competitiveness.

PROSPECTS

Moving forward, IGG will continue to invest heavily in its R&D and operation teams to deliver innovative and diversified products to customers. Embracing the corporate spirit of "Innovators at Work, Gamers at Heart", IGG will relentlessly pursue its strategy of quality, innovation and excellence in creating innovative yet timeless games.

FINANCIAL REVIEW

Change of Presentation Currency

The consolidated financial statements of the Group have been presented in USD. Having considered that the shares of the Company are listed on The Stock Exchange of Hong Kong Limited, the Board believes it is more appropriate to adopt HKD as its presentation currency for the Group's consolidated financial statements. Furthermore, the Board considers that the change of presentation currency enables the shareholders and potential investors of the Company to have a more accurate picture of the Group's financial performance.

The Group has changed its presentation currency from USD to HKD for the preparation of its financial statements starting with the period of the six months ended 30 June 2021. The change of presentation currency will be applied retrospectively. The comparative figures for 2020 have been restated in HKD in this report. Please refer to the announcement of the Company dated 30 June 2021 for further details.

Revenue

The Group's revenue for the Period was HK\$3,237 million, representing an increase of 33% compared to the revenue of HK\$2,426 million for the corresponding period in last year. The increase was mainly due to ramped-up marketing effort, propelling the revenue of "Lords Mobile" to another all-time high, with its average monthly gross billing for the Period reaching HK\$480 million. For "Time Princess", another acclaimed game of the Group which is well-liked by players, its monthly gross billing surpassed HK\$34 million during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth a breakdown of the Group's revenue for the Period and the corresponding period in 2020, respectively (including in-app purchase revenue and in-app advertising revenue):

	Six months ended 30 June			
	2021		2020	
	HK\$' 000	%	HK\$' 000 (Restated)	%
"Lords Mobile"	2,737,262	84.6	2,048,259	84.4
"Time Princess"	155,581	4.8	74	0.1
"Castle Clash"	153,740	4.7	185,500	7.7
Others	190,876	5.9	192,650	7.8
Total	3,237,459	100.0	2,426,483	100.0

Cost of revenue

The Group's cost of revenue for the Period was HK\$955 million, representing an increase of 29% compared to HK\$743 million for the corresponding period in 2020, primarily due to the increase in channel costs as a result of higher revenue. Cost of revenue increased at a smaller percentage than revenue due to higher in-app advertising revenue with no channel costs.

Gross profit and gross profit margin

The Group's gross profit for the Period was HK\$2,282 million, representing an increase of 36%, compared to HK\$1,683 million for the corresponding period in 2020, primarily due to the increase in revenue from marquee games "Lords Mobile" and "Time Princess".

The Group's gross profit margin for the Period was 71%, representing an increase of 2% compared to 69% for the corresponding period in 2020, primarily due to the increase in in-app advertising revenue with no channel costs.

Other net gains

The Group's other net gains for the Period was HK\$107 million, representing a decrease of 75% compared to HK\$424 million for the corresponding period in 2020. Due to market fluctuations and other factors, gain on investments in the mobile internet related companies and funds for the Period was not as profitable as the corresponding period in 2020. Details on the Group's investments are set out below in the "Investments" section.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

The Group's selling and distribution expenses for the Period was HK\$935 million, representing an increase of 78% compared to HK\$524 million for the corresponding period in 2020. Selling and distribution expenses-to-revenue ratio for the Period was 29%, increased by 7% compared to the corresponding period in 2020. The increase was due to scaled up marketing effort globally for the Group's marquee games such as "Lords Mobile" and "Time Princess".

Administrative expenses

The Group's administrative expenses for the Period was HK\$254 million, representing an increase of 79% compared to HK\$142 million for the corresponding period in 2020. Administrative expenses-to-revenue ratio for the Period was 8%, increased by 2% compared to the corresponding period in 2020. As the Group continued to expand its R&D and operation centres globally, the growth in headcount and operation scale resulted in higher expenses for office premises, payroll, and administration.

Research and development expenses

The Group's research and development expenses for the Period was HK\$498 million, representing an increase of 74% compared to HK\$287 million for the corresponding period in 2020. Research and development expenses-to-revenue ratio for the Period was 15%, which increased by 3% compared to the corresponding period in 2020. Continuing to accelerate R&D deployment by expanding R&D centres worldwide and increasing investment in the development of new game projects which lead to the increase of research and development expenses, the Group has taken major leaps in both quality and quantity of new games, which include a diversified array of strategy games and idle games in the development pipeline.

Share of results of associates and joint ventures

The Group's share of results of associates and joint ventures for the Period was a net loss of HK\$28 million, and the net loss for the corresponding period in 2020 was HK\$5 million. Being an important link in the Group's overall investment strategy, these associates and joint ventures mainly focus on game development. The loss recognised by the Group primarily reflected the input being devoted by the associates and joint ventures during product development phase. As more resources were committed for R&D, the net loss on share of results of associates and joint ventures increased, and these investments can contribute more diversified products to the Group to enrich its game portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expenses

The Group's income tax expenses for the Period was HK\$96 million, representing a decrease of 17% compared to HK\$116 million for the corresponding period in 2020, primarily due to lower profit before taxation during the Period. The Group's effective tax rate increased from 10% (the corresponding period of last year) to 14% for the Period, mainly due to the decrease of unrealised gain on change in fair value of other financial assets.

The Company's subsidiary, IGG Singapore has obtained an extension of the Development and Expansion Incentive ("Incentive") from the Economic Development Board of Singapore (the "EDB"). 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. IGG Singapore is negotiating with the EDB for an extension of Incentive for 2022 and subsequent years. If the Incentive is not extended, IGG Singapore will be subject to a standard 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 acquisition of an own-use R&D office in Chengdu, China; renovation of R&D offices in various regions; purchases of servers and computers; purchases of intangible assets, such as game licenses and softwares; and the final payment for acquisition of land use rights of a parcel of land in Fuzhou, China. Capital expenditures for the Period and the corresponding period in 2020 are set forth below:

	Six months ended 30 June	
	2021	2020
	HK\$' 000	HK\$' 000 (Restated)
Purchase of property, plant and equipment:		
Office premises and renovations	151,170*	1,157
Servers and computers	24,658	3,521
Purchase of intangible assets:		
Game license fee	12,885	–
Software	1,753	1,715
Acquisition of land use rights	122,225**	–

MANAGEMENT DISCUSSION AND ANALYSIS

- * It was related to the 90% prepayment for the acquisition of own-use office premises located in the high-tech zone of Chengdu, China, and renovation expenses for other R&D offices at various locations. On 1 February 2021, Chengdu Tianyong Digital Technology Co., Ltd. (成都天勇數碼科技有限公司), an indirect wholly-owned subsidiary of the Company, entered into purchase agreements with Sichuan Ocean Land Development Co., Ltd. (四川海洋置地發展有限公司) in respect of the acquisition of “the 15~19 floors of Neptune Center (phase II)” with a total area of 8,493.75 square metres, at a consideration of RMB132 million (equivalent to approximately HK\$158 million).
- ** It was related to final 50% payment for the acquisition of land use rights of a parcel of land in Fuzhou, China. On 15 September 2020, Fuzhou Tianping Digital Technology Co., Ltd. (福州天平數碼科技有限公司), an indirect wholly-owned subsidiary of the Company, entered into a land use rights assignment contract with Fuzhou Natural Resources and Planning Bureau in respect of the acquisition of land use rights of the land at a consideration of RMB201 million (equivalent to approximately HK\$228 million). The land is situated in Fuxing Economic Development Zone, Jin’an District, Fuzhou, China (Land Lot No. 2020-44 (2020-44號)), with a total site area of 8,910 square metres. The Group intends to develop the land mainly for the construction of an own-use R&D building. Please refer to the announcement of the Company dated 15 September 2020 for further details. Except for the aforesaid acquisition of land use rights in Fuzhou, China, during the Period, there is no property held by the Group for development, sale or investment for which the percentage ratios (as defined under rule 14.04(9) of the Listing Rules) exceed 5%.

Liquidity, capital resources and gearing ratio

As at 30 June 2021, the Group had net current assets of HK\$2,020 million (31 December 2020: HK\$1,745 million), and the gearing ratio of the Group, calculated as total liabilities divided by total assets, was 23.0% (31 December 2020: 21.0%).

As at 30 June 2021, the Group had cash and cash equivalents of HK\$2,451 million (31 December 2020: HK\$2,173 million).

The Group did not have any bank borrowings or other financing facilities as at 30 June 2021 (31 December 2020: nil).

Operating activities

Net cash generated from operating activities was HK\$541 million for the Period, compared to the net cash inflow of HK\$672 million for the corresponding period in 2020. The decrease in net cash generated from operating activities was primarily due to the higher increase of advertising and R&D expenses as compared to the increase of revenue.

Investing activities

Net cash generated from investing activities was HK\$552 million for the Period, primarily due to the Group’s disposal of shares in XD Inc. during the Period. The details are set out below in the section headed “Investments”. Net cash used in investing activities for the corresponding period in 2020 was HK\$58 million, primarily due to equity investments in the mobile internet and gaming related companies and acquisition of fixed assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Financing activities

Net cash used in financing activities was HK\$822 million for the Period, primarily attributable to the payment of the second interim dividend and special dividend for the year ended 31 December 2020, as well as the share repurchase and purchase of shares for Share Award Scheme made by the Company during the Period. Net cash used in financing activities for the corresponding period in 2020 was HK\$353 million. The significant increase was due to payment of the special dividend for year 2020 during the Period, while no such payment was incurred in the corresponding period in 2020.

Foreign currency risk

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

Legal compliance

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

The Board resolved to declare an interim dividend of HK14.5 cents per ordinary Share, amounting to approximately HK\$173 million (for the six months ended 30 June 2020: interim dividend and special dividend of HK50.2 cents per ordinary Share).

The register of members of the Company will be closed from Friday, 20 August 2021 to Wednesday, 25 August 2021, both days inclusive, during which period no transfer of Shares will be registered for the purpose of determining Shareholders' entitlements to the interim dividend. The record date for entitlement to the interim dividend is on Wednesday, 25 August 2021. In order to qualify for the interim 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 Thursday, 19 August 2021. The payment date of the interim dividend is expected to be on Monday, 6 September 2021.

Share repurchase

The Group had repurchased 5,621,000 Shares during the Period, amounting to HK\$57 million. Taken into account the declared dividends of HK\$173 million for the Period, total payment of share repurchase and declared dividends would be approximately HK\$230 million, which was 40% of the net profit for the Period (for the period ended 30 June 2020, the total amount paid on share repurchase and declared dividends was HK\$727 million, representing 71% of net profit of the corresponding period in 2020).

Human resources

As at 30 June 2021, the Group had 2,619 employees (31 December 2020: 2,022).

The Group's total staff-related costs amounted to HK\$515 million for the Period (for the six months ended 30 June 2020: HK\$262 million).

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

The Company has adopted the Pre-IPO Share Option Scheme, the Share Option Scheme and the Share Award Scheme, to motivate and reward Directors and eligible employees. In May 2021, the Company has adopted the Performance-based Share Award Scheme, to motivate key management to serve the Group on operations and future development in a long term. Details of the schemes are set out in the paragraphs headed "Pre-IPO Share Option Scheme", "Share Option Scheme", "Share Award Scheme" and "Performance-based Share Award Scheme" in the section headed "Other Information" of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Investments

As at 30 June 2021, the Group's investments was HK\$893 million (as at 31 December 2020:HK\$1,664 million), including interests in associates and joint ventures and other financial assets. Details of the investments of the Group are set out in notes 11 and 12 to the unaudited interim financial report.

The major objectives for the Group's investments are to strengthen its overall R&D capability and enrich product portfolio. Through entering into strategic investment agreements with investees in the game industry, with cooperation including licensed publishing and outsourced game development, the Group strives to enrich its game portfolio; meanwhile, the Group maps out strategic directions in the internet industry by investing in private equity funds with outstanding performance and portfolios focused on mobile internet industry.

Details of gain on investments of the Period and corresponding period in 2020 are set forth below:

	Six months ended 30 June	
	2021	2020
	HK\$' 000	HK\$' 000
		(Restated)
Fair value change and gain on disposal of other financial assets and dividend income		
– XD Inc.	221,769	321,792
– MFund, L.P.	(114,518)	106,065
– Griffin Gaming Partners, L.P.	37,296	–
– Other funds and equity investments	(258)	376
Impairment loss on interests in associates and joint ventures and net gains on deemed disposal of an associate	(27,871)	–
Share of results of associates and joint ventures	(28,249)	(5,105)
	<hr/>	<hr/>
Total	<u>88,169</u>	<u>423,128</u>

MANAGEMENT DISCUSSION AND ANALYSIS

XD Inc.

As at 30 June 2021, the Group held equity securities listed in Hong Kong at fair value through profit or loss amounting to approximately HK\$690,000, 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	Investment costs HK\$' 000 (Restated)	Accumulated proceeds from disposal HK\$' 000	Accumulated realised gain HK\$' 000 (Note)	Accumulated unrealised	Fair value	Fair value
				gain on change in fair value HK\$' 000	as at 31 December 2020 HK\$' 000 (Restated)	as at 30 June 2021 HK\$' 000
XD Inc.	248,462	1,316,944	1,068,583	584	760,610	685

Note: The accumulated realised exchange gain of the investment was approximately HK\$5.9 million.

The Group first acquired approximately 6.84% equity interest of X.D. Network Inc. (心動網絡股份有限公司), a consolidated subsidiary of XD Inc., from an Independent Third Party on 25 December 2018 at a consideration of approximately HK\$248 million, and was allotted 24,648,000 shares from subsequently listed company XD Inc. by the same shareholding ratio. To optimise its investment portfolio, the Group disposed the shares in XD Inc. since July 2020, and used the proceeds as working capitals and for other investments. Please refer to the announcement of the Company dated 15 March 2021 for further details. As at 30 June 2021, the Group has disposed an aggregate of 24,638,000 shares of XD Inc., and realised an aggregated gain of approximately HK\$1,069 million. During the Period, there was no dividend received or receivable from XD Inc. As at 30 June 2021, the Group's equity interest in XD Inc. was 0.002%, being 10,000 shares. The investment cost and fair value of the Group's interests in XD Inc. comprised approximately 0.002% and 0.01% of the total assets of the Group as at 30 June 2021, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Private equity funds

As at 30 June 2021, the Group held private equity funds at fair value through profit or loss amounting to approximately HK\$444 million, mainly including MFund, L.P. and Griffin Gaming Partners, L.P., which are set out below:

Name of investee Company	Percentage of interests held by the Group	Investments cost as at 31 December 2020 HK\$' 000 (Restated)	Investments cost as at 30 June 2021 HK\$' 000	Fair value as at 31 December 2020 HK\$' 000 (Restated)	Fair value as at 30 June 2021 HK\$' 000 (Note)	Unrealised gain/(loss) on change in fair value for the Period HK\$' 000	Realised gain for the Period HK\$' 000	Dividend received/receivable during the Period HK\$' 000
MFund, L.P. ("MFund")	4.37%	23,286	23,286	407,304	272,945	(134,858)	–	20,340
Griffin Gaming Partners, L.P. ("Griffin")	5.49%	55,926	77,362	68,231	114,942	25,178	–	12,118

Note: During the Period, the unrealised exchange gain of the above investments was approximately HK\$0.6 million.

The Group first entered into a limited partnership agreement with MFund, an Independent Third Party private equity fund, in 2014. The Group, as a limited partner, undertook to subscribe for the share of assets in MFund at a sum of US\$3.0 million (equivalent to HK\$23.29 million), accounting for approximately 4.37% interests. MFund has a diversified investment portfolio, including equity investments in mobile internet industry, which is in alignment with the Group's strategic investment objectives. The investment cost and fair value of the Group's interests in MFund comprised approximately 0.49% and 5.73% of the total assets of the Group as at 30 June 2021, respectively.

The Group first entered into a limited partnership agreement with Griffin, an Independent Third Party, in 2019. Griffin is a private equity fund focusing on the investment in gaming related companies worldwide, and its investment portfolio is in line with the Group's strategic investment objective. Subsequently in 2020, the Group entered into a subscription increase letter, pursuant to which the Group's total commitment in Griffin was US\$12.0 million (equivalent to approximately HK\$93.2 million) for an aggregate of approximately 5.49% interests in it. As of 30 June 2021, the Group has contributed US\$9.96 million (equivalent to approximately HK\$77.36 million) in Griffin. The investment cost and fair value of the Group's interests in Griffin comprised approximately 1.62% and 2.41% of the total assets of the Group as at 30 June 2021, respectively.

Save as disclosed above, there were no other material investments held by the Group as at 30 June 2021.

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 2020: nil). More details on associates and joint ventures are set out in note 11 to the unaudited interim financial report.

Capital commitment

	At 30 June 2021 HK\$' 000	At 31 December 2020 HK\$' 000 (Restated)
Investment contracts	49,339	71,562
Renovations and design	24,021	3,095
Acquisition of own-use office premises	15,822	–
Acquisition of land use rights	–	119,415
Purchase of equipment	–	1,479
Total	89,182	195,551

As at 30 June 2021, the Group had a capital commitment of HK\$89 million, which were mainly related to balance due regarding own-use offices purchased by a subsidiary of the Group, renovations and design expenses of subsidiaries' offices at various locations, and contract payments of investments in the mobile internet and gaming related companies and funds (31 December 2020: HK\$196 million).

Charges on assets

As at 30 June 2021, no asset of the Group was pledged as a security for bank borrowing or any other financing activities (31 December 2020: nil).

Contingent liabilities

The Group had no contingent liabilities as at 30 June 2021 (31 December 2020: 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 code 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 business development of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual can provide strong leadership to the Group and ensures efficient execution of corporate plans and objectives. In addition, the balance of power and authorities is ensured by the composition of the Board, which comprises experienced and high caliber individuals. The Board currently comprises five executive Directors, one non-executive Director and three independent non-executive Directors, who would be able to offer advice from different perspectives. All major decisions are made by the Board members in consultation with the management team of the Company. Based on the above, the Board considers that the current arrangement has appropriate checks and balance of power in place to safeguard the interest of the Group and the Shareholders as a whole.

MODEL CODE

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

CORPORATE GOVERNANCE

UPDATE OF DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors since the date of the Company's last published annual report are set out below:

1. Dr. Horn Kee Leong is currently the Ambassador of Singapore to Argentina.
2. Ms. Jessie Shen was appointed as a director of the Company's subsidiaries, IGG Capital and IGG Capital Limited in the first half of 2021, and a director of the Company's subsidiary, IGG (Hainan) Capital, in August 2021.
3. Mr. Feng Chen was appointed as a director of the Company's subsidiaries, IGG Capital and IGG Capital Limited in the first half of 2021, and a director of the Company's subsidiary, IGG (Hainan) Capital, in August 2021.

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 2021, 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, 11)	Beneficial owner, interest in a controlled corporation, spouse interest, interests held jointly with another person	264,297,731	22.14%
	Mr. Yuan Xu (Notes 1, 2, 11)	Beneficial owner, interests held jointly with another person	264,297,731	22.14%
	Mr. Hong Zhang (Notes 1, 2, 11)	Beneficial owner, interests held jointly with another person	264,297,731	22.14%
	Ms. Jessie Shen (Notes 3, 11)	Beneficial owner	4,522,000	0.38%
	Mr. Feng Chen (Notes 4, 11)	Beneficial owner	14,031,000	1.18%
	Mr. Yuan Chi (Note 5)	Beneficial owner, interest in a controlled corporation	154,002,000	12.90%
	Dr. Horn Kee Leong (Note 6)	Beneficial owner	132,000	0.01%
	Ms. Zhao Lu (Note 7)	Beneficial owner	249,000	0.02%
	Mr. Dajian Yu (Note 8)	Beneficial owner	810,188	0.07%
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 193,752,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai was deemed to be interested in all Shares held by Ms. Kai Chen under the SFO. On 6 May 2021, 746,000 awarded shares were granted to Mr. Zongjian Cai under the Share Award Scheme. Upon the full vest of such awarded shares, Mr. Zongjian Cai will be beneficially interested in 746,000 Shares.

Mr. Yuan Xu was the beneficial owner of 22,494,917 Shares. On 23 March 2015, he was also granted 613,000 share options under the Share Option Scheme. On 6 May 2021, 579,000 awarded shares were granted to Mr. Yuan Xu under the Share Award Scheme. Upon the full exercise and vest of such share options and awarded shares, Mr. Yuan Xu will be beneficially interested in 1,192,000 Shares.

Mr. Hong Zhang was the beneficial owner of 8,166,835 Shares, and was granted 9,200,000 share options under the Pre-IPO Share Option Scheme, among which 6,200,000 share options have been exercised. On 23 March 2015, Mr. Hong Zhang was also granted 605,000 share options under the Share Option Scheme. On 6 May 2021, 493,000 awarded shares were granted to Mr. Hong Zhang under the Share Award Scheme. Upon the full exercise and vest of such share options and awarded shares, Mr. Hong Zhang will be beneficially interested in 4,098,000 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, 23 March 2015 and 6 May 2021, respectively, 367,000 share options, 141,000 share options and 544,000 awarded shares were granted to Ms. Jessie Shen under the Share Option Scheme and Share Award Scheme. Upon the full exercise and vest of such share options and awarded shares, Ms. Jessie Shen will be beneficially interested in 1,052,000 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. On 6 May 2021, 391,000 awarded shares were granted to Mr. Feng Chen under the Share Award Scheme. Upon the full exercise and vest of such share options and awarded shares, Mr. Feng Chen will be beneficially interested in 691,000 Shares.
- (5) Mr. Yuan Chi was the beneficial owner of 486,000 Shares. Mr. Yuan Chi was also interested in all the issued share capital of Edmond Online and he is one of the directors of Edmond Online. Therefore, he was deemed to be interested in 153,434,000 Shares held by Edmond Online under the SFO. On 6 May 2021, 82,000 awarded shares were granted to Mr. Yuan Chi under the Share Award Scheme. Upon the full vest of such awarded shares, Mr. Yuan Chi will be beneficially interested in 82,000 Shares.
- (6) Dr. Horn Kee Leong was the beneficial owner of 60,000 Shares. On 6 May 2021, 72,000 awarded shares were granted to Dr. Horn Kee Leong under the Share Award Scheme. Upon the full vest of such awarded shares, Dr. Horn Kee Leong will be beneficially interested in 72,000 Shares.
- (7) Ms. Zhao Lu was the beneficial owner of 60,000 Shares. On 23 March 2015, Ms. Zhao Lu was granted 250,000 share options under the Share Option Scheme, among which 100,000 share options have been exercised. On 6 May 2021, 39,000 awarded shares were granted to Ms. Zhao Lu under the Share Award Scheme. Upon the full exercise and vest of such share options and awarded shares, Ms. Zhao Lu will be beneficially interested in 189,000 Shares.
- (8) Mr. Dajian Yu was the beneficial owner of 621,188 Shares. On 23 March 2015, Mr. Dajian Yu was granted 250,000 share options under the Share Option Scheme, among which 100,000 share options have been exercised. On 6 May 2021, 39,000 awarded shares were granted to Mr. Dajian Yu under the Share Award Scheme. Upon the full exercise and vest of such share options and awarded shares, Mr. Dajian Yu will be beneficially interested in 189,000 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.

OTHER INFORMATION

- (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.
- (11) On 21 May 2021, the Board resolved to conditionally grant performance-based awarded shares to Mr. Zongjian Cai, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Jessie Shen and Mr. Feng Chen under the Performance-based Share Award Scheme, and such grant was approved by the Shareholders on 20 July 2021. Please refer to the paragraphs headed "Performance-based Share Award Scheme" in the section headed "Other Information" of this report for further details.

Save as disclosed above, as of 30 June 2021, 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 2021, 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	264,297,731	22.14%
Mr. Zongjian Cai (Notes 1, 2, 5)	Beneficial owner, interest in a controlled corporation, spouse interest, interests held jointly with another person	264,297,731	22.14%
Mr. Yuan Xu (Notes 1, 2, 5)	Beneficial owner, interests held jointly with another person	264,297,731	22.14%
Mr. Hong Zhang (Notes 1, 2, 5)	Beneficial owner, interests held jointly with another person	264,297,731	22.14%
Ms. Kai Chen (Notes 1, 2)	Beneficial owner, spouse interest, interests held jointly with another person	264,297,731	22.14%
Mr. Zhixiang Chen (Notes 1, 2)	Beneficial owner, interests held jointly with another person	264,297,731	22.14%
Edmond Online (Note 3)	Beneficial owner	153,434,000	12.85%
Mr. Yuan Chi (Note 3)	Beneficial owner, interest in a controlled corporation	154,002,000	12.90%
LSV Asset Management (Note 4)	Investment manager, interests held through general partnership	61,935,000	5.19%

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 193,752,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai was deemed to be interested in all Shares held by Ms. Kai Chen under the SFO. On 6 May 2021, 746,000 awarded shares were granted to Mr. Zongjian Cai under the Share Award Scheme. Upon the full vest of such awarded shares, Mr. Zongjian Cai will be beneficially interested in 746,000 Shares.

Mr. Yuan Xu was the beneficial owner of 22,494,917 Shares. On 23 March 2015, he was also granted 613,000 share options under the Share Option Scheme. On 6 May 2021, 579,000 awarded shares were granted to Mr. Yuan Xu under the Share Award Scheme. Upon the full exercise and vest of such share options and awarded shares, Mr. Yuan Xu will be beneficially interested in 1,192,000 Shares.

Mr. Hong Zhang was the beneficial owner of 8,166,835 Shares, and was granted 9,200,000 share options under the Pre-IPO Share Option Scheme, among which 6,200,000 share options have been exercised. On 23 March 2015, Mr. Hong Zhang was also granted 605,000 share options under the Share Option Scheme. On 6 May 2021, 493,000 awarded shares were granted to Mr. Hong Zhang under the Share Award Scheme. Upon the full exercise and vest of such share options and awarded shares, Mr. Hong Zhang will be beneficially interested in 4,098,000 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 486,000 Shares. Mr. Yuan Chi was also interested in all the issued share capital of Edmond Online and he is one of the directors of Edmond Online. Therefore, he was deemed to be interested in 153,434,000 Shares held by Edmond Online under the SFO. On 6 May 2021, 82,000 awarded shares were granted to Mr. Yuan Chi under the Share Award Scheme. Upon the full vest of such awarded shares, Mr. Yuan Chi will be beneficially interested in 82,000 Shares.

(4) LSV Asset Management held 48,031,000 Shares in the capacity of investment manager, and 13,904,000 Shares are deemed interest through its general partnership interest in certain limited partnerships.

(5) On 21 May 2021, the Board resolved to conditionally grant performance-based awarded shares to Mr. Zongjian Cai, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Jessie Shen and Mr. Feng Chen under the Performance-based Share Award Scheme, and such grant was approved by the Shareholders on 20 July 2021. Please refer to the paragraphs headed "Performance-based Share Award Scheme" in the section headed "Other Information" of this report for further details.

Save as disclosed above, as at 30 June 2021, the Directors are not aware of any other persons, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had interests or short positions in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

OTHER INFORMATION

PRE-IPO SHARE OPTION SCHEME

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

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

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

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

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

OTHER INFORMATION

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

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

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

Category of grantees	Number of Pre-IPO share options			
	Outstanding as at 31 December 2020	Exercised during the Period ^(Note)	Lapsed/ forfeited during the Period	Outstanding as at 30 June 2021
Director	4,800,000	1,800,000	–	3,000,000
Connected persons (other than Director)	300,000	–	–	300,000
Other employee who has been granted share options under the Pre-IPO Share Option Scheme to subscribe for one million Shares or more (Total No.: 1)	225,000	200,000	–	25,000
Other employees (Total No.: 27)	<u>2,113,500</u>	<u>735,500</u>	<u>–</u>	<u>1,378,000</u>
Total	<u>7,438,500</u>	<u>2,735,500</u>	<u>–</u>	<u>4,703,000</u>

Note: The weighted average closing price of the Shares immediately before the dates on which the Pre-IPO share options were exercised was HK\$11.03 (for the year ended 31 December 2020: HK\$7.77).

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

OTHER INFORMATION

SHARE OPTION SCHEME

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

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

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

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 2020	Granted during the Period	Exercised during the Period ^(Note)	Lapsed/ forfeited during the Period	Outstanding as at 30 June 2021
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	–	–
Ms. Zhao Lu	23 March 2015	HK\$3.90	150,000	–	–	–	150,000
Mr. Dajian Yu	23 March 2015	HK\$3.90	250,000	–	100,000	–	150,000
Directors' respective associate							
Ms. Meijia Chen (cousin of Mr. Yuan Xu)	23 March 2015	HK\$3.90	553,000	–	–	–	553,000
Employees (Total No.: 18)							
	11 August 2014	HK\$5.47	100,000	–	–	–	100,000
	21 November 2014	HK\$3.51	75,000	–	–	–	75,000
	23 March 2015	HK\$3.90	999,000	–	–	–	999,000
	19 August 2019	HK\$5.75	439,000	–	21,000	–	418,000
	6 May 2020	HK\$4.91	357,000	–	15,000	–	342,000
Total			5,767,000	–	954,000	–	4,813,000

Note: The weighted average closing price of the Shares immediately before the dates on which the share options were exercised was HK\$11.19 (for the year ended 31 December 2020: HK\$6.52).

OTHER INFORMATION

11 August 2014

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

21 November 2014

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

23 March 2015

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

Out of the share options granted on 23 March 2015, 1,450,000 share options, were granted to certain Directors, of which one-third of the total number of share options were vested on each of the date of the annual general meeting in 2016, 2017 and 2018.

The remaining 4,889,000 share options were vested in the other eligible grantees from 23 March 2016 to 23 March 2019, of which 25% of the total number of the share options granted were vested on each anniversary date of grant.

19 August 2019

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

OTHER INFORMATION

6 May 2020

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

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

SHARE AWARD SCHEME

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

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

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

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

OTHER INFORMATION

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

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

Details of the Share Award Scheme are set out in the Company's announcement dated 24 December 2013.

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

11 March 2021

On 11 March 2021, the Board granted a total of 1,117,890 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain employees of the Group pursuant to the Share Award Scheme at nil consideration. The closing price immediately before the date on which the awarded shares were granted on 11 March 2021 was HK\$10.696. The awarded shares granted shall be vested in the share award grantees in accordance with the schedule below:

Share award vesting date	Percentage of awarded shares to vest
On 11 March 2022	25% of the total number of awarded shares granted
On 11 March 2023	25% of the total number of awarded shares granted
On 11 March 2024	25% of the total number of awarded shares granted
On 11 March 2025	25% of the total number of awarded shares granted

OTHER INFORMATION

6 May 2021

On 6 May 2021, the Board granted a total of 3,192,565 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain employees and Directors of the Group pursuant to the Share Award Scheme at nil consideration. The closing price immediately before the date on which the awarded shares were granted on 6 May 2021 was HK\$12.28. The awarded shares granted shall be vested in the share award grantees in accordance with the schedule below:

Awarded shares granted to Directors

Among the 3,192,565 awarded shares granted, 2,985,000 awarded shares, which were granted to the Directors, shall be subject to a vesting period as follows:

Share award vesting date	Percentage of awarded shares to vest
On the date of the annual general meeting to be convened in 2022	50% of the total number of awarded shares granted
On the date of the annual general meeting to be convened in 2023	50% of the total number of awarded shares granted

Awarded shares granted to certain employees

Among the 3,192,565 awarded shares granted, 85,550 awarded shares, which were granted to certain employees, shall be subject to a vesting period as follows:

Share award vesting date	Percentage of awarded shares to vest
On 6 May 2022	50% of the total number of awarded shares granted
On 6 May 2023	50% of the total number of awarded shares granted

Other awarded shares

The remaining 122,015 awarded shares, which were granted to certain employees, shall be subject to a vesting period as follows:

Share award vesting date	Percentage of awarded shares to vest
On 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
On 6 May 2025	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:

Category of grantees	Date of grant	Number of awarded shares				Outstanding as at 30 June 2021
		Outstanding as at 31 December 2020	Granted during the Period	Vested during the Period ^(Note 1)	Lapsed/ forfeited during the Period ^(Note 2)	
Directors						
Mr. Zongjian Cai	6 May 2021	–	746,000	–	–	746,000
Mr. Yuan Xu	6 May 2021	–	579,000	–	–	579,000
Mr. Hong Zhang	6 May 2021	–	493,000	–	–	493,000
Ms. Jessie Shen	6 May 2021	–	544,000	–	–	544,000
Mr. Feng Chen	6 May 2021	–	391,000	–	–	391,000
Mr. Yuan Chi	6 May 2021	–	82,000	–	–	82,000
Dr. Horn Kee Leong	20 August 2020	60,000	–	60,000	–	–
	6 May 2021	–	72,000	–	–	72,000
Ms. Zhao Lu	20 August 2020	60,000	–	60,000	–	–
	6 May 2021	–	39,000	–	–	39,000
Mr. Dajian Yu	20 August 2020	60,000	–	60,000	–	–
	6 May 2021	–	39,000	–	–	39,000
Employees (Total No.: 339)						
	20 April 2017	491,956	–	491,956	–	–
	27 June 2017	122,047	–	122,047	–	–
	8 September 2017	151,000	–	–	18,750	132,250
	17 November 2017	218,132	–	–	3,750	214,382
	23 March 2018	406,790	–	203,385	–	203,405
	23 August 2018	536,052	–	–	12,500	523,552
	9 November 2018	52,500	–	–	–	52,500
	20 March 2019	153,750	–	51,250	–	102,500
	6 May 2019	148,862	–	47,120	7,500	94,242
	19 August 2019	480,000	–	–	15,000	465,000
	6 May 2020	1,773,000	–	429,999	86,750	1,256,251
	20 August 2020	998,333	–	–	–	998,333
	6 November 2020	943,730	–	–	30,000	913,730
	11 March 2021	–	1,117,890	–	57,000	1,060,890
	6 May 2021	–	207,565	–	–	207,565
Consultants (Total No.: 2)						
	20 April 2017	22,404	–	22,404	–	–
	27 June 2017	16,726	–	16,726	–	–
	17 November 2017	18,536	–	–	–	18,536
	23 March 2018	32,793	–	16,396	–	16,397
	23 August 2018	12,266	–	–	–	12,266
	6 May 2019	8,250	–	2,750	–	5,500
	6 May 2020	8,000	–	2,000	–	6,000
Total		6,775,127	4,310,455	1,586,033	231,250	9,268,299

OTHER INFORMATION

- Notes:
1. The weighted average closing price of the Shares immediately before the dates on which the awarded shares were vested was HK\$11.55 (for the year ended 31 December 2020: HK\$7.03).
 2. 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.

PERFORMANCE-BASED SHARE AWARD SCHEME

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

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

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

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

OTHER INFORMATION

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

Details of the Performance-based Share Award Scheme are set out in the Company's announcement dated 21 May 2021 and circular dated 28 June 2021.

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

Category of grantees	Number of performance-based awarded shares granted as approved by the Shareholders on 20 July 2021
Directors	
Mr. Zongjian Cai	38,444,306
Mr. Yuan Xu	7,163,535
Mr. Hong Zhang	6,447,181
Ms. Jessie Shen	5,253,259
Mr. Feng Chen	2,865,414
Other connected persons of the Company	
Ms. Meijia Chen (director of subsidiaries of the Company and senior vice president of the Group)	7,163,536
Mr. Hanling Fang (director of subsidiaries of the Company and vice president of the Group)	716,354
Mr. Shuo Wang (director of subsidiaries of the Company and vice president of the Group)	716,354
Mr. Chengfeng Luo (director of subsidiaries of the Company and senior director of research and development)	716,354
Employees (Total No.: 3)	<u>2,149,062</u>
Total	<u><u>71,635,355</u></u>

During the Period, no performance-based awarded shares were granted, vested or lapsed under the Performance-based Share Award Scheme.

OTHER INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

Save as disclosed above and in the section headed "Disclosure of Interest as per registers kept pursuant to the SFO" in this report, at no time for the six months ended 30 June 2021 were there rights to acquire benefits by means of the acquisition of shares in, or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

COMPETING INTEREST

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

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

The Company had bought back the Shares on the Stock Exchange during the Period with details as follows:

Month of Purchase	Number of Shares		Price per Share		Total Paid HK\$
	Purchased	Highest Price Paid HK\$	Lowest Price Paid HK\$		
March 2021	5,221,000	10.44	9.91	53,215,750	
April 2021	<u>400,000</u>	10.60	10.50	<u>4,221,500</u>	
Total	<u>5,621,000</u>			<u>57,437,250</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 10,291,000 Shares, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

OTHER INFORMATION

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.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Fuzhou Tianmeng Structured Contracts

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 84 to page 85 of 2018 Annual Report of the Company.

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

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

- (i) the termination agreement, pursuant to which the Founders, Fuzhou Tianmeng and Fuzhou Tianji agreed that subject to the entering into of the Fuzhou Tianmeng Structured Contracts by Fuzhou Tianmeng, Fuzhou Tianji and the Fuzhou Tianmeng Registered Holders, the Previous Structured Contracts would be terminated;

OTHER INFORMATION

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

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

- (i) **New Call Option Agreement:** on 28 December 2018, Fuzhou Tianmeng, Fuzhou Tianji and the Fuzhou Tianmeng Registered Holders entered into the call option agreement (the “New Call Option Agreement”), pursuant to which each of the Fuzhou Tianmeng Registered Holders irrevocably granted the exclusive right to Fuzhou Tianji or its designee(s) to acquire equity interest in or assets of Fuzhou Tianmeng as and when permitted by the PRC laws. The amount of consideration payable by Fuzhou Tianji to the equity holders of Fuzhou Tianmeng shall be RMB1.0 or the lowest possible amount permissible under the applicable PRC laws. The Fuzhou Tianmeng Registered Holders shall return any consideration they receive in the event that Fuzhou Tianji exercises the call option under the New Call Option Agreement to acquire equity interest in or assets of Fuzhou Tianmeng.
- (ii) **New Equity Pledge Agreement:** on 28 December 2018, Fuzhou Tianji and the Fuzhou Tianmeng Registered Holders entered into the equity pledge agreement (the “New Equity Pledge Agreement”), pursuant to which the Fuzhou Tianmeng Registered Holders granted Fuzhou Tianji a continuing first priority security interest over their respective equity interest in Fuzhou Tianmeng, representing all of the equity interest in Fuzhou Tianmeng’s registered capital, for the purpose of securing the performance of contractual obligations by Fuzhou Tianmeng under the Fuzhou Tianmeng Structured Contracts. In addition, the Fuzhou Tianmeng Registered Holders agreed to allocate, use or deal with the dividends and other non-cash distributions paid for the equity interest in Fuzhou Tianmeng in any way according to the instruction of Fuzhou Tianji.
- (iii) **Power of Attorney of Mr. Deyang Zheng:** on 28 December 2018, Mr. Deyang Zheng issued a power of attorney (the “Power of Attorney of Mr. Deyang Zheng”), pursuant to which Mr. Deyang Zheng irrevocably authorised the Directors and their successors or the Company’s liquidator to exercise all the shareholders’ rights of Mr. Deyang Zheng in Fuzhou Tianmeng.
- (iv) **Power of Attorney of Mr. Chengfeng Luo:** on 28 December 2018, Mr. Chengfeng Luo issued a power of attorney (the “Power of Attorney of Mr. Chengfeng Luo”, together with the Power of Attorney of Mr. Deyang Zheng, the “New Power of Attorney”), pursuant to which Mr. Chengfeng Luo irrevocably authorised the Directors and their successors or the Company’s liquidator to exercise all the shareholders’ rights of Mr. Chengfeng Luo in Fuzhou Tianmeng.

OTHER INFORMATION

- (v) **New Exclusive Technical Consulting Service Agreement:** on 28 December 2018, Fuzhou Tianmeng, Fuzhou Tianji and the Fuzhou Tianmeng Registered Holders entered into the exclusive technical consulting service agreement (the “New Exclusive Technical Consulting Service Agreement”), pursuant to which Fuzhou Tianmeng agreed to pay a fee to Fuzhou Tianji in return for Fuzhou Tianji providing exclusive technical consulting services as required by Fuzhou Tianmeng to support its operations. According to the New Exclusive Technical Consulting Service Agreement, unless otherwise agreed by both parties, Fuzhou Tianji would provide technical support and consultation services to Fuzhou Tianmeng, as the consideration, and the technical services fees will be paid on a quarterly basis and equal to Fuzhou Tianmeng’s total revenue deducting all related expenses, costs and taxes payable by Fuzhou Tianmeng.
- (vi) **New Online Game Licensing Agreement:** on 28 December 2018, Fuzhou Tianji and Fuzhou Tianmeng entered into the online game licensing agreement (the “New Online Game Licensing Agreement”), pursuant to which Fuzhou Tianji agreed to grant to Fuzhou Tianmeng usage rights on various online game software for operation in the PRC. As the consideration, Fuzhou Tianmeng is required to pay to Fuzhou Tianji (i) an initial licensing fee, payable after the signing date; and (ii) commissions payable on a quarterly basis according to a percentage generally accepted in the market and such commission shall be a fair value.
- (vii) **Spouse Undertaking of Mr. Deyang Zheng:** on 28 December 2018, the spouse of Mr. Deyang Zheng issued a spouse undertaking (the “Spouse Undertaking of Mr. Deyang Zheng”) to the effect that (i) Mr. Deyang Zheng’s interests in Fuzhou Tianmeng (together with any other interests therein) do not fall within the scope of communal properties; (ii) she has no right to or control over such interests of Mr. Deyang Zheng and will not have any claim on such interest. No authorisation or consent will be needed from her for the performance, amendment or termination of the Fuzhou Tianmeng Structured Contracts by Mr. Deyang Zheng; (iii) she will execute all necessary documents and take all necessary actions to ensure the performance of the Fuzhou Tianmeng Structured Contracts; and (iv) in the event that she obtains any interests in Fuzhou Tianmeng, she will be subject to and abide by the terms of the Fuzhou Tianmeng Structured Contracts, and at the request of Fuzhou Tianji, she will sign any documents in the form and substance consistent with the Fuzhou Tianmeng Structured Contracts.
- (viii) **Spouse Undertaking of Mr. Chengfeng Luo:** on 28 December 2018, the spouse of Mr. Chengfeng Luo issued a spouse undertaking (the “Spouse Undertaking of Mr. Chengfeng Luo”, together with the Spouse Undertaking of Mr. Deyang Zheng, the “Spouse Undertakings”) to the effect that (i) Mr. Chengfeng Luo’s interests in Fuzhou Tianmeng (together with any other interests therein) do not fall within the scope of communal properties; (ii) she has no right to or control over such interests of Mr. Chengfeng Luo and will not have any claim on such interest. No authorisation or consent will be needed from her for the performance, amendment or termination of the Fuzhou Tianmeng Structured Contracts by Mr. Chengfeng Luo; (iii) she will execute all necessary documents and take all necessary actions to ensure the performance of the Fuzhou Tianmeng Structured Contracts; and (iv) in the event that she obtains any interests in Fuzhou Tianmeng, she will be subject to and abide by the terms of the Fuzhou Tianmeng Structured Contracts, and at the request of Fuzhou Tianji, she will sign any documents in the form and substance consistent with the Fuzhou Tianmeng Structured Contracts.

OTHER INFORMATION

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

The Xinhan Liaokuo Structured Contracts

Xinhan Liaokuo is a domestic company established in September 2020 and holds an ICP License, the principal business operation of which includes (i) designing and developing online mobile games; (ii) providing online customer support services to end users in the PRC; and (iii) operating and ongoing maintenance of Chinese versions of developed games in the PRC.

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

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

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

OTHER INFORMATION

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

OTHER INFORMATION

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

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

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, Xinhan Liaokuo or the Structured Contracts.

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

Number of games operated:

	Developed in-house	Licensed
	As at 30 June 2021	
Fuzhou Tianmeng	–	1
Xinhan Liaokuo	–	–

OTHER INFORMATION

Game revenue*:

	Revenue attributable to the relevant entity For the six months ended 30 June 2021 HK\$' 000	Percentage of the total revenue of the Group %
Fuzhou Tianmeng	167,376	5.17
Xinhan Liaokuo	–	–

* Game revenue is from external customers.

Assets:

	Assets attributable to the relevant entity As at 30 June 2021 HK\$' 000	Percentage of the total assets of the Group %
Fuzhou Tianmeng	310,748	6.53
Xinhan Liaokuo	726	0.02

On-going reporting and approvals

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

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

- The Company confirms that in order to ensure the operation of the Structured Contracts, the Company has reviewed the overall performance and compliance with the Structured Contracts for the Period.
- The independent non-executive Directors will review the Structured Contracts annually and confirm in the annual reports that (i) the transactions carried out during such year have been entered into in accordance with relevant terms of the Structured Contracts such that all revenue generated by Fuzhou Tianmeng and Xinhan Liaokuo deducting all related expenses, costs and the taxes payable by it has been retained by the Group; (ii) no dividends or other distributions have been made by Fuzhou Tianmeng and Xinhan Liaokuo to their equity interest holders; and (iii) no new contracts or renewed contracts have been entered into on the same terms as the Structured Contracts.

OTHER INFORMATION

- 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 and Xinhan Liaokuo to their equity holders which was not subsequently assigned or transferred to our Group and relevant transactions have received approval of the Board and were entered into in accordance with the terms of the Structured Contracts.
- Save as disclosed in the interim report and in compliance with the applicable requirements under the Listing Rules, the Group has not renewed and/or reproduced any of the framework of and terms and conditions similar to those of the Structured Contracts in relation to any existing or new wholly foreign-owned enterprise or operating company.
- Each of Fuzhou Tianmeng and Xinhan Liaokuo has provided the Company's management and auditors with full access to relevant records for the purpose of the auditors' performance of review procedures on relevant transactions under the Structured Contracts.

Regulatory Matters in Relation to the Structured Contracts

FITE Regulations

Foreign investment in telecommunications sector is governed by the Regulations on Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the "FITE Regulations"), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008 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.

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 and Xinhan Liaokuo 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.

OTHER INFORMATION

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 and Xinhan Liaokuo 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 and Xinhan Liaokuo, provided that certain conditions are met, to continue to carry out relevant foreign investment restricted or prohibited businesses, the Company might be requested to dispose of its interests in Fuzhou Tianmeng and Xinhan Liaokuo. The appropriate risk factors had already been disclosed in the paragraph headed “Risks And Limitations Relating To The New VIE Structure – There is no assurance that the contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng will be deemed to be in compliance with existing or future PRC laws and regulations” in the announcement of the Company dated 28 December 2018.

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 and Xinhan Liaokuo in the future, it can engage other domestic publishers with the due qualifications and licenses to operate its online games in the PRC, which may adversely affect the Group's operational and financial performance because engaging other domestic publishers may impose more costs to the Group. However, the Company expects that such adverse impact on the Group's operational and financial performance will not be material considering that (1) the revenue and assets attributable to the Structured Contracts are about 5.17% and 6.55%, respectively, and (2) there is no legal obstacle for Fuzhou Tianmeng and Xinhan Liaokuo to transfer its assets to Fuzhou Tianji, Hainan Tianzhi 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, Fuzhou Tianmeng, Hainan Tianzhi and Xinhan Liaokuo 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 47 to 82 which comprises the consolidated statement of financial position of IGG Inc (the “Company”) and its subsidiaries (together the “Group”) as of 30 June 2021 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 2021 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 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2021 – unaudited

	Note	Six months ended 30 June	
		2021 HK\$' 000	2020 HK\$' 000 (Restated)
Revenue	3	3,237,459	2,426,483
Cost of revenue		<u>(955,024)</u>	<u>(743,032)</u>
Gross profit		2,282,435	1,683,451
Other net gains	4	107,399	423,811
Selling and distribution expenses		(935,264)	(524,195)
Administrative expenses		(253,755)	(141,810)
Research and development expenses		<u>(497,776)</u>	<u>(287,059)</u>
Profit from operations		703,039	1,154,198
Finance costs	5(a)	(2,099)	(1,718)
Share of results of associates and joint ventures		<u>(28,249)</u>	<u>(5,105)</u>
Profit before taxation	5	672,691	1,147,375
Income tax expenses	6	<u>(95,769)</u>	<u>(115,574)</u>
Profit for the period		<u>576,922</u>	<u>1,031,801</u>
Attributable to:			
Equity shareholders of the Company		577,346	1,031,801
Non-controlling interests		<u>(424)</u>	<u>–</u>
Profit for the period		<u>576,922</u>	<u>1,031,801</u>
Earnings per share	7		
Basic		<u>HK\$0.4901</u>	<u>HK\$0.8421</u>
Diluted		<u>HK\$0.4847</u>	<u>HK\$0.8304</u>

The notes on pages 54 to 82 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 18.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2021 – unaudited

	Six months ended 30 June	
	2021 HK\$' 000	2020 HK\$' 000 (Restated)
Profit for the period	576,922	1,031,801
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>15,639</u>	<u>(37,010)</u>
Total comprehensive income for the period	<u>592,561</u>	<u>994,791</u>
Attributable to:		
Equity shareholders of the Company	<u>592,985</u>	<u>994,791</u>
Non-controlling interests	<u>(424)</u>	<u>–</u>
Total comprehensive income for the period	<u>592,561</u>	<u>994,791</u>

The notes on pages 54 to 82 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2021 – unaudited

	Note	At 30 June 2021 HK\$' 000	At 31 December 2020 HK\$' 000 (Restated)
Non-current assets			
Property, plant and equipment	8	341,110	334,308
Intangible assets		36,787	15,876
Land use rights	9	248,406	–
Other non-current assets	10	177,417	153,374
Interests in associates and joint ventures	11	413,813	402,975
Other financial assets	12	479,060	1,260,633
Deferred tax assets		2,007	2,008
		<u>1,698,600</u>	<u>2,169,174</u>
Current assets			
Inventories		2,206	1,834
Trade and other receivables	13	122,006	106,391
Funds receivable	14	481,089	425,135
Restricted deposits		6,393	5,926
Cash and cash equivalents	15	2,450,977	2,172,658
		<u>3,062,671</u>	<u>2,711,944</u>
Total current assets			
Current liabilities			
Trade and other payables	16	459,426	333,235
Tax payables		311,572	329,003
Deferred revenue		223,676	266,497
Lease liabilities	17	47,535	38,333
		<u>1,042,209</u>	<u>967,068</u>
Total current liabilities			
		<u>2,020,462</u>	<u>1,744,876</u>
Net current assets			
Total assets less current liabilities			
		<u>3,719,062</u>	<u>3,914,050</u>
Non-current liabilities			
Lease liabilities	17	44,958	50,647
Deferred tax liabilities		8,008	5,216
		<u>52,966</u>	<u>55,863</u>
Total non-current liabilities			
NET ASSETS			
		<u>3,666,096</u>	<u>3,858,187</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 30 June 2021 – unaudited

	Note	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000 (Restated)
CAPITAL AND RESERVES			
Share capital	18(b)	23	23
Reserves		<u>3,666,730</u>	<u>3,858,397</u>
Total equity attributable to equity shareholders of the Company		3,666,753	3,858,420
Non-controlling interests		<u>(657)</u>	<u>(233)</u>
TOTAL EQUITY		<u>3,666,096</u>	<u>3,858,187</u>

The notes on pages 54 to 82 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2021 – unaudited

Attributable to equity shareholders of the Company												
Note	Share capital HK\$' 000	Share premium HK\$' 000	Share-based payment reserve HK\$' 000	Shares held for share award scheme HK\$' 000	Shares repurchased for cancellation HK\$' 000	Statutory reserve HK\$' 000	Other reserve HK\$' 000	Exchange reserve HK\$' 000	Retained profits HK\$' 000	Non-controlling interests		Total equity HK\$' 000
										Total	HK\$' 000	
Balance at 31 December 2020 and 1 January 2021 (Restated)	23	-	74,633	(136,803)	(51,635)	683	40,913	(579)	3,931,185	3,858,420	(233)	3,858,187
Changes in equity for the six months ended 30 June 2021:												
Profit for the period	-	-	-	-	-	-	-	-	577,346	577,346	(424)	576,922
Other comprehensive income	-	-	-	-	-	-	-	15,639	-	15,639	-	15,639
Total comprehensive income	-	-	-	-	-	-	-	15,639	577,346	592,985	(424)	592,561
Equity-settled share-based payment	-	-	13,459	-	-	-	-	-	-	13,459	-	13,459
Shares purchased for the share award scheme	18(b)	-	-	(116,240)	-	-	-	-	-	(116,240)	-	(116,240)
Repurchase of ordinary shares	18(b)	-	-	-	(57,437)	-	-	-	-	(57,437)	-	(57,437)
Cancellation of ordinary shares	18(b)	-*	(10,823)	-	109,072	-	-	-	(98,249)	-	-	-
Exercise of share options	18(b)	-*	8,188	(3,077)	-	-	-	-	-	5,111	-	5,111
Vesting of awarded shares	18(b)	-	2,635	(14,279)	11,644	-	-	-	-	-	-	-
Appropriation to statutory reserves	-	-	-	-	-	217	-	-	(217)	-	-	-
Dividends received for share award scheme	-	-	-	-	-	-	10,955	-	-	10,955	-	10,955
2020 second interim dividend and special dividend paid	18(a)	-	-	-	-	-	-	-	(640,500)	(640,500)	-	(640,500)
Balance at 30 June 2021	23	-	70,736	(241,399)	-	900	51,868	15,060	3,769,565	3,666,753	(657)	3,666,096

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2021 – unaudited

		Attributable to equity shareholders of the Company								
Note	Share capital	Share premium	Share-based payment reserve	Shares held for share award scheme	Shares repurchased for cancellation	Statutory reserve	Other reserve	Exchange reserve	Retained profits	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Balance at 31 December 2019 and 1 January 2020										
	24	177,899	76,809	(133,182)	(4,518)	683	27,001	(51,843)	2,824,429	2,917,302
Changes in equity for the six months ended 30 June 2020:										
Profit for the period	-	-	-	-	-	-	-	-	1,031,801	1,031,801
Other comprehensive income	-	-	-	-	-	-	-	(37,010)	-	(37,010)
Total comprehensive income	-	-	-	-	-	-	-	(37,010)	1,031,801	994,791
Equity-settled share-based payment	-	-	11,515	-	-	-	-	-	-	11,515
Shares purchased for the share award scheme	18(b)	-	-	(13,996)	-	-	-	-	-	(13,996)
Repurchase of ordinary shares	18(b)	-	-	-	(109,096)	-	-	-	-	(109,096)
Cancellation of ordinary shares	18(b)	-*	(65,405)	-	65,405	-	-	-	-	-
Exercise of share options	18(b)	-*	2,489	(970)	-	-	-	-	-	1,519
Vesting of awarded shares	18(b)	-	3,075	(11,718)	8,643	-	-	-	-	-
Dividends received for share award scheme		-	-	-	-	-	3,412	-	-	3,412
2019 second interim dividend paid	18(a)	-	-	-	-	-	-	-	(219,556)	(219,556)
Balance at 30 June 2020	24	118,058	75,636	(138,535)	(48,209)	683	30,413	(88,853)	3,636,674	3,585,891

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

The notes on pages 54 to 82 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2021 – unaudited

	Note	Six months ended 30 June	
		2021 HK\$' 000	2020 HK\$' 000 (Restated)
Operating activities			
Cash generated from operations		638,196	665,041
Income tax paid		(100,778)	(2,362)
Interest received		3,336	9,332
Net cash generated from operating activities		540,754	672,011
Investing activities			
Payment for acquisitions of other financial assets		(75,587)	(32,161)
Proceeds from disposal of other financial assets		982,874	–
Investments in associates		(63,006)	(25,811)
Payment for the purchases of property, plant and equipment and intangible assets		(48,070)	(6,393)
Prepayment for the acquisition of office premises		(142,396)	–
Payment for the acquisition of land use rights		(122,225)	–
Dividends received from unquoted equity investments		20,340	6,524
Proceeds from disposal of property, plant and equipment and intangible assets		35	37
Net cash generated from/(used in) investing activities		551,965	(57,804)
Financing activities			
Capital element of lease rentals paid		(21,317)	(13,430)
Interest element of lease rentals paid		(2,099)	(1,718)
Dividends paid		(629,545)	(216,144)
Payments for repurchase of shares		(57,437)	(109,096)
Payments for purchase of shares for share award scheme		(116,240)	(13,996)
Proceeds from exercise of share options		5,111	1,519
Net cash used in financing activities		(821,527)	(352,865)
Net change in cash and cash equivalents		271,192	261,342
Cash and cash equivalents at 1 January		2,172,658	2,391,486
Effect of foreign exchanges rates changes		7,127	(18,608)
Cash and cash equivalents at 30 June	15	2,450,977	2,634,220

The notes on pages 54 to 82 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standard Board (“IASB”). The interim financial report was authorised for issue on 5 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 2020 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 Group has changed its presentation currency from US dollars (“US\$”) to Hong Kong dollars (“HK\$”) for the preparation of its consolidated financial statements for the six months ended 30 June 2021.

Having considered that the shares of the Company are listed on The Stock Exchange of Hong Kong Limited, the Board believes it is more appropriate to adopt HK\$ as its presentation currency for the Group’s consolidated financial statements. Furthermore, the Board considers that the change of presentation currency enables the shareholders and potential investors of the Company to have a more accurate picture of the Group’s financial performance.

The change in presentation currency has been applied retrospectively. The comparative figures in these condensed consolidated financial information were translated from US\$ to HK\$ using applicable averages rates that approximated to actual rates for items in the consolidated statement of profit and loss and applicable closing rates for items in consolidated statement of financial position.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION (Continued)

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 46.

The financial information relating to the financial year ended 31 December 2020 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 2021.

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.

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 2021, 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 2021 (six months ended 30 June 2020: Nil).

As at 30 June 2021, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is HK\$223,676,000 (31 December 2020: HK\$266,497,000), and the Group will recognise this revenue in the second half of 2021.

Revenue of HK\$266,497,000 recognised in the six months ended 30 June 2021 was included in the balance of deferred revenue at the beginning of the period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

The following table sets out information about the geographical locations of the Group's revenue from external customers and the Group's property, plant and equipment ("specified non-current assets"). For online game revenue, the geographical locations of customers are based on the Internet Protocol locations of the game players. The geographical locations of the specified non-current assets are based on the physical locations of the assets:

(a) Revenues by geographical regions

	Six months ended 30 June	
	2021 HK\$' 000	2020 HK\$' 000 (Restated)
North America	1,170,330	724,529
Asia	1,148,225	965,762
Europe	727,106	585,460
Others	191,798	150,732
	<u>3,237,459</u>	<u>2,426,483</u>

(b) Specified non-current assets

	At	At
	30 June 2021 HK\$' 000	31 December 2020 HK\$' 000 (Restated)
Europe	177,341	183,595
Asia	120,929	118,319
North America	42,747	32,225
Others	93	169
	<u>341,110</u>	<u>334,308</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 OTHER NET GAINS

	Six months ended 30 June	
	2021	2020
	HK\$' 000	HK\$' 000
		(Restated)
Gain on disposal of other financial assets*	221,552	–
Net gains on deemed disposal of an associate (Note 11(a))	2,280	–
Government grants^	14,796	10,300
Dividend income	32,458	6,524
Bank interest income	3,336	9,332
Exchange loss	(21,413)	(17,893)
Fair value change on investments	(109,721)	421,709
Impairment loss on interests in associates and joint ventures (Note 11)	(30,151)	–
Others	(5,738)	(6,161)
	<u>107,399</u>	<u>423,811</u>

* For the six months ended 30 June 2021, the Group disposed 16,225,000 shares of XD Inc. and recognised a gain on disposal of approximately HK\$221,552,000.

^ Government grants mainly included cash grants to enterprises utilizing foreign investments in mainland China, rewards for enterprises in cultural industry for subsidiaries in mainland China and cash grants to employers under Jobs Support Scheme and Job Growth Incentive Scheme of Singapore Government. There are no unfulfilled conditions or contingencies relating to the grants.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
		(Restated)
Interest on lease liabilities	<u>2,099</u>	<u>1,718</u>

(b) Staff costs

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
		(Restated)
Salaries, wages and other benefits	481,905	244,536
Equity-settled share-based payments expenses	13,459	11,515
Contributions to defined contribution retirement plans	<u>19,984</u>	<u>6,441</u>
	<u>515,348</u>	<u>262,492</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION (Continued)

(c) Other items

	Six months ended 30 June	
	2021	2020
	HK\$' 000	HK\$' 000
		(Restated)
Channel cost	875,705	681,792
Amortisation		
– intangible assets	5,768	2,124
– land use rights	519	–
Depreciation charge		
– owned property, plant and equipment	19,192	17,153
– right-of-use assets	22,776	13,737
Impairment loss on interests in associates and joint ventures	30,151	–
Impairment loss for trade and other receivables and funds receivable	186	190
Net foreign exchange loss	21,413	17,893
Fair value change on investments	109,721	(421,709)
Loss on disposal of property, plant and equipment	26	136

6 INCOME TAX

	Six months ended 30 June	
	2021	2020
	HK\$' 000	HK\$' 000
		(Restated)
Current tax	92,976	115,240
Deferred taxation	2,793	334

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 2021 (six months ended 30 June 2020: 10.5%).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX (Continued)

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

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 HK\$577,346,000 (six months ended 30 June 2020: HK\$1,031,801,000) and the weighted average of 1,178,116,000 ordinary shares (six months ended 30 June 2020: 1,225,259,000 ordinary shares) in issue during the interim period, calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June	
	2021	2020
	shares	shares
	'000	'000
Issued ordinary shares at 1 January	1,202,367	1,247,920
Effect of share award scheme	(23,318)	(18,918)
Effect of share options exercised	2,279	412
Effect of repurchase of ordinary shares	(3,212)	(4,155)
	<u>1,178,116</u>	<u>1,225,259</u>
Weighted average number of ordinary shares at 30 June	<u>1,178,116</u>	<u>1,225,259</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong 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 HK\$577,346,000 (six months ended 30 June 2020: HK\$1,031,801,000) and the weighted average number of ordinary shares of 1,191,021,000 (six months ended 30 June 2020: 1,242,478,000 ordinary shares) during the interim period, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2021	2020
	shares	shares
	'000	'000
Weighted average number of ordinary shares at 30 June	1,178,116	1,225,259
Effect of deemed issue of shares under the Company's share option scheme	8,655	11,854
Effect of deemed issue of shares under the Company's share award scheme	4,250	5,365
Weighted average number of ordinary shares (diluted) at 30 June	<u>1,191,021</u>	<u>1,242,478</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

8 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

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

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000 (Restated)
Properties leased for own use, carried at depreciated cost	<u>85,512</u>	<u>83,021</u>

During the six months ended 30 June 2021, the Group entered into a number of lease agreements for office premises, and recognised the addition to right-of-use assets of HK\$24,492,000 (six months ended 30 June 2020: HK\$3,641,000).

(b) Acquisitions of owned assets

During the six months ended 30 June 2021, the Group acquired items of leasehold improvements, computer equipment, motor vehicles and office equipment with a cost of HK\$28,249,000 (six months ended 30 June 2020: HK\$3,594,000).

9 LAND USE RIGHTS

The Group has obtained land use rights of a parcel of land for periods of 40 years in the PRC. As at 30 June 2021, the Group is in the process of applying for the land use right certificate in respect of the land with net book value of HK\$248,406,000.

10 OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent prepayment for acquisition of office premises in the PRC, housing loans to employees and rental deposits. Loans to employees and rental deposits were expected to be collected beyond one year.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTERESTS IN ASSOCIATES AND JOINT VENTURES

(a) Interest in associates

Aggregate information of associates that are not individually material:

	At 30 June 2021 HK\$' 000	At 31 December 2020 HK\$' 000 (Restated)
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	396,124	376,652
Aggregate amounts of the Group's shares of these associates' losses	<u>(24,534)</u>	<u>(13,328)</u>
	Six months ended 30 June	
	2021 HK\$' 000	2020 HK\$' 000 (Restated)
At 1 January (Restated)	376,652	20,759
Additions ¹	63,006	25,811
Deemed disposal gains ²	2,280	–
Share of results of associates	(24,534)	(3,647)
Impairment loss on interests in associates ³	(24,879)	–
Currency translation differences	<u>3,599</u>	<u>(177)</u>
At 30 June	<u>396,124</u>	<u>42,746</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTERESTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(a) Interest in associates (Continued)

Notes:

- 1 For the six months ended 30 June 2021, the Group's additions to interests in associates mainly comprised several new associates and additional investments in existing associates with an aggregate amount of approximately HK\$63,006,000. These associates are principally engaged in online gaming business.
- 2 The deemed disposal gains of approximately HK\$2,280,000 recognised for the six months ended 30 June 2021 mainly comprised net gains on dilution of the Group's equity interest in an associate due to new equity interests being issued by the associate.
- 3 Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investment may be impaired, including but not limited to financial position and business performance.

As at 30 June 2021, the Group assessed the performance of the associates and considered the investments in certain associates to be irrecoverable. An impairment loss of HK\$24,879,000 was recognised in "Other net gains" during the period.

(b) Interest in joint ventures

Aggregate information of joint ventures that are not individually material:

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000 (Restated)
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	17,689	26,323
Aggregate amounts of the Group's shares of these joint ventures' losses	<u>(3,715)</u>	<u>(4,594)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTERESTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(b) Interest in joint ventures (Continued)

	Six months ended 30 June	
	2021	2020
	HK\$' 000	HK\$' 000
		(Restated)
At 1 January (Restated)	26,323	13,624
Share of results of joint ventures	(3,715)	(1,458)
Impairment loss on interests in joint ventures ¹	(5,272)	–
Currency translation differences	353	(246)
At 30 June	<u>17,689</u>	<u>11,920</u>

Note:

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

As at 30 June 2021, the Group assessed the performance of the joint ventures and considered the investments in a joint venture to be irrecoverable. An impairment loss of HK\$5,272,000 was recognised in “Other net gains” during the period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

12 OTHER FINANCIAL ASSETS

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000 (Restated)
Financial assets measured at FVPL		
– Listed equity securities ¹	12,943	760,610
– Unquoted equity investments ²	466,117	500,023
	<u>479,060</u>	<u>1,260,633</u>

Notes:

- 1 Listed equity securities mainly comprised equity securities listed in Hong Kong and the United States. 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. The unrealised gain on change in fair value of the investment was approximately HK\$217,000 (six months ended 30 June 2020: HK\$321,792,000). No dividends were received on this investment for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).
- 2 Unquoted equity investments mainly comprised the following:
 - (i) an equity investment in Mfund, L.P., a private equity fund which is principally engaged in investments in both listed and non-listed entities in mobile internet industry. Dividends of HK\$20,340,000 were received on this investment for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$6,524,000).
 - (ii) an equity investment in Griffin Gaming Partners, L.P., a private equity fund which is principally engaged in investment holding of gaming related entities. Listed equity securities of HK\$12,118,000 were received on this investment for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).
 - (iii) equity investments in certain non-listed internet companies and several private equity funds which are principally engaged in investment holding of entities in the mobile internet, media, telecommunication and other innovative technologies sectors.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

13 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2021 HK\$' 000	At 31 December 2020 HK\$' 000 (Restated)
Within 3 months	11,990	9,159
3 to 6 months	2,524	–
6 months to 1 year	27	1,569
Trade receivables, net of loss allowance	<u>14,541</u>	10,728
Prepayments	75,850	67,047
Deposits	2,098	2,048
Other receivables	<u>29,517</u>	26,568
	<u>122,006</u>	<u>106,391</u>

Trade receivables were all from third-party customers. 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. Trade receivables are non-interest bearing.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

14 FUNDS RECEIVABLE

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

As at 30 June 2021, all the funds receivable were aged within three months and HK\$374,000 of loss allowance was provided for the funds receivable (31 December 2020: HK\$311,000).

15 CASH AND CASH EQUIVALENTS

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000 (Restated)
Cash at bank and on hand	2,324,503	2,083,289
Deposits with other financial institutions	<u>126,474</u>	<u>89,369</u>
Cash and cash equivalents in the condensed consolidated cash flow statement	<u>2,450,977</u>	<u>2,172,658</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

16 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 2021 HK\$' 000	At 31 December 2020 HK\$' 000 (Restated)
Within 3 months	243,007	146,584
3 to 6 months	6,376	747
6 months to 1 year	6,024	–
Over 1 year	<u>78</u>	<u>192</u>
Total creditors	255,485	147,523
Salary and welfare payables	72,324	66,723
Other tax payables	50,171	53,752
Other payables and accruals	<u>81,446</u>	<u>65,237</u>
	<u>459,426</u>	<u>333,235</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

17 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 2021		At 31 December 2020	
	Present value of the minimum lease payments HK\$' 000	Total minimum lease payments HK\$' 000	Present value of the minimum lease payments HK\$' 000 (Restated)	Total minimum lease payments HK\$' 000 (Restated)
Within 1 year	<u>47,535</u>	<u>48,506</u>	<u>38,333</u>	<u>39,093</u>
After 1 year but within 2 years	34,145	36,282	32,820	34,992
After 2 years but within 5 years	10,259	11,548	16,457	18,461
After 5 years	<u>554</u>	<u>675</u>	<u>1,370</u>	<u>1,687</u>
	<u>44,958</u>	<u>48,505</u>	<u>50,647</u>	<u>55,140</u>
	<u>92,493</u>	<u>97,011</u>	<u>88,980</u>	<u>94,233</u>
Less: total future interest expenses		<u>(4,518)</u>		<u>(5,253)</u>
Present value of lease liabilities		<u>92,493</u>		<u>88,980</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

18 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	
	2021	2020
	HK\$' 000	HK\$' 000 (Restated)
Interim dividend declared after the interim period of HK14.5 cents per ordinary share (2020: HK25.1 cents per ordinary share)	173,077	308,778
Special dividend declared after the interim period of nil (2020: HK25.1 cents per ordinary share)	<u>–</u>	<u>308,778</u>

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

(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	
	2021	2020
	HK\$' 000	HK\$' 000 (Restated)
Second interim dividend in respect of the previous financial year, approved and paid during the period, of HK26.7 cents per ordinary share (2020: HK17.6 cents per ordinary share)	320,250	219,556
Special dividend in respect of the previous financial year, approved and paid during the period, of HK26.7 cents per ordinary share (2020: Nil)	<u>320,250</u>	<u>–</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital and reserves

As at 30 June 2021 and 31 December 2020, the authorised share capital of the Company comprises 2,000,000,000 ordinary shares with par value of US\$0.0000025 per share.

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

	Note	Number of shares issued and fully paid [^]	Issued capital HK\$' 000	Share premium HK\$' 000	Shares held for share award scheme HK\$' 000	Shares repurchased for cancellation HK\$' 000
At 1 January 2021 (Restated)		1,202,367,099	23	-	(136,803)	(51,635)
Vesting of awarded shares		-	-	2,635	11,644	-
Share options exercised (note 19)		3,689,500	-*	8,188	-	-
Shares purchased for the share award scheme	i	-	-	-	(116,240)	-
Repurchase of ordinary shares	ii	-	-	-	-	(57,437)
Cancellation of ordinary shares		(12,069,000)	-*	(10,823)	-	109,072
At 30 June 2021		1,193,987,599	23	-	(241,399)	-
At 1 January 2020 (Restated)		1,247,920,299	24	177,899	(133,182)	(4,518)
Vesting of awarded shares (Restated)		-	-	3,075	8,643	-
Share options exercised (Restated) (note 19)		934,000	-*	2,489	-	-
Shares purchased for the share award scheme (Restated)		-	-	-	(13,996)	-
Repurchase of ordinary shares (Restated)		-	-	-	-	(109,096)
Cancellation of ordinary shares (Restated)		(12,938,000)	-*	(65,405)	-	65,405
At 30 June 2020 (Restated)		1,235,916,299	24	118,058	(138,535)	(48,209)

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

[^] As at 30 June 2021, the total number of issued ordinary shares of the Company included 29,146,463 shares (31 December 2020: 20,441,496 shares) held under the share award scheme. And as at 30 June 2021, there were no shares of the Company held for cancellation (31 December 2020: 6,448,000 shares).

- (i) During the six months ended 30 June 2021, the Company purchased 10,291,000 shares on the Stock Exchange pursuant to the share award scheme at an average price of approximately HK\$11.30 per share with a total consideration of HK\$116,240,000.
- (ii) During the six months ended 30 June 2021, the Company repurchased 5,621,000 shares on the Stock Exchange with an average price of approximately HK\$10.22 per share. The total amount paid on the repurchased shares was HK\$57,437,000.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Capital management

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

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

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

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

	At 30 June 2021 HK\$' 000	At 31 December 2020 HK\$' 000 (Restated)
Total current liabilities	1,042,209	967,068
Total non-current liabilities	<u>52,966</u>	<u>55,863</u>
	<u>1,095,175</u>	<u>1,022,931</u>
Total current assets	3,062,671	2,711,944
Total non-current assets	<u>1,698,600</u>	<u>2,169,174</u>
	<u>4,761,271</u>	<u>4,881,118</u>
Gearing ratio	<u>23.0%</u>	<u>21.0%</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

19 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 2021</u>		<u>Six months ended 30 June 2020</u>	
	Weighted average exercise price US\$	Number of options	Weighted average exercise price US\$	Number of options
Outstanding at the beginning of the period	0.0778	7,438,500	0.0730	11,901,800
Exercised during the period	0.0625	<u>(2,735,500)</u>	0.0709	<u>(634,000)</u>
Outstanding at the end of the period	0.0868	<u>4,703,000</u>	0.0731	<u>11,267,800</u>
Exercisable at the end of the period	0.0868	<u>4,703,000</u>	0.0731	<u>11,267,800</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 2021		Exercise price per share US\$	Exercise period
Number of options			
50,000	0.0865	since IPO to 13-08-2021	
246,000	0.0865	since IPO to 14-01-2022	
3,180,000	0.0865	since IPO to 20-05-2022	
<u>1,227,000</u>	0.0865	since IPO to 30-03-2023	
<u>4,703,000</u>			

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

19 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

Pre-IPO Share Option Scheme (Continued)

As at 30 June 2021, the Pre-IPO share options outstanding had a weighted average remaining contractual life of 1.09 years (31 December 2020: 1.26 years). For Pre-IPO share options, the weighted average closing price of the Company's shares at the date share options were exercised during the period was HK\$10.67 (six months ended 30 June 2020: HK\$5.48).

Post-IPO Share Option Scheme

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

	<u>Six months ended 30 June 2021</u>		<u>Six months ended 30 June 2020</u>	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Outstanding at the beginning of the period	4.10	5,767,000	5.37	7,337,500
Granted during the period	–	–	4.91	357,000
Exercised during the period	3.96	(954,000)	3.90	(300,000)
Forfeited/lapsed during the period	–	–	10.08	(75,000)
Outstanding at the end of the period	4.13	<u>4,813,000</u>	5.36	<u>7,319,500</u>
Exercisable at the end of the period	3.95	<u>4,216,000</u>	4.92	<u>6,046,000</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

19 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

Post-IPO Share Option Scheme (Continued)

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 2021			
Number of options	Exercise price per share	HK\$	Exercise period
100,000	5.47		11-08-2015 to 10-08-2024
442,000	3.51		21-11-2015 to 20-11-2024
2,711,000	3.90		23-03-2016 to 22-03-2025
800,000	3.90		03-06-2016 to 22-03-2025
418,000	5.75		19-08-2020 to 18-08-2029
342,000	4.91		06-05-2021 to 05-05-2030
<u>4,813,000</u>			

As at 30 June 2021, the Post-IPO share options outstanding had a weighted average remaining contractual life of 4.01 years (31 December 2020: 4.47 years). For 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\$10.75 (six months ended 30 June 2020: HK\$4.90).

Share options exercised under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme during the six months ended 30 June 2021 resulted in the issuance of 3,689,500 (six months ended 30 June 2020: 934,000) ordinary shares of the Company and share premium of HK\$8,188,000 (six months ended 30 June 2020: HK\$2,489,000), as further detailed in note 18 to the financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

19 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

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 2021 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 2021	13,666,369	6,775,127	20,441,496
Purchased	10,291,000	–	10,291,000
Granted	(4,310,455)	4,310,455	–
Forfeited/Lapsed	231,250	(231,250)	–
Vested	–	(1,586,033)	(1,586,033)
At 30 June 2021	<u>19,878,164</u>	<u>9,268,299</u>	<u>29,146,463</u>
Vested but not transferred as at 30 June 2021			<u>138,773</u>

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

The weighted average fair value of awarded shares granted during the six months ended 30 June 2021 was HK\$11.77 per share.

On 6 May 2021, the Group granted a total of 3,192,565 awarded shares, among which 2,985,000 awarded shares will vest on the date of the annual general meeting to be convened in 2022 and 2023 with each of 50% being vested annually, and 85,550 awarded shares will vest in anniversary of grant date with each of 50% being vested annually.

The remaining awarded shares granted during the six months ended 30 June 2021 and outstanding as at the period then ended will vest in anniversary of grant date with each of 25% being vested annually. The consideration paid by the Company, including any directly attributable incremental costs, is deducted from the Group's equity.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

20 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 2021	Fair value measurements as at 30 June 2021	
		categorised into	
	HK\$' 000	Level 1 HK\$' 000	Level 3 HK\$' 000
Recurring fair value measurement			
Assets:			
Listed equity securities	12,943	12,943	–
Unquoted equity securities	466,117	–	466,117

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

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

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2020	Fair value measurements as at 31 December 2020 categorised into	
		Level 1	Level 3
		HK\$'000 (Restated)	HK\$'000 (Restated)
Recurring fair value measurement			
Assets:			
Listed equity securities	760,610	760,610	–
Unquoted equity securities	500,023	–	500,023

During the six months ended 30 June 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2020: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

20 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	
	2021 HK\$' 000	2020 HK\$' 000 (Restated)
Unquoted equity securities:		
At 1 January (Restated)	500,023	129,290
Additional investments acquired	75,582	20,468
Net unrealised (losses)/gains recognised in profit or loss during the period	(110,072)	99,918
Exchange adjustments	584	(905)
At 30 June	<u>466,117</u>	<u>248,771</u>
Convertible promissory notes:		
At 1 January (Restated)	–	7,788
Additional investments acquired	–	11,648
Exchange adjustments	–	(59)
At 30 June	<u>–</u>	<u>19,377</u>
Total (losses)/gains for the period included in profit or loss for assets held at the end of the reporting period	<u>(110,072)</u>	<u>99,918</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 2020 and 30 June 2021.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

21 COMMITMENTS

Capital commitments outstanding at 30 June 2021 not provided for in the interim financial report were as follows:

	At 30 June 2021 HK\$' 000	At 31 December 2020 HK\$' 000 (Restated)
Contracted for	<u>89,182</u>	<u>195,551</u>

In addition, the Group was committed at 30 June 2021 to enter into a new lease of 3 years that is not yet commenced, the lease payments under which amounted to HK\$26,529,000 per annum (31 December 2020: HK\$5,555,000).

22 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	
	2021 HK\$' 000	2020 HK\$' 000 (Restated)
Short-term employee benefits	13,061	8,155
Equity-settled share-based payment	<u>3,304</u>	–
	<u>16,365</u>	<u>8,155</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

22 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties

For the six months ended 30 June 2021, 2 associates and 2 joint ventures of the Group provided outsourcing game development services to the Group. The service fee recognised for the six months ended 30 June 2021 was HK\$10,449,000 (six months ended 30 June 2020: HK\$9,165,000) and the balance of trade payables as at 30 June 2021 was HK\$3,374,000 (31 December 2020: HK\$3,734,000).

For the six months ended 30 June 2021, the Group acquired a license of a mobile game from an associate, Guangzhou Huanyu Jiuzhou Technology Co., Ltd., with a cost of HK\$19,400,000 (six months ended 30 June 2020: Nil) and the balance of trade payables as at 30 June 2021 was HK\$9,705,000 (31 December 2020: Nil). The Group entered into a mobile game co-operation contract with the associate and the balance of prepayments of share of mobile game revenue as at 30 June 2021 was HK\$5,823,000 (31 December 2020: Nil).

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

23 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 20 July 2021, an extraordinary general meeting of the Company has been convened and the shareholders of the Company has approved the grant of performance-based awarded shares to certain eligible persons and a specific mandate to issue and allot up to 71,635,355 performance-based awarded shares to the grantees pursuant to this scheme. The total expense to be recognised in the financial statements on the performance-based awarded shares granted under this scheme is estimated to be approximately HK\$88,214,000, which would be amortised over the relevant financial years during the period between the date on which the approval of the specific mandate and the grant of the performance-based awarded shares to the grantees is sought at the extraordinary general meeting and vesting date.

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
“DAU”	daily active users
“Director(s)”	the director(s) of the Company
“Duke Online”	Duke Online Holdings Limited, an exempted company incorporated under the laws of the BVI on 10 September 2007 with limited liability, the entire issued share capital of which is owned by Mr. Zongjian Cai
“Edmond Online”	Edmond Online Holdings Limited, an exempted company incorporated under the laws of the BVI on 10 September 2007 with limited liability, the entire issued share capital of which is owned by Mr. Yuan Chi
“Founders”	Mr. Zongjian Cai (蔡宗建) and Mr. Yuan Chi (池元)
“Fuzhou Tianji”	Fuzhou TJ Digital Entertainment Co., Ltd.* (福州天極數碼有限公司), a limited liability company established under the laws of the PRC on 15 November 2007, a wholly-owned subsidiary of the Group

DEFINITION

“Fuzhou Tianmeng”	Fuzhou Skyunion Digital Co., Ltd* (福州天盟數碼有限公司), a limited liability company established under the laws of the PRC on 12 December 2006, which is owned as to 50% by Mr. Deyang Zheng and 50% by Mr. Chengfeng Luo, respectively
“Fuzhou Tianmeng Registered Holders”	Mr. Deyang Zheng (鄭德陽) and Mr. Chengfeng Luo (羅承鋒)
“Fuzhou Tianmeng Structured Contracts”	a series of contracts which include the New Call Option Agreement, the New Exclusive Technical Consulting Service Agreement, the New Equity Pledge Agreement, the New Power of Attorney, the New Online Game Licensing Agreement and the Spouse Undertakings
“Group”, “IGG”, “we”, “our” or “us”	the Company and its subsidiaries
“Hainan Tianzhi”	Hainan Tianzhi Network Technology Co., Ltd* (海南天志網絡科技有限公司), a limited liability company established under the laws of the PRC on 28 August 2020, a wholly-owned subsidiary of the Group
“HKD” or “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 (Hainan) Capital”	IGG (Hainan) Capital Co., Ltd.* (海南艾聚創業投資有限公司), a limited liability company established under the laws of the PRC on 3 August 2021, a wholly-owned subsidiary of the Group
“IGG Capital”	IGG Capital, an exempted company incorporated in the Cayman Islands with limited liability on 25 March 2021, a wholly-owned subsidiary of the Company
“IGG Capital Limited”	IGG Capital Limited, a limited company incorporated in Hong Kong under the laws of Hong Kong on 7 June 2021, a wholly-owned subsidiary of the Group
“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

DEFINITION

“Listing”	the listing of the Shares on the GEM
“Listing Date”	18 October 2013, on which dealings in Shares first commenced on the GEM
“Listing Rules”	the Rules Governing the Listing of the Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“MAU”	monthly active users
“Model Code”	the required standard of dealings for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules
“Performance-based Share Award Scheme”	the performance-based share award scheme adopted by the Company on 21 May 2021, the principal terms of which are summarised in the announcement and circular of the Company dated 21 May 2021 and 28 June 2021, respectively
“Period”	the six months ended 30 June 2021
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 12 November 2008 and amended by written resolutions of all Shareholders passed on 16 September 2013, the principal terms of which are summarised in the paragraph headed “Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus
“Previous Structured Contracts”	a series of contracts (as supplemented) which include the Call Option Agreement, the Exclusive Technical Consulting Service Agreement, the Equity Pledge Agreement, the Power of Attorney and the Online Game Licensing Agreement
“Prospectus”	the prospectus of the Company dated 11 October 2013
“R&D”	research and development
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“SGD”	Singapore dollar, the lawful currency of Singapore

DEFINITION

“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
“Structured Contracts”	the Fuzhou Tianmeng Structured Contracts and the Xinhan Liaokuo Structured Contracts
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Xinhan Liaokuo”	Hainan Xinhan Liaokuo Network Technology Co., Ltd.* (海南新瀚遼闊網絡科技有限公司), a limited liability company established under the laws of the PRC on 29 September 2020, which is owned as to 50% by Mr. Deyang Zheng and 50% by Mr. Chengfeng Luo, respectively
“Xinhan Liaokuo Registered Holders”	Mr. Deyang Zheng (鄭德陽) and Mr. Chengfeng Luo (羅承鋒)
“Xinhan Liaokuo Structured Contracts”	a series of contracts which include the Xinhan Liaokuo Call Option Agreement, the Xinhan Liaokuo Exclusive Technical Consulting Service Agreement, the Xinhan Liaokuo Equity Pledge Agreement, the Second Power of Attorney, the Xinhan Liaokuo Online Game Licensing Agreement and the Second Spouse Undertakings
“US\$” or “USD”	United States dollars, the lawful currency of the United States of America
“%”	per cent

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

* For identification purpose only