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Vobile Group Limited

阜博集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3738)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

Interim Condensed Consolidated Statement of Profit or Loss Highlights

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	1,002,756	556,120
Gross profit	392,773	230,185
Profit before tax	45,135	44,992
Profit for the period	33,928	29,145
Non-IFRS Adjusted Net Profit	58,067	50,031
Non-IFRS Adjusted EBITDA	<u>181,333</u>	<u>130,573</u>

Interim Condensed Consolidated Statement of Financial Position Highlights

	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Total assets	3,409,677	3,260,325
Total liabilities	1,287,873	1,586,690
Net assets	2,121,804	1,673,635
Total equity	<u>2,121,804</u>	<u>1,673,635</u>

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2023 together with the comparative figures for the six months ended 30 June 2022 as set out below.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
REVENUE	4	1,002,756	556,120
Cost of services provided		<u>(609,983)</u>	<u>(325,935)</u>
Gross profit		392,773	230,185
Other income and gains	4	10,788	11,183
Selling and marketing expenses		(116,153)	(49,248)
Administrative expenses		(78,468)	(57,441)
Research and development expenses		(95,290)	(58,250)
Finance costs	6	(50,332)	(22,513)
Share of profits and losses of associates		1	(145)
Other expenses		<u>(18,184)</u>	<u>(8,779)</u>
PROFIT BEFORE TAX	5	45,135	44,992
Income tax expense	7	<u>(11,207)</u>	<u>(15,847)</u>
PROFIT FOR THE PERIOD		<u>33,928</u>	<u>29,145</u>
Attributable to:			
Owners of the Company		29,163	23,663
Non-controlling interests		<u>4,765</u>	<u>5,482</u>
		<u>33,928</u>	<u>29,145</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic — for profit for the period (HK\$)	9	0.0132	0.0112
Diluted — for profit for the period (HK\$)	9	<u>0.0121</u>	<u>0.0102</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>33,928</u>	<u>29,145</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(69,115)</u>	<u>(46,919)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(69,115)</u>	<u>(46,919)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(35,187)</u>	<u>(17,774)</u>
Attributable to:		
Owners of the Company	(33,763)	(23,081)
Non-controlling interests	<u>(1,424)</u>	<u>5,307</u>
	<u>(35,187)</u>	<u>(17,774)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		30 June	31 December
		2023	2022
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		44,784	47,140
Investment properties	10	63,405	66,446
Right-of-use assets		19,364	20,129
Goodwill		1,160,218	1,184,396
Other intangible assets		421,389	388,056
Investment in associates		972	1,018
Financial assets at fair value through profit or loss	11	188,750	193,481
Deferred tax assets		91,965	93,785
Prepayments and deposits		<u>2,489</u>	<u>1,951</u>
Total non-current assets		<u>1,993,336</u>	<u>1,996,402</u>
CURRENT ASSETS			
Inventories		1,708	17,092
Trade receivables	12	958,365	686,151
Prepayments, deposits and other receivables		185,709	114,479
Tax recoverable		8,002	11,863
Pledged deposits		14,350	207,843
Cash and cash equivalents		<u>248,207</u>	<u>226,495</u>
Total current assets		<u>1,416,341</u>	<u>1,263,923</u>
CURRENT LIABILITIES			
Trade payables	13	479,619	279,691
Other payables and accruals		150,701	71,089
Interest-bearing borrowings	14	57,556	652,654
Lease liabilities		10,092	11,496
Tax payable		21,598	34,606
Convertible bonds	15	<u>4,680</u>	<u>4,680</u>
Total current liabilities		<u>724,246</u>	<u>1,054,216</u>
NET CURRENT ASSETS		<u>692,095</u>	<u>209,707</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,685,431</u>	<u>2,206,109</u>

		30 June	31 December
		2023	2022
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Convertible bonds	<i>15</i>	102,233	97,006
Interest-bearing borrowings	<i>14</i>	382,342	351,232
Lease liabilities		11,227	9,695
Deferred tax liabilities		67,825	74,541
		<u>563,627</u>	<u>532,474</u>
Total non-current liabilities		<u>563,627</u>	<u>532,474</u>
Net assets		<u>2,121,804</u>	<u>1,673,635</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		440	417
Treasury shares		(51,074)	(79,893)
Equity component of convertible bonds		8,614	8,614
Reserves		1,984,062	1,563,311
		<u>1,942,042</u>	<u>1,492,449</u>
Non-controlling interests		179,762	181,186
		<u>179,762</u>	<u>181,186</u>
Total equity		<u>2,121,804</u>	<u>1,673,635</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 28 July 2016 under the Companies Law, Chapter 22 of the Cayman Islands. The registered address of the office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. During the period, the Group was principally engaged in providing Software as a Service (“SaaS”).

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2023 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the disclosure requirement of Appendix 16 of the Listing Rules. Save for the change of presentation currency and adoption of new and revised IFRSs during the period as set out in notes 2.2 and 2.3, respectively, the accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the preparation of the annual financial statements for the year ended 31 December 2022. The interim condensed consolidated financial information are presented in Hong Kong dollar (“HK\$”) and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

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 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 new and revised standards are not relevant to the preparation of the Group’s interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group had only one reportable operating segment, which was offering SaaS to help content owners protect their content from unauthorised use, measure the viewership of their content, and monetize their content during the period. Since this is the only reportable operating segment of the Group, no further operating segment analysis is presented.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Mainland China	560,038	225,681
United States	439,789	327,790
Other countries/regions	<u>2,929</u>	<u>2,649</u>
	<u><u>1,002,756</u></u>	<u><u>556,120</u></u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
	Mainland China	1,061,650
United States	625,427	625,977
Other countries/regions	<u>25,544</u>	<u>24,023</u>
	<u><u>1,712,621</u></u>	<u><u>1,709,136</u></u>

The non-current asset information of continuing operations above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue derived from sales to major customers, including sales to a group of entities which are known to be under common control with those customers, which accounted for 10% or more of the Group's revenue for the six months ended 30 June 2023 is as follows:

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Customer A	160,658	110,704
Customer B	101,937	—*
Customer C	—*	66,664

* Revenue derived from this customer did not exceed 10% of the Group's revenue for the period.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the value of services rendered during the period.

An analysis of revenue and other income and gains is as follows:

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
<i>Revenue from contracts with customers</i>		
Rendering of services	<u>1,002,756</u>	<u>556,120</u>
Other income and gains		
Bank Interest income	2,822	1,411
Foreign exchange gains	120	1,904
Fair value gain on financial assets measured at FVTPL	212	30
Other	<u>7,634</u>	<u>7,838</u>
	<u>10,788</u>	<u>11,183</u>

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of services provided	<u>609,983</u>	<u>325,935</u>
Employee benefit expense (including Directors' and chief executive's remuneration)		
Wages and salaries	90,784	77,846
Equity-settled share compensation expense	18,156	15,221
Directors' fee	1,509	1,331
Other benefits	6,100	4,584
Pension scheme contributions	<u>3,237</u>	<u>2,345</u>
	119,786	101,327
Depreciation of items of property, plant and equipment	6,860	2,182
Depreciation of right-of-use assets	5,325	5,777
Amortisation of intangible assets	48,486	34,554
Lease payments not included in the measurement of lease liabilities	1,336	1,115
Impairment of trade receivables	3,879	935
Research and development expenses	95,290	58,250
Auditor's remuneration	2,265	1,500
Bank interest income (<i>Note 4</i>)	(2,822)	(1,411)
Loss on derecognition of financial liabilities measured at amortised cost	6,195	—
Changes in fair value of financial assets at FVTPL, net	(212)	2,425
Foreign exchange differences, net	<u>7,658</u>	<u>1,991</u>

* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on borrowings (including convertible bonds)	50,014	22,092
Nominal interest on lease liabilities	<u>318</u>	<u>421</u>
	<u><u>50,332</u></u>	<u><u>22,513</u></u>

7. INCOME TAX EXPENSE

Income tax represents primarily United States, Mainland China, Hong Kong and Japan enterprise income tax charged on the Group. United States income tax applicable to the Group is charged at the federal tax rate of 21% (2022: 21%) for the six months ended 30 June 2023. The income tax applicable to profits arising in Hong Kong was provided at a statutory tax rate of 16.5% (2022: 16.5%) during the six months ended 30 June 2023. The income tax applicable to profits arising in Mainland China was provided at a statutory tax rate of 25% during the six months ended 30 June 2023 except for certain subsidiaries of the Group in Mainland China, that were accredited as “High and New Technology Enterprises” and entitled to a preferential rate is 15% in three years respectively. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The major components of income tax expense for the six months ended 30 June are as follows:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current — United States		
Charge for the period	797	—
Current — Mainland China		
Charge for the period	13,443	14,089
Deferred tax expense	<u>(3,033)</u>	<u>1,758</u>
Total tax expense for the period	<u><u>11,207</u></u>	<u><u>15,847</u></u>

8. DIVIDEND

The Board does not recommend payment of any dividend for the period ended 30 June 2023 (2022: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to owners of the Company, and the weighted average number of ordinary shares of 2,210,092,429 (2022: 2,117,596,656) in issue during the period.

The calculations of earnings per share attributable to owners of the Company for each of the six months ended 30 June 2023 and 2022 are based on the following data:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	29,163	23,663
Interest on convertible bonds	<u>5,227</u>	<u>—</u>
Profit attributable to owners of the Company before interest on convertible bond	<u>34,390</u>	<u>23,663</u>
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,210,092,429	2,117,596,656
Effect of dilution — Weighted average number of ordinary shares		
Share options	198,716,685	193,320,552
Convertible bonds	<u>21,992,481</u>	<u>—</u>
Weighted average number of ordinary share options for the purpose of diluted earnings per share calculation	<u>2,430,801,595</u>	<u>2,310,917,208</u>

- * Because the diluted earnings per share amount is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on basic earnings per share for the period and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amounts are based on the profit for the period of HK\$29,163,000 and the weighted average number of ordinary shares of 2,408,809,114 in issue during the six months ended 30 June 2023 which excluded the interest on the convertible bonds of HK\$5,227,000 and the weighted average number of ordinary shares of 21,992,481 from convertible bonds.

10. INVESTMENT PROPERTIES

	<i>HK\$'000</i> (Unaudited)
Carrying amount at 1 January 2023	66,446
Exchange realignment	<u>(3,041)</u>
Carrying amount at 30 June 2023	<u><u>63,405</u></u>

The Group's investment properties under construction amounting to HK\$63,405,000 which will be held under leasehold interests to earn rentals after completion are measured using the fair value model, and are classified and accounted for as investment properties.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2023 <i>HK\$'000</i> (Unaudited)	31 December 2022 <i>HK\$'000</i> (Audited)
Call option, at fair value	128,643	134,812
Other unlisted investments, at fair value	<u>60,107</u>	<u>58,669</u>
	<u><u>188,750</u></u>	<u><u>193,481</u></u>

The above equity investments were classified as financial assets at FVTPL as the Group has not elected to recognise the fair value gain or loss through other comprehensive income. The above unlisted investments were asset management schemes managed by non-bank financial institutions. The above call option is a derivative financial instrument which allow the Group, at the Group's discretion, to acquire the remaining 38.82% in Particle Technology at consideration of RMB542 million in steps in 2024.

12. TRADE RECEIVABLES

	30 June 2023 <i>HK\$'000</i> (Unaudited)	31 December 2022 <i>HK\$'000</i> (Audited)
Trade receivables	963,047	686,954
Impairment	<u>(4,682)</u>	<u>(803)</u>
	<u><u>958,365</u></u>	<u><u>686,151</u></u>

The Group's trading terms with its debtors are usually 10 to 180 days. The Group always recognises lifetime ECLs for all trade receivables and measures the lifetime ECL on a specific basis according to management's assessment of the recoverability of an individual receivable. Management considers the number of days that an individual receivable is outstanding, historical experience and forward-looking information to determine the recoverability of the trade receivable. The Group does not hold any collateral or other credit enhancements over its trade receivables balances. Trade receivables are unsecured and non-interest-bearing.

An ageing analysis of the current trade 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 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Within 1 year	949,265	676,358
Over 1 year	9,100	9,793
	<u>958,365</u>	<u>686,151</u>

The movements in loss allowance for impairment of trade receivables are as follows:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
At beginning of period/year	803	119
Impairment of trade receivables, net	3,879	684
At end of the period/year	<u>4,682</u>	<u>803</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.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 30 June 2023

	Current	Past due Less than 1 year	Past due 1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.25%	0.96%	5.20%	0.00%	0.49%
Gross carrying amount (HK\$'000)	684,439	271,624	6,984	—	963,047
Expected credit losses (HK\$'000)	1,711	2,608	363	—	4,682

As at 31 December 2022

	Current	Past due Less than 1 year	Past due 1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.03%	0.12%	4.69%	0.00%	0.12%
Gross carrying amount (HK\$'000)	525,931	150,748	10,275	—	686,954
Expected credit losses (HK\$'000)	146	175	482	—	803

13. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Within 1 year	<u>479,619</u>	<u>279,691</u>

The trade payables are non-interest-bearing and are normally settled on within 1 year terms.

14. INTEREST-BEARING BORROWINGS

On 2 April 2022, Vobile HK entered a senior facility (the “Senior Facility”) agreement and a mezzanine facility (the “Mezzanine Facility”) agreement with a multi-national financial institution as the arranger and agent for loan amount of US\$75 million and US\$52.5 million, respectively. The Senior Facility was drawn on 21 April 2022, bear interest at secured overnight financing rate plus three point seven five percent to five point seven five percent and is fully repayable on 29 September 2023. The Mezzanine Facility was drawn on 21 April 2022, bear interest at secured overnight financing rate plus nine percent and is fully repayable on 2 July 2024. The interest-bearing borrowings drawn from the Senior Facility had been fully repaid on 29 March 2023. On 29 March 2023, the Company has refinanced the Mezzanine Facility with an interest-bearing borrowing of US\$60,000,000 (equivalent to approximately HK\$470,156,000) from a multi-national financial institution. The Company’s interest-bearing borrowing as at 30 June 2023 bears interest at secured overnight financing rate plus seven percent, HK\$195,898,000 is repayable in the second year and HK\$274,258,000 is repayable in the third year.

15. CONVERTIBLE BONDS

On 16 August 2022, the Company issued convertible bonds in an aggregate principal amount of HK\$117,000,000 to Lucion International Investment Limited, an investment holding company incorporated in Hong Kong. The convertible bonds have an initial conversion price of HK\$5.32 per Share. The convertible bonds are convertible into shares of the Company. The convertible bonds bear simple interest on their outstanding principal amount at the rate of 4% per annum, payable annually in arrears, and will mature in the three years from the issue date. The annual effective interest rate of the debt component is 10.69%.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders’ equity.

The convertible bonds issued have been split into the liability and equity components as follows:

	30 June 2023 HK\$’000 (Unaudited)	31 December 2022 HK\$’000 (Audited)
Liability component at 1 January	101,686	—
Nominal value of convertible bonds issued during the year	—	117,000
Equity component	—	(8,614)
Direct transaction costs attributable to the equity component	—	(706)
Direct transaction costs attributable to the liability component	—	(9,917)
	101,686	97,763
Liability component at the beginning of the period/issuance date	101,686	97,763
Interest expense	5,227	3,923
Interest payable	—	—
	106,913	101,686
Liability component at end of period/year	106,913	101,686
Portion classified as current liabilities	(4,680)	(4,680)
	102,233	97,006
Non-current portion	102,233	97,006

16. BUSINESS COMBINATION

On 9 May 2022, the Group acquired 61.18% interests in Particle Technology. The acquisition was made as part of the Group's strategy to embrace market opportunities to further consolidate its position as the leader in online video content protection and monetization, and to further realise market potentials in China with one of the best veteran teams in the industry with proven track record. The purchase consideration for the acquisition was in the form of cash with RMB854,108,000 (equivalent to approximately HK\$966,852,000) paid at the acquisition date. The Group has elected to measure the non-controlling interest in Particle Technology at the non-controlling interest's proportionate share of its identifiable net assets.

The fair values of the identifiable assets and liabilities of Particle Technology were as follows:

	Fair value recognised on acquisition <i>HK\$'000</i>
Property, plant and equipment	20,555
Right-of-use asset	4,952
Other intangible assets	257,989
Investments in associates	1,111
Deferred tax assets	6,116
Trade receivables	253,557
Inventories	7,391
Prepayments, other receivables and other assets	271,966
Financial assets at fair value through profit or loss	14,081
Cash and bank balances	47,703
Trade payables	(166,052)
Other payables and accruals	(227,711)
Tax payables	(158)
Lease liabilities	(4,059)
Interest bearing bank borrowings	(1,181)
Deferred tax liabilities	(50,347)
	<hr/>
Total identifiable net assets at fair value	435,913
Non-controlling interests	(169,165)
Call options	130,154
	<hr/>
	396,902
Goodwill on acquisition**	569,950
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Satisfied by cash	966,852
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The purchase agreement contains call options. The initial amount recognised were HK\$130,154,000 and the subsequent fair value gains were HK\$4,769,000 which was determined using the discounted cash flow model and are within Level 3 fair value measurement. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition is as follows:

	Fair value recognised on acquisition <i>HK\$'000</i>
Cash consideration	(966,852)
Cash and bank balances acquired	<u>47,703</u>
Net outflow of cash and cash equivalents included in cash flows from investing activities	(919,149)
Transaction costs of the acquisition included in cash flows from operating activities for the year ended 31 December 2021	(14,262)
Transaction costs of the acquisition included in cash flows from operating activities for the year ended 31 December 2022	<u>(3,240)</u>
	<u><u>(936,651)</u></u>

Since the acquisition to 30 June 2022, Particle Technology contributed HK\$108,531,000 to the Group's revenue and HK\$14,122,000 to the consolidated profit for the six months ended 30 June 2022. Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the six months ended 30 June 2022 would have been HK\$755,014,000 and HK\$24,222,000, respectively. From 1 January 2022 to the date of acquisition, Particle Technology's revenue amounted to HK\$198,894,000. From the date of acquisition to 31 December 2022, Particle Technology's revenue amounted to HK\$424,417,000.

17. EVENTS AFTER THE REPORTING PERIOD

The Annual General Meeting of the Company held on 30 June 2023 elected Mr. TANG Yi Hoi Hermes ("Mr. Tang") as a non-executive director of the Company. Mr. Tang's appointment as a non-executive director of the Company is subject to the approval from the Civil Service Bureau. Mr. Tang will be designated as Vice-Chairman of the Board of the Company upon the appointment. The Company has received the approval letter from the Civil Service Bureau, which stated that the Hong Kong Special Administrative Region Government has given permission to Mr. Tang to accept the appointment as a non-executive director and Vice-Chairman of the Board. The appointment of Mr. Tang as a non-executive director of the Company and Vice-Chairman of the Board became effective on 18 July 2023, which is the date of the approval letter.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND PROSPECTS

Company Overview

Vobile Group Limited is a leading global provider of digital content asset protection and software as a service (SaaS). Vobile develops a series of software services based on its core patented VDNA fingerprinting and watermarking technologies to protect copyrights and increase distribution revenue for digital content asset owners, such as movie studios, TV networks, and streaming platforms. The Group also offers digital infrastructure service capabilities for digital asset protection and transaction related in the third generation Internet (Web3) era. The Group provides customers with efficient professional solutions through business models of subscription services and value-added services.

Vobile continues to accumulate the core capabilities of digital rights identification, and is committed to building the necessary technical infrastructure for the protection and transaction of digital content assets, and to enhance the effective delivery of the value of the industrial ecological chain. Regardless of the evolution of film and television production technology and forms of expression, creative content is the core value of the film and television industry, and the protection and trading of creative content is the basic platform to support the value of the industry. Vobile's innovative one-stop digital content rights identification and transaction solutions allow more content creators' rights and interests to be respected and protected, facilitating the broader and more effective distribution of creative content, and making creative content more valuable.

Industry Ecosystem

With the development and changes of the digital content industry, based on the need for creative content copyright protection and IP value realisation, the demand for digital rights identification continues to rise. Vobile accurately predicts the general trend with a forward-looking vision, seizes the structural opportunities in the process of industrial transformation. Building upon our core capabilities in digital rights identification, we have developed services for protecting and transacting digital content assets. Our business lines have progressively evolved from protecting and distributing film and television content to the identification and monetization of a diverse range of digital content rights, and further extending into the realm of emerging digital asset services.

Looking forward to the future, Vobile will continue to focus on the digital film and television content industry with high economic value and high degree of digitalisation, commercialisation and mature industrial support, and empower the healthy development of the digital cultural industry. In China, creative content is transitioning into the realm of data elements driven by digitalisation. As a whole new production factor, data elements are poised to induce significant changes in productivity. Since we founded, Vobile Group has been focusing on accumulating its digital rights identification capabilities. In the new stage of rapid development of data elements, every digital asset and related data elements have a need to confirm rights. Vobile will play an essential role in its sub-vertical and effectively leveraging favourable policies and industry development opportunities in the China market. In March

2023, Vobile, in collaboration with industry partners, jointly hosted the sub-forum “National Cultural Digital Strategy Industry Landing Seminar” as part of the 10th China Internet Audio-visual Conference. Establishing the “Cultural Overseas Ecosystem Strategic Alliance” to drive the comprehensive construction of a cultural digital strategy platform industry solution, empowering a wide range of small and medium creators and content creation platforms to promote quality creative content for international markets.

As an independent third-party service provider within the industry, Vobile will continue to promote the distribution of digital assets in the ecosystem. With the continuous improvement of data service capability, Vobile will acquire more customers and content, and promote us as a key participant to enter the stage of data ecological construction.

Meanwhile, we are concerned that the advancement of technology is pushing the global digital cultural industry into a new stage of development. The rapid development of Web3 and AIGC has brought new challenges to the industry, and at the same time, industrial structural opportunities have also emerged. Vobile has grasped the structural opportunities represented by the surge of User Generated Content (UGC). In the new era of AI Generated Content (AIGC), where technology further enhances the production capacity for digital content, Vobile has seized new opportunities and strategically positioning ourselves to unlock huge potential of new services and application scenarios.

Our Businesses

Currently, our SaaS platform provides customers and partners with subscriptions and a variety of value-added products and services:

Subscription Services

Our subscription-based business model ensures long-term and stable relationships with the world’s top content platforms and holders, by providing IP protection services for content clients and platform clients. With our essential proprietary VDNA digital fingerprint and watermark technologies, we provide content rights identification and infringement filtering services to online video websites and platforms, empowering them to trace infringements under different scenarios for diverse content formats. We not only help content parties to trace infringements but also preserve timely and powerful evidence, by charging a customised subscription service fee according to our client’s needs.

- For major content clients, Vobile offers comprehensive copyright protection to various types of content customers, including Hollywood film and television companies, audiovisual content rights holders, streaming platforms, and more. With the precision and efficiency of our protection ability, we are able to serve different types of content platforms across various content portfolios, such as movies, live events, sports, music and etc.
- In the process of establishing in-depth cooperation with platform customers, Vobile offers advanced rights identification and protection technologies and services to small and medium-sized content creators through its API services, enabling a broader reach for diverse content creator communities.

- In 2022, Vobile successfully acquires Particle Technology and realises business integration and innovation on this basis, further improves the docking capability of mainstream content platforms, forms an independent product package, and realises user subscription through channels such as telecom operators, radio and television new media, and Internet platforms. We also provides integrated video cloud services such as intelligent operation, and charges customers subscription service fees.

Meanwhile, as our clients expand into proprietary streaming platforms, we continued to help them by providing direct-to-consumer (“DTC”) protection solutions to address more demographics. By 30 June 2023, Vobile Group has achieved a subscription service revenue of HK\$467 million, representing an increase of approximately 131.4 % as compared with the same period in last year, accounting for about 46.6% of the total revenue.

Value-added Services

We have established long-term relationships with major Hollywood studios, TV networks, streaming platforms, and other content holders through our subscription services. With the growth of our clients and their new demands, we leverage our IP protection technology to drive diverse value-added services and help them maximise the value of their IPs. Through enhancing our coverage of clients’ content assets and expanding our portfolio of value-added services, we continue to monetize our client’s creative content and reclaim revenue on more different platforms. For example:

- As our clients distribute their content on social media platforms, such as YouTube, Instagram, and Facebook, Vobile identifies and monetizes instances of user-uploaded IP on these platforms through proprietary claiming technology and services and expanding the influence of our clients’ IPs.
- Address users’ content distribution needs on Chinese video-on-demand platforms such as IPTV and OTT, Vobile could provide local resources and services to distribute the content to over a hundred of platforms. In 2022, Vobile integrated the capabilities of Particle Technology, and through strategic cooperation with leading content platforms as well as local and global film and television companies, Vobile aggregated global high-quality content, and distributed the content across China’s telecom operators, radio and television new media operators, internet platforms. This monetization of content is through both singular and bundled offerings, generating revenue that is allocated based on the activity and consumption level of the content assets.
- With the upgrade of exploration and innovation of major clients, Vobile also actively works side by side with them to develop our portfolio to address their evolving needs. As clients are exploring unique ways to engage with their customers through NFT and Web3, Vobile will leverage our industrial advantages and resources to create new products for them. As our clients experiment with blockchain solutions to distribute content and market their IPs to unique demographics, we could utilise our research and development capabilities to support their transformation.

During the reporting period, Vobile’s value-added service revenue was approximately HK\$536 million, an increase of approximately 51.8% compared with the same period in last year, accounting for approximately 53.4% of total revenue. With the ongoing growth of value-added service clients and product portfolio, our value-added services will continue to sustain healthy and rapid development.

Sustained Strong Growth in Our Major Business Regions

Throughout the first half of 2023, resulting from our visionary strategic decision-making and efficient execution, Vobile not only maintained a rapid revenue growth but also attained high-quality development. Amid the reporting period, Vobile accomplished a total revenue of HK\$1,003 million, representing an annual growth rate of approximately 80.3%. The adjusted EBITDA for the year reached approximately HK\$181 million, reflecting a year-on-year increase of about 38.9%.

During the period, revenue from China reached approximately HK\$560 million, representing an increase of about 148.2% compared with the same period last year, accounting for about 55.8% of the total revenue. The rapid and effective integration of Vobile and Particle Technology has accelerated our expansion into the China market, reaffirming China as a key strategic market to us. As of 30 June 2023, Vobile has established new partnerships with multiple content clients and platforms in China, with the synergies of our robust content distribution and edge computing business gradually took effect.

We continued our robust performance in the US market. As of 30 June 2023, revenue from US achieved HK\$440 million, representing a year-on-year growth of approximately 34.2% accounting for about 43.9% of the total revenue. During this period, we continued to work steadily with global leading content providers, expanding our service coverage to some of our major clients’ total content libraries and extending our services to more platforms. The consistent and strong client stickiness in our business demonstrates the continued trust and recognition our client’s place in Vobile’s products and services.

Research and Development

We continue to reiterate core patented technologies such as VDNA and watermarks, and improve the precision and accuracy of infringement identification. At the same time, to catch up with the trend of Web3 and Artificial Intelligence development, Vobile is working with major partners and universities to carry out technology research and development, exploring new applications and technologies in the protection and transaction of digital content assets and rights identification, deepening our technological advantages and increasing our competitive advantages.

In addition, we completed a major upgrade of our original new media management and distribution platform, establishing seamless connections with major domestic new media platform distribution channels. In terms of external technological capabilities integration, Vobile established an in-depth partnership with “Volcengine”, leveraging its expertise in intelligent recommendations, short video production tools, and etc. This integration bolstered our “Smart Operation Platform” and enhanced our product capabilities of the “New Media Management and Distribution Platform”.

STRATEGY AND PROSPECTS

Vobile’s mission “Making Creative Content More Valuable”. We aim to provide a full suite of solutions for content rights holders to maximise the value of their IPs. In the continuous process of business progression and value creation, Vobile will play an increasingly critical role in the development of the digital content ecosystem.

Our strategic growth priorities are:

1. The demand for digital rights identification services for content transaction and distribution continues an explosive growth.

The breakthroughs in Internet communication technology have promoted a revolutionary change in the distribution of information. The production and consumption of digital content experienced an explosive growth, which has brought a significant growing demand of digital content rights identification and transaction.

During the evolution of the digital content industry from limited content distribution to interactive media distribution, Vobile has always been building its core technologies capabilities in digital rights identification, which can effectively improve the efficiency of digital content distribution and lower the distribution barriers. Thus, Vobile protects the rights of creative content owners and enables creative content to achieve a greater monetization value.

The highly digitalised industry has brought changes in business models, and the direct-to-customer (DTC) model has demonstrated stronger competitiveness. In comparison to the traditional business model, the DTC model breaks through many traditional limitations and connects the producers with the consumers more closely. The DTC model was first proven in the e-commerce industry as brand owners accelerate the transaction and monetization of a large number of goods through the DTC business model, thus making e-commerce a non-negligible part of the global economy. We believe the DTC model has the same potential in the digital content industry. By reducing the intermediaries, the DTC model will drive more efficient content distribution and transaction for more creative content, further activating the creator economy. Vobile will play an essential role as a service provider in digital content rights identification and transaction infrastructure based on our core capabilities.

In the last few years, the rapid rise of streaming media has proven the DTC business model as an industry trend. Streaming media has continuously attracted and acquired more traditional TV users given its advantages such as convenience, content diversity, and ample selections. Vobile’s technology and services can ensure the exclusivity of content distribution to avoid loss of viewers, which is critical to the revenue protection and subscriber retention of DTC platforms. Based on Vobile’s core technology, we provide customers with one-stop digital content rights identification and transaction solutions, and will gradually transform into a digital infrastructure service provider

of digital content rights identification and transaction. By evolving with the industry simultaneously, Vobile empowers the ecosystem development and continues to help the industry upgrade.

Nowadays, the DTC model continues to deepen its development, that is, after the rapid rise of streaming media platforms and DTC trend, the DTC model is progressively extending its reach to encompass a broader spectrum of content creators and consumers. This expansion drives the distribution and transaction of a larger scale of creative content. Leveraging our core digital rights identification capabilities, Vobile meets the ongoing rights identification needs of content creators within the process of content distribution and transaction, providing the essential technology infrastructure to protect copyrights and amplify IP value. The ongoing evolution of the DTC model places renewed emphasis on previously overlooked rights identification needs. In response, Vobile is poised to engage with an even wider customer base, continually fulfilling emerging needs of our clients and thereby unlocking further growth potential.

2. Expand Product Portfolio for Value-added Services and New Products Enhancements

We will fully leverage our leading technology and operational experiences accumulated in global content operations, and cooperate with industrial partners to create a one-stop cultural content sharing service platform in global markets, build a full-chain service system, and empower the majority of small and medium-sized creators and content creators platform to share high-quality content with more content consumers.

Furthermore, leading social media platforms such as YouTube have started to explore different digital content business models, such as e-commerce, short videos, and live-stream e-commerce, in addition to its advertising business. These explorations, coupled with the vast amount of content being created, will provide new possibilities for Vobile's existing and future development. Vobile is actively following up the innovative transformation of large platforms and making strategic deployments to strive for first-mover advantages.

3. Seizing China's Digital Culture Opportunities For Efficient Global Content Distribution

China's digital content industry is growing rapidly with a thriving content production ecosystem and strong consumer demand. The increasing urgent demands for digital content rights identification, distribution, transaction, and monetization have prompted Vobile to keenly seize market opportunities and continue expanding its presence.

According to statistics, given the increase in its internet users and the speed of digital infrastructure roll-out, China would be the fastest growing region in terms of data volume, with an expected increase of 30% per year, from 7.6 ZB (approximately 23.4% of the global data) in 2018 to 48.6 ZB (approximately 27.8% of the global data) in 2025, and China would become the largest data region in the world.

However, the value of the data itself is limited. Continuous distribution, aggregation, and processing contribute to maximising data value. Among which, the value related to data rights protection, profit distribution, and more, provides Vobile with extensive opportunities. Especially in the realm of digital content asset transaction, we will continue to explore by using our core technology to empower content transaction platforms and to innovate new business and IP authorisation models based on UGC content, in order to connect parties including content providers, content transaction platforms, creators, and content monetization platforms to establish a new technology-driven business and service model.

On one hand, Vobile, as a leading company in digital content asset protection and transaction, possesses strong service capabilities as part of the digital infrastructure required for data element management. With extensive experience in digital content rights identification, data element management, and digital asset distribution, Vobile can safeguard the corresponding digital content assets of clients from infringement and maximise the content monetization value. On the other hand, by promoting digital content asset protection and transaction, Vobile is at the forefront of establishing the “Cultural Content Global Distribution Strategic Cooperation Alliance”. This alliance is dedicated to leveraging Vobile’s technological, industrial, and geographical advantages to facilitate efficient global distribution of high-quality digital content assets, with Hong Kong as the central connecting hub. With favourable local policies and accelerated industrial development, Vobile will better seize the unprecedented opportunity and continue to explore business innovations while achieving our own leap and upgrade.

4. Advancing Forefront Product Development Adapting to the Emerging Technologies and Platforms

Web3 inspires more application scenarios and possibilities

With progressive development of Web3, all kinds of information, data, and digital assets will achieve more efficient distribution through cheaper means, resulting in new production, distribution ecosystem, and value allocation rules for content creators.

Web3 lies in its reliance on blockchain technology, which is more conducive to transforming digital content into valuable and protected assets, driving the realisation and application of digital assets, and thereby creating a plethora of new transaction scenarios. Vobile is strategically positioning ourselves in the Web3 field for the long term and maintaining ongoing research and development efforts. The goal is to establish more efficient content dissemination and interactive connections for content creators and users, while also exploring additional application scenarios for digital asset protection and transactions in the Web3 era. Vobile always serves the original intention of content creators and copyright owners, constantly strengthens the service capabilities of digital infrastructure, and stimulates the value release of digital content assets in new fields.

The development of AIGC withholds enormous industrial opportunities

In the field of AIGC, which has received wide attention, the copyright of creative content is a major concern of the industry. The industry is aware of potential major risks in the unauthorised use of original copyrighted content by artificial intelligence and the unmanaged abuse of artificial intelligence-generated content, and is actively promoting the establishment of rules. Vobile's leading edge in digital content rights identification will continue to provide value protection for creative content in the new content production stage.

Industrial transformation often brings huge development opportunities. Since we founded, Vobile has consistently focused on and seized potential opportunities arising from industry transformation. With the rise of UGC videos on social media, the content ecosystem of creators has begun to flourish, and content dissemination is also facing a major loss of copyright value while expanding new channels. In this context, Vobile, relying on the digital rights confirmation capabilities accumulated over the years, manages copyright for content creators and assists them in sharing advertising revenue on social media. Successfully expanding our services from copyright protection to transaction monetization which help us to gain a larger market space.

AIGC and UGC have very similar roles within the content ecosystem. The development of AIGC is bound to bring about new changes in the production and distribution of creative content. It will assist creators in a more efficient, convenient, and cost-effective content creation process. The content created by AIGC still requires providing value back to the original copyrighted content used. Additionally, newly generated content will similarly enter the content ecosystem for distribution. The need for digital rights confirmation and transaction monetization remains unchanged and is expected to grow even larger. Currently, Vobile has initiated active deployment and investment in this direction, continuing to seize the boundless opportunities brought about by industry transformation.

Facing new opportunities, we are filled with confidence in our future development and have made thorough preparations for it. Vobile will continue to leverage our technological innovation and industry resource advantages, solidify our leading position globally, continuously expand our product and service portfolio, and seek broader business touchpoints and growth opportunities. We have confidence in continuing to lead technology-driven industry transformation and upgrades, while upholding the entrepreneurial mission of "Making Creative Content More Valuable."

FINANCIAL REVIEW

Interim Condensed Consolidated Statement of Profit or Loss Highlights

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	1,002,756	556,120
Gross profit	392,773	230,185
Profit before tax	45,135	44,992
Profit for the period	33,928	29,145
Non-IFRS Adjusted Net Profit	58,067	50,031
Non-IFRS Adjusted EBITDA	<u>181,333</u>	<u>130,573</u>

Non-IFRS Adjusted Net Profit

Adjusted Net Profit is earnings before equity settled share compensation expenses, loss on derecognition of financial liabilities measured at amortised cost, fair value changes and other one-off expenses. This is not a IFRSs measure. Adjusted net profit is presented exclusively as a supplemental disclosure because our Directors believe that it is widely used to measure the performance, and as a basis for valuation. The Group has presented this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors.

The following table sets forth a quantitative reconciliation of Adjusted Net Profit to its most directly comparable IFRS measurement and profit for the period attributable to owners of the Company.

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	33,928	29,145
Add:		
Equity-settled share compensation expense	18,156	15,221
Transaction costs for acquisition of subsidiaries	—	3,240
Loss on derecognition of financial liabilities measured at amortised cost	6,195	—
Fair value change on financial assets at FVTPL, net	<u>(212)</u>	<u>2,425</u>
Adjusted Net Profit	<u>58,067</u>	<u>50,031</u>

Non-IFRS Adjusted EBITDA

Adjusted EBITDA is earnings before finance costs, finance revenues, income taxes, depreciation and amortisation, equity settled share compensation expenses, loss on derecognition of financial liabilities measured at amortised cost, fair value changes and other one-off or non-cash expenses. This is not a IFRSs measure. Adjusted EBITDA is presented exclusively as a supplemental disclosure because our Directors believe that it is widely used to measure the performance, and as a basis for valuation. Our Group has presented this item because our Group considers it an important supplemental measure of our Group's operational performance used by our Group's management as well as analysts or investors.

The following table sets forth a quantitative reconciliation of Adjusted EBITDA to its most directly comparable IFRS measurement and profit before tax.

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before tax	45,135	44,992
Add:		
Equity-settled share compensation expense	18,156	15,221
Finance costs	50,332	22,513
Depreciation and amortisation	60,671	42,513
Transaction costs for acquisition of subsidiaries	—	3,240
Loss on derecognition of financial liabilities measured at amortised cost	6,195	—
Fair value change on financial assets at FVTPL, net	(212)	2,425
Share of profits and losses of associates	(1)	145
Impairment on trade receivables	3,879	935
Interest income	(2,822)	(1,411)
Adjusted EBITDA	<u>181,333</u>	<u>130,573</u>

Revenue

The following table shows our revenue breakdown by product:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Subscription services	466,876	201,780
Value-added services	535,880	352,928
Others	—	1,412
Total revenue	<u>1,002,756</u>	<u>556,120</u>

Our revenue for the six months ended 30 June 2023 amounted to approximately HK\$1,003 million, representing an increase of approximately HK\$447 million, or approximately 80.3% as compared with the revenue for the six months ended 30 June 2022 of approximately HK\$556 million. Our business model has two revenue streams: subscription services and value-added services.

In the six months ended 30 June 2023, subscription services revenue was HK\$467 million, representing an increase of approximately HK\$265 million, or approximately 131.4% as compared with the subscription services revenue for the six months ended 30 June 2022, and accounted for 46.6% (six months ended 30 June 2022: 36.3%) of our total revenues. Our subscription service mainly consists of content protection and channel management. Content protection service is based on the application of Vobile's VDNA (fingerprint) and watermark technologies. Channel management service is based on the partnership we have with distribution platforms, and we manage channels for our IP rights holder clients on these distribution platforms.

We offer a variety of value-added services that are designed to further realise IP rights values for our clients by providing additional IP revenue streams. During the six months ended 30 June 2023, value-added service revenue was HK\$536 million, representing an increase of 51.8%, as compared with the value-added services revenue for the six months ended 30 June 2022, and accounted for 53.4% (six months ended 30 June 2022: 63.5%) of total revenue. Our value-added service mainly consists of content monetization and revenue-sharing content distribution services.

Our business model is driven by our ability to serve additional contents, and to help generate more revenue for IP rights holder clients. We believe that our future success is dependent on many factors, including our ability to expand our content base, retain customers while increasing content penetration, offer more monetization channels to increase revenue for IP rights holders, develop new solutions to meet industry and client needs, enhance our ecosystem and partner relationships, expand content verticals, expand geographic coverage, and build with a focus on maximising long-term value.

Gross profit and gross profit margin

Our gross profit for the six months ended 30 June 2023 amounted to approximately HK\$393 million, representing an increase of approximately HK\$163 million, or approximately 70.6% as compared with the six months ended 30 June 2022 of HK\$230 million.

Our gross profit margin decreased from approximately 41.4% for the six months ended 30 June 2022 to approximately 39.2% for the six months ended 30 June 2023 as revenue from Particle Technology acquired by the Group in May 2022 yield lower gross profit margin than the other products.

Selling and marketing expenses

Our selling and marketing expenses for the six months ended 30 June 2023 amounted to approximately HK\$116 million, representing an increase of approximately HK\$67 million, or approximately 135.9% as compared with the six months ended 30 June 2022 of HK\$49 million. The increase was mainly due to the increase of sales and marketing initiatives during the period.

Administrative expenses

Our administrative expenses for the six months ended 30 June 2023 amounted to approximately HK\$78 million, representing an increase of approximately HK\$21 million, or approximately 36.6% as compared with the six months ended 30 June 2022 of HK\$57 million. The increase was mainly due to increase of administrative headcount of the Group.

Research and development expenses

Our research and development expenses for the six months ended 30 June 2023 amounted to approximately HK\$95 million, representing an increase of approximately HK\$37 million, or approximately 63.6% as compared with the six months ended 30 June 2022 of HK\$58 million. The increase was mainly due to the increase of research and development activities in the current period.

Finance costs

Finance costs mainly consisted of interest expenses on interest-bearing borrowings and convertible bonds of approximately HK\$50 million (six months ended 30 June 2022: HK\$22 million) and interest expense on lease liabilities.

Other expenses

Other expenses mainly represented loss on derecognition of financial liabilities measured at amortised cost of HK\$6 million which arose from early repayment of interest-bearing borrowings and represented the amortisation of the unamortised transaction costs related to the interest-bearing borrowings.

Income tax expense

Our income tax expense mainly comprised of deferred tax expense resulted from the utilisation of tax losses in the United States and tax expense in the Mainland China.

Profit for the period

The profit for the six months ended 30 June 2023 amounted to approximately HK\$34 million, representing an increase of approximately HK\$5 million, or approximately 16.4% as compared to the profit for the six months ended 30 June 2022 of approximately HK\$29 million.

Basic earnings per share for the six months ended 30 June 2023 was approximately HK\$0.0132 (six month ended 30 June 2022: HK\$0.0112), and diluted earnings per share for the six months ended 30 June 2023 was approximately HK\$0.0121 (six month ended 30 June 2022: HK\$0.0102).

Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023.

Adjusted EBITDA

The Adjusted EBITDA for the six months ended 30 June 2023 amounted to approximately HK\$181 million, representing an increase of approximately HK\$50 million, or approximately 38.9%, as compared to the Adjusted EBITDA for the six months ended 30 June 2022 of approximately HK\$131 million. The substantial increase in Adjusted EBITDA was mainly attributed by the significant increase in revenue of the Group for the six months ended 30 June 2023, contributed by (a) continued growth in our business in the US; and (b) the expansion of our business in the Mainland China, driven by strategic and commercial partnerships.

Interim condensed consolidated statement of financial position highlights

	30 June 2023	31 December 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Total assets	3,409,677	3,260,325
Total liabilities	1,287,873	1,586,690
Net assets	2,121,804	1,673,635
Total equity	<u>2,121,804</u>	<u>1,673,635</u>

Goodwill

Our goodwill amounted to approximately HK\$1,160 million as at 30 June 2023, representing a decrease of approximately HK\$24 million as compared to 31 December 2022 of HK\$1,184 million. The decrease was mainly due to exchange realignment caused by depreciation of RMB. Goodwill is tested for impairment periodically and no impairment loss is considered necessary as at 30 June 2023.

Intangible assets

Our intangible assets amounted to approximately HK\$421 million as at 30 June 2023, representing an increase of approximately HK\$33 million as compared to 31 December 2022. The increase was mainly due to the additions of intangible assets.

Interest-bearing borrowings

On 2 April 2022, Vobile HK entered a senior facility (the “Senior Facility”) agreement and a mezzanine facility (the “Mezzanine Facility”) agreement with a multi-national financial institution as the arranger and agent for loan amount of US\$75 million and US\$52.5 million, respectively. The Senior Facility was drawn on 21 April 2022, bear interest at secured overnight financing rate plus three point seven five percent to five point seven five percent and is fully repayable on 29 September 2023. The Mezzanine Facility was drawn on 21 April 2022, bear interest at secured overnight financing rate plus nine percent and is fully repayable on 2 July 2024. The interest-bearing borrowings drawn from the Senior Facility had been fully repaid on 29 March 2023. On 29 March 2023, the Company has refinanced the Mezzanine Facility with an interest-bearing borrowing of US\$60,000,000 (equivalent to approximately HK\$470,156,000 from a multi-national financial institution. The Company’s interest-bearing borrowing as at 30 June 2023 bears interest at secured overnight financing rate plus seven percent, HK\$195,898,000 is repayable in the second year and HK\$274,258,000 is repayable in the third year.

Convertible bonds

On 16 August 2022, the Company issued convertible bonds in an aggregate principal amount of HK\$117,000,000 to Lucion International Investment Limited, an investment holding company incorporated in Hong Kong. The convertible bonds have an initial conversion price of HK\$5.32 per Share. The convertible bonds are convertible into shares of the Company. The convertible bonds bear simple interest on their outstanding principal amount at the rate of 4% per annum, payable annually in arrears, and will mature in the three years from the issue date.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As of 30 June 2023, our cash and cash equivalents and pledged deposits in aggregate amounted to approximately HK\$263 million. As of 30 June 2023, our current assets amounted to approximately HK\$1,416 million of which approximately HK\$958 million was trade receivables and approximately

HK\$263 million was cash and cash equivalents and pledged deposits. Our current liabilities amounted to approximately HK\$724 million, of which approximately HK\$480 million was trade payables. As at 30 June 2023, our current ratio, which is equivalent to the current assets divided by the current liabilities, was 2.0 as compared with 1.2 at 31 December 2022.

Significant investments, acquisitions and disposals

During the six months ended 30 June 2023, we did not have any other significant investment and any material acquisition or disposal.

Capital expenditures

Our capital expenditures were primarily for expenditures for purchase of equipment and intangible assets. The amount of our capital expenditures for the six months ended 30 June 2023 was approximately HK\$87 million.

Contingent liabilities, off balance sheet commitments and arrangements and pledge of assets

As of 30 June 2023 and the date of this announcement, we did not have (i) any material contingent liabilities or guarantees, (ii) any liabilities under acceptance trade receivables or acceptable credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantee material covenants, or other material contingent liabilities, or (iii) any material off-balance sheet arrangements.

Foreign exchange exposure

In light of the nature of our business, we are exposed to various foreign currencies, among which, USD and RMB are mostly used apart from HK\$. To minimise the impact of foreign currency rate volatility, we monitor foreign currency risk at operational level closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

Gearing ratio

Our Group monitors capital using gearing ratio, which is net external debt divided by the capital (equity attributable to owners of the Company) plus net debt. Net debt includes convertible bonds and interest-bearing borrowings, less cash and cash equivalents. As of 30 June 2023, our gearing ratio, calculated as net debt divided by the equity attributable to owners of the Company plus net debt, was 13% as compared with 31% as at 31 December 2022.

Use of proceeds from issue of convertible bonds and placement of shares

On 16 August 2022, the Company issued convertible bonds in the aggregate principal amount of HK\$117 million, raised net proceeds of HK\$106 million. As at 30 June 2023, the Company had fully utilised the net proceeds as intended. The table below sets out the details of actual usage of the net proceeds as at 30 June 2023.

Intended use of proceeds	Net proceeds utilised		Net proceeds utilised		Unutilised net proceeds as at 30 June 2023	Expected timeline of full utilisation
	Initial intended allocation	during the year ended 31 December 2022	Unutilised net proceeds as at 31 December 2022	during the six months ended 30 June 2023		
	(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)	
Investment in technology relating to (i) digital asset protection and digital asset transactions, and/or (ii) software as a service (SaaS) relating to YouTube shopping	69	47	22	22	—	N/A
General working capital	37	37	—	—	—	N/A
	<u>106</u>	<u>84</u>	<u>22</u>	<u>22</u>	<u>—</u>	

On 7 February 2023, the Company completed the placement of 114,127,000 Shares and raised net proceeds of approximately HK\$464 million. As at 30 June 2023, the Company had fully utilised the net proceeds as intended. The table below sets out the details of actual usage of the net proceeds as at 30 June 2023.

Intended use of proceeds	Net proceeds utilised during the six months ended 30 June 2023		Unutilised net proceeds as at 30 June 2023	Expected timeline of full utilisation
	Initial intended allocation	(HK\$ million)		
	(HK\$ million)	(HK\$ million)	(HK\$ million)	
Repayment of interest-bearing borrowings	464	464	—	N/A

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2023, we employed a total of 561 staff (as at 31 December 2022: 572 staff). Salaries, bonuses and benefits are determined with reference to market terms and performance, qualifications and experience of each individual employee, and are subject to review from time to time.

The remuneration of the Directors is reviewed by the Remuneration Committee and approved by the Board. The relevant Director's experience, duties and responsibilities, time commitment, the Company's performance and the prevailing market conditions are taken into consideration in determining the emolument of the Directors.

The total remuneration cost incurred by the Group for the six months ended 30 June 2023 was approximately HK\$120 million (for the six months ended 30 June 2022: HK\$101 million).

The Company also adopted a Pre-IPO Share Option Scheme, a Post-IPO Share Option Scheme and a Share Award Plan.

CORPORATE GOVERNANCE PRACTICE

The Board is committed to maintaining high corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework for the Group to formulate its business strategies and policies, and to enhance its transparency and accountability.

In the opinion of the Directors, during the six months ended 30 June 2023, the Company has complied with all applicable code provisions as set out in the CG Code, save and except for code provision A.2.1. Code provision A.2.1 of the CG Code states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yangbin Bernard WANG is both our Chairman and Chief Executive Officer, and is responsible for the overall management of our Group and directing the strategic development and business plans of our Group. We believe Mr. Wang is instrumental to our growth and business expansion since our establishment in 2005. Our Board considers that the roles of chairman and chief executive officer being vested in the same person is beneficial to the business prospects, management and overall strategic direction of our Group by ensuring consistent leadership within our Group and facilitating more effective and efficient overall strategic planning and decision-making for our Group. In addition, the Board meets regularly to consider major matters affecting the operations of the Group and all Directors are properly and promptly briefed on such matters with adequate, complete and reliable information. In addition, under the supervision of the Board which is comprised of two executive Directors, three non-executive Director and three independent non-executive Directors as at the date of this announcement, the Board is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Company and its shareholders. After considering all the corporate governance measures that have been taken, the Board considers that the balance of power and authority will not be impaired by the present arrangement and the current structure will enable the Company to make and implement decisions more promptly and effectively. Thus, the Company does not segregate the roles of Chairman and Chief Executive Officer.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for relevant employees (as defined in the Listing Rules).

The Company has made specific inquiries to all Directors about their compliance with the Model Code, and they all confirmed that they complied with the standards specified in the Model Code during the six months ended 30 June 2023. The Company has made specific inquiries of relevant employees about their compliance with the guidelines on transactions of the Company's securities, without noticing any violation of the guidelines.

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

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

REVIEW OF INTERIM RESULTS

The Audit Committee comprises three independent non-executive Directors, namely, Mr. KWAN Ngai Kit, Mr. Alfred Tsai CHU and Mr. Charles Eric EESLEY, and one non-executive Director, namely, Mr. J David WARGO. The chairman of the Audit Committee is Mr. KWAN Ngai Kit. Mr. KWAN Ngai Kit has appropriate professional qualifications and experience in financial matters. The main responsibilities of the Audit Committee is for reviewing and supervising the financial reporting process and internal control system of the Group.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2023 and was of the opinion that the preparation of such interim results had been prepared in accordance with the relevant accounting standards and that adequate disclosures have been made in accordance with the requirements of the Listing Rules.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the HKEx (www.hkexnews.hk) and the Company (www.vobilegroup.com). The interim report for the six months ended 30 June 2023 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available on the above websites in due course.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Audit Committee”	the audit committee of the Company
“Board”	the board of Directors
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“Company”	Vobile Group Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“Directors”	the directors of the Company
“EBITDA”	earnings before interest, tax, depreciation and amortisation

“FVTPL”	fair value through profit or loss
“Group”	the Company and its subsidiaries
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IP”	Intellectual property
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Mr. Wang”	Mr. Yangbin Bernard WANG
“Particle Technology”	Hangzhou Particle Culture Technology Co., Ltd. and its subsidiaries and Hangzhou New Particle Culture Technology Co., Ltd. and its subsidiaries
“PRC” or “China”	the People’s Republic of China. For the purposes of this announcement only and except where the context requires otherwise, excludes Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Scheme”	the share option scheme of the Company adopted on 30 December 2016
“Post-IPO Share Option Scheme”	the share option scheme of the Company adopted on 8 December 2017
“RMB” or “Renminbi”	the lawful currency of the PRC
“SaaS”	Software as a Service
“Share(s)”	ordinary share(s) of US\$0.000025 each in the share capital of the Company
“Share Award Plan”	The share award plan of the Company adopted by the Company on 6 May 2019, as amended from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“USD” or “US\$”

the lawful currency of the United States

“Vobile HK”

Vobile Group (HK) Limited, a wholly owned subsidiary of the Company

By Order of the Board
Vobile Group Limited
Yangbin Bernard Wang
Chairman

Hong Kong, 28 August 2023

As at the date of this announcement, the board of directors of the Company comprises Mr. Yangbin Bernard WANG and Mr. WONG Wai Kwan as executive directors; Mr. CHAN Ching Yan Daniel, Mr. J David WARGO and Mr. TANG Yi Hoi Hermes as non-executive directors; and Mr. Alfred Tsai CHU, Mr. Charles Eric EESLEY and Mr. KWAN Ngai Kit as independent non-executive directors.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realised in the future. Underlying these forward-looking statements are a lot of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements.