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Feiyu Technology International Company Ltd.

飛魚科技國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1022)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

The Board is pleased to announce the unaudited consolidated interim results (the “**Interim Results**”) of the Group for the six months ended 30 June 2023 together with comparative figures for the corresponding period in 2022.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Six Months Ended 30 June		Change %
	2023 (RMB'000) (unaudited)	2022 (RMB'000) (unaudited)	
Revenue	107,902	74,343	45.1
Gross profit	94,870	57,206	65.8
Profit/(Loss) before tax	40,297	(6,947)	(680.1)
Profit/(Loss) for the period attributable to owners of the parent	40,262	(9,520)	(522.9)
Non-IFRSs Measures			
– Adjusted net profit/(loss) attributable to owners of the parent	40,262	(9,450)	(526.1)

PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

– Basic & Diluted

<u>RMB0.02</u>	<u>RMB(0.01)</u>
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Note:

- (1) Please refer to the section headed “Non-IFRSs measures – Adjusted net profit/(loss) attributable to owners of the parent” for definition of adjusted net profit/(loss) attributable to owners of the parent.

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW AND OUTLOOK

Overview

In the first half of 2023, the business environment of the Company presented a mixed picture. On the one hand, the online game market in China experienced a decline in revenue year on year by 2.4% according to the China Game Industry Report for January to June 2023 (《2023年1-6月中國遊戲產業報告》) jointly published by the Game Publishers Association Publications Committee (GPC) of the China Audio-Video and Digital Publishing Association (中國音數協遊戲工委) and China Game Industry Research Institute (中國遊戲產業研究院). The decline was further exacerbated by the COVID-19 pandemic, which dampened users' willingness to pay for online games. On the other hand, however, the approval for new game launches in China has been normalised, which is a positive factor to revive the online game market and stimulate growth in the industry.

The Company achieved strong financial performance for the first half of 2023 thanks to its strategy featured by long running and high-quality games as well as in-house developed IPs. This strategy has always been the Company's focus since its inception. Total revenue for the period increased by 45.1% year-on-year to approximately RMB107.9 million, primarily driven by the contribution from *Carrot Fantasy 4* (保衛蘿蔔4) and *Shen Xian Dao 3* (神仙道3), which were launched on 30 June 2022 and 7 June 2023, respectively. Profit attributable to owners of the parent turned to a gain of approximately RMB40.3 million for the first half of 2023 from a loss of approximately RMB9.5 million for the same period of last year.

In June 2023, the Company launched *Shen Xian Dao 3* (神仙道3) partnering with Beijing Nuverse Information Technology Co., Ltd (北京朝夕光年信息技術有限公司), a game development and publishing company wholly owned by Bytedance Ltd. (字節跳動有限公司). The RPG mobile game is a sequel to the Company's hit title series of *Shen Xian Dao* (神仙道), which was first introduced 12 years ago and has attracted over 160 million users since then. *Shen Xian Dao 3* (神仙道3) has been highly anticipated by the series' fans such that it ranked number 1 on the free download list in Apple's China App Store and number 1 on Bilibili Game popularity list on the day of its launch. In addition to the attractiveness of its IP that made it stand out in the crowd, the game's unique storyline and gameplay combining traditional Chinese culture with modern technology have ensured the game's continued success, helping it reach the 11th spot on the bestseller list of Apple's China App Store.

In line with its strategy of long-term success, the Company has been prioritising the long-term value of *Carrot Fantasy 4* (保衛蘿蔔4) over short-term gains. After launching the game in June 2022, the Company has continued to release new activities and content updates, which received positive feedback from players, as demonstrated by the number of active users and user payment statistics. These new features and consistency in updating have helped to maintain user engagement and retention, ensuring the game's continued contribution to the Company's revenue.

As an important component of the Company’s IP strategy, the Company continued to carry out IP licensing activities during the period and collaborated with business partners who are licensed to use elements from the *Carrot Fantasy* (保衛蘿蔔) game series to develop and launch a total of 95 new stock-keeping units (“SKU”) of physical products. These products covered various categories such as stationery, toys and creative home décor and have been available in multiple online and offline stores.

In addition to physical products, the first batch of *Carrot Fantasy* (保衛蘿蔔) themed digital products was also launched on the Bilibili platform in June 2023. This included 42 SKUs covering collectible cards, emoji, avatar frames, and medals. The launch was such a hit that it has achieved meaningful sales within the first 20 days.

The elements from *Carrot Fantasy* (保衛蘿蔔) game series were also applied to various high-exposure scenarios, which attracted a large number of people allowing them to become acquainted and familiar with the game IP, thereby increasing brand exposure and awareness, and ultimately improving the game series’ sales, user engagement and lifecycle. During the 2023 Chinese New Year holiday, a *Carrot Fantasy* (保衛蘿蔔) themed red envelope cover was created for Alipay’s Five Blessings (五福) campaign. Over the course of 14 days, the *Carrot Fantasy* (保衛蘿蔔) red envelope cover was highly visible online, with a total online exposure of 5 million views.

Outlook for 2023

In recent years, the Chinese online gaming market has become increasingly saturated, with a large number of games competing for users’ attention. In this competitive environment, game companies are tending towards long-term updates and operations of games that have already been launched and recognised by users while being more cautious about initiating and developing new products. This approach aligns with the long-term business strategy that the Company has always adhered to.

In the second half of 2023, the Company will continue to optimise the games newly launched in the past 2 years, including *Shen Xian Dao 3* (神仙道3), *Carrot Fantasy 4* (保衛蘿蔔4) and *Dougui* (斗詭) to further expand their player base and enhance user engagement, thereby driving their long-term success. In the meantime, the Company will also explore opportunities to introduce *Shen Xian Dao 3* (神仙道3) and *Dougui* (斗詭) to overseas markets. This may involve adapting the games to suit the preferences and cultural norms of different overseas markets, while also maintaining the core gameplay and IP elements that have made them successful in the domestic market.

The IP licensing team will continue to expand the Company’s multi-category licensing business in the second half of the year with a particular focus on collaborating with partners in offline theme events as well as catering and entertainment industries. The Company will leverage *Carrot Fantasy* (保衛蘿蔔) themed spaces and events to bring the world of the games to life, while also promoting the brand and products to a wider audience. In addition, these partnerships are also expected to help drive sales of game-related merchandise and peripherals.

Interim Dividend

The Board did not declare an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

FINANCIAL REVIEW

Operating Information

The Company's Games

During the first half of 2023, the Company remained dedicated to delivering top-notch games that cater to the ever-changing demands of gamers while also fortifying its game distribution capabilities. Additionally, the Company remained its commitment to the long-term operation of its esteemed IP portfolio, which includes *Carrot Fantasy* (保衛蘿蔔) and *Shen Xian Dao* (神仙道), laying a sturdy groundwork for potential sequels. As part of the IP strategy, the Company launched *Shen Xian Dao 3* (神仙道3), an RPG mobile game, on 7 June 2023. The new game is a highly anticipated sequel to the Company's hit title *Shen Xian Dao* (神仙道) and has achieved great popularity in Mainland China since its launch.

The table below presents a breakdown of revenue from game operations in absolute amounts and as a percentage of total revenue:

	For the six months ended 30 June			
	2023		2022	
	(RMB'000)	(% of Total Revenue)	(RMB'000)	(% of Total Revenue)
Game Operations				
Web games	6,292	5.8	7,004	9.4
Mobile games				
RPGs	35,675	33.1	37,156	50.0
Casual	47,806	44.3	9,655	13.0
PC games	771	0.7	3,131	4.2
HTML5 games	1	0.0	61	0.1
Console games	639	0.6	1,845	2.5
Total	91,184	84.5	58,852	79.2

Revenue contributed by game operations was approximately RMB91.2 million for the six months ended 30 June 2023, representing an increase of approximately 54.9%, compared with approximately RMB58.9 million for the corresponding period in 2022. The increase was primarily due to the launch of *Carrot Fantasy 4* (保衛蘿蔔4) on 30 June 2022 which had marginal contribution to the revenue for the six months ended 30 June 2022. The increase was also driven by the launch of *Shen Xian Dao 3* (神仙道3) during the period, which had been highly anticipated by the game series' fans.

The Company's Players

The Company assesses its operating performance using a set of key performance indicators, which include MAUs, MPUs and ARPPU. Fluctuations in operating data were primarily a result of changes in the number of players who played, downloaded (in the case of mobile games and PC games) and paid for virtual items and premium features in the games. Using these key performance indicators helps the Company monitor its ability to offer engaging online games, the popularity of its games, the monetisation potential of its player base and the degree of competition in the online game industry, and as a result, it allows the Company to continuously improve its business strategies.

As at 30 June 2023, the Company's (i) RPG mobile games and web games had approximately 234.0 million cumulative registered users, composed of approximately 173.2 million web game users and approximately 60.8 million mobile game users; (ii) casual games had approximately 696.4 million cumulative activated downloads; (iii) HTML5 games had approximately 39.1 million cumulative registered users; (iv) PC games had approximately 1.9 million cumulative copies sold; and (v) console games had approximately 451,000 cumulative copies sold. For the month of June 2023, the Company's (i) RPG mobile games and web games had approximately 1.8 million MAUs, composed of approximately 1.7 million mobile game MAUs and approximately 0.1 million web game MAUs; and (ii) casual games had approximately 5.3 million MAUs.

The following table sets forth certain operating statistics related to the Company's business for the periods indicated:

	Six Months Ended 30 June		Change%
	2023	2022	
Average MPUs			
Web games (RPGs) (000's)	6	7	(14.3)
Mobile games (RPGs) (000's)	313	146	114.4
Casual (000's)	219	72	204.2
ARPPU			
Web games (RPGs) (RMB)	181.9	160.8	13.1
Mobile games (RPGs) (RMB)	19.0	42.5	(55.3)
Casual (RMB)	36.3	22.2	63.5

Note: Duplicated paying users of games published on the Company's own platforms were not eliminated during calculation.

MPUs for web games were approximately 6,000 for the six months ended 30 June 2023, which remained steady as compared with the six months ended 30 June 2022. Average MPUs for mobile RPG games increased by 114.4% from approximately 146,000 for the six months ended 30 June 2022 to approximately 313,000 for the six months ended 30 June 2023, primarily due to the launch of *Shen Xian Dao 3* (神仙道3) in June 2023. Average MPUs for casual games increased by 204.2% from approximately 72,000 for the six months ended 30 June 2022 to approximately 219,000 for the six months ended 30 June 2023, primarily attributable to the launch of *Carrot Fantasy 4* (保衛蘿蔔4) on 30 June 2022, which had marginal contribution to the average MPUs for the first half of 2022, as well as the game's continued success in the first half of this year.

ARPPU for web games increased from approximately RMB160.8 for the six months ended 30 June 2022 to approximately RMB181.9 for the six months ended 30 June 2023. The increase was primarily driven by higher ARPPU for the web version of *Shen Xian Dao* (神仙道) and *Da Hua Shen Xian* (大話神仙), which have entered the mature stage of their expected lifecycle when loyal players are more willing to make in-game purchases. ARPPU for RPG mobile games decreased from approximately RMB42.5 for the six months ended 30 June 2022 to approximately RMB19.0 for the six months ended 30 June 2023, primarily due to the launch of *Shen Xian Dao 3* (神仙道3), which had lower ARPPU in the early stage of its expected lifecycle. ARPPU for casual games increased by 63.5% from approximately RMB22.2 for the six months ended 30 June 2022 to approximately RMB36.3 for the six months ended 30 June 2023, primarily due to the increase in ARPPU for the *Carrot Fantasy* (保衛蘿蔔) game series, which was updated frequently with new features, resulting in users being more willing to pay.

As part of its business strategy, the Company continued to launch various in-game promotions and activities, release regular updates for premium games, and offer high-quality customer service, in order to enhance in-game features and maintain user interest. The Company believes that these initiatives are vital for retaining active players and expanding the active player base of the Group.

First Half of 2023 compared with First Half of 2022

The following table sets forth the Group's income statement for the six months ended 30 June 2023 compared with the six months ended 30 June 2022.

	Six Months Ended 30 June		Change %
	2023 <i>(RMB'000)</i>	2022 <i>(RMB'000)</i>	
Revenue	107,902	74,343	45.1
Cost of sales	(13,032)	(17,137)	(24.0)
Gross profit	94,870	57,206	65.8
Other income and gains	17,907	11,524	55.4
Selling and distribution expenses	(17,846)	(14,661)	21.7
Administrative expenses	(21,802)	(22,062)	(1.2)
Research and development costs	(27,622)	(36,866)	(25.1)
Finance costs	(1,735)	(2,105)	(17.6)
Other expenses	(2,938)	(230)	1,177.4
Share of (losses)/profits of associates	(537)	247	(317.4)
PROFIT/(LOSS) BEFORE TAX	40,297	(6,947)	(680.1)
Income tax credit/(expense)	569	(826)	(168.9)
PROFIT/(LOSS) FOR THE PERIOD	40,866	(7,773)	(625.7)
Attributable to:			
Owners of the parent	40,262	(9,520)	(522.9)
Non-controlling interests	604	1,747	(65.4)

Revenue

The following table sets forth a breakdown of the Group's revenue for the six months ended 30 June 2023 and 2022:

	Six Months Ended 30 June			
	2023	(% of Total Revenue)	2022	(% of Total Revenue)
	(RMB'000)		(RMB'000)	
Game operations	91,184	84.5	58,852	79.2
Online game distribution	279	0.2	693	0.9
Licensing and IP-related income	3,528	3.3	1,447	1.9
Advertising revenue	10,975	10.2	11,089	14.9
Game development service income	1,865	1.7	1,922	2.6
Technical service income	71	0.1	340	0.5
Total	107,902	100.0	74,343	100.0

Total revenue increased by 45.1% to approximately RMB107.9 million for the six months ended 30 June 2023 from approximately RMB74.3 million for the six months ended 30 June 2022.

Revenue from game operations was approximately RMB91.2 million for the six months ended 30 June 2023, representing an increase of approximately 54.9%, compared with approximately RMB58.9 million for the six months ended 30 June 2022. The increase was primarily due to the launch of *Carrot Fantasy 4* (保衛蘿蔔4) on 30 June 2022 which had marginal contribution to the revenue for the six months ended 30 June 2022, as well as the game's continued success in the first half of this year. The increase was also attributable to the launch of *Shen Xian Dao 3* (神仙道3) on 7 June 2023, which had been highly anticipated and well received by the game series' fans.

Revenue from online game distribution decreased by approximately 59.7% to approximately RMB0.3 million for the six months ended 30 June 2023 from approximately RMB0.7 million for the six months ended 30 June 2022. The decrease was mainly due to decline in revenue of *Mushroom War 2* (蘑菇戰爭2) which entered the mature stage of its expected lifecycle in 2023.

Licensing and IP-related income increased by approximately 143.8% from approximately RMB1.4 million for the six months ended 30 June 2022 to approximately RMB3.5 million for the six months ended 30 June 2023. The increase was primarily attributable to the increase in the sales of blind boxes and other merchandise based on *Carrot Fantasy* (保衛蘿蔔) IP from approximately RMB0.5 million for the six months ended 30 June 2022 to approximately RMB1.1 million for the period associated with the launch of *Carrot Fantasy 4* (保衛蘿蔔4) in June 2022. The increase was also attributable to the recognition of the licensing fee for *Shen Xian Dao 3* (神仙道3) and *Neon Abyss* (霓虹深淵) mobile version since their launch in June 2023 and November 2022 respectively.

Advertising revenue was approximately RMB11.0 million for the six months ended 30 June 2023, which remained steady compared with approximately RMB11.1 million for the six months ended 30 June 2022.

Game development service income was approximately RMB1.9 million for the six months ended 30 June 2023, which remained steady compared with approximately RMB1.9 million for the six months ended 30 June 2022.

Technical service income was approximately RMB0.1 million for the six months ended 30 June 2023. The decrease was primarily due to the adjustment of the commercial operation of the Company's game operation platform in the first half of 2023.

Cost of sales

Cost of sales decreased by 24.0% to approximately RMB13.0 million for the six months ended 30 June 2023 from approximately RMB17.1 million for the six months ended 30 June 2022. The decrease was mainly attributable to the decrease of staff cost from approximately RMB12.0 million for the six months ended 30 June 2022 to approximately RMB9.3 million for the six months ended 30 June 2023 as a result of the Company's efforts to streamline its corporate structure to allocate resources to units generating higher business value. The decrease of cost of sales was also attributable to the decrease of server cost from approximately RMB2.3 million for the six months ended 30 June 2022 to approximately RMB1.4 million for the six months ended 30 June 2023 as a result of the adjustment of the commercial operation of the Company's game operation platform.

Gross profit and gross profit margin

Gross profit increased by 65.8% to approximately RMB94.9 million for the six months ended 30 June 2023 from approximately RMB57.2 million for the six months ended 30 June 2022. Gross profit margin for the six months ended 30 June 2023 was 87.9%, compared with 77.0% for the corresponding period in 2022.

Other income and gains

Other income and gains increased by approximately 55.4% from approximately RMB11.5 million for the six months ended 30 June 2022, to approximately RMB17.9 million for the six months ended 30 June 2023. The increase was primarily attributable to higher investment income of approximately RMB10.5 million for the six months ended 30 June 2023, as compared to approximately RMB3.6 million for the six months ended 30 June 2022, which was primarily driven by the fair value changes in the Company's financial assets at fair value through profit or loss.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 21.7% from approximately RMB14.7 million for the six months ended 30 June 2022, to approximately RMB17.8 million for the six months ended 30 June 2023. The increase was mainly attributable to the increase in channel fees from approximately RMB5.7 million for the six months ended 30 June 2022 to approximately RMB12.0 million for the six months ended 30 June 2023. The increase in channel fees was mainly due to the launch of *Carrot Fantasy 4* (保衛蘿蔔4) on Apple Inc.'s App Store in June 2022 where we recognised its revenue on a gross basis and its App Store channel fees in selling and distribution expenses. The increase in selling and distribution expenses was partially offset by the decrease in promotional and advertising fees from approximately RMB7.3 million to approximately RMB3.4 million, as most of the promotional activities for *Dougui* (斗詭) and *Carrot Fantasy 4* (保衛蘿蔔4) were carried out a few months before and after the launch of the games in the first half of 2022.

Administrative expenses

Administrative expenses were approximately RMB21.8 million for the six months ended 30 June 2023, which remained steady compared with approximately RMB22.1 million for the six months ended 30 June 2022.

R&D costs

R&D costs decreased by approximately 25.1% from approximately RMB36.9 million for the six months ended 30 June 2022 to approximately RMB27.6 million for the six months ended 30 June 2023. The decrease was primarily attributable to the decrease in salary and bonuses from approximately RMB29.5 million for the six months ended 30 June 2022 to approximately RMB21.3 million for the six months ended 30 June 2023 as a result of the Company's efforts to streamline its corporate structure.

Finance costs

Finance costs decreased by approximately 17.6% from approximately RMB2.1 million for the six months ended 30 June 2022 to approximately RMB1.7 million for the six months ended 30 June 2023. The decrease was primarily due to the decrease in interest expenses from approximately RMB1.9 million for the six months ended 30 June 2022 to approximately RMB1.6 million for the six months ended 30 June 2023, resulting from the repayment of part of the principal of the loan in conjunction with the operation of the Company's R&D centre and headquarters building in Xiamen.

Other expenses

Other expenses were approximately RMB2.9 million for the six months ended 30 June 2023, compared with approximately RMB0.2 million for the six months ended 30 June 2022. The increase was primarily due to the recognition of approximately RMB2.3 million loss on fair value changes of the Company's R&D centre and headquarters building in Xiamen.

Income tax expense

The Company recorded an income tax credit of approximately RMB0.6 million for the six months ended 30 June 2023 as compared to the income tax expenses of approximately RMB0.8 million for the six months ended 30 June 2022. The change was primarily attributable to the change in deferred tax expenses resulted from the fair value changes of the investment properties.

Profit for the period

As a result of the above, profit for the six months ended 30 June 2023 was approximately RMB40.9 million, as compared to a loss for the six months ended 30 June 2022 of approximately RMB7.8 million. Profit attributable to owners of the parent for the six months ended 30 June 2023 was approximately RMB40.3 million, as compared to a loss attributable to owners of the parent for the six months ended 30 June 2022 of approximately RMB9.5 million.

Non-IFRSs measures – Adjusted net profit/(loss) attributable to owners of the parent

In addition to the Company's consolidated financial statements that are presented in accordance with IFRSs, Feiyu also provides further information based on the adjusted net profit/(loss) attributable to owners of the parent as an additional financial measure. The Company presents this financial measure because it is used by management to evaluate financial performance by eliminating the impact of items that the Company does not consider indicative of business performance. The Company also believes that these non-IFRSs measures provide additional information to investors and others, helping them understand and evaluate the consolidated results of operations in the same manner as management, and to compare financial results across accounting periods and with those of various peer companies.

For the six months ended 30 June 2023 and 2022, the Company defined the adjusted net profit/(loss) attributable to owners of the parent as net profit/(loss) attributable to owners of the parent excluding share-based compensation. The term of adjusted net profit/(loss) attributable to owners of the parent was not defined under IFRSs. The use of adjusted net profit/(loss) attributable to owners of the parent has material limitations as an analytical tool as it did not include all items that would impact net profit/(loss) attributable to owners of the parent for the accounting period.

	Six Months Ended 30 June		Change %
	2023 (RMB'000)	2022 (RMB'000)	
Profit/(Loss) for the period attributable to owners of the parent	40,262	(9,520)	(522.9)
Add:			
Share-based compensation	–	70	(100.0)
Total	40,262	(9,450)	(526.1)

Financial Position

As at 30 June 2023, total equity of the Group was approximately RMB505.1 million, compared with approximately RMB456.5 million as at 31 December 2022. The increase was mainly due to the profit of approximately RMB40.9 million recorded for the six months ended 30 June 2023. The increase was also attributable to the exchange differences on translation of foreign operations and changes in fair value of equity investments at fair value through other comprehensive income.

As at 30 June 2023, the Group had net current assets of approximately RMB141.2 million, representing an increase of approximately 25.1% from approximately RMB112.9 million as at 31 December 2022. The increase was mainly due to the cash inflow from the Company's operating activities, the payment of annual bonus for 2022 and repayment of part of the bank loans.

Liquidity and Financial Resources

	30 June 2023 (RMB'000)	31 December 2022 (RMB'000)	Change %
Cash at bank and on hand	<u>134,094</u>	<u>133,153</u>	0.7
Total	<u>134,094</u>	<u>133,153</u>	0.7

Total cash and cash equivalents were approximately RMB134.1 million as at 30 June 2023, compared with approximately RMB133.2 million as at 31 December 2022. The increase was primarily due to the cash inflow from the Company's operating activities, which was partially offset by the utilisation of our cash and cash equivalent for investment in certificate of deposit.

As at 30 June 2023, approximately RMB7.7 million of financial resources (31 December 2022: RMB10.2 million) were held in deposits denominated in non-RMB currencies. The Company currently does not hedge transactions undertaken in foreign currencies, rather it manages foreign exchange exposure by limiting foreign currency exposure and constantly monitoring foreign currency levels. The Group adopts a prudent cash and financial management policy. In order to better control costs and minimise the cost of funds, the Group's treasury activities were centralised and cash was generally deposited at banks, denominated mostly in Renminbi, Hong Kong dollars and United States dollars.

As at 30 June 2023, the Group had aggregate bank loans of approximately RMB68.5 million (31 December 2022: RMB70.0 million), of which approximately RMB6.0 million is payable within one year, approximately RMB24.3 million is payable between one and five years and approximately RMB38.2 million is payable after five years. The Group had lease liabilities of approximately RMB3.0 million (31 December 2022: RMB4.3 million), of which approximately RMB2.3 million is payable within one year and approximately RMB0.7 million is payable between one and five years as set out in the agreements.

In May 2023, the Company replaced the original bank loans for the construction of the Company's R&D centre and headquarters building with operation period loan, and the interest rate dropped from approximately 5.05% to approximately 4.3%. As at 30 June 2023, the Group's bank loans of approximately RMB68.5 million were used by the Company for the operation of the Company's R&D center. The interest rate was approximately 4.3% and the loans were secured by the land use rights, investment properties and building on the Land.

Significant Debt Investments at Fair Value Through Other Comprehensive Income, Equity Investments Designated at Fair Value Through Other Comprehensive Income, and Financial Assets at Fair Value Through Profit or Loss

As at 30 June 2023, the Company had debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss of approximately RMB139.8 million (31 December 2022: RMB126.3 million), which represented the Company's investment in straight bonds and a bond fund issued by banks or reputable companies with coupon rates ranging from 2.25% to 4.5% per annum, and interest held by the Group in five unlisted companies and one company listed on the National Equities Exchange And Quotations of the PRC.

The principal of the debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income, and financial assets at fair value through profit or loss as at 30 June 2023 were not protected.

According to the Company's current internal investment management policies, no less than 50% of total investments can be invested in risk-free or principal protected investments, while for the remainder, up to 50% of the total investments is invested in low-risk products. The Company has a diversified investment portfolio to mitigate risks. In addition, the abovementioned investments were made in line with the Company's effective capital and investment management policies and strategies.

Performance and Future Prospect of Significant Debt Investments at Fair Value Through Other Comprehensive Income, Equity Investments Designated at Fair Value Through Other Comprehensive Income, and Financial Assets at Fair Value Through Profit or Loss

Details of the Group’s debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income, and financial assets at fair value through profit or loss as at 30 June 2023 are presented as follows:

(A) *Straight Bonds*

Name of the straight bonds	Notes	Interest income recognised in consolidated statement of profit or loss for the six months ended 30 June 2023 (RMB'000)	Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the six months ended 30 June 2023 (RMB'000)	Fair value as at 30 June 2023 (RMB'000)	Percentage of	Percentage of
					total FVOCI and FVPL Investments as at 30 June 2023	total assets of the Group as at 30 June 2023
CHINLP Medium Term Note Programme (“CHINLP”)	2	273	372	20,543	14.7%	3.2%
POLHON Guaranteed Notes (“POLHON”)	3	388	(282)	18,814	13.5%	2.9%
NWDEVL Medium Term Note Programme (“NWDEVL”)	4	546	(6)	20,521	14.7%	3.2%

Notes:

1. The Group’s investment in straight bonds has been accounted for as debt investments at fair value through other comprehensive income. The fair value of the straight bonds was estimated using a discounted cash flow valuation model based on the assumptions that were supported by observable market inputs. Please refer to note 12 to the financial statements for details of the investment in straight bonds.
2. On 15 July 2021, the Group invested in a bond issued by CLP Power Hong Kong Financing Limited (“CLP Financing”) and guaranteed by CLP Power Hong Kong Limited (“CLP HK”) with a nominal amount of US\$3,500,000 at a consideration of US\$3,542,000 (equivalent to approximately RMB23.0 million). The bond has a coupon interest rate of 2.25% per annum with a maturity period of 10 years.

CLP Financing, the issuer, incorporated in the British Virgin Islands, is a wholly-owned subsidiary of the guarantor CLP HK. CLP Financing was established to raise financing for CLP HK. The net proceeds from the issue of CHINLP will be on-lent by CLP Financing to CLP HK to be used for general corporate purposes. CLP HK, established in 1901 in Hong Kong, is one of the only two electricity providers in Hong Kong, which supplies approximately 77% of the electricity consumed in Hong Kong. CLP Holdings Limited, the parent company of CLP HK was listed on the Main Board of the Stock Exchange in 1998 with the stock code of 00002. CLP Holdings Limited, together with its subsidiaries, namely the CLP Group, is an investor and operator in the Asia-Pacific energy sector. In Hong Kong, through CLP HK, it operates a vertically-integrated electricity supply business providing a highly-reliable supply of electricity. Outside Hong Kong, CLP Group holds investments in the energy sector in Mainland China, India, Southeast Asia, Taiwan, and Australia. Its diversified portfolio of power generation assets include coal, gas, nuclear and renewables (wind, hydro, solar).

According to the interim report for the six months ended 30 June 2023 of CLP Holdings Limited, total revenue was approximately HK\$43,302 million, representing a decrease of 9.0% compared with corresponding period in 2022. Operating earnings before fair value movements increased 19.3% to HK\$4,955 million for the first half of 2023 mainly thanks to a stable performance in Hong Kong, higher generation volumes from the two nuclear power plants in Mainland China, and a significant favourable one-off in India. With the absence of the unusual unfavourable fair value movements experienced in 2022 (HK\$8 billion) and a slight gain in 2023, the net profit after tax for the six months ended 30 June 2023 turnaround to HK\$5,060 million from a loss of HK\$4,855 million a year ago, also helped by the reversal of items affecting comparability.

As long as Hong Kong rebounds and acts to attract more businesses and tourists from around the world, the reliability and sustainability of electricity supply will become even more crucial in supporting the city's growth. The Group is therefore optimistic about the future prospect of the bond CHINLP.

3. During the second half of July 2021, the Group successively invested in a bond issued by Ease Trade Global Limited (“**Ease Trade**”) and guaranteed by Poly Property Group Co. Limited (“**Poly Property**”) with an accumulated nominal amount of US\$2,800,000 at an accumulated consideration of US\$2,883,000 (equivalent to approximately RMB18.6 million). The bond has a coupon interest rate of 4.0% per annum with a maturity period of 5 years.

Ease Trade, the issuer, is the direct wholly owned subsidiary of the guarantor Poly Property, which is a limited liability company incorporated in Hong Kong and is listed on the Main Board of the Stock Exchange with the stock code of 00119. Poly Property, together with its subsidiaries, namely the Poly Group, is a prominent property developer in the PRC. It is principally engaged in the business of property development, investment and management. Its projects typically comprise various types of developments, including apartments, villas, offices and commercial properties. As at 30 June 2023, China Poly Group Corporation Limited, being one of the large-scale state-owned enterprises under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (SASAC), is deemed to be interested in 48.09% of the issued share capital of Poly Property under the Securities and Futures Ordinance (Cap. 571) of the law of Hong Kong.

According to the Profit Warning for the six months ended 30 June 2023, Poly Property expected that its profit attributable to owners would drop by about 50% period-on-period, mainly due to the decrease in recognition of turnover of property development projects during the period and the decline in gross profit margin due to the market downturn.

According to the CRIC, Poly Property ranked the 40th on the CRIC list in term of the total sales amount during the year 2022, a significant rise of 20 rankings compared with that at the end of 2021, which showed its strong development resilience despite the weak market confidence and intensive industry competition. Therefore, the Group is optimistic about the future prospect of the bond POLHON.

4. On 15 July 2021, the Group invested in a bond issued by NWD (MTN) Limited (“**NWD**”) and guaranteed by New World Development Company Limited (“**New World**”) with a nominal amount of US\$3,500,000 at a consideration of US\$3,783,000 (equivalent to approximately RMB24.5 million). The bond has a coupon interest rate of 4.5% per annum with a maturity period of 10 years.

The issuer NWD is one of wholly owned subsidiaries of New World, the guarantor. New World is the holding company of one of the largest Hong Kong-based property developers. Established in 1970, New World was listed on the Main Board of the Stock Exchange in 1972 (Stock code: 00017) and its shares are currently a constituent stock of the Hang Seng Index. New World, together with its subsidiaries, namely New World Group is one of the major property developers in Hong Kong and is engaged in the development of residential, retail, office and hotel properties. NWS Holdings Limited, one of New World’s subsidiary, engaged in roads construction and aviation infrastructure, is also listed on the Main Board of the Stock Exchange (Stock Code:00659). New World China Land Limited, wholly-owned by New World, is one of the largest foreign property developers and investors in the PRC.

According to the interim report for the six months ended 31 December 2022 of New World Group, NWD recorded a revenue of approximately HK\$40,193.3 million for the six months ended 31 December 2022, representing an increase of 13.0% when compared to HK\$35,572.8 million for the corresponding period in 2021. Net profit after tax for the six months ended 31 December 2022 amounted to HK\$2,786.8 million, representing a decrease of 19.4% when compared to the HK\$3,456.0 million for the corresponding period in 2021.

After three years of turbulence and correction under the pandemic, the real estate industry is heading to high-quality development in the future. As a premium enterprise that adheres to sound and high-quality development, NWD will pioneer to capitalise on the favourable market and policies as well as gaining advantages from the recovery of the market. Therefore, the Group is optimistic about the future prospect of the bond NWDEVL.

(B) *Bond Fund*

Name of the bond fund	Note	Interest income	Loss on fair	Fair value	Percentage of	Percentage of
		recognised in consolidated statement of profit or loss for the six months ended 30 June 2023 (RMB'000)	value changes recognised in consolidated statement of profit or loss for the six months ended 30 June 2023 (RMB'000)		as at 30 June 2023 (RMB'000)	
UBS Asian Bonds Series 5 (USD)	2	226	(146)	7,698	5.5%	1.2%

Notes:

1. The Group's investment in bond fund, UBS Asian Bonds, has been accounted for as financial assets at fair value through profit or loss. The fair value of the bond fund represented the net asset value of the sub-fund determined by UBS Asset Management (Singapore) Ltd, as manager (the "**Manager**") in consultation with HSBC Trustee (Cayman) Limited as trustee (the "**Trustee**"). Please refer to note 12 to the financial statements for details of the UBS Asian Bonds.
2. On 23 January 2020, the Group invested in 16,000 units of the UBS (CAY) Investment Fund Series – UBS Asian Bonds Series 5 (USD) Class A-qdist (USD) Units (the "**Sub-Fund**") at the subscription price of US\$100 per unit with a consideration of US\$1,614,000 (equivalent to approximately RMB11.1 million). The Sub-Fund has a maturity period of 4.5 years and a target yield to maturity of 4.8% to 5.3% per annum, assuming no defaults and is held to maturity.

UBS (CAY) Investment Fund Series is an open-ended unit trust established under the Trusts Law (as amended) of the Cayman Islands as an umbrella fund by the Trust Deed dated 24 May 2017 between the Manager and the Trustee. The investment objective of the Sub-Fund is to achieve total return by investing primarily in a portfolio of USD-denominated fixed income securities issued by Asia Pacific ex-Japan issuers.

Pursuant to UBS (CAY) Investment Fund Series Reports and Financial Statements for the year ended 31 December 2022, the Sub-Fund recorded income of approximately USD–60 million and a decrease in net assets attributable to unitholders from operations of approximately USD80 million.

The Sub-Fund in general take a buy-and-hold to maturity approach, investing in a diversified USD bond portfolio. Given the short maturity of the portfolio, it has relatively low interest risk. Besides, compared to global peers, Asian bonds usually provide higher yields with lower duration risk. Finally, it is operated by a professional Asian fixed maturity funds team consisted of managers with more than 10 years of experiences. The Manager, in general, actively monitors and reviews all the securities in the Sub-Fund's portfolio on a regular basis and takes appropriate action where necessary (including but not limited to re-investing proceeds from securities that have matured prior to the Sub-Fund's maturity date). Therefore, the Group is optimistic about the Sub-Fund operated by the Manager in the future.

(C) *Unlisted Equity Investments*

Company Name	Notes	Percentage of Shareholdings as at 30 June 2023	Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the six months ended 30 June 2023 (RMB'000)	Fair value as at 30 June 2023 (RMB'000)	Percentage of total FVOCI and FVPL investments as at 30 June 2023	Percentage of the total assets of the Group as at 30 June 2023
Xiamen eName Technology Co., Ltd. ("eName")	2	2%	1,105	13,161	9.4%	2.0%
Xiamen Relian Tianxia Technology Co., Ltd. ("Xiamen Relian")	3	10%	(45)	2,256	1.6%	0.3%
Others	4	–	(85)	1,763	1.3%	0.3%

Notes:

- The Group's unlisted equity investments have been accounted for as equity investments designated at fair value through other comprehensive income. The fair value of the unlisted equity investments was assessed by management or employed by other available methods.
- eName is a company listed on China New Third Board (Stock Code: 838413) principally engaged in domain related businesses and providing domain registration, transfer and transaction services for internet customers. It is a well-known domain service provider in China.

Pursuant to eName's interim report for the six months ended 30 June 2023, eName recorded revenue of approximately RMB146.9 million, representing an increase of 197.0% compared with the corresponding period in 2022, and net profit attributable to the shareholders of approximately RMB11.5 million, representing an increase of 574.8% compared with RMB1.7 million for the six months ended 30 June 2022. The abovementioned increase in net profit attributable to the shareholders was mainly attributable to the acquisition of a subsidiary in the second half of 2022.

eName has established a leading position in the domain transaction and service industry through mature technical support, convenient transaction procedure and humanized service management. eName adhered to expand its domain name business and it has actively increased promotional efforts and successfully maintained its transactions despite the gloomy industry environment. The Group is therefore optimistic about the domain service market in China and the performance of eName in the future.

- Xiamen Relian is an unlisted company which principally engaged in the sale of merchandise through intelligent vending machines in hotels and is managed by an experienced technical team.

Pursuant to Xiamen Relian's financial statements for the year ended 30 June 2023, Xiamen Relian recorded revenue of approximately RMB0.3 million and net loss after tax of approximately RMB0.4 million. With the initial recovery of the economic after the epidemic, Xiamen Relian maintained current scale of operation in the short term and continued to look for new business opportunities.

In view that the growing demand for intelligent vending machines from the retail industry will offer growth opportunities and that intelligent vending machines could also be expected to form an extensive sales and distribution network to reach intelligent products consumers, the Group considers that the future business prospect of Xiamen Relian is positive.

- Others comprised two unlisted limited liability companies and none of these investments accounted for more than 0.3% of the total assets of the Group as at 30 June 2023.

(D) *Unlisted Debt Investments*

Company Name	Notes	Percentage of Shareholdings as at 30 June 2023	Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the six months ended 30 June 2023 (RMB'000)	Fair value as at 30 June 2023 (RMB'000)	Percentage of total FVOCI and FVPL investments as at 30 June 2023	Percentage of the total assets of the Group as at 30 June 2023
Future Capital Discovery Fund II, L.P. ("Future Capital")	2	1.8797%	9,697	53,368	38.2%	8.3%
Others	3	-	(155)	1,674	1.2%	0.3%

Notes:

- The Group's unlisted debt investments have been accounted for as financial assets at fair value through profit or loss. The fair value of the unlisted debt investments was assessed by management or employed by other available methods.
- Future Capital is an unlisted limited partnership principally engaged in investment in companies which are primarily in the sectors of intelligent system, auto system and information technology to achieve earnings in the form of medium to long term capital appreciation. The aggregate investment cost of the investment in Future Capital was USD1,452,197.91. As at 30 June 2023, the Company held approximately 1.8797% partnership interests in Future Capital.

Pursuant to Future Capital's financial statements for the six months ended 30 June 2023, Future Capital recorded income of approximately US\$8,032 and net increase in partners' capital resulting from operations of approximately US\$98.7 million. The substantial increase in partners' capital resulting from operations was primarily due to an increase in fair value changes on several Future Capital's investments. Future Capital expected to realise its investments at a later stage in order to enjoy a higher capital appreciation.

The Group believes that Future Capital has sufficient capital and is managed by an experienced management team and the sectors it invests in have positive future and its future business prospect is positive and is expected to grow continuously.

- Others comprised one unlisted debt investments and none of these investments accounted for more than 0.3% of the total assets of the Group as at 30 June 2023.

There was no impairment made for any investments in debt instruments for the six months ended 30 June 2023. Investments in equity instruments did not involve any separate impairment accounting under IFRS 9 – Financial Instruments.

Other significant investments held, significant acquisitions and disposal of subsidiaries, associates and joint ventures and future plans for material investments or capital assets

Save as disclosed in this announcement, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2023. Except for those disclosed in this announcement, there was no plan authorised by the Board for other significant investments or acquisitions of major capital assets or other businesses in the first half of 2023. However, the Group will continue to identify new opportunities for business development.

Gearing ratio

The Group's gearing ratio, which is calculated based on total liabilities divided by total assets, was 21.7% as at 30 June 2023 and 27.0% as at 31 December 2022.

Capital expenditures

The following table sets forth the Group's capital expenditures for the six months ended 30 June 2023 and 2022:

	Six Months Ended 30 June		Change %
	2023 <i>(RMB'000)</i>	2022 <i>(RMB'000)</i>	
Property, plant and equipment	<u>1,359</u>	<u>2,572</u>	(47.2)
Total	<u>1,359</u>	<u>2,572</u>	(47.2)

Capital expenditures consisted of property, plant and equipment which include but not limited to office equipment, company vehicles for employees' use and leasehold improvements. The total capital expenditures for the six months ended 30 June 2023 were approximately RMB1.4 million, compared with RMB2.6 million for the six months ended 30 June 2022, representing a decrease of approximately 47.2%. The decrease was mainly attributable to the decrease in leasehold improvements for our offices.

Pledge of Assets

As at 30 June 2023, bank loans of approximately RMB68.5 million (under a loan facility of up to RMB100.0 million) were used for the operation of the Company's R&D center. The bank loans were secured by the land use rights, investment properties and building on the Land with a total carrying value of approximately RMB243.4 million.

Contingent liabilities and guarantees

As at 30 June 2023, the Company did not have any unrecorded significant contingent liabilities, guarantees or any litigation with claims made against it.

Use of Net Proceeds from Subscription of New Shares by THL H Limited

Net proceeds of the Subscription by Tencent (through its wholly-owned subsidiary named THL H Limited) in 2021 were approximately HK\$119.1 million after deducting the relevant expenses of the Subscription.

As at 30 June 2023, the utilisation of the net proceeds from the Subscription are as follows:

	Intended use of net proceeds (HKD million)	Actual use of net proceeds up to 30 June 2023 (HKD million)	Unutilised net proceeds up to 30 June 2023 (HKD million)
Supporting new product development	119.1	43.1	–
Attracting suitable personnel		45.4	
Increase the publishing and marketing budget		30.6	
Total	119.1	119.1	–

During the six months ended 30 June 2023, the net proceeds from the Subscription were utilised according to the intentions previously disclosed by the Company. As at 30 June 2023, the Company had utilised all of the net proceeds of the Subscription.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2023, the Company had 327 full-time employees, the majority of whom were based in Xiamen, Fujian Province of the PRC. The following table sets forth the number of employees categorised by function as at 30 June 2023:

	Number of Employees	% of Total
Development	197	60.2
Operations	54	16.5
Administration	62	19.0
Sales and marketing	14	4.3
Total	327	100.0

The remuneration of the Group's employees is determined based on their performance, experience, competence and market comparables. Their remuneration package includes salaries, bonuses related to the Group's performance, allowances, equity settled share-based payments and state-managed retirement benefit schemes for employees in the PRC. The Company also provides customised training to its staff to enhance their technical and product knowledge.

The remuneration of Directors and members of senior management is determined on the basis of each individual's responsibilities, qualifications, position, experience, performance, seniority and time devoted to the Group's business. They receive compensation in the form of salaries, bonuses, share options, RSUs, and other allowances and benefits-in-kind, including the Company's contribution to their pension scheme on their behalf. The remuneration policy of the Directors and the senior management is reviewed by the Remuneration Committee and approved by the Board.

In addition, the Group has currently adopted the Post-IPO Share Option Scheme and RSU Plan II as long-term incentive schemes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the six months ended 30 June 2023*

	<i>Notes</i>	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
REVENUE	4	107,902	74,343
Cost of sales		<u>(13,032)</u>	<u>(17,137)</u>
Gross profit		94,870	57,206
Other income and gains	4	17,907	11,524
Selling and distribution expenses		(17,846)	(14,661)
Administrative expenses		(21,802)	(22,062)
Research and development costs		(27,622)	(36,866)
Finance costs		(1,735)	(2,105)
Other expenses		(2,938)	(230)
Share of profits and losses of associates		<u>(537)</u>	<u>247</u>
PROFIT/(LOSS) BEFORE TAX	5	40,297	(6,947)
Income tax credit/(expense)	6	<u>569</u>	<u>(826)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>40,866</u>	<u>(7,773)</u>
Attributable to:			
Owners of the parent		40,262	(9,520)
Non-controlling interests		<u>604</u>	<u>1,747</u>
		<u>40,866</u>	<u>(7,773)</u>
PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– Basic & Diluted		<u>RMB0.02</u>	<u>RMB(0.01)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	40,866	(7,773)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Debt investments at fair value through other comprehensive income:		
Changes in fair value	84	(7,088)
Exchange differences:		
Exchange differences on translation of foreign operations	4,239	7,681
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	4,323	593
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	975	(4,244)
Income tax effect	–	584
	975	(3,660)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	975	(3,660)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	5,298	(3,067)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	46,164	(10,840)
Attributable to:		
Owners of the parent	45,556	(12,589)
Non-controlling interests	608	1,749
	46,164	(10,840)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2023

		30 June 2023	31 December 2022
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		61,743	62,182
Investment properties		156,873	159,166
Right-of-use assets		34,311	36,088
Goodwill	9	11,427	11,427
Other intangible assets		533	648
Investment in associates		10,073	10,910
Prepayments, other receivables and other assets	11	16,343	18,370
Time deposits		10,000	–
Equity investments designated at fair value through other comprehensive income	12	17,180	16,205
Debt investments at fair value through other comprehensive income	12	59,878	58,121
Financial assets at fair value through profit or loss	12	62,740	51,942
Total non-current assets		441,101	425,059
CURRENT ASSETS			
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	10	43,473	41,373
Prepayments, other receivables and other assets	11	15,813	15,413
Cash and cash equivalents		134,094	133,153
Other current assets		10,995	10,659
Total current assets		204,375	200,598
CURRENT LIABILITIES			
Other payables and accruals		37,450	59,609
Interest-bearing bank loans		6,000	10,000
Lease liabilities		2,263	2,640
Tax payable		2,016	2,010
Contract liabilities		15,438	13,436
Total current liabilities		63,167	87,695
NET CURRENT ASSETS		141,208	112,903
TOTAL ASSETS LESS CURRENT LIABILITIES		582,309	537,962

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	62,500	60,000
Lease liabilities	694	1,614
Deferred tax liabilities	1,220	1,789
Contract liabilities	12,780	18,056
	<hr/>	<hr/>
Total non-current liabilities	77,194	81,459
	<hr/>	<hr/>
Net assets	505,115	456,503
	<hr/>	<hr/>
EQUITY		
Equity attributable to owners of the parent		
Share capital	1	1
Share premium	601,195	597,945
Reserves	(111,027)	(151,727)
	<hr/>	<hr/>
	490,169	446,219
	<hr/>	<hr/>
Non-controlling interests	14,946	10,284
	<hr/>	<hr/>
Total equity	505,115	456,503
	<hr/>	<hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2023

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 6 March 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at the offices of Conyers Trust Company (Cayman) Ltd. at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Group is principally engaged in the operation and development of web and mobile games in Mainland China. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Ltd. (the “Stock Exchange”) on 5 December 2014.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2022.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 17	<i>Insurance Contracts</i>
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group’s interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group’s annual consolidated financial statements.

- (b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The adoption of these amendments to IAS 12 did not result in substantial changes to the Group's accounting policies and amounts reported for the current and prior periods.
- (d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

3. OPERATING SEGMENT INFORMATION

Information about geographical areas

Since no revenue or operating profit from transactions with a single geographical area other than Mainland China accounted for 10% or more of the Group and all of the Group's identifiable non-current assets, other than investments, were located in Mainland China no geographical segment information in accordance with IFRS 8 *Operating Segments* is presented.

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue for the six months ended 30 June 2023 and 2022.

4. REVENUE, OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Game operations	91,184	58,852
– Gross basis	38,334	18,100
– Net basis	52,850	40,752
Online game distribution	279	693
Licensing income	2,456	945
Advertising revenue	10,975	11,089
Sale of goods	1,072	502
Technical service income	71	340
Game Development service income	1,865	1,922
	<u>107,902</u>	<u>74,343</u>
Timing of revenue recognition		
Services transferred over time	4,321	2,867
Services and goods transferred at a point of time	103,581	71,476
	<u>107,902</u>	<u>74,343</u>
Total revenue from contracts with customers		
	<u>107,902</u>	<u>74,343</u>
Other income		
Government grants	2,155	2,590
Interest income	1,543	1,778
Gross rental income from investment property operating leases	3,072	2,915
	<u>6,770</u>	<u>7,283</u>
Gains		
Fair value gains, net:		
Financial assets	9,701	3,605
Dividend income from financial assets at fair value through profit or loss	765	–
Fair value gains on investment properties	–	458
Other gains	671	178
	<u>17,907</u>	<u>11,524</u>

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Channel costs	11,952	5,687
Rental fee	656	1,702
Depreciation of property, plant and equipment	1,725	1,768
Depreciation of right-of-use assets	1,777	2,814
Amortisation of other intangible assets	115	116
Advertising expenses	3,430	7,253
Outsource fee	646	3,204
Auditor's remuneration	550	550
Employee benefit expenses (excluding directors' and chief executive's remuneration)		
Salaries and wages	38,800	51,243
Pension scheme contributions	6,438	3,929
Equity-settled share-based payment expenses	–	70
	45,238	55,242
Exchange difference, net	(32)	(164)
Gain on disposal of items of property, plant and equipment, net	(149)	(5)
Fair value gains, net	(9,400)	(3,605)
Changes in fair value of investment properties, net	2,293	(458)

6. INCOME TAX EXPENSE

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

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. The HK subsidiary Hong Kong Feiyu was subjected to this tax rate.

Under the relevant income tax law, The PRC subsidiaries were subject to income tax at a statutory rate of 25% for the year on their respective taxable income, except for Xiamen Feiyu, Xiamen Yidou, Xiamen Youli and Xiamen Feixin which were certified as High and New Technology Enterprise ("HNTE") and entitled to a preferential income tax rate of 15% from 2021 to 2023. Kailuo Tianxia was certified HNTE and entitled to a preferential income tax rate of 15% from 2022 to 2024.

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax	–	150
Deferred tax	(569)	676
Total tax (credit)/charge for the period	(569)	826

7. DIVIDEND

The Board does not recommend the payment of an interim dividend to the ordinary equity holders of the Company for the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

8. EARNING PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,726,184,979 (for the six months ended 30 June 2022: 1,718,826,062) in issue during the period, as adjusted to reflect the share issuance during the period.

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

	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	<u>40,262</u>	<u>(9,520)</u>
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,726,184,979	1,718,826,062
Effect of dilution – weighted average number of ordinary shares: Share options	<u>5,640,987</u>	<u>–</u>
	<u>1,731,825,966</u>	<u>1,718,826,062</u>

9. GOODWILL

RMB'000

At 30 June 2023 and 31 December 2022:

Cost	432,278
Accumulated impairment	<u>(420,851)</u>
Net carrying amount	<u>11,427</u>

10. ACCOUNTS RECEIVABLE AND RECEIVABLES DUE FROM THIRD-PARTY GAME DISTRIBUTION PLATFORMS AND PAYMENT CHANNELS

The Group's credit terms with customers generally range from one month to four months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancement over its receivable balances. These receivables are non-interest-bearing.

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

	30 June 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
Within 3 months	<u>43,473</u>	<u>41,373</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

The balances consist of receivables from third parties which have no recent history of default and past due amounts. As at 30 June 2023 and 31 December 2022, the loss allowance was assessed to be minimal.

11. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Non-current		
Prepayments	11,231	14,649
Prepaid land lease payments related deposits	1,605	1,605
Other receivables	17,952	16,651
Deposits	730	740
	<u>31,518</u>	<u>33,645</u>
Impairment allowance	(15,175)	(15,275)
	<u>16,343</u>	<u>18,370</u>
Current		
Prepayments	8,619	6,804
Investment property rental income	4,735	4,393
Deposits	36	253
Contract costs	–	370
Other receivables	17,492	18,662
	<u>30,882</u>	<u>30,482</u>
Impairment allowance	(15,069)	(15,069)
	<u>15,813</u>	<u>15,413</u>

12. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Debt investments at fair value through other comprehensive income			
Straight bond	(1)	<u>59,878</u>	<u>58,121</u>
Equity investments designated at fair value through other comprehensive income			
Unlisted equity investments, at fair value	(2)	<u>17,180</u>	<u>16,205</u>
Financial assets at fair value through profit or loss			
Unlisted debt investments, at fair value	(3)	<u>55,042</u>	44,337
Bond fund	(4)	<u>7,698</u>	<u>7,605</u>
		<u>62,740</u>	<u>51,942</u>

- (1) On 15 July 2021, the Group invested in a bond issued by CLP Power Hong Kong Financing Limited with a nominal amount of US\$3,500,000 at a consideration of US\$3,542,000 (equivalent to approximately RMB23.0 million). The bond has a coupon interest rate of 2.25% per annum with a maturity period of 10 years.

During the second half of July 2021, the Group successively invested in a bond issued by Ease Trade Global Limited with an accumulated nominal amount of US\$2,800,000 at an accumulated consideration of US\$2,883,000 (equivalent to approximately RMB18.6 million). The bond has a coupon interest rate of 4.0% per annum with a maturity period of 5 years.

On 15 July 2021, the Group invested in a bond issued by New World Development Company Limited with a nominal amount of US\$3,500,000 at a consideration of US\$3,783,000 (equivalent to approximately RMB24.5 million). The bond has a coupon interest rate of 4.5% per annum with a maturity period of 10 years.

Debt investments at fair value through other comprehensive income are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

- (2) The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature, which represented equity investments in one company listed on the National Equities Exchange And Quotations of the PRC, and three unlisted entities incorporated in the PRC and Singapore.
- (3) The above unlisted debt investments represented the investments in two unlisted limited partnerships, and one unlisted entity incorporated in the Cayman Islands.
- (4) In January 2020, the Group invested in a bond fund issued by UBS (CAY) Fund Series with a nominal amount of US\$1,600,000 and with income stream from a diversified portfolio at a consideration of US\$1,614,000 (equivalent to approximately RMB11.1 million).

OTHER INFORMATION AND CORPORATE GOVERNMENT HIGHLIGHTS

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2023, neither the Company, its subsidiaries nor any of the PRC Operating Entities had purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

The Company established the Audit Committee on 17 November 2014 with written terms of reference adopted in compliance with the CG Code and the terms of reference was amended on 28 December 2015 and 27 December 2018, respectively. As at the date of this announcement, the Audit Committee comprises Ms. LIU Qianli, Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, all of whom are independent non-executive Directors.

The Audit Committee, together with the Board and the auditors of the Company, has reviewed the accounting standards and practices adopted by the Group and the unaudited consolidated interim results of the Company for the six months ended 30 June 2023.

Compliance with the CG Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. Save as disclosed below, the Company has complied with all applicable code provisions under the CG Code for the six months ended 30 June 2023.

Code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. YAO Jianjun serves as the Chairman and Chief Executive Officer of the Company. In view of Mr. YAO Jianjun's extensive experience in the industry, personal profile and role in the Group and its historical development, the Board believes that it is appropriate and beneficial to the business prospects of the Group that Mr. YAO Jianjun act as both Chairman and Chief Executive Officer. Furthermore, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in an experienced and qualified person such as Mr. YAO Jianjun should help to provide strong and consistent leadership, allowing the Company to more effectively plan and implement business decisions and strategies. Besides, all major decisions have been made in consultation with members of the Board, which comprises experienced and high caliber individuals, appropriate Board committees, as well as the senior management team. The Board is, therefore, of the view that there are adequate checks and balances in place. Nevertheless, the Board will continue to monitor and review the Company's current structure and make necessary changes at an appropriate time.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code, and maintain a high standard of corporate governance practices of the Company.

Compliance with Model Code

The Company has adopted the Model Code for securities transactions by the Directors. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code throughout the six months ended 30 June 2023.

Senior management, executives and staff who, because of their work at the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the six months ended 30 June 2023.

Publication of the Interim Results Announcement and 2023 Interim Report

This interim results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.feiyuhk.com), and the 2023 interim report containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the abovementioned websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to its shareholders, the management team, employees, business partners and customers for their continued support and contribution.

GLOSSARY

“ARPPU”	average revenue per paying user, calculated by dividing monthly average revenue from the sale of virtual items and premium features during a certain period by the number of average MPUs during the same period
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“Cayman Islands”	the Cayman Islands
“CG Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Chairman”	the chairman of the Board
“Chief Executive Officer”	the chief executive officer of the Company

“China” or “PRC” or “Mainland China”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong Special Administrative Region of the People’s Republic of China, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company” or “Feiyu”	Feiyu Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2014
“Director(s)”	director(s) of the Company
“Group” or “the Group”	the Company, its subsidiaries and the PRC Operating Entities
“HK\$”, “Hong Kong dollars” or “HKD”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IAS(s)”	International Accounting Standards
“IASB”	International Accounting Standard Board
“IFRS(s)”	International Financial Reporting Standards, amendments and interpretations issued by the IASB
“IP”	Intellectual Properties
“Land”	the land located in Huli District, Xiamen, the PRC as disclosed in the Company’s announcement dated 21 July 2016
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“MAUs”	monthly active users, which is the number of players who logged into a particular game in the relevant calendar month. Under this metric, a player who logged into two different games in the same month is counted as two MAUs. Similarly, a player who plays the same game on two different publishing platforms in a month would be counted as two MAUs. Average MAUs for a particular period is the average of the MAUs in each month during that period
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules

“MPUs”	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period
“PC”	personal computer
“Post-IPO Share Option Scheme”	the post-IPO Share Option Scheme adopted by the Shareholders on 17 November 2014
“PRC Operating Entities”	Xiamen Guanghuan and its subsidiaries and “PRC Operating Entity” means any one of them
“R&D”	research and development
“Renminbi” or “RMB”	Renminbi yuan, the lawful currency of the PRC
“RPG”	role-playing games, which involve a large number of players who interact with each other in an evolving fictional world. Each player adopts the role of one or more “characters” who develop specific skill sets (such as melee combat or casting magic spells) and control the character’s actions. There are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the players, and the storyline continuously evolves even while the players are offline and away from the games
“RSU(s)”	restricted share units or any one of them
“RSU Plan II”	the RSU Plan II adopted by the Shareholders on 28 May 2018
“Share(s)”	ordinary share(s) in the share capital of the Company with nominal value of US\$0.0000001 each
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of 171,882,607 newly allotted and issued Shares by Tencent (through its wholly-owned subsidiary named THL H Limited) at approximately HK\$0.6941 per subscription share under the subscription agreement dated 23 April 2021 as detailed in the Company’s announcements dated 23 April 2021 and 6 May 2021.
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong)

“Tencent”	Tencent Holdings Limited, a limited liability company incorporated under the laws of the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 700)
“US\$”, “United States Dollars” or “USD”	United States dollars, the lawful currency of the United States of America
“Xiamen Guanghuan”	Xiamen Guanghuan Information Technology Co., Ltd. (廈門光環信息科技有限公司), a limited company incorporated under the laws of the PRC on 12 January 2009

By Order of the Board
Feiyu Technology International Company Ltd.
YAO Jianjun
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 25 August 2023

As at the date of this announcement, the Board comprises Messrs. YAO Jianjun, CHEN Jianyu, BI Lin and LIN Zhibin, as executive Directors; and Ms. LIU Qianli and Messrs. LAI Xiaoling and MA Suen Yee Andrew, as independent non-executive Directors.