



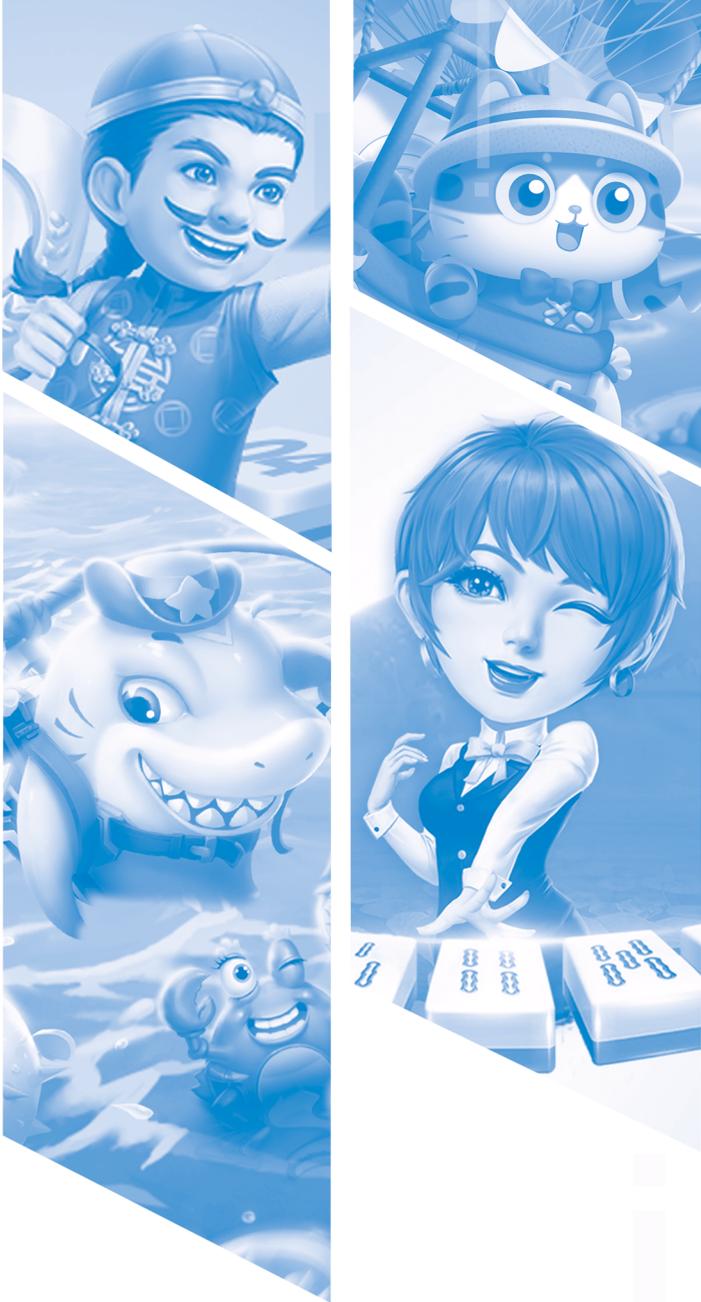
家鄉互動科技有限公司

Homeland Interactive Technology Ltd.

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE : 3798

2022 INTERIM REPORT



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. WU Chengze (*Chairman and Chief Executive Officer*)
Mr. JIANG Mingkuan
Mr. SU Bo
Mr. GUO Shunshun
Mr. MEN Geng (*retired since 8 June 2022*)

Independent Non-Executive Directors

Mr. YU Ronald Patrick Lup Man
(*retired since 8 June 2022*)
Mr. HU Yangyang
Mr. ZHANG Yuguo
Ms. GUO Ying

AUDIT COMMITTEE

Mr. YU Ronald Patrick Lup Man (*Chairman*)
(*retired since 8 June 2022*)
Mr. HU Yangyang (*Chairman*)
(*appointed on 8 June 2022*)
Mr. ZHANG Yuguo
Ms. GUO Ying (*appointed on 8 June 2022*)

REMUNERATION COMMITTEE

Mr. YU Ronald Patrick Lup Man (*Chairman*)
(*retired since 8 June 2022*)
Mr. HU Yangyang (*Chairman*)
(*appointed on 8 June 2022*)
Mr. ZHANG Yuguo
Ms. GUO Ying (*appointed on 8 June 2022*)

NOMINATION COMMITTEE

Mr. WU Chengze (*Chairman*)
Mr. YU Ronald Patrick Lup Man
(*retired since 8 June 2022*)
Mr. ZHANG Yuguo (*appointed on 8 June 2022*)
Mr. HU Yangyang

JOINT COMPANY SECRETARIES

Ms. CUI Wei
Ms. NG Ka Man (*ACG, HKACG*)

HONG KONG SHARE REGISTRAR

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Hong Kong

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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AUTHORIZED REPRESENTATIVES

Mr. SU Bo
Ms. NG Ka Man

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Deloitte Touche Tohmatsu
Certified Public Accountants
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Hong Kong

COMPANY'S WEBSITE

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STOCK CODE

3798

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Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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1 Matheson Street
Hong Kong

PRINCIPAL BANKS

Bank of China, Xiamen Taiwan Road Branch
Bank of China, Changchun Weifeng International
Branch

Business Overview and Outlook

The board of directors (the “**Board**”) of Homeland Interactive Technology Ltd. (the “**Company**”) is pleased to present the unaudited consolidated results (the “**Interim Results**”) of the Company and its subsidiaries (together the “**Group**”) for the six months ended 30 June 2022 (the “**Reporting Period**”). The Interim Results have been reviewed by Deloitte Touche Tohmatsu, the auditor of the Company, and the audit committee of the Company (the “**Audit Committee**”).

BUSINESS REVIEW

We are a well-established mobile game developer and operator in China with a special focus on the development and operation of localized Mahjong, poker and casual games. In addition to our long-running portfolio of classic mobile card and board games, we have successfully launched a variety of casual games including “Jixiang Arcade Fish Strike” (吉祥街機捕魚) and “Weile Fish Strike Thousand Cannon” (微樂捕魚千炮版). Adherence to the values of “fairness, professionalism, safety and innovation”, we have continued to increase our competitive advantage through the offering of unique product combinations and the execution of localized marketing strategies to match the changing needs of players of different demographics. At the same time, we strive to transform from a leading localized classic card and board game operator in China and grow into a global causal and competitive game platform through deploying multi-dimensional business strategic layout, aiming to remain flexible in formulating strategies to achieve steady growth. We have achieved staggering growth in user base in recent years, and has successfully established a stable and healthy development of our own platform traffic. Leveraging our large player base, our Group commenced the distribution of third-party mobile games in August 2018, and expanded our advertising business in September 2019.

In terms of financial performance, our Group continued robust growth during the first half of 2022. Our Group’s revenue and gross profit for the six months ended 30 June 2022 were RMB781.8 million and RMB552.1 million, representing an increase of approximately 63.8% and 57.1%, respectively as compared with the revenue and gross profit for the corresponding period of last year. The growth was partly attributable to our Group’s continuous improvement and introduction of new elements into our existing mahjong and poker games, bringing players enhanced timeless gaming experience. Moreover, we have strategically selected and deepened the cooperation with various new media channels, such as Douyin, Kuaishou and Tencent Video, to optimize user traffic and expand our customer acquisition ability, which resulted in a significant increase in our Group’s DAUs and player stickiness. During the first half of 2022, our Group recognized advertising revenue of RMB59.7 million as we incentivized players by giving in-game virtual items through clicks on advertisements thereby increasing our advertising revenue. Our Group’s adjusted net profit, which does not take into account share-based compensation of RMB11.3 million was approximately RMB391.6 million for the six months ended 30 June 2022, representing an increase of approximately 24.1% from approximately RMB315.6 million for the six months ended 30 June 2021.

We significantly increased our investment in research and development during the Reporting Period. Our investment in research and development was approximately RMB72.5 million for the six months ended 30 June 2022, representing a year-on-year increase of 149.1%. Part of the research and development capital was utilized for the continuous optimization of our classic card and board game portfolio, striving to bring players an everlasting entertainment experience. In addition, in order to continue to enrich and diversify our game portfolio, we have invested in different game projects, among which our newly developed casual game “Meet Meowkes” (遇見喵克斯) has obtained an official game publication number from relevant authorities and has completed multiple rounds of testing. We expect to release related games within 2022 based on the testing results. In addition, the

hardcore game “Project: Homeland” (tentative title) and the competitive game “Project: X” (tentative title) developed by our Group have also entered the stage of intensive research and development. In terms of overseas card and board games, we are in the course of developing casual games localized to target overseas players in Europe, North America and Southeast Asia, and we expect to capture overseas income in near future.

In view of the growth in our business performance, the cost of sales of our Group increased correspondingly, mainly due to the increase in payment of commissions and fees charged by game distribution channels and platforms which brought about the increase in sales revenue. At the same time, in order to expand our user base, enhance user stickiness and promote in-game purchases, we increased our sales and marketing expenditure significantly to strengthen our product marketing capabilities. Our sales and marketing expenses increased by approximately 221.2% from RMB67.4 million (restated) for the six months ended 30 June 2021 to RMB216.6 million in the corresponding period in 2022. A portion of the marketing expenses was being used for targeted advertising in our key expansion areas including Sichuan, Jiangsu and Guangzhou for the purpose of maximizing brand exposure of our games in those regions. Another portion of the increase in marketing expenditure was due to our increased investment in engaging new media channels for keeping up with the changing mobile users habits, seeking to attract high-traffic and distinctive broadcasting hosts, and to enrich our content output on new media channels continuously.

In terms of regional user growth, our products cover at least some counties in 28 provinces and municipalities in China. Our Group has map out a refined and focused localized user base expansion mechanism, which includes dissecting user growth indicators by prefecture-level administrative structure, utilization of efficient iterative algorithms and optimization of localized gameplay, deploying multi-dimensional layout of regional marketing resources, and accumulating user base at the targeted scale sufficient to continuously generate traction for sustainable business growth. In recent years, our user base expansion mechanism has shown positive results in many prefecture-level cities. As of 30 June 2022, the accumulated user base for our products in nearly 100 out of the 333 prefecture-level cities across China have reached the targeted scale sufficient to continuously generate traction for sustainable business growth, with these existing customers bringing our Group a steady stream of new traffic for future growth. During the Reporting Period, we recorded a further growth in our active users, our Group’s DAUs increased to 10,369,762, representing a growth of 30.4% as compared with 30 June 2021; our Group’s MAUs increased to 60,544,023, representing a growth of 18.6% as compared with 30 June 2021. We also recorded a further growth in our paying players, which reached 9,039,561, representing a growth of 44.0% as compared with the six months ended 30 June 2021.

During the Reporting Period, our Group has streamlined our business and discontinued our private game room cards business through the disposal of Jilin Yuke Network Technology Company Limited (吉林省宇柯網絡科技有限公司) and cessation of private game room cards business carried out by Jilin Xinze Network Technology Company Limited (吉林省鑫澤網絡技術有限公司). For further details, please refer to the paragraph headed “Material acquisitions or disposals” in this report and note 10 to the condensed consolidated financial statements of the Company. The discontinuation of the private game room cards business would allow us to improve our asset portfolio and provide our Group with additional capital to be applied to other businesses. Furthermore, our Group has restructured our research and development, and distribution line for clearer delineation of business function and established an overseas game division to focus on overseas business expansion, which we believe will maximize our operational efficiency and cater our business needs.

BUSINESS OUTLOOK

During the second half of 2022, our Group will continue our efforts to further solidify our competitive advantages in the gaming industry by continuing the following strategies:

- Further diversify and optimize our game portfolio to increase revenue streams and market infiltration. Leveraging on our established brand name and optimising the competitive advantage of the accumulated active user base of our existing game portfolio, we plan to expand our game portfolio and introduce game products, namely localised chess game and card game variations, to attract potential users from prefecture-level cities and cater different entertainment needs. Our Group will utilize our game localization capability to design and develop new tailor-made games to captivate interest of prefecture-level cities user, and increase our Group's revenue source.
- Expand customer acquisition channels and reduce customer acquisition costs through integration with new media technology and harnessing the power of innovative media channels. In order to strengthen our Group's customer acquisition ability and increase the business presence, we will increase our capital investment in new media marketing to produce highly entertaining content and retain high-traffic sources.
- Continue to expand our geographic coverage in China through market penetration of prefecture-level cities. In the second half of 2022, our Group aims to increase our presence in 50 prefecture-level cities situated within various provinces including Zhejiang, Fujian, Anhui and Jiangsu. We plan to place resources to boost marketing in the target expansion areas to attract and accumulate players up to a targeted level such that the user base will grow to a scale which is sufficient to continuously generate traction.
- Devote further research and development resources to increase game pipeline and enrich game portfolio. In order to diversify the current game portfolio, in addition to classic games, in the second half of 2022, our Group will deploy more research and development resources to introduce new game categories such as hardcore games and competitive games. We will continue to improve interactions between the product teams and streamline our corporate structure to achieve business growth and sustainability. We will also apply our accumulative research and development capabilities in expanding into the overseas markets and capture overseas income.
- Continue to explore potential business opportunities. As an established game developer, we will leverage our industry experience and collaborate with strategic partners to expand our business. Our Group intends to look for high-potential game teams which complement our current game portfolio, and explore opportunities to cooperate with them through different forms including incubation, investment and acquisition.

FINANCIAL REVIEW

Revenue

The Group's revenue from continuing operations for the six months ended 30 June 2022 amounted to approximately RMB781.8 million, representing an increase of 63.8% from approximately RMB477.4 million (restated) recorded in the corresponding period in 2021. The increase in revenue was partly attributable to the Group's continuous improvement and introduction of new elements into its existing mahjong and poker games, bringing players enhanced timeless gaming experience. Moreover, the Company has strategically selected and deepened the cooperation with various new media channels, such as Douyin, Kuaishou and Tencent Video, to optimize user traffic and expand its customer acquisition ability, which resulted in a significant increase in the Group's DAUs and player stickiness. Advertising revenue represents revenue generated from in-game advertisement slots the Group inserted in its mini-programs, typically measured by user clicks. For the six months ended 30 June 2022, revenue generated from the sale of virtual tokens on the Group's self-developed mobile games, distribution of third-party mobile games and advertising revenue accounted for approximately 81.8%, 10.6% and 7.6% of the Group's total revenue, respectively, as compared with approximately 83.7%, 1.3% and 15.0% respectively, for the six months ended 30 June 2021.

Cost of sales

The Group's cost of sales from continuing operations primarily includes (i) employee benefit expenses; (ii) commissions and fees charged by third-party game distribution channels and payment vendors; (iii) server-related and technical support fees; and (iv) depreciation and amortization. The Group's cost of sales increased by approximately 82.3% to approximately RMB229.7 million in the six months ended 30 June 2022 from approximately RMB126.0 million (restated) in the corresponding period in 2021, primarily due to the growth in the Group's continuing business in line with the expansion of the Group's game portfolio. More specifically, the increase in cost of sales was primarily due to (i) a RMB103.9 million increase in commissions and fees paid to third-party distribution channels and payment vendors in line with the Group's rapid business growth; and (ii) a RMB3.0 million increase in server-related and technical support fees.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit from continuing operations increased by 57.1% to approximately RMB552.1 million for the six months ended 30 June 2022 from approximately RMB351.4 million (restated) for the corresponding period in 2021. The Group's gross profit margin from continuing operations decreased to 70.6% for the six months ended 30 June 2022 from 73.6% for the corresponding period in 2021.

Other income

Other income from continuing operations increased by approximately 40.2% from RMB15.4 million (restated) for the six months ended 30 June 2021 to RMB21.6 million for the six months ended 30 June 2022. The increase was primarily due to an increase in interest income of RMB4.0 million and government subsidies of RMB2.8 million during the six months ended 30 June 2022.

Foreign exchange (losses)/gains, net

Foreign exchange gains from continuing operations of RMB2.9 million recorded in the six months ended 30 June 2022 were mainly due to the fluctuation of exchange rate of Renminbi ("RMB") against HK dollars and US dollars.

Selling and marketing expenses

The Group's selling and marketing from continuing operations increased by approximately 221.2% from RMB67.4 million (restated) for the six months ended 30 June 2021 to RMB216.6 million in the corresponding period in 2022. The increase was primarily due to an increase in advertising and marketing expenses for targeted advertising in the Group's key expansion areas including Sichuan, Jiangsu and Guangzhou to maximize its brand exposure in those regions, and also the Group's increased investment in engaging new media channels in order to attract high-traffic and distinctive broadcasting hosts to enrich its content output on new media channels.

Administrative expenses

The Group's administrative expenses from continuing operations increased by approximately 251.5% from RMB23.6 million (restated) for the six months ended 30 June 2021 to RMB82.9 million in the corresponding period in 2022. The increase was primarily due to (i) an increase of RMB35.6 million in staff costs in connection with research and development activities; and (ii) an increase of RMB7.9 million in other professional service fees.

Profit before income tax

The Group's profit before income tax from continuing operations slightly decreased by approximately 0.5% from RMB293.1 million (restated) for the six months ended 30 June 2021 to RMB291.6 million in the corresponding period in 2022. The Group's profit before income tax as a percentage of total revenue decreased from 61.4% for the six months ended 30 June 2021 to 37.3% for the six months ended 30 June 2022. The decrease was primarily due to the increase of approximately 221.2% and 251.5% in the Group's selling and marketing expenses, and administrative expenses, respectively, during the six months ended 30 June 2022 compared to the corresponding period in 2021.

Profit from discontinued operations

Profit from discontinued operations represented the profit generated from the private game room cards business of the Group. Profit from discontinued operations increased by approximately 106.3% from RMB56.2 million for the six months ended 30 June 2021 to RMB116.0 million in the corresponding period in 2022, primarily due to the gain on disposal of Jilin Yuke amounting to RMB82.5 million and was offset by the decrease in profit of private game room cards operations amounting to RMB22.7 million. For further details, please refer to note 10 to the condensed consolidated financial statements of the Company in this report.

Income tax expenses

Income tax expenses from continuing operations decreased by approximately 29.5% from RMB39.3 million (restated) for the six months ended 30 June 2021 to RMB27.7 million in the corresponding period in 2022, primarily due to a deferred tax in the amount of RMB16.2 million being applied during the six months ended 30 June 2022. The Group's effective tax rates were 13.4% and 9.5% for the six months ended 30 June 2021 and 2022, respectively. The decrease in the Group's effective tax rate was primarily due to an increase in research and development expenses resulting in an increase in the tax deductible expenses.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased by approximately 22.4% from approximately RMB310.7 million for the six months ended 30 June 2021 to approximately RMB380.3 million for the six months ended 30 June 2022.

Non-IFRS measures – adjusted net profit

To supplement the Group's consolidated financial statements which are presented in accordance with International Financial Reporting Standards ("IFRS"), the Company also used unaudited non-IFRS adjusted net profit as an additional financial measure in order to evaluate its financial performance by eliminating the impact of non-recurring and non-cash items that it does not consider indicative of the performance of its business. The Company's management believes that the presentation of non-IFRS measures, in conjunction with the corresponding IFRS measures, provides useful information to investors relating to the Group's financial condition and results of operations. The term "adjusted net profit" is not defined under IFRS. Other companies in the industry which the Group operates in may calculate such non-IFRS item differently from the Group. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact the Group's net profit for the Reporting Period and should not be considered in isolation or as a substitute for analysis of the Group's results as reported under IFRS.

The following table sets out the calculation of adjusted net profit attributable to owners of the Company for the periods indicated:

	For the six months ended 30 June	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit for the period attributable to owners of the Company	380,299	310,699
Add:		
Share-based compensation	15,180	4,947
Adjusted net profit	395,479	315,646

The adjusted net profit for the six months ended 30 June 2022, adjusted by excluding the non-cash item of share-based compensation to key employees, was approximately RMB395.5 million, increased by 25.3% as compared to approximately RMB315.6 million for the six months ended 30 June 2021.

Liquidity and Capital Resources

For the six months ended 30 June 2022, the Group financed its operations primarily through cash generated from the Group's operating activities. The Group intends to finance its expansion and business operations with internal resources and through organic and sustainable growth.

The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities, and other commitments can meet its funding requirements from time to time.

Cash and cash equivalents

The Group primarily operates its business in the PRC and its transactions and revenue were primarily denominated in Renminbi. The Group has certain cash and cash equivalents and trade receivables denominated in HK dollars and US dollars, and is exposed to foreign exchange risk arising from exchange rate fluctuation of RMB against HK dollars and US dollars. As at 30 June 2022, the Group had cash and cash equivalents of approximately RMB1,193.8 million (31 December 2021: approximately RMB1,125.2 million), which primarily consisted of cash at bank. Out of the RMB1,193.8 million, approximately RMB1,130.9 million is denominated in Renminbi, approximately RMB7.9 million is denominated in HK dollars and approximately RMB54.0 million is denominated in US dollars. The Group currently does not hedge transactions undertaken in foreign currencies.

The Group currently does not have any hedging policy for foreign currencies in place. However, the Board will remain alert to any relevant risks and, if necessary, consider to hedge any material potential foreign exchange risk.

Borrowings

During the six months ended 30 June 2022, the Group did not have any short-term or long-term bank borrowings and had no outstanding bank and other borrowings and other indebtedness apart from lease liabilities for the relevant lease terms amounting to RMB22.8 million in aggregate.

Gearing ratio

The gearing ratio was zero since there was no debt as at 30 June 2022.

Charge on assets

As at 30 June 2022, the Group did not pledge any of its assets.

Capital expenditure

For the six months ended 30 June 2022, the Group's capital expenditure amounted to approximately RMB17.6 million (for the six months ended 30 June 2021: approximately RMB16.5 million), which mainly comprised expenditures on the purchase of office furniture and equipment, the purchase of computer software as well as investment in equity instruments at fair value through other comprehensive income. The Group funded its capital expenditure by using the cash flow generated from its operations and proceeds from the global offering. The capital expenditure for the six months ended 30 June 2022 was higher primarily due to increased expenditure with respect to the purchase of office furniture and equipment.

Contingent liabilities and guarantees

As at 30 June 2022, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against the Group.

Performance of major associate

On 3 November 2020, Jilin Xinze Network Technology Company Limited* (吉林省鑫澤網絡技術有限公司) (“**Jilin Xinze**”), an operating company of the Group which is controlled by the Group through contractual arrangements, acquired 40% of the equity interest in Jilin Xinyue Network Technology Limited* (吉林省心悅網絡科技有限公司) (“**Jilin Xinyue**”) at a cash consideration of RMB150,000,000. Jilin Xinyue is principally engaged in the development and operation of card and board games, with a focus on localized Mahjong games, and sale of private game room cards business in a number of provinces in the northern part of the PRC, including Heilongjiang, Jilin, Liaoning, Shanxi, Hebei and Gansu provinces.

As of 30 June 2022, the carrying amount of the Group's interest in Jilin Xinyue was approximately RMB132.9 million, representing approximately 6.5% of the total assets of the Group. The vendor of Jilin Xinyue has undertaken that the audited net profit of Jilin Xinyue for the year ended 31 December 2022 shall not be less than RMB80,000,000. The unaudited net profit of Jilin Xinyue for the six months ended 30 June 2022 was RMB61.9 million. Further details on the Group's significant investment during the Reporting Period is contained in note 13 to the consolidated financial statements.

Material acquisitions or disposals

On 5 May 2022, (i) Jiexiang Interactive (Xiamen) Network Technology Company Limited (家鄉互動(廈門)網絡科技有限公司) ("**Jiexiang Interactive**") (an indirect wholly-owned subsidiary of the Company by virtue of the contractual arrangements), as the vendor; (ii) Jilin Xinyue, as the purchaser; and (iii) the Jilin Yuke Network Technology Company Limited* (吉林省宇柯網絡科技有限公司) (the "**Target Company**") entered into an equity transfer agreement, pursuant to which Jiexiang Interactive has agreed to sell the entire equity interest in the Target Company to Jilin Xinyue (a company owned as to 40% by Jilin Xinze, an indirect wholly-owned subsidiary of the Company by virtue of the contractual arrangements), at a total consideration of RMB124 million. Following the completion of the disposal as at 30 June 2022, (i) the Target Company ceased to be a subsidiary of the Company and its financial results are no longer consolidated into the consolidated financial statements of the Group; and (ii) the financial results of the Target Company are consolidated into the consolidated financial statements of Jilin Xinyue, which will continue to be classified as an investment in associated company in the Company's financial statements in accordance with the relevant accounting standards. For further details of the disposal, please refer to the announcement of the Company dated 5 May 2022.

Save as disclosed above, the Group did not have any other material acquisitions or disposals of subsidiaries or associates during the Reporting Period.

Employees and Staff Costs

The Company has hired additional game developers, engineers and marketing personnel during the first half of 2022 in line with the Company's business expansion. Taking into account the employees who departed during the first half of 2022, the Group had a total of 510 full time employees, mainly located in mainland China. In particular, 137 employees are responsible for the Group's research and development, 240 for game development, 16 for technical support, 11 for customer service, 55 for marketing and 51 for operations and general administration. The total staff cost from continuing operations incurred by the Group for the six months ended 30 June 2022 was approximately RMB86.8 million compared to approximately RMB44.5 million (restated) for the corresponding period in 2021. The increase was primarily due to (i) the increase in payment of share-based compensation to key employees of approximately RMB6.4 million; and (ii) the increase in payment of salaries and other benefits in kind of approximately RMB34.5 million.

The Group provides orientation and training to new recruits as well as ongoing in-house training for junior employees, which the Group believes can enhance the skills and productivity of its employees. The Group compensates employees with base salaries and performance-based bonuses. The Company has also adopted a share option scheme (the "**Share Option Scheme**") and a share award scheme (the "**Share Award Scheme**") on 5 June 2019 and 6 June 2019, respectively to incentivize employees and senior management and to align their interests with that of the Company.

Further details of the Share Option Scheme and the Share Award Scheme are set out in the section headed "Share Incentive Schemes" in this interim report.



TO THE BOARD OF DIRECTORS OF HOMELAND INTERACTIVE TECHNOLOGY LTD.

(incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Homeland Interactive Technology Ltd. (the “**Company**”) and its subsidiaries set out on pages 13 to 47, which comprise the condensed consolidated statement of financial position as at 30 June 2022 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, 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” (“**HKSRE 2410**”) issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, 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 International 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 August 2022

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

	NOTES	Six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (restated)
Continuing operations			
Revenue	3	781,763	477,394
Cost of sales	4	(229,673)	(125,975)
Gross profit		552,090	351,419
Other income	5	21,612	15,412
Other gains and losses	6	(1,665)	—
Foreign exchange (losses) gains, net		2,935	(464)
Selling and marketing expenses		(216,634)	(67,439)
Administrative expenses		(82,936)	(23,594)
Other expenses		(7,594)	(708)
Share of profit of associates		24,559	18,764
Interest on lease liabilities		(786)	(291)
Profit before income tax		291,581	293,099
Income tax expense	8	(27,658)	(39,257)
Profit for the period from continuing operations	9	263,923	253,842
Discontinued operations			
Profit for the period from discontinued operations	10	116,032	56,247
Profit for the period		379,955	310,089
Other comprehensive expense			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value loss on investment in equity instruments at fair value through other comprehensive income (“FVTOCI”), net of income tax		(7,681)	(3,748)
Other comprehensive expense for the period		(7,681)	(3,748)
Total comprehensive income for the period		372,274	306,341
Profit for the period attributable to owners of the Company:			
— from continuing operations		264,267	254,452
— from discontinued operations		116,032	56,247

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

	NOTES	Six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (restated)
Profit for the period attributable to owners of the Company		380,299	310,699
Loss for the period attributable to non-controlling interests from continuing operation		(344)	(610)
		379,955	310,089
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		372,618	306,951
Non-controlling interests		(344)	(610)
		372,274	306,341
Total comprehensive income for the period attributable to owners of the Company			
— from continuing operations		256,586	250,704
— from discontinued operations		116,032	56,247
		372,618	306,951
Earnings per share (in RMB cents)	11		
From continuing and discontinued operations			
— Basic		30.56	24.92
— Diluted		30.18	24.22
From continuing operations			
— Basic		21.23	20.41
— Diluted		20.97	19.84

Condensed Consolidated Statement of Financial Position

As at 30 June 2022

	NOTES	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	12	50,820	51,557
Right-of-use assets	12	21,362	29,758
Intangible assets		1,295	1,412
Investment in associates	13	147,339	153,498
Equity instruments at FVTOCI	22	14,390	10,146
Loans to employees	14	12,385	13,788
Rental and other deposits		5,456	5,637
Deferred tax assets	17	23,648	9,972
Other receivables	16	93,547	—
		370,242	275,768
Current assets			
Trade receivables	15	168,475	194,736
Prepayments and other receivables	16	309,390	133,271
Loans to employees	14	4,042	—
Cash and cash equivalents		1,193,791	1,125,162
		1,675,698	1,453,169
Current liabilities			
Trade and other payables	18	70,742	92,221
Deferred revenue	19	57,699	82,492
Tax payable		56,705	55,909
Lease liabilities		10,871	11,241
Derivative financial liabilities	22	24,170	—
		220,187	241,863
Net current assets		1,455,511	1,211,306
Total assets less current liabilities		1,825,753	1,487,074
Non-current liabilities			
Lease liabilities		11,897	19,466
Deferred tax liabilities	17	—	1,934
Derivative financial liabilities	22	—	25,370
		11,897	46,770
Net assets		1,813,856	1,440,304
Capital and reserves			
Share capital	20	42	42
Reserves		1,814,972	1,441,076
Equity attributable to owners of the Company		1,815,014	1,441,118
Non-controlling interests		(1,158)	(814)
Total equity		1,813,856	1,440,304

Condensed Consolidated Statement of Changes in Equity

For the six month ended 30 June 2022

	Attributable to owners of the Company										
	Share capital RMB'000	Shares held for Share Award Scheme RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Share-based payments reserve RMB'000	FVTOCI reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2021 (audited)	41	—*	113,551	15,027	19,717	27,509	(1,275)	775,559	950,129	(777)	949,352
Profit (loss) for the period	—	—	—	—	—	—	—	310,699	310,699	(610)	310,089
Other comprehensive expense for the period	—	—	—	—	—	—	(3,748)	—	(3,748)	—	(3,748)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	(3,748)	310,699	306,951	(610)	306,341
Recognition of share-based payment expenses under the Share Option Scheme (defined in Note 21)	—	—	—	—	—	4,947	—	—	4,947	—	4,947
Capital injection from non-controlling interests	—	—	—	—	—	—	—	—	—	400	400
As at 30 June 2021 (unaudited)	41	—*	113,551	15,027	19,717	32,456	(5,023)	1,086,258	1,262,027	(987)	1,261,040
As at 1 January 2022 (audited)	42	(16,594)	113,551	15,027	19,718	37,627	(4,849)	1,276,596	1,441,118	(814)	1,440,304
Profit (loss) for the period	—	—	—	—	—	—	—	380,299	380,299	(344)	379,955
Other comprehensive expense for the period	—	—	—	—	—	—	(7,681)	—	(7,681)	—	(7,681)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	(7,681)	380,299	372,618	(344)	372,274
Recognition of share-based payment expenses under the Share Option Scheme and the incremental fair value under the Compensation Grant (defined in Note 21)	—	—	—	—	—	3,044	—	—	3,044	—	3,044
Recognition of share-based payment expenses under the 2021 Share Award Scheme (defined in Note 21)	—	—	—	—	—	405	—	—	405	—	405
Recognition of share-based payment expenses under the 2022 Share Award Scheme (defined in Note 21)	—	—	—	—	—	11,731	—	—	11,731	—	11,731
Vesting of award shares under the Compensation Grant, the 2021 Share Award Scheme and the 2022 Share Award Scheme	—	13,814	13,126	—	—	(26,940)	—	—	—	—	—
Repurchase of shares (Note ii)	—	(13,902)	—	—	—	—	—	—	(13,902)	—	(13,902)
Disposal of equity instruments at FVTOCI	—	—	—	—	—	—	1,365	(1,365)	—	—	—
As at 30 June 2022 (unaudited)	42	(16,682)	126,677	15,027	19,718	25,867	(11,165)	1,655,530	1,815,014	(1,158)	1,813,856

* less than RMB1,000.

Condensed Consolidated Statement of Changes in Equity

For the six month ended 30 June 2022

Note i: The other reserve mainly represents (i) the difference between the consideration paid and share of the subsidiary's net assets acquired from the non-controlling interests in prior years and (ii) the effect of group reorganization on 24 September 2018, pursuant to which Xiamen Kexin Network Technology Company Limited ("**Homeland PRC**", formerly known as Beijing Kexin Network Technology Company Limited), Jiayang Interactive (Xiamen) Network Technology Company Limited ("**Jiayang Interactive**") and Jilin Yutai Network Technology Company Limited ("**Jilin Yutai**", which is controlled by Mr. Wu Chengze ("**Mr. Wu**")) entered into a series of contractual arrangements which enable the Group to have control over the assets, liabilities and operating profits from Jiayang Interactive and its subsidiaries.

Note ii: During the period ended 30 June 2022, the Company repurchased 9,478,000 of shares with total consideration of RMB13,902,000 (HK\$16,960,000) on the open market at a price of HK\$1.295 to HK\$1.875 through Futu Securities International (Hong Kong) Limited, which was appointed as an independent trustee for the share award schemes of the Company, as treasury shares for the purpose of future share award schemes. Details are as follows:

Month of repurchase	No of ordinary shares	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
January	8,058,000	1.875	1.819	14,994
March	186,000	1.397	1.397	260
April	258,000	1.390	1.295	347
May	122,000	1.383	1.383	169
June	854,000	1.400	1.382	1,190
Total	9,478,000			16,960

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	NOTE	Six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Net cash from operating activities		79,652	225,605
Investing activities			
Interest received		13,416	10,258
Purchase of equity instruments at FVTOCI		(12,365)	—
Purchase of property, plant and equipment		(5,059)	(1,388)
Purchase of intangible assets		(199)	(71)
Investment in an associate		—	(15,000)
Dividend received		28,000	21,860
Payment of rental deposits		(174)	(1,488)
Loans to employees		(4,500)	(15,000)
Proceeds from disposal of equity instruments at FVTOCI		853	—
Net cash outflow on disposal of a subsidiary	10	(13,414)	—
Proceeds from disposal of property, plant and equipment		300	—
Net cash generated from (used in) investing activities		6,858	(829)
Financing activities			
Repayment of lease liabilities		(5,259)	(1,488)
Interest paid on lease liabilities		(907)	(292)
Capital injection from non-controlling interests		—	400
Payment on repurchase of shares		(13,902)	—
Net cash used in financing activities		(20,068)	(1,380)
Net increase in cash and cash equivalents		66,442	223,396
Cash and cash equivalents at the beginning of the period		1,125,162	732,724
Effect of foreign exchange rate changes		2,187	(593)
Cash and cash equivalents at the end of the period, represented by cash and cash equivalents		1,193,791	955,527

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

1. GENERAL INFORMATION AND BASIS OF PREPARATION

General information

Homeland Interactive Technology Ltd. (the “**Company**”) is an exempted company with limited liability incorporated in the Cayman Islands on 7 May 2018 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with effect from 4 July 2019 (the “**Listing Date**”). The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Grand Cayman Islands. The address of principal place of business of the Company is 7A Floor, Huijin Building, 77 Tainan Road, Siming District, Xiamen, the People’s Republic of China (the “**PRC**”). The Company is controlled by Mr. Wu Chengze, Mr. Jiang Mingkuan and Mr. Su Bo (collectively referred to as the “**Founders**”).

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) are primarily engaged in the development, publication and operation of mobile games in the PRC.

The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Company and its subsidiaries.

Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “**IASB**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

Significant events and transactions in the current interim period

During the current interim period, the Group has streamlined its business and discontinued its private game room cards business through the disposal of Jilin Yuke Network Technology Company Limited (“**Jilin Yuke**”) to Jilin Xinyue Development and Network Technology Limited (“**Jilin Xinyue**”), an associate of the Group, with consideration of RMB105,947,000 and cessation of private game room cards business carried out by Jilin Xinze Network Technology Company Limited (“**Jilin Xinze**”). The details are disclosed in Note 10.

2. PRINCIPAL ACCOUNTING POLICES

The condensed consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values, as appropriate.

Other than application of certain accounting policies listed below which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

2. PRINCIPAL ACCOUNTING POLICES (Continued)

Changes in the Group's interests in existing subsidiaries

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognized. A gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable International Financial Reporting Standards ("IFRSs")).

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020

The application of the amendments to IFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents (1) income from sales of virtual tokens on the Group's self-developed mobile games; (2) income from third-party mobile games; and (3) advertising income. As private game room cards business is classified as discontinued operations which are described in more detail in Note 10, the revenue from private game room cards is excluded from this note. The Group's operating activities are attributable to a single operating segment focusing on development and operation of mobile games in the PRC. This operating segment has been identified on the basis of internal management reports, prepared in accordance with the relevant accounting principles and financial regulations applicable in the PRC which materially conform with IFRSs, that are regularly reviewed by the chief operating decision maker ("CODM"), Mr. Wu, the chief executive officer of the Group, for the purpose of allocating resources and assessing its performance. The CODM reviews the financial results of the Group as a whole for performance assessments. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

3. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from self-developed mobile games and third-party mobile games is recognized at a point in time when the customers obtain control of the services, being at the point the customers consume the virtual tokens in self-developed mobile games or the customers purchase the virtual tokens in the relevant third-party mobile games.

Advertising revenue is recognized at a point in time when the advertisements placed by third-party platforms are displayed in the game interface.

	Six months ended 30 June	
	2022 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i> (unaudited) (restated)
Continuing operations		
Revenue from:		
— Self-developed mobile games	639,418	399,605
— Third-party mobile games	82,623	6,282
	722,041	405,887
Advertising revenue	59,722	71,507
	781,763	477,394

The Group has a large number of customers, no revenue from any individual customer exceeded 10% or more of the Group's revenue during both periods.

Geographical information

The Group operated within one geographical segment in both periods because all of its revenue was generated in the PRC and all of its non-current assets were located in the PRC. Accordingly, no geographical segment information is presented.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

4. COST OF SALES

Cost of sales is analyzed as follows:

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (restated)
Continuing operations		
Employee benefit expenses	22,218	25,596
Commissions and fees charged by distribution channels and payment vendors	188,354	84,407
Server-related and technical support fees	17,365	14,370
Depreciation and amortization	1,736	1,602
	229,673	125,975

5. OTHER INCOME

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (restated)
Continuing operations		
Interest income	11,039	7,055
Government subsidies (<i>note a</i>)	5,905	3,143
Service income (<i>note b</i>)	2,201	4,337
Others	2,467	877
Total	21,612	15,412

Notes:

- Government subsidies mainly represent various industry-specific subsidies granted by the government authorities to subsidize the research and development costs already incurred by the Group during the course of its business, as well as government incentives to reward the Group's effort for the technological innovation and support to the local economy with no future related costs to be incurred. There are no unfulfilled conditions relating to such government subsidies recognized.
- Service income represents the amounts received from contracted clients for offline promotion marketing activities as well as providing technical support services and is recognized when the services are performed.

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2022 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i> (unaudited)
Continuing operations		
Gain on fair value changes of derivative financial liabilities	1,200	—
Loss on disposal of investment in an associate	(2,718)	—
Loss on early termination on a lease agreement	(147)	—
Total	(1,665)	—

7. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the current interim period.

During 2021 interim period, a final dividend of RMB0.1593 (equivalent to HK\$0.1892) per share in respect of the year ended 31 December 2020 was rejected by the shareholders of the Group in the annual general meeting which was held on 29 June 2021 and as a result, the final dividend declared was not paid.

8. INCOME TAX EXPENSE

The income tax provision of the subsidiaries operating in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for both interim periods, based on the existing legislation, interpretations and practices in respect thereof.

Jiaxiang Interactive (Xiamen) Network Technology Company Limited (“**Jiaxiang Interactive**”) is qualified as “High and New Technology Enterprises” (“**HNTE**”) under the Enterprise Income Tax Law from 2020 and the valid period is three years. Therefore, the actual income tax rate for Jiaxiang Interactive was 15% for both periods.

Jilin Xinze was qualified as HNTE under the Enterprise Income Tax Law since 2017 and such qualification has been renewed in 2020 with a valid period of another three years. According to the Enterprise Income Tax Law, Jilin Xinze is entitled to a preferential income tax rate at 15% for both periods.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2018 onwards, enterprises engage in research and development activities are entitled to claim 175% of the research and development expenses incurred in a year as tax deductible expenses in determining the taxable income for that year (“**Super Deduction**”). Jiaxiang Interactive and Jilin Xinze have claimed such Super Deduction in ascertaining its tax assessable profits for both periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

8. INCOME TAX EXPENSE (Continued)

The income tax expense of the Group is analyzed as follows:

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (restated)
Continuing operations		
Current tax — PRC Enterprise Income Tax	40,731	39,257
Under provision in prior years	3,182	—
	43,913	39,257
Deferred tax (Note 17)	(16,255)	—
Income tax expense relating to continuing operations	27,658	39,257

9. PROFIT FOR THE PERIOD — CONTINUING OPERATIONS

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (restated)
Lease expenses in respect of short-term leases on office properties	42	1,045
Depreciation of property, plant and equipment	3,231	2,077
Depreciation of right-of-use assets	5,361	1,548
Amortization of intangible assets	229	351
Auditors' remuneration	700	887
Donation (included in other expenses)	7,000	—
Directors' emoluments	1,897	2,008
Other staff costs:		
Salaries and other benefits in kind	71,543	37,003
Retirement benefit costs	2,477	1,002
Share-based payments for staff	10,902	4,471
Total staff costs	86,819	44,484

10. DISPOSAL OF A SUBSIDIARY/DISCONTINUED OPERATIONS

During the current interim period, in order to streamlining its business and discontinuing its private game room cards business, the Group entered into a sale agreement with Jilin Xinyue to dispose of its 100% equity interest in Jilin Yuke that carried out majority of the Group's private game room cards operations. Beijing Kexin Interactive Entertainment Technology Ltd. ("**Beijing Kexin**"), which was established in the PRC and wholly-owned by Jilin Yuke, was disposed together with Jilin Yuke. The disposal was completed on 30 June 2022, on which date the Group lost control of Jilin Yuke. On the other hand, the Group also ceased the Group's remaining operations of private game room cards carried out by Jilin Xinze during the current interim period.

The profit for the current period from the discontinued private game room cards operations is set out below. The comparative figures in the condensed consolidated statement of profit or loss and other comprehensive income have been restated to re-present the private game room cards operations as discontinued operations.

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 <i>RMB'000</i> (unaudited)
Profit of private game room cards operations for the period	33,492	56,247
Gain on disposal of Jilin Yuke	97,803	—
Income tax expense on gain on disposal	(15,263)	—
	116,032	56,247

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

10. DISPOSAL OF A SUBSIDIARY/DISCONTINUED OPERATIONS (Continued)

The results of the private game room cards operations for the period from 1 January 2022 to 30 June 2022 and preceding interim periods, which has been included in the condensed consolidated statement of profit or loss and other comprehensive income were as follows:

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Revenue	60,207	80,033
Cost of sales	(12,747)	(8,789)
Gross profit	47,460	71,244
Other income	4,380	5,209
Selling and marketing expenses	(1,716)	(8,033)
Administrative expenses	(8,112)	(4,498)
Other expenses	(3,000)	—
Interest on lease liabilities	(121)	(1)
Profit before income tax	38,891	63,921
Income tax expense (Note)	(5,399)	(7,674)
Profit for the period	33,492	56,247

Note:

Jilin Yuke was qualified as a DSE under the Enterprise Income Tax Law in 2019. Therefore, according to relevant tax regulations, Jilin Yuke is exempted from Enterprise Income Tax for two years, followed by a 50% reduction in the applicable tax rates for the next three years if the criteria of DSE are met each year, commencing from 2017, the first year of profitable operation. On the other hand, Jilin Yuke is qualified as HNTE under the Enterprise Income Tax Law from 2022 and the valid period is three years. Therefore, the actual income tax rate for Jilin Yuke is 15% for the current interim period and 12.5% for the preceding interim period.

Jilin Yuke have claimed Super Deduction in ascertaining its tax assessable profits for both periods.

10. DISPOSAL OF A SUBSIDIARY/DISCONTINUED OPERATIONS (Continued)

The net assets of Jilin Yuke at the date of disposal were as follows:

	RMB'000 (unaudited)
Net assets disposed of	8,144
Gain on disposal	97,803
Total consideration	105,947
Satisfied by:	
Cash	—
Deferred cash consideration (<i>Note</i>)	105,947
	105,947
Net cash outflow arising on disposal:	
Total cash consideration received	—
Bank balances and cash disposed of	(13,414)
	(13,414)

Note: The deferred consideration amounted to RMB12,400,000 will be settled in cash by the buyer on or before 31 July 2022 and the rest of the deferred consideration amounted to RMB93,547,000 will be settled on 28 April 2025. The fair value of the deferred consideration is determined by discounting the consideration of RMB111,600,000 using the discount rate of 6.44% per annum.

Cash flows from the discontinued operations:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash flows from operating activities	42,921	49,138
Net cash flows used in investing activities	(36)	(15,021)
Net cash flows used in financing activities	(637)	(3)
Net cash flows	42,248	34,114

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

11. EARNINGS PER SHARE

From continuing operations and discontinued operations

The calculation of basic and diluted earnings per share from continuing and discontinued operations attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2022 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i> (unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share:		
— Profit for the period attributable to owners of the Company	380,299	310,699
	Number of shares	
	2022 (unaudited)	2021 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,244,617,204	1,246,580,000
Effect of dilutive potential ordinary shares in respect of the Compensation Grant, the 2021 Share Award Scheme and the Share Option Scheme	15,325,790	36,090,667
Weighted average number of ordinary shares of the Company for the purpose of diluted earnings per share	1,259,942,994	1,282,670,667

11. EARNINGS PER SHARE (Continued)**From continuing operations**

The calculation of basic and diluted earnings per share from continuing operations attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2022 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i> (unaudited) (restated)
Earnings		
Earnings for the purpose of basic and diluted earnings per share:		
— Profit for the period attributable to owners of the Company	380,299	310,699
Less:		
Profit for the year from discontinued operations	116,032	56,247
Earnings for the purpose of basic and diluted earnings per share from continuing operations	264,267	254,452

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic earnings per share for the discontinued operations is RMB9.32 cents per share (2021: RMB4.51 cents per share) and diluted earnings per share for the discontinued operations is RMB9.21 cents per share (2021: RMB4.39 cents per share), based on the profit for the year from the discontinued operations of approximately RMB116,032,000 (2021: RMB56,247,000) and the denominators detailed above for both basic and diluted earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group acquired and paid RMB5,059,000 (six months ended 30 June 2021: RMB1,388,000) for furniture and equipment.

In addition, during the current interim period, the Group entered into a lease agreement and recognized right-of-use assets of RMB4,380,000 and lease liabilities of RMB4,380,000 (six months ended 30 June 2021: Nil). On the other hand, the Group terminated a lease agreement with right-of-use assets of RMB2,933,000 and lease liabilities of RMB2,786,000 derecognized and resulted a loss on the termination amounted to RMB147,000 (six months ended 30 June 2021: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

13. INVESTMENTS IN ASSOCIATES

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Cost of investment in associates	165,000	168,000
Share of post-acquisition profits	48,522	23,681
Dividend declared	(66,183)	(38,183)
Total	147,339	153,498

Details of the Group's associates are as follows:

Name of entity	Place of Establishment and Principal place of business	Proportion of ownership interest and voting rights held by the Group		Principal activity
		30/06/2022	31/12/2021	
Jilin Xinyue (Note i)	China mainland	40%	40%	Development and operation of card and board games
Guangzhou Leiyun Interactive Technology Limited ("Guangzhou Leiyun") (Note ii)	China mainland	N/A	40%	Research and development of online games
Siwen Technology (Tianjin) Limited ("Tianjin Siwen")	China mainland	25.8621%	25.8621%	Research and development of online games
Shenzhen Feiyun Technology Limited ("Shenzhen Feiyun") (note iii)	China mainland	30%	N/A	Animation and artistic design of online games

13. INVESTMENTS IN ASSOCIATES (Continued)

Notes:

(i) On 3 November 2020, Jilin Xinze (a subsidiary of the Company), Jilin Xinbao Technology Partnership (Limited Partnership) ("**Xinbao Technology**") (40% equity shareholder of Jilin Xinyue), and Jilin Xinyue entered into an investment agreement ("**Investment Agreement**") pursuant to which Xinbao Technology agreed to sell and Jilin Xinze agreed to acquire 40% of the equity interest in Jilin Xinyue, at cash consideration of RMB150,000,000. On 29 December 2020, Jilin Xinze, Xinbao Technology and Jilin Xinyue entered into a supplemental agreement to the Investment Agreement pursuant to which all the parties thereto agreed to supplement certain terms of the Investment Agreement as follows:

- Xinbao Technology has undertaken to ensure that the audited net profit of Jilin Xinyue for the years ending 31 December 2021 and 2022 shall be no less than RMB70,000,000 and RMB80,000,000, respectively (the "**Guaranteed Net Profit**"), and the audited net profit of Jilin Xinyue for the years ending 31 December 2021 and 2022 shall be no less than RMB150,000,000 in aggregate.
- If the actual audited net profit of Jilin Xinyue below the Guaranteed Net Profit for any of the years ending 31 December 2021 or 2022, Xinbao Technology shall pay compensation (the "**Profit Compensation**") to Jilin Xinze in cash. The amount of Profit Compensation payable by Xinbao Technology shall be determined in accordance with the following formula:

$$\text{Profit Compensation} = ((A - B)/\text{RMB}150,000,000) * C * 40\%(\text{note}) - D$$

where:

A = the cumulative Guaranteed Net Profit determined as at the end of the period;

B = the cumulative actual audited net profit of the Jilin Xinyue determined as at the end of the period;

C = the agreed appraised assets value of the Jilin Xinyue, being RMB375,000,000; and

D = the amount of any Profit Compensation which has already been paid by Xinbao Technology to Jilin Xinze.

note: it represents the percentage of equity interest in the Jilin Xinyue owned by Jilin Xinze

- It is also agreed that the audited net profit of the Jilin Xinyue for the years ending 31 December 2021 and 2022 will be fully distributed to its shareholders (including Jilin Xinze) as dividends in proportion to their respective equity interest in the Jilin Xinyue (the "**Profit Sharing**"). The aggregate amount of dividends to be received by Jilin Xinze for the years ending 31 December 2021 and 2022 shall not exceed RMB60,000,000.

The equity investment in Jilin Xinyue is accounted for using equity method in accordance with IAS 28 and the derivative financial instrument arising from supplementary agreement is measured at fair value through profit and loss in accordance with IFRS 9.

For the current interim period, the profit and total comprehensive income of Jilin Xinyue is RMB61,895,000 and Jilin Xinyue distributed dividend amounted to RMB70,000,000 to its investors. The Group engaged a qualified valuer to perform valuation on the fair value of the derivative financial instrument as at 30 June 2022. The fair value of the derivative financial instrument was assessed to be RMB24,170,000 as at 30 June 2022 and a fair value gain of RMB1,200,000 was recognized in other gains and losses.

- (ii) On 14 March 2022, the Group disposed all equity interests in Guangzhou Leiyun and resulted a loss of RMB2,718,000.
- (iii) On 13 April 2022, the Group entered into an investment in 30% of equity interest in Shenzhen Feiyun which was newly set up. As at 30 June 2022, the investment has not been paid.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

14. LOANS TO EMPLOYEES

The loans to employees represents the housing loans advanced to employees. The loans are unsecured, interest-free and repayable after 12 May 2023, 21 January 2024, 25 December 2024, 31 December 2024 and 5 January 2025 (31 December 2021: unsecured, interest-free and repayable on 12 May 2023, 21 January 2024 and 25 December 2024).

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Non-current	12,385	13,788
Current	4,042	—
Total	16,427	13,788

The housing loans advanced to employees are measured initially at fair value and subsequently at amortized cost, using the effective interest method. RMB426,000 (2021 interim period: RMB1,949,000) being the difference between the principal amount and fair value at initial recognition, was recognized as staff costs during this period.

During the current interim period, loan to one staff amounted to RMB1,900,000 was reclassified to other receivables due to the resignation from the Group.

15. TRADE RECEIVABLES

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Trade receivables	168,475	194,736
Less: allowance for credit losses	—	—
Total	168,475	194,736

Trade receivables comprise receivables from distribution channels, payment vendors and advertisement agents. The credit terms of trade receivables granted to them are usually 0 to 180 days (31 December 2021: 0 to 60 days). Ageing analysis of trade receivables presented based on date of invoices is as follows:

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15. TRADE RECEIVABLES (Continued)

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
0–30 days	119,112	135,400
31–60 days	29,905	50,805
61–90 days	10,969	6,663
91–180 days	7,176	355
Over 180 days	1,313	1,513
Total	168,475	194,736

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date on which the credit was initially granted up to the reporting date. As at 30 June 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB2,674,000 (31 December 2021: RMB7,791,000) which are past due. Out of the past due balances, RMB1,680,000 (31 December 2021: RMB2,701,000) has been past due 90 days or more and is not considered as in default due to the history of cooperation and the sound collection history of the debtors.

16. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Prepayment for advertisement and promotion fees	224,973	74,692
Advances to employees	2,584	2,058
Receivables for service income	3,985	5,376
Prepayment for research and development fees (Note)	33,687	26,623
Prepayment for server-related fees	5,460	5,612
Dividends receivable from associates	10,000	6,323
Receivables from disposal of a subsidiary (Note 10)	105,947	—
Others	16,301	12,587
Total	402,937	133,271
Analyzed as:		
Current	309,390	133,271
Non-current	93,547	—
	402,937	133,271

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

16. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Note: Prepayment for research and development fees amounting to RMB33,687,000 (31 December 2021: RMB25,000,000) represented fees to associates for research and development service expected to be rendered within one year from the reporting date.

17. DEFERRED TAX ASSETS/LIABILITIES

The followings are the major deferred tax liabilities and assets recognized and movements thereon during the current and preceding interim periods:

	Fair value losses of FVTOCI investments RMB'000	Fair value change of derivative financial liabilities RMB'000	Temporary difference arising from prepaid advertising expenses RMB'000	Excess deductible advertising expenses RMB'000	Temporary difference arising from disposal of a subsidiary RMB'000	Total RMB'000
As at 1 January 2021	225	—	—	—	—	225
Credit to other comprehensive income	662	—	—	—	—	662
As at 30 June 2021	887	—	—	—	—	887
Credit (charge) to profit or loss	—	3,806	(3,867)	7,244	—	7,183
Credit to other comprehensive income	(32)	—	—	—	—	(32)
As at 31 December 2021	855	3,806	(3,867)	7,244	—	8,038
Credit (charge) to profit or loss	—	(180)	(234)	13,960	2,709	16,255
Credit to other comprehensive income	(645)	—	—	—	—	(645)
As at 30 June 2022	210	3,626	(4,101)	21,204	2,709	23,648

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Deferred tax assets	23,648	9,972
Deferred tax liabilities	—	(1,934)
	23,648	8,038

18. TRADE AND OTHER PAYABLES

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Salary and staff welfare payables	21,375	47,005
Payable for advertisement expenses	—	10,682
Selling and marketing expenses accruals	941	9,721
Deposit for advertising and game operation	1,351	1,351
Other taxes payable	10,988	12,215
Payable to game developers (Note i)	5,953	3,486
Administrative expenses accruals	700	1,700
Advances from technical support services	2,000	—
Payable to associates (Note ii)	18,728	—
Others	8,706	6,061
Total	70,742	92,221

Note i: The balance represents sale proceeds received from players of games for which the Group acts as distributor to be reimbursed to game developers, after deducting the commission income entitled by the Group calculated at a pre-determined rate, and refundable deposits received from game developers.

Note ii: The balance consists of RMB14,686,000 payable to Jilin Yuke for acquisition of Tianjin Siwen which was an associate of Jilin Yuke before the disposal as detailed in Note 10 and RMB4,042,000 payable to Beijing Kexin for a loan to an employee (included in Note 14) who transferred from Beijing Kexin to the Group (2021: Nil). These balances are unsecured, interest-free and repayable within one year from the reporting date.

19. DEFERRED REVENUE

Deferred revenue represented service fees prepaid by the customers for the Group's self-developed mobile games in the forms of prepaid virtual tokens and private game room cards, for which the related services had not been rendered as at the end of each period. As the unsatisfied performance obligations will be recognized as revenue within one year, therefore, the deferred revenue is recognized as current liability.

	Virtual tokens RMB'000	Private game room cards RMB'000	Total RMB'000
As at 1 January 2022 (audited)	69,735	12,757	82,492
Sales proceeds, net of tax	710,005	64,229	774,234
Revenue recognized during the period	(722,041)	(60,207)	(782,248)
Disposal of a subsidiary	—	(13,317)	(13,317)
Transfer to other payables due to discontinued operation	—	(3,462)	(3,462)
As at 30 June 2022 (unaudited)	57,699	—	57,699

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20. SHARE CAPITAL

	Number of shares	Nominal US\$	Shown in the condensed consolidated financial statements RMB'000
Authorized			
At 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022			
— Ordinary shares of HK\$0.000005 each	10,000,000,000	50,000	
Issued and fully paid			
As 1 January 2021 and 30 June 2021			
— Ordinary shares of HK\$0.000005 each	1,256,000,000	6,280	41
Issue of shares of HK\$0.000005 each	27,403,500	137	1
As at 31 December 2021, 1 January 2022 and 30 June 2022			
— Ordinary shares of HK\$0.000005 each	1,283,403,500	6,417	42

21. SHARE-BASED PAYMENT TRANSACTIONS

(a) Share Option Scheme

A share option scheme was approved and adopted by the Company on 5 June 2019 (the “**Share Option Scheme**”). The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of the Group or associated companies of the Company (“**Eligible Persons**”).

The purpose of the Share Option Scheme is to incentivize and reward the Eligible Persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

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 share option schemes (the “**Other Schemes**”) of the Company must not in aggregate exceed 10% of the total number of shares in issue as at the Listing Date, being 125,600,000 shares, or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange’s discretion (the “**Scheme Mandate Limit**”). Options lapsed in accordance with the terms of the Share Option Scheme and any Other Scheme of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

21. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) Share Option Scheme (Continued)

No options shall be granted to any Eligible Person under the Share Option Scheme and any Other Schemes of the Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the shares in issue at such date or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange's discretion.

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

No dividends (including distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to an option that has not been exercised. The shares allotted and issued on the exercise of an option will rank equally in all respects with the shares in issue on the date of allotment. They will not rank for any rights attaching to shares by reference to a record date preceding the date of allotment.

If an option-holder ceases to be an Eligible Person by reason of (i) his employer terminating his contract of employment in accordance with its terms or any right conferred on his employer by law, or (ii) his contract of employment, being a contract for a fixed term, expiring and not being renewed, or (iii) his employer terminating his contract for serious or gross misconduct, then any outstanding offer of an option and all options, vested or unvested, will lapse on the date the option-holder ceases to be an Eligible Person.

On 14 November 2019, the Company granted share options (the "**Share Options**") under the Share Option Scheme to 58 eligible employees to subscribe for a total of 62,360,000 ordinary shares of US\$0.000005 each in the Company. The estimated fair value of the options granted was HK\$47,452,000 (equivalent to RMB42,508,000). The exercise price was HK\$2.09 per share and the vesting terms of the Share Options for each grantee is as below:

- (1) 30% of the total number of Share Options shall be vested on 14 November 2020;
- (2) 40% of the total number of Share Options shall be vested on 14 November 2021; and
- (3) 30% of the total number of Share Options shall be vested on 14 November 2022.

21. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) Share Option Scheme (Continued)

The exercise price is determined by the directors of the Company, and will not be less than the highest of: (i) the closing price of HK\$2.07 per share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 14 November 2019, (ii) the average closing price of HK\$2.09 per share as stated in the daily quotation sheets issued by the Stock Exchange for the five 5 business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of US\$0.000005 per share.

Up to 30 September 2021, 1,600,000 Share Options granted to two option grantees were lapsed due to the termination of their employment with the Company and 60,760,000 Share Options remained outstanding (the “**Outstanding Existing Options**”). None of the Share Options were exercised by the option grantees as at 30 September 2021. The Board resolved to cancel the Outstanding Existing Options with effect from 30 September 2021 and details are disclosed in Note 21(b).

(b) Compensating Share Awards

The Board resolved to cancel the Outstanding Existing Options with effect from 30 September 2021 in accordance with the terms of the Share Option Scheme with respect to cancellation of options granted but not exercised, at the request of the option grantees other than the two grantees whose share options have lapsed (the “**Remaining Option Grantees**”). The Company obtained consent and mutually agreed with each of the Remaining Option Grantees with respect to the arrangement and compensation for the cancellation of the Outstanding Existing Options.

As compensation for the cancellation of the Outstanding Existing Options and in accordance with the mutual agreement with each of the individual Remaining Option Grantees, the Board resolved to compensate the Remaining Option Grantees with the grant of Share Awards (the “**Compensating Share Awards**”) calculated based on the number of Outstanding Existing Options held by individual Remaining Option Grantees. Each Outstanding Existing Option held by individual Remaining Option Grantees can be compensated with 0.35, 0.50 or 0.8333 Compensating Share Awards depending on the department or product unit in which the Remaining Option Grantee serves, his seniority and his past contribution to the Group, as follow:

- 26,510,000 Outstanding Existing Options held by 26 Remaining Option Grantees were compensated by the grant of 9,278,500 Compensating Share Awards representing the same number of underlying Shares at the compensation ratio of one Outstanding Existing Option to 0.35 Compensating Share Award;
- 33,050,000 Outstanding Existing Options held by 29 Remaining Option Grantees were compensated by the grant of 16,525,000 Compensating Share Awards representing the same number of underlying Shares at the compensation ratio of one Outstanding Existing Option to 0.5 Compensating Share Award, and;

21. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) Compensating Share Awards (Continued)

- 1,200,000 Outstanding Existing Options held by one Remaining Option Grantee were compensated by the grant of 1,000,000 Compensating Share Awards representing the same number of underlying Shares at the compensation ratio of one Outstanding Existing Option to approximately 0.8333 Compensating Share Award.

As a result, a total of 26,803,500 Compensating Share Awards representing the same number of underlying Shares were granted as compensation for the cancellation of the Outstanding Existing Options (the “**Compensation Grant**”).

The vesting date of the Compensation Grant for each grantee:

- (1) 40% of the total number of Share Awards shall be vested on 30 April 2022;
- (2) 30% of the total number of Share Awards shall be vested on 30 April 2023; and
- (3) 30% of the total number of Share Awards shall be vested on 30 April 2024.

Other vesting conditions of the Compensation Grant are as follows:

- (1) In respect of the vesting on 30 April 2022, (a) the Company’s consolidated revenue for the year ending 31 December 2021 shall increase by 10% or more as compared with the consolidated revenue for the year ended 31 December 2020; (b) the Company’s operating profit for the year ending 31 December 2021 shall account for not less than 75% of the Company’s total profit for the same year; and (c) the individual grantee shall pass the annual personal performance appraisal for the year ending 31 December 2021;
- (2) In respect of the vesting on 30 April 2023, (a) the Company’s consolidated revenue for the year ending 31 December 2022 shall increase by 15% or more as compared with the consolidated revenue for the year ended 31 December 2020; (b) the Company’s operating profit for the year ending 31 December 2022 shall account for not less than 75% of the Company’s total profit for the same year; and (c) the individual grantee shall pass the annual personal performance appraisal for the year ending 31 December 2022; and
- (3) In respect of the vesting on 30 April 2024, (a) the Company’s consolidated revenue for the year ending 31 December 2023 shall increase by 20% or more as compared with the consolidated revenue for the year ended 31 December 2020; (b) the Company’s operating profit for the year ending 31 December 2023 shall account for not less than 75% of the Company’s total profit for the same year; and (c) the individual grantee shall pass the annual personal performance appraisal for the year ending 31 December 2023.

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21. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) Compensating Share Awards (Continued)

Details of specific vesting date and movements of the Compensation Grant are as follows:

	Outstanding at 1/1/2022	Lapsed during period	Vested during period	Outstanding at 30/6/2022
Shares vested on 30 April 2022	10,721,400	756,000	9,965,400	—
Shares vested on 30 April 2023	8,041,050	807,000	—	7,234,050
Shares vested on 30 April 2024	8,041,050	807,000	—	7,234,050
	<u>26,803,500</u>	<u>2,370,000</u>	<u>9,965,400</u>	<u>14,468,100</u>

As the management considered the Compensating Grant as replacement to the Share Option Scheme, the Company accounted for the Compensating Grant as a modification of the Share Option Scheme. The incremental fair value granted is the difference between the fair value of Compensating Share Awards and the fair value of the Outstanding Existing Options as at 30 September 2021. The Company adopted the market price of HK\$2.15 per share to measure the fair value of Compensating Share Awards as at 30 September 2021 and used the Binomial Option-Pricing Model to calculate the fair value of Outstanding Existing Options as at 30 September 2021. The inputs used for measuring the fair value of Outstanding Existing Options as at 30 September 2021 were as follows:

The share price on 30 September 2021	HK\$2.15 per share
Exercise price	HK\$2.09 per share
Expected volatility	63.73%
Option life	3.10 years
Risk-free rate	0.44%
Dividend yield	0.00%
Exit rate	0%
Early Exercise Multiple	2.20

The resulting incremental fair value, amounting HK\$7,710,000, was expensed or will be expensed over the respective modified vesting period between 30 September 2021 and the three vesting dates, i.e. 30 April 2022, 30 April 2023 and 30 April 2024, of Compensating Share Awards in the proportion of 40%, 30% and 30% respectively, in addition to the amount based on the grant date fair value of the original Share Option Scheme, which is recognized over the remainder of the original vesting period. During the period ended 30 June 2022, the Group recognized the share-based payment expense of RMB655,000 in relation to the original Share Option Scheme and RMB2,389,000 in relation to the incremental fair value.

21. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) Compensating Share Awards (Continued)

The number of the Share Options and Compensating Share Awards granted expected to vest is based on the directors' best estimate on the expected percentage of the 56 eligible employees that will remain in employment with the Group at the end of the vesting period and the probability of meeting the performance conditions.

(c) 2021 Share Award Scheme

On 30 September 2021, the Board resolved to grant a total of 600,000 share awards to two grantees pursuant to the Share Award Scheme (the "**2021 Share Award Scheme**") to recognize their contributions to the growth of the Group and to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group.

The vesting date of the 2021 Share Award Scheme for each grantee:

- 40% of the total number of Share Awards shall be vested on 30 April 2022;
- 30% of the total number of Share Awards shall be vested on 30 April 2023; and
- 30% of the total number of Share Awards shall be vested on 30 April 2024.

Other vesting conditions of the 2021 Share Award Scheme are as follows:

- (1) In respect of the vesting on 30 April 2022, (a) the Company's consolidated revenue for the year ending 31 December 2021 shall increase by 10% or more as compared with the consolidated revenue for the year ended 31 December 2020; (b) the Company's operating profit for the year ending 31 December 2021 shall account for not less than 75% of the Company's total profit for the same year; and (c) the individual grantee shall pass the annual personal performance appraisal for the year ending 31 December 2021;
- (2) In respect of the vesting on 30 April 2023, (a) the Company's consolidated revenue for the year ending 31 December 2022 shall increase by 15% or more as compared with the consolidated revenue for the year ended 31 December 2020; (b) the Company's operating profit for the year ending 31 December 2022 shall account for not less than 75% of the Company's total profit for the same year; and (c) the individual grantee shall pass the annual personal performance appraisal for the year ending 31 December 2022; and
- (3) In respect of the vesting on 30 April 2024, (a) the Company's consolidated revenue for the year ending 31 December 2023 shall increase by 20% or more as compared with the consolidated revenue for the year ended 31 December 2020; (b) the Company's operating profit for the year ending 31 December 2023 shall account for not less than 75% of the Company's total profit for the same year; and (c) the individual grantee shall pass the annual personal performance appraisal for the year ending 31 December 2023.

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21. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(c) 2021 Share Award Scheme (Continued)

Details of specific vesting date and movements of 2021 Share Award Scheme are as follows:

	Outstanding at 1/1/2022	Vested during period	Outstanding at 30/6/2022
Shares vested on 30 April 2022	240,000	240,000	—
Shares vested on 30 April 2023	180,000	—	180,000
Shares vested on 30 April 2024	180,000	—	180,000
	<u>600,000</u>	<u>240,000</u>	<u>360,000</u>

The directors of the Company estimated the fair values of the above shares on the grant date. The fair value of the shares held for the 2021 Share Award Scheme was determined using the market price of the shares as at 30 September 2021, the aggregate fair value of the shares held for the 2021 Share Award Scheme was assessed to be HK\$1,290,000 (equivalent to RMB1,075,000). During the period ended 30 June 2022, the Group recognized the share-based payment expenses of RMB405,000 in relation to the 2021 Share Award Scheme.

(d) 2022 Share Award Scheme

On 31 March 2022, the Board resolved to grant a total of 9,941,949 share awards to 14 grantees pursuant to the Share Award Scheme (the “**2022 Share Award Scheme**”) to recognize their contributions to the growth of the Group and to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group. The awarded shares are vested on 1 April 2022. During the period ended 30 June 2022, the Group recognized the share-based payment expenses of RMB11,731,000 in relation to the 2022 Share Award Scheme.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The fair values of these financial assets are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)**Fair value measurements and valuation processes** (Continued)

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

Financial assets/ Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable input
	30/06/2022	31/12/2021			
Derivative financial liabilities	Derivative financial liabilities generated from the Investment Agreement between Jilin Xinze, Xinbao Technology and Jilin Xinyue — RMB24,170,000	Derivative financial liabilities generated from the Investment Agreement between Jilin Xinze, Xinbao Technology and Jilin Xinyue — RMB25,370,000	Level 3 (31/12/2021: Level 3)	Probability-weighted discounted cash flow method — A type of valuation that weighted discounted cash flow under different scenarios by the probability was used to determine the value. (31/12/2021: Probability-weighted discounted cash flow method)	Discount rate is 5 percent (31/12/2021: 7 percent)

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22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable input
	30/06/2022	31/12/2021			
Equity Instruments at FVTOCI	19 percent equity interest in Shanghai Wenting Network Technology Ltd. engaged in research and development of online games — RMB5,655,000	19 percent equity interest in Shanghai Wenting Network Technology Ltd. engaged in research and development of online games — RMB8,661,000	Level 3 (31/12/2021 : Level 3)	Asset-based approach except for the intangible asset — A type of valuation that focuses on a company's net asset value. Income approach for the intangible asset — In this approach, the multi-period excess earning method was used to capture the present value of the expected future economic benefits to be derived from the intangible asset, based on an appropriate discount rate. (31/12/2021: Asset-based approach except for the intangible asset and income approach for the intangible asset)	Average monthly revenue growth rate is 15%. Discount rate is 15.78 percent (31/12/2021: Average monthly revenue growth rate is 8.07 percent). Discount rate is 15.90 percent)
Nil		40 percent equity interest in Shenzhen Shangshou Technology Ltd. engaged in research and development of online games — RMB635,000		N/A (31/12/2021: Asset-based approach)	N/A (31/12/2021: Value of the net assets)
Nil		30 percent equity interest in Xiamen Blackjack Entertainment & Technology Ltd. engaged in research and development of online games — RMB450,000		N/A (31/12/2021: Asset-based approach)	N/A (31/12/2021: Value of the net assets)
	40 percent equity interest in Chuangke Future (Jilin) Network Technology Co., Ltd. engaged in marketing of online game — RMB 1,427,000 (Note)	40 percent equity interest in Chuangke Future (Jilin) Network Technology Co., Ltd. engaged in marketing of online game — RMB400,000		Asset-based approach (31/12/2021: Asset-based approach)	Value of the net assets (31/12/2021: Value of the net assets)

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable input
	30/06/2022	31/12/2021			
25 percent equity interest in Shanghai Huanzhen Information Technology Co., Ltd. engaged in research and development of online games — RMB377,000 (Note)		N/A	Level 3 (31/12/2021: N/A)	Asset-based approach (31/12/2021: N/A)	Value of the net assets (31/12/2021: N/A)
20 percent equity interest in Shanghai Lanxing Network Technology Co., Ltd. engaged in research and development of online games — RMB266,000 (Note)		N/A		Asset-based approach (31/12/2021: N/A)	Value of the net assets (31/12/2021: N/A)
1.79 percent equity interest in West Bull Securities Limited engaged in security investment — RMB6,665,000		N/A	Level 2 (31/12/2021: N/A)	Recent transaction approach (31/12/2021: N/A)	N/A (31/12/2021: N/A)

Note: The directors of the Company considered the Group does not have significant influence over the investees as the Group does not have power to appoint directors in the investees and participate in the financial and operating policy decisions of the investees.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements of financial instruments

	Financial assets at FVTOCI RMB'000
At 1 January 2021 (audited)	13,950
Total losses:	
— in other comprehensive income	<u>(4,410)</u>
At 30 June 2021 (unaudited)	<u>9,540</u>
At 1 January 2022 (audited)	10,146
Purchased	5,700
Disposals	(1,085)
Total losses:	
— in other comprehensive income	<u>(7,036)</u>
At 30 June 2022 (unaudited)	<u>7,725</u>
	Derivative financial liabilities RMB'000
At 1 January 2021 (audited) and at 30 June 2021 (unaudited)	<u>—</u>
At 1 January 2022 (audited)	(25,370)
Total gains:	
— in other gains and losses	<u>1,200</u>
At 30 June 2022 (unaudited)	<u>(24,170)</u>

Of the total gains or losses for the period included in profit or loss, RMB1,200,000 gains relates to derivative financial liabilities held at the end of current reporting period (six months ended 30 June 2021: Nil). Fair value gains or losses on derivative financial liabilities are included in 'other gains and losses'.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)**Reconciliation of Level 3 fair value measurements of financial instruments**
(Continued)

Included in other comprehensive income is an amount of RMB7,036,000 loss (six months ended 30 June 2021: RMB3,748,000 loss) relating to unlisted equity securities classified as equity instruments at FVTOCI held at the end of current reporting period and is reported as changes of FVTOCI.

23. RELATED PARTY TRANSACTIONS

Other than as disclosed in Note 10, 16 and 18 in these condensed consolidated financial statements, the Group has following transactions with related parties:

Relationship	Nature of transactions	Six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Associates	Other income	228	3,826

Key management personnel compensations

The compensations paid or payable to key management personnel (including directors, chief executive officers and other senior executives) are shown below:

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Salaries, bonuses, allowances and benefits in kind	7,331	6,092
Share-based payments	7,289	2,000
Total	14,620	8,092

24. COMMITMENTS

As at the end of the current interim period, the Group was committed to invest in 30% equity interest in Shenzhen Feiyun at the consideration of RMB300,000.

Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2022, the interests and short positions of the directors of the Company (the “**Directors**”) or the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “**SFO**”) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) were as follows:

(i) Interests of Directors and Chief Executive of the Company

Name of Director/ Chief Executive	Nature of interest	Number of underlying Shares⁽¹⁾	Approximate percentage of shareholding interest
Mr. Wu Chengze (“ Mr. Wu ”) ⁽²⁾	Interest in controlled corporation	433,842,000	33.80%
Mr. Jiang Mingkuan (“ Mr. Jiang ”) ⁽³⁾	Interest in controlled corporation	110,553,000	8.61%
Mr. Su Bo (“ Mr. Su ”) ⁽⁴⁾	Interest in controlled corporation	119,885,000	9.34%
Mr. Guo Shunshun (“ Mr. Guo ”) ⁽⁵⁾	Interest in controlled corporation	40,946,000	3.19%

(1) All interests stated are long positions.

(2) Mr. Wu holds the entire share capital of Wu Chengze Network Limited, which in turn directly holds 433,842,000 Shares. Accordingly, Mr. Wu is deemed to be interested in the 433,842,000 Shares held by Wu Chengze Network Limited.

(3) Mr. Jiang holds the entire share capital of Jiang Ming Kuan Network Limited, which in turn directly holds 110,553,000 Shares. Accordingly, Mr. Jiang is deemed to be interested in the 110,553,000 Shares held by Jiang Ming Kuan Network Limited.

(4) Mr. Su holds the entire share capital of Su Bo Network Limited, which in turn directly holds 119,885,000 Shares. Accordingly, Mr. Su is deemed to be interested in the 119,885,000 Shares held by Su Bo Network Limited.

(5) Mr. Guo holds the entire share capital of Guo Shun Shun Network Limited, which in turn directly holds 40,946,000 Shares. Accordingly, Mr. Guo is deemed to be interested in the 40,946,000 Shares held by Guo Shun Shun Network Limited.

(ii) Interest in the Company's subsidiary, Jiayang Interactive (Xiamen) Network Technology Company Limited

Name of Director/ Chief Executive	Nature of Interest	Registered capital	Percentage of interest
Mr. Wu ⁽¹⁾	Interest in controlled corporation	RMB10,000,000	100%
Mr. Jiang ⁽¹⁾	Other	RMB10,000,000	100%
Mr. Su ⁽¹⁾	Other	RMB10,000,000	100%

Note:

- (1) Jilin Yutai Network Technology Company Limited holds the entire registered capital of RMB10,000,000 in Jiayang Interactive (Xiamen) Network Technology Company Limited. Jilin Yutai Network Technology Company Limited is held as to 92% by Mr. Wu and 8% by Mr. Guo. Accordingly, Mr. Wu is deemed to be interested in the RMB10,000,000 registered capital in Jiayang Interactive (Xiamen) Network Technology Company Limited. Of the 92% interests held by Mr. Wu in Jilin Yutai Network Technology Company Limited, 55.2% (being 60% of 92%) was held by Mr. Wu as beneficial owner, 18.4% (being 20% of 92%) was held by Mr. Wu as nominee for Mr. Jiang and 18.4% (being 20% of 92%) was held by Mr. Wu as nominee for Mr. Su.

(iii) Interests in Other Members of the Group

So far as the Directors are aware, as at 30 June 2022, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of subsidiary	Name of shareholder	Registered capital	Percentage of interest
Jiayang Interactive (Xiamen) Network Technology Company Limited	Jilin Yutai Network Technology Company Limited ⁽¹⁾	RMB10,000,000	100%

Note:

- (1) Jilin Yutai Network Technology Company Limited holds the entire registered capital of RMB10,000,000 in Jiayang Interactive (Xiamen) Network Technology Company Limited. Jilin Yutai Network Technology Company Limited is held as to 92% by Mr. Wu and 8% by Mr. Guo. Accordingly, Mr. Wu is deemed to be interested in the RMB10,000,000 registered capital in Jiayang Interactive (Xiamen) Network Technology Company Limited. Of the 92% interests held by Mr. Wu in Jilin Yutai Network Technology Company Limited, 55.2% (being 60% of 92%) was held by Mr. Wu as beneficial owner, 18.4% (being 20% of 92%) was held by Mr. Wu as nominee for Mr. Jiang and 18.4% (being 20% of 92%) was held by Mr. Wu as nominee for Mr. Su.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2022, so far as is known to the Directors, the following persons, not being a Director or chief executive of the Company or their controlled corporation, had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO:

Name	Nature of interest	Number of underlying Shares ⁽¹⁾	Approximate percentage of shareholding interest
Men Geng Network Limited ⁽²⁾	Beneficial owner	72,672,000	5.66%
Men Geng ⁽²⁾	Interest in controlled corporation	72,672,000	5.66%
Co-challengers Growth Limited ⁽³⁾	Beneficial owner	72,312,000	5.63%
Mr. Li Bo ⁽³⁾	Interest in controlled corporation	72,312,000	5.63%
Beijing Chuangxin Yizhou Investment Management Limited (北京創新壹舟投資管理有限公司) (“ Yizhou Investment Management ”) ⁽³⁾	Interest in controlled corporation	72,312,000	5.63%
Xiamen Yizhou Xingchen Investment Management Limited (廈門壹舟星辰投資管理有限公司) (“ Xingchen Investment Management ”) ⁽³⁾	Interest in controlled corporation	72,312,000	5.63%
Xiamen Challenger Venture Capital Partnership (Limited Partnership) (廈門挑戰者創業投資合夥企業(有限合夥)) (“ Xiamen Challenger ”) ⁽³⁾	Interest in controlled corporation	72,312,000	5.63%

Notes:

- (1) All interests stated are long positions.
- (2) Men Geng Network Limited is wholly-owned by Mr. Men Geng. Accordingly, Mr. Men Geng is deemed to be interested in the 72,672,000 Shares held by Men Geng Network Limited.
- (3) Co-challengers Growth Limited is wholly-owned by Xiamen Challenger, a limited partnership, and is ultimately controlled by Mr. Li Bo, who has approximately 99.9% interest in Yizhou Investment Management, which has approximately 90% interest in Xingchen Investment Management, the sole general partner of Xiamen Challenger. Accordingly, each of Xiamen Challenger, Mr. Li Bo, Yizhou Investment Management and Xingchen Investment Management is deemed to be interested in the Shares held by Co-challengers Growth Limited.

Save as disclosed above, as at 30 June 2022, the Directors were not aware of any other persons who had any interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO.

SHARE INCENTIVE SCHEMES

Share Option Scheme

On 5 June 2019, a share option scheme (the “**Share Option Scheme**”) of the Company was approved and adopted by the shareholders of the Company. The purpose of the Share Option Scheme is to incentivize and reward the employees (whether full time or part-time) or directors of members of the Group or associated companies of the Company (the “**Eligible Persons**”) for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. Pursuant to the Share Option Scheme, the Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of shares of the Company (the “**Share(s)**”) as the Board may determine to an Eligible Person.

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 share option schemes (the “**Other Schemes**”) of the Company must not in aggregate exceed 10% of the total number of Shares in issue as at the listing date of the Company (the “**Listing Date**”), being 125,600,000 Shares, or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange’s discretion (the “**Scheme Mandate Limit**”)

The total number of Shares which may be issued on the exercise of share options (the “**Share Options**”) granted and to be granted under the Share Option Scheme and any Other Schemes is 63,240,000, representing approximately 4.93% of the issued share capital of the Company as at the date of this interim report. Options lapsed in accordance with the terms of the Share Option Scheme and any Other Scheme of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

At any time, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any Other Schemes of the Company to Eligible Persons must not exceed 30% of the total number of Shares in issue from time to time.

No options shall be granted to any Eligible Person under the Share Option Scheme and any Other Schemes of the Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange’s discretion. Any further grant of options to an Eligible Person in excess of this 1% limit or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange’s discretion shall be subject to the approval of the Shareholders in general meeting with such Eligible Person and his close associates (or if such Eligible Person is a connected person of the Company, his associates) abstaining from voting.

Other Information

The Share Options granted shall be open for acceptance for a period of not exceeding 30 days inclusive of, and from, the date of offer of the Share Options. An offer of Share Options not accepted within this period shall lapse. An amount of HK\$1.00 is payable upon acceptance of the grant of the Share Options and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

The exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option; (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and (iii) the nominal value of the Shares.

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date. Accordingly, as at 30 June 2022, the remaining life of the Share Option Scheme is approximately seven years.

Any option shall be vested on an option-holder immediately upon his acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an option-holder according to such vesting schedule and/or upon the fulfillment of the vesting conditions (as the case may be). Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option.

As at 1 January 2022 and 30 June 2022, there are no outstanding Share Options granted under the Share Option Scheme. No Share Options were granted, exercised, cancelled or lapsed during the six months ended 30 June 2022. Out of the 62,360,000 options granted on 14 November 2019, 1,600,000 options have lapsed and the remaining 60,760,000 options have been cancelled during the year ended 31 December 2021. Please refer to note 21 to the financial statements for further information of the Share Option Scheme.

Share Award Scheme

The Share Award Scheme was approved and adopted by the Board on 6 June 2019, under which the Board may, from time to time at its absolute discretion select any individual who is an employee, officer, agent or consultant of the Company or any of its subsidiaries (the "**Subsidiaries**" and for the avoidance of doubt, including Jiexiang Interactive (Xiamen) Network Technology Company Limited and its subsidiaries) who is not a connected person (as defined or deemed to be the case under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**")) of the Company; and if the Board or any committee of the Board delegated with the power and authority to administer the Share Award Scheme so determines in its absolute discretion, any director (including executive and non-executive director) of the Company or any Subsidiary to be a selected participant and grant Share Awards to such selected participant.

The purpose of the Share Award Scheme is to (i) encourage or facilitate the holding of Shares by the participants selected by the Board in accordance with the terms of and entitled to receive a grant of share awards (the “**Share Awards**”) under the Share Award Scheme (the “**Selected Participant**”); (ii) encourage and retain such individuals to work with the Group; and (iii) provide additional incentive for them to achieve performance goals. The Share Award Scheme shall be valid for ten years commencing from the adoption date.

The maximum number of new Shares that can be allotted and issued for the purpose of the Share Award Scheme in any financial year is 3% of the total number of issued Shares at the relevant time; and the maximum number of new Shares that can be allotted and issued to a Selected Participant in any 12-month period is 1% of the total number of issued Shares at the relevant time.

Details of Share Awards granted under the Share Award Scheme

In May 2019, the Company appointed The Core Trust Company Limited as a trustee for the administration of the Share Award Scheme pursuant to the Share Award Scheme Rules. In September 2021, the Company has appointed Futu Trustee Limited (together with The Core Trust Company Limited, the “**Trustees**”) as another trustee for the purpose of the Share Award Scheme pursuant to the Share Award Scheme Rules. To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the Trustees and their ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company. The Company had entered into separate trust deeds with the two Trustees in relation to their appointment as the trustees of the Share Award Scheme (the “**Trust Deed**”). The Trustees shall administer the Share Award Scheme in accordance with the Share Award Scheme Rules and the respective Trust Deeds.

As at the date of this interim report, a total number of 49,345,449 Share Awards, representing approximately 3.84% of the Shares in issue as at the date of this interim report, had been granted to 63 employees pursuant to the Share Award Scheme. 27,403,500 underlying Shares, representing approximately 2.14% of the Shares in issue as at the date of this interim report, had been allotted and issued pursuant to the Share Award Scheme. No Shares were awarded to the Directors. As at the date of this interim report, 10,205,400 Share Awards have been vested, 2,370,000 Share Awards were lapsed during the six months ended 30 June 2022 and 14,828,100 Share Awards (excluding those that were lapsed), which were granted during the year ended 31 December 2021, remain unvested.

During the six months ended 30 June 2022, a total of 9,941,949 Share Awards have been granted to 14 employees. These Share Awards were vested upon the grant of the Share Awards. The Selected Participants are not required to pay any exercise price to receive the Share Awards or the Shares granted under the Share Award Scheme.

Subsequent to the Reporting Period, a total of 12,000,000 Share Awards have been granted to one Selected Participant in July 2022, which vested upon the grant of the Share Awards.

As at the date of this interim report, 21,250,151 underlying Shares, representing approximately 1.66% of the Shares in issue as at the date of this interim report, are held by Futu Trustee Limited, the trustee for the benefit of the relevant grantees and for the purpose of the Share Award Scheme.

Save as disclosed above, there has been no Share Options granted and outstanding under the Share Option Scheme or Share Awards granted under the Share Award Scheme during the six months ended 30 June 2022.

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

Saved as disclosed in this interim report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the Reporting Period.

DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: nil).

The Board has resolved to pay a special dividend of RMB0.07 (equivalent to HK\$0.08) per Share, amounting to RMB90 million (equivalent to HK\$101.8 million) to shareholders of the Company whose names appear on the register of members of the Company at close of business on 12 October 2022. The special dividend is not reflected as dividend payables in the condensed consolidated financial statements for the six months ended 30 June 2022. It is expected that the special dividend will be paid on or before 26 October 2022. For further details, please refer to the announcement of the Company dated 22 September 2022.

CONTRACTUAL ARRANGEMENTS

The Group is primarily engaged in the development and operation of online card and board games business and is considered to be engaged in the provision of value-added telecommunications services (which includes information services provided via mobile network) and Internet cultural business (which includes the production or operation of mobile games operated through wireless telecommunication networks), sectors where foreign investment is subject to prohibitions and significant restrictions under the PRC laws and regulations.

Each of Jiaxiang Interactive (Xiamen) Network Technology Company Limited, Jilin Xinze Network Technology Company Limited and Jilin Yuke Network Technology Company Limited holds an ICP License and an Internet Cultural Business License required for the conduct of the Group's business. The Group has, through its wholly-owned subsidiary, Beijing Kexin Network Technology Company Limited, entered into a series of contractual arrangements with Jiaxiang Interactive (Xiamen) Network Technology Company Limited, Jilin Yutai Network Technology Company Limited, Mr. Wu and Mr. Guo to exercise effective control over the operations and enjoy substantially all of the economic benefits of Jiaxiang Interactive (Xiamen) Network Technology Company Limited and its subsidiaries. For details of the contractual arrangements, please refer to the section headed "Contractual Arrangements" in the prospectus of the Company (the "**Prospectus**") and the 2021 annual report of the Company published on 26 April 2022.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company has complied with the applicable code provisions as set forth in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**"), except for a deviation from code provision C.2.1 in Part 2 of the Corporate Governance Code which requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Wu Chengze (“**Mr. Wu**”) is the chairman and the chief executive officer of the Company. With extensive experience in the game industry, Mr. Wu is responsible for formulating and implementing the overall development strategies and business plans of the Group and is instrumental to the Company’s growth and business expansion since its establishment in 2009. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-calibre individuals. The Board currently comprises four executive directors (including Mr. Wu) and three independent non-executive directors and therefore, in the Company’s view, has an appropriate level of independence element in its composition.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the Corporate Governance Code and maintaining a high standard of corporate governance practices of the Company.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the Reporting Period.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. As at the date of this interim report, the Audit Committee comprises three independent non-executive Directors of the Company, namely, Mr. Hu Yangyang, Mr. Zhang Yuguo and Ms. Guo Ying. Mr. Hu Yangyang is the chairman of the Audit Committee.

The Audit Committee has reviewed the Company’s unaudited consolidated interim results for the Reporting Period, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The interim results for the Reporting Period is unaudited, but has been reviewed by the auditor, 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.

CHANGE IN DIRECTORS’ BIOGRAPHICAL DETAILS UNDER RULE 13.51B(1) OF THE LISTING RULES

There has been no change in the Directors’ biographical details which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The shares of the Company were listed on the Stock Exchange on 4 July 2019. The net proceeds from the global offering was approximately HK\$363.8 million.

Other Information

During the Reporting Period, the Group has followed the plan and the timeline for the use of proceeds as set out in the Prospectus and the results announcement for the year ended 31 December 2021 published by the Company on 28 March 2022. As at 30 June 2022, all proceeds from the global offering has been utilized.

The table below sets forth the use of proceeds by the Group as of 30 June 2022:

Intended use of the net proceeds	Amount allocated for intended use of net proceeds	Amount that had been utilized as of 30 June 2022	The actual used amount for the six months ended 30 June 2022	Remaining balance as of 30 June 2022
1. For further expanding and developing game portfolio:	HK\$89.1 million	HK\$89.1 million	HK\$6.6 million	HK\$Nil
• to develop additional Mahjong game variations	HK\$43.4 million	HK\$43.4 million	HK\$4.0 million	HK\$Nil
• to develop new poker game variations	HK\$20.9 million	HK\$20.9 million	HK\$1.8 million	HK\$Nil
• to develop new casual games	HK\$24.8 million	HK\$24.8 million	HK\$0.8 million	HK\$Nil
2. For introducing and enhancing game features or functions and for improving technology infrastructure:	HK\$105.9 million	HK\$105.9 million	HK\$6.3 million	HK\$Nil
• to develop HTML5 versions and other potential mini-programs for most of the existing game products	HK\$39.8 million	HK\$39.8 million	HK\$1.6 million	HK\$Nil
• to improve user interface	HK\$18.5 million	HK\$18.5 million	HK\$1.5 million	HK\$Nil
• to improve backend system	HK\$19.1 million	HK\$19.1 million	HK\$0.8 million	HK\$Nil
• to develop new features of game products	HK\$16.5 million	HK\$16.5 million	HK\$0.6 million	HK\$Nil
• for cybersecurity needs	HK\$12.0 million	HK\$12.0 million	HK\$1.8 million	HK\$Nil
3. For enhancing marketing capabilities and improving brand image:	HK\$65.5 million	HK\$65.5 million	HK\$15.7 million	HK\$Nil
• offline promotion activities in respect of new game variations and offline promotion activities in respect of existing games	HK\$30.7 million	HK\$30.7 million	HK\$11.8 million	HK\$Nil
• advertising expenses	HK\$30.6 million	HK\$30.6 million	HK\$0.4 million	HK\$Nil
• to build a PR team to strengthen overall marketing capability	HK\$4.2 million	HK\$4.2 million	HK\$3.5 million	HK\$Nil
4. For external growth by strategically pursuing partnership and acquisition opportunities	HK\$38.6 million	HK\$38.6 million	HK\$4.7 million	HK\$Nil
5. For international expansion	HK\$28.4 million	HK\$28.4 million	HK\$8.1 million	HK\$Nil
6. For providing funding for working capital and general corporate purposes	HK\$36.3 million	HK\$36.3 million	HK\$2.8 million	HK\$Nil
Total	HK\$363.8 million	HK\$363.8 million	HK\$44.2 million	

EVENTS AFTER THE REPORTING PERIOD

There was no important event affecting the Group which occurred after the end of the Reporting Period up to the date of this interim report.