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Gala Technology Holding Limited

望塵科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2458)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

RESULTS HIGHLIGHTS

- Revenue increased by approximately RMB59.6 million, or 20.2%, from approximately RMB294.8 million for the six months ended 30 June 2022 to approximately RMB354.4 million for the six months ended 30 June 2023.
- Gross profit increased by approximately RMB50.3 million, or 33.8%, from approximately RMB148.9 million for the six months ended 30 June 2022 to approximately RMB199.2 million for the six months ended 30 June 2023.
- Net profit increased by approximately RMB19.0 million, or 93.6% from approximately RMB20.3 million for the six months ended 30 June 2022 to approximately RMB39.4 million for the six months ended 30 June 2023.
- Profit attributable to owners of the Company increased by approximately RMB18.9 million, or 93.0% from RMB20.4 million for the six months ended 30 June 2022 to approximately RMB39.3 million for the six months ended 30 June 2023.

The board of directors (the “**Board**”) of Gala Technology Holding Limited (the “**Company**”) announces the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2023, with comparative figures for the corresponding period in 2022, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	RMB'000
Revenue	3	354,399	294,775
Cost of revenue		(155,231)	(145,910)
Gross profit		199,168	148,865
Other (losses)/gains, net	4	(3,751)	1,034
Other income	5	7,042	3,594
Selling and marketing expenses		(80,455)	(73,445)
General and administrative expenses		(25,330)	(17,461)
Research and development expenses		(50,324)	(37,508)
Impairment loss under expected credit loss model, net of reversal		(647)	(1,772)
Finance (cost)/income, net		(2,383)	570
Profit before tax	6	43,320	23,877
Income tax expenses	7	(3,969)	(3,551)
Profit for the period		39,351	20,326
Other comprehensive income for the period		4,716	—
		44,067	20,326
Profit/(loss) for the period attributable to:			
Owners of the Company		39,313	20,374
Non-controlling interests		38	(48)
		39,351	20,326

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Audited)
	<i>Note</i>	RMB'000	RMB'000
Profit and other comprehensive income/(expense) attributable to:			
Owners of the Company		44,029	20,374
Non-controlling interests		38	(48)
		<u>44,067</u>	<u>20,326</u>
Earnings per share for profit attributable to owners of the Company (<i>RMB per share</i>)			
— Basic and diluted	8	<u>0.29</u>	<u>0.18</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2023

		As at 30 June 2023 (Unaudited) RMB'000	As at 31 December 2022 (Audited) RMB'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	10	5,194	6,633
Right-of-use assets		7,582	10,747
Intangible assets	10	100,136	39,674
Prepayments, deposits and other receivables	12	5,655	5,907
Financial assets at fair value through profit or loss	16	14,572	—
Deferred tax assets		2,234	3,598
		<u>135,373</u>	<u>66,559</u>
Current assets			
Trade receivables	11	33,108	43,023
Prepayments, deposits and other receivables	12	31,042	11,660
Contract costs		6,888	16,452
Cash and cash equivalents		285,406	232,566
		<u>356,444</u>	<u>303,701</u>
Total assets		<u>491,817</u>	<u>370,260</u>
EQUITY AND LIABILITIES			
Capital and Reserve			
Share capital	13	1,186	8
Share premium		130,891	—
Other reserves		89,304	84,588
Retained earnings		78,203	38,890
		<u>299,584</u>	<u>123,486</u>
Non-controlling interests		(834)	(872)
Total equity		<u>298,750</u>	<u>122,614</u>

		As at 30 June 2023 (Unaudited) <i>RMB'000</i>	As at 31 December 2022 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
Non-current liabilities			
Trade payables	14	61,000	15,083
Other payables	15	51	466
Lease liabilities		977	4,475
		<u>62,028</u>	<u>20,024</u>
Current liabilities			
Trade payables	14	56,904	44,121
Other payables and accruals	15	29,697	50,396
Current income tax liabilities		12,019	7,428
Contract liabilities		24,935	49,633
Lease liabilities		7,484	6,651
Financial liability at fair value through profit or loss	16	—	69,393
		<u>131,039</u>	<u>227,622</u>
Total liabilities		<u>193,067</u>	<u>247,646</u>
Total equity and liabilities		<u>491,817</u>	<u>370,260</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Attributable to owners of the Company						Non- controlling interests	Total equity
	Share capital	Share premium	Other reserves	Translation reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023 (audited)	8	—	84,588	—	38,890	123,486	(872)	122,614
Profit for the period	—	—	—	—	39,313	39,313	38	39,351
Other comprehensive income for the period	—	—	—	4,716	—	4,716	—	4,716
Profit and other comprehensive income for the period	—	—	—	4,716	39,313	44,029	38	44,067
Issue of shares by capitalisation of share premium account (Note 13 (i))	968	(968)	—	—	—	—	—	—
Issue of new shares (Note 13 (ii))	107	69,287	—	—	—	69,394	—	69,394
Transaction costs attributable to issuance of shares	—	(6,718)	—	—	—	(6,718)	—	(6,718)
Issue of shares on conversion of Pre-IPO convertible bonds (Note 13 (iii))	103	69,290	—	—	—	69,393	—	69,393
At 30 June 2023 (unaudited)	1,186	130,891	84,588	4,716	78,203	299,584	(834)	298,750
At 1 January 2022 (audited)	8	—	79,555	—	29,629	109,192	(1,879)	107,313
Profit/(loss) and other comprehensive income/(expense) for the period	—	—	—	—	20,374	20,374	(48)	20,326
Acquisition of non-controlling interests in a subsidiary	—	—	(2,103)	—	—	(2,103)	1,063	(1,040)
At 30 June 2022 (audited)	8	—	77,452	—	50,003	127,463	(864)	126,599

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	(Unaudited)	(Audited)
		RMB'000	RMB'000
NET CASH FROM OPERATING ACTIVITIES		40,059	11,835
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	10	(818)	(2,504)
Purchase of intangible assets		(24,418)	(6,514)
Purchase of financial assets at fair value through profit or loss		(74,302)	(19,800)
Proceeds from disposal of financial assets at fair value through profit or loss		61,473	19,845
Repayment from related parties	17(b)	—	36
Proceeds from disposal of short-term deposits		—	83
Advance to a third party		(16,000)	—
NET CASH USED IN INVESTING ACTIVITIES		(54,065)	(8,854)
FINANCING ACTIVITIES			
Proceeds from issue of shares		69,394	—
Payment for listing expenses		(2,429)	(1,170)
Payment for principal elements of lease liabilities		(2,665)	(2,746)
Interest paid		(241)	(349)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		64,059	(4,265)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		50,053	(1,284)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		232,566	188,410
Effect of foreign exchange rate changes		2,787	1,367
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		285,406	188,493

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

Gala Technology Holding Limited (the “**Company**”) was incorporated in the Cayman Islands on 12 June 2018 as an exempted company with limited liability under the Companies Act (as revised) of the Cayman Islands. The address of the Company’s registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 January 2023 (the “**Listing**” or the “**Listing Date**”).

The Company is an investment holding company and its subsidiaries are principally engaged in the mobile sports game development, publishing and operation in the People’s Republic of China (the “**PRC**”).

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional/change in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2022.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In July 2023, the HKICPA issued the amendments to HKAS 12 to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments require that entities shall apply the amendments immediately upon issuance.

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

3. REVENUE

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision maker. As a result of this evaluation, the directors of the Company (the "Directors") consider that the Group's operations are operated and managed as a single segment, which is mobile sports game development, publishing and operation mainly in the PRC, and no segment information is presented, accordingly.

Revenue for the six months ended 30 June 2023 and 2022 are as follows:

	For the six months ended	
	30 June	
	2023	2022
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Web-based and mobile online game revenue — over time	<u>354,399</u>	<u>294,775</u>

The Group is mainly domiciled in the PRC. Majority of revenue are derived in the PRC and no revenue are derived from any other individual country exceeded 10% or more of the Group's revenue during the six months ended 30 June 2023 and 30 June 2022.

4. OTHER (LOSSES)/GAINS, NET

	For the six months ended	
	30 June	
	2023	2022
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Fair value gains on financial assets measured at fair value through profit or loss ("FVTPL")	574	45
Fair value gain on extension of a financial liability measured at FVTPL	—	3,065
Fair value loss on a financial liability measured at FVTPL	—	(4,379)
Exchange (loss)/gain, net	(3,977)	2,245
Others	(348)	58
	<u>(3,751)</u>	<u>1,034</u>

5. OTHER INCOME

	For the six months ended	
	30 June	
	2023	2022
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Government grants (<i>Note</i>)	3,928	2,706
Others	3,114	888
	<u>7,042</u>	<u>3,594</u>

Note: The amounts represent the Group's entitlement to value-added tax refund and subsidies for technological innovation received from the local government grants in the PRC. There are no unfulfilled conditions or other contingencies attaching to these grants and refund. The Group did not benefit directly from any other forms of government assistance.

6. PROFIT BEFORE TAX

	For the six months ended	
	30 June	
	2023	2022
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Profit for the period has been arrived at after charging/(crediting):		
Listing expenses (included in general and administrative expenses)	<u>274</u>	<u>5,693</u>
Staff costs:		
Directors' emoluments	1,678	1,326
Other staff costs		
Wages, salaries and bonuses	54,757	37,564
Social security costs, housing provident fund and other staff cost	<u>13,999</u>	<u>10,268</u>
	<u>70,434</u>	<u>49,158</u>
Depreciation of property, plant and equipment	1,625	1,106
Depreciation of right-of-use assets	3,047	3,123
Amortisation of intangible assets	<u>18,679</u>	<u>9,012</u>
Total depreciation and amortisation	<u>23,351</u>	<u>13,241</u>

7. INCOME TAX EXPENSES

The income tax expenses of the Group for the six months ended 30 June 2022 and 2023 is analysed as follows:

	For the six months ended	
	30 June	
	2023	2022
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax	2,827	4,421
Hong Kong profits tax	789	49
Overprovision in prior years		
PRC Enterprise Income Tax	(1,011)	—
Deferred tax	1,364	(919)
Income tax expenses	<u>3,969</u>	<u>3,551</u>

(i) Hong Kong

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of taxable profits of qualifying group entity will be taxed at 8.25%, and taxable profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% for the six months ended 30 June 2023 and 30 June 2022 on the assessable profits.

(ii) PRC Enterprise Income Tax (“EIT”)

The income tax provision of the Group in respect of its operations in the PRC was calculated at the tax rate of 25% for the six months ended 30 June 2023 and 30 June 2022 on the assessable profits, except for stated below, based on the existing legislation, interpretations and practices in respect thereof.

Shenzhen Wangchen Technology Co., Ltd (“**Wangchen Technology**”) was subject to EIT rate of 15% for the six months ended 30 June 2023 since Wangchen Technology has fulfilled the requirement of the “Preferential Enterprise Income Tax Treatment for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone” from 1 January 2023 (six months ended 30 June 2022: 15%), and the enacted tax rate for the related deferred taxation was adjusted accordingly.

Shenzhen Wangchen Moji Technology Co., Ltd has fulfilled the requirement of the “Notice of the State Council on Printing and Distributing Several Policies for Promoting the High-quality Development of the Integrated Circuit Industry and Software Industry in the New Era” (Guo Fa [2020] No.8)” and it is subject to a reduced preferential EIT tax rate of 12.5% for the six months ended 30 June 2023 (six months ended 30 June 2022: 0%).

(iii) PRC Withholding Tax (“WHT”)

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the six months ended 30 June 2023 and 2022, the Group did not require its PRC subsidiaries to distribute their retained earnings to foreign investors, and the Group is able to control the timing of the reversal of the temporary differences arising from the unremitted earnings of these PRC subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as at 30 June 2023.

8. EARNINGS PER SHARE

(a) Basis earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

During the six months ended 30 June 2022, the weighted average number of ordinary shares used for the purpose of basic earnings per share had been retrospectively adjusted for the effects of the issue of shares in connection with the capitalisation issue of 112,580,000 shares which took place on 16 January 2023.

	For the six months ended	
	30 June	
	2023	2022
	(Unaudited)	(Audited)
Profit attributable to the owners of the Company (<i>RMB'000</i>)	<u>39,313</u>	<u>20,374</u>
Weighted average number of ordinary shares in issue (<i>thousand shares</i>)	<u>135,976</u>	<u>113,580</u>
Basic earnings per share attributable to the owners of the Company (<i>RMB per share</i>)	<u>0.29</u>	<u>0.18</u>

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to ordinary equity holders of the Company, adjusted to reflect the impact from any dilutive potential ordinary shares issued by the Company, as appropriate. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares assumed to have been issued on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

In June 2021, the Company issued convertible bonds in the principal amount of HK\$77,112,000 (equivalent to RMB64,163,000).

The conversion feature of the convertible bonds is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2022, therefore the conversion feature of the Pre-IPO convertible bonds has no dilutive effect on earnings per share calculation. On 16 January 2023, the shares of the Company were listed on the Main Board of the Stock Exchange with offer price of HK\$6.5 per share. The Pre-IPO convertible bonds was automatically converted into 12,000,000 shares of the Company on the same day, representing approximately 8.70% of the issued share capital of the Company, therefore conversion feature of convertible bonds has dilutive effect on earnings per share calculation for the six months ended 30 June 2023.

9. DIVIDENDS

No dividends were paid, declared or proposed for the six months ended 30 June 2022 and 30 June 2023. The Directors have determined that no dividend will be paid in respect of the six months ended 30 June 2023.

10. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

During the six months ended 30 June 2023, the Group incurred RMB818,000 (six months ended 30 June 2022: RMB2,504,000) for acquisition of office equipment, furniture and fixtures. During the six months ended 30 June 2023, the Group paid nil (six months ended 30 June 2022: RMB366,000) for addition of leasehold improvement.

During the six months ended 30 June 2023, the Group incurred RMB79,142,000 (six months ended 30 June 2022: RMB3,920,000) and nil (six months ended 30 June 2022: RMB872,000) for acquisition of licenses, which represent the intellectual property rights licenses used in games with a license period of 1 to 5 years, and software, respectively.

11. TRADE RECEIVABLES

	As at 30 June 2023 (Unaudited) RMB'000	As at 31 December 2022 (Audited) RMB'000
Trade receivables	35,804	45,072
Less: Allowance for credit losses	<u>(2,696)</u>	<u>(2,049)</u>
Trade receivables, net	<u><u>33,108</u></u>	<u><u>43,023</u></u>

The credit terms of trade receivables granted by the Group are normally from 30 to 90 days. An aging analysis of trade receivables based on recognition date is as follows:

	As at 30 June 2023 (Unaudited) RMB'000	As at 31 December 2022 (Audited) RMB'000
Up to 3 months	32,908	42,029
3 months to 1 year	1,028	2,360
Over 1 year	1,868	683
	<u>35,804</u>	<u>45,072</u>

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2023 (Unaudited) RMB'000	As at 31 December 2022 (Audited) RMB'000
Deposits	1,629	1,563
Prepayment for selling and marketing expenses	8,344	3,743
Prepayment for listing expenses	—	4,804
Loan receivable (<i>note</i>)	16,000	—
Other prepayments	7,970	5,958
Other receivables	2,754	1,499
	<u>36,697</u>	<u>17,567</u>
Analysed as:		
Current	31,042	11,660
Non-current	5,655	5,907
	<u>36,697</u>	<u>17,567</u>

Note: Amount is due from an independent third party, unsecured, carries interest of 5% per annum, repayable in 12 months. The amount was subsequently settled in full.

13. SHARE CAPITAL

	Number of shares	Share capital HK\$'000	Share capital RMB'000
Ordinary shares of HK\$0.01 each			
Authorised:			
As at 1 January 2022, 30 June 2022, 31 December 2022 and 30 June 2023	10,000,000,000	100,000	82,570
Issued and fully paid:			
As at 1 January 2022, 30 June 2022 and 31 December 2022	1,000,000	10	8
Capitalisation issue (<i>note i</i>)	112,580,000	1,126	968
Issue of new shares upon Listing (<i>note ii</i>)	12,420,000	124	107
Issue of shares on conversion of Pre-IPO convertible bonds (<i>note iii</i>)	12,000,000	120	103
As at 30 June 2023	138,000,000	1,380	1,186

Notes:

- (i) On 16 January 2023, the Company issued additional 112,580,000 shares by way of capitalisation of HK\$1,125,800 (equivalent to RMB968,000) standing to the credit of the Company's share premium account.
- (ii) On 16 January 2023, the shares of the Company were listed on the Main Board of the Stock Exchange with an offer price of HK\$6.5 per share. Upon Listing, the Company issued a total of 12,420,000 shares for total proceeds (before related fees and expenses) of HK\$80,730,000 (equivalent to RMB69,394,000).
- (iii) On 16 January 2023, the Pre-IPO convertible bonds of HK\$78,000,000 (equivalent to RMB69,393,000) issued by the Company were converted into 12,000,000 shares of the Company, representing approximately 8.70% of the issued number of shares of the Company after the conversion.

14. TRADE PAYABLES

Trade payables primarily consist of the license fee and royalty fee payable to the licensors for the rights to use the intellectual properties of certain football and basketball athletes in the Group's developed games in specified geographic areas for certain period of time.

The aging analysis of trade payables based on recognition date is as follows:

	As at 30 June 2023 (Unaudited) <i>RMB'000</i>	As at 31 December 2022 (Audited) <i>RMB'000</i>
0-90 days	116,741	53,274
91-365 days	1,163	1,180
1-2 years	—	—
Over 2 years	—	4,750
	<u>117,904</u>	<u>59,204</u>
Analysed as:		
Current	56,904	44,121
Non-current	61,000	15,083
	<u>117,904</u>	<u>59,204</u>

15. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2023 (Unaudited) <i>RMB'000</i>	As at 31 December 2022 (Audited) <i>RMB'000</i>
Payroll and welfare payables	9,941	14,683
Other tax payables	16,368	14,192
Accrued expenses	1,819	19,312
Advance from the publishers	1,620	2,420
Others	—	255
	<u>29,748</u>	<u>50,862</u>
Analysed as:		
Current	29,697	50,396
Non-current	51	466
	<u>29,748</u>	<u>50,862</u>

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

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

The following tables present the Group's financial instruments that are measured at fair value as at 30 June 2023 and 31 December 2022 by fair value hierarchy:

	Level 2 <i>RMB'000</i>
At 30 June 2023 (unaudited)	
Financial assets	
Financial assets at FVTPL	<u>14,572</u>
At 31 December 2022 (audited)	
Financial liabilities	
Pre-IPO convertible bonds	<u>69,393</u>

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)		
Financial assets at FVTPL other than derivative financial instruments				
Unlisted funds (<i>note</i>)	14,572	N/A	Level 2	Price provided by the financial institution with reference to underlying investment portfolios which have observable quoted price in active markets.
Financial liabilities				
Pre-IPO convertible bonds	N/A	69,393	Level 2	Valuation estimated by the management by reference to offer price of the Company of HK\$6.5 per share.

Note: The unlisted funds represent a portfolio of investments managed by fund managers, most of the portfolio assets are invested in the listed securities in Hong Kong, the United States of America and the PRC. These investments are not held for trading, instead, they are held for long-term capital appreciation purposes. The Group is not expected to realise the funds within twelve months from the end of the reporting period, therefore, the unlisted funds are classified as non-current assets. Proceeds from the issue of shares under the Listing were not used in the acquisition of unlisted funds.

(b) Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The accounting team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The fluctuations in the fair value of the assets and liabilities are explained to the Board.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

The Directors consider that there has been no changes in the business or economic circumstances that affect the fair value of the Group's financial instruments.

The Directors consider that the carrying amounts of financial assets and financial liabilities at amortised cost recognised in the condensed consolidated financial statements approximate their fair values as at 30 June 2023 and 31 December 2022.

17. RELATED PARTY TRANSACTIONS

The following significant transactions were carried out between the Group and its related parties during the six months ended 30 June 2022 and 2023.

(a) Names and relationship with related party

The following individual is related party of the Group that had balances and/or transactions with the Group during the six months ended 30 June 2022 and 2023.

Related party	Relationship
Mr. Guo Yuheng	A senior management personnel of the Company

(b) Loans to key management

During the six months ended 30 June 2022, Mr. Guo Yuheng had repaid all the loan due to the Group amounting to RMB36,000. The Group had no outstanding loans to key management as at 30 June 2023 and 31 December 2022.

(c) Key management compensation

Key management includes executive Directors and senior management. The compensation paid or payable to key management, including Directors' remuneration, is shown below:

	For the six months ended	
	30 June	
	2023	2022
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Wages, salaries and bonuses	3,057	3,012
Other social security costs and housing benefits and other employee benefits	328	160
Total	3,385	3,172

18. CAPITAL COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as followings:

	As at	As at
	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Intangible assets	4,246	92,281

FINANCIAL PERFORMANCE

Condensed Consolidated Statement of Comprehensive Income

The following table presents items of the unaudited condensed consolidated statement of comprehensive income of the Group in absolute amounts and as percentages to the total revenue for the six months ended 30 June 2023, together with the comparative figures for the corresponding period in 2022.

	Six months ended 30 June			
	2023		2022	
	(Unaudited) RMB'000	%	(Audited) RMB'000	%
Revenue	354,399	100.0	294,775	100.0
Cost of revenue	(155,231)	(43.8)	(145,910)	(49.5)
Gross profit	199,168	56.2	148,865	50.5
Other (losses)/gains, net	(3,751)	(1.1)	1,034	0.4
Other income	7,042	2.0	3,594	1.2
Selling and marketing expenses	(80,455)	(22.7)	(73,445)	(24.9)
General and administrative expenses	(25,330)	(7.1)	(17,461)	(5.9)
Research and development expenses	(50,324)	(14.2)	(37,508)	(12.7)
Impairment loss under expected credit loss model, net of reversal	(647)	(0.2)	(1,772)	(0.6)
Finance (cost)/income, net	(2,383)	(0.7)	570	0.2
Profit before income tax	43,320	12.2	23,877	8.1
Income tax expenses	(3,969)	(1.1)	(3,551)	(1.2)
Profit for the period	39,351	11.1	20,326	6.9
Other comprehensive income for the period	4,716	1.3	—	*
	44,067	12.4	20,326	6.9
Profit/(loss) for the period attributable to:				
Owners of the Company	39,313	11.1	20,374	6.9
Non-controlling interests	38	*	(48)	*
	39,351	11.1	20,326	6.9

* Less than 0.1%

Non-HKFRS measure

The table sets forth the adjusted net profit (Non-HKFRS measure) of the Group for the periods indicated after adjusting for the net fair value changes on the Pre-IPO Convertible Bonds and the listing expenses as a non-HKFRS measure:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period, net of tax	39,351	20,326
Add:		
Fair value loss on a financial liability measured at FVTPL	—	4,379
Listing expenses	274	5,693
Deduct:		
Fair value gain on extension of a financial liability measured at FVTPL	—	(3,065)
Adjusted net profit (Non-HKFRS measure)	39,625	27,333

The Group believes that the presentation of such non-HKFRS measure when shown in conjunction with the corresponding HKFRS measure provides useful information to potential investors and management in facilitating a comparison of its operating performance by eliminating potential impacts of the net fair value changes on the convertible bonds issued by the Company on 21 June 2021 in the principal amount of HK\$77,112,000 (the “**Pre-IPO Convertible Bonds**”) and the listing expenses. The use of the non-HKFRS measure has limitations as any other analytical tool, and should not be considered in isolation from or as a substitute for or superior to, the analysis of the Group’s results of operations or financial condition as reported under the HKFRS. In addition, the non-HKFRS measure may be defined differently from similar terms used by other companies.

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS

BUSINESS OVERVIEW

As a leading technology-driven mobile sports game company in China, the Group has accumulated over 10 years of game development and operation experience, adhering to the principle of “enhancing sports with technology for more fun”. The games launched cover football, baseball and basketball, which are three of the most popular sports worldwide, forming unique game content and a large user base.

The shares of the Company were listed on the Main Board of the Stock Exchange on 16 January 2023. During the six months ended 30 June 2023, the Group’s game development and operation business developed steadily. We consolidated and deepened our official cooperation with international sports associations (FIFPro, NBA, and NBPA), as well as top football clubs such as F.C. Barcelona, F.C. Bayern Munich, and Manchester City F.C.. We continuously updated game content and launched new versions with new themes, providing users with a rich and diversified gaming experience.

At the beginning of 2023, the Group acquired intellectual properties (“IP”) right licenses from Major League Baseball (the “MLB”) and Major League Baseball Players Association (the “MLBPA”) and launched testing of the new game MLB Clutch Hit Baseball (MLB 棒球大師) during the six months ended 30 June 2023, which attracted active participation from users and accumulated data supporting subsequent refining of products. Meanwhile, the Group’s well-known football management simulation game Football Champion (最佳11人) continued to iterate, adding a Superstar Career Mode, allowing users to experience the path to stardom, which received widespread acclaim from users. The first action-based football game Total Football (最佳球會) launched in July 2022, achieved the first place in the sports game download list of the mainland China Apple Store in its first month of launch. The highly realistic player modeling, rich player movements, and delicate operation feel in the game allowed users to feel as if they were on the field, providing a real match experience, and steadily improved its recognition and reputation.

Thanks to the good performance of the Group’s core games, the Group’s total revenue increased by approximately 20.2% from approximately RMB294.8 million for the six months ended 30 June 2022, to approximately RMB354.4 million for the six months ended 30 June 2023. Gross profit increased by approximately 33.8% from approximately RMB148.9 million for the six months ended 30 June 2022, to approximately RMB199.2 million for the six months ended 30 June 2023. The overall gross profit margin increased by approximately 5.7 percentage points to 56.2%. Net profit and net profit attributable to the owner of the Company increased significantly by approximately 93.6% and 93.0% to approximately RMB39.4 million and approximately RMB39.3 million, respectively, for the six months ended 30 June 2023.

There have been no material adverse changes in respect of the Group’s business development or business model since the publication of the latest annual report.

Application of AI Technology

During the six months ended 30 June 2023, the Group continued to focus on the research and development of cutting-edge and general technologies, increasing investment in core talent reserves, research and development (“**R&D**”) tool iteration, and new artificial intelligence (“**AI**”) technologies. R&D expenses increased by approximately 34.2% from approximately RMB37.5 million for the six months ended 30 June 2022, to approximately RMB50.3 million for the six months ended 30 June 2023.

As of the end of 30 June 2023, the Group’s self-developed AI engine, 3D stadium real-time replication, and other AI technologies have undergone several years of iterative upgrades and are now ahead of our competitors. For example, the Group’s unique Arena4D technology for real-time stadium replication, not only satisfies the creation of 3D character and scene generation in games, but also completes real-time computing, modeling, and photo-quality rendering of virtual spaces and characters by capturing video of the events, reproducing a 1:1 arena in real time with minimal delay. In addition, Arena4D captures the players’ motion and incorporate professional movements into our games’ player movement database, enhancing the realism of the game, and significantly reducing the cost of hiring professional players for motion capture. In terms of game art, the Group is also actively promoting the application of artificial intelligence generated content (“**AIGC**”) technologies such as Stable Diffusion and Midjourney in game original painting, game icons, props, and scene creation, effectively reducing the time and resources needed to produce a large amount of art content, and efficiently improving game art productivity.

Outlook for the Second Half of 2023

Looking ahead to the second half of 2023, our core game Football Champion (最佳11人), which has entered into the stable and mature stage of its life cycle, will continue to consolidate its player activity, in-game community scale and profitability. Total Football (最佳球會), representing the Group’s top-notch technology, will also enter into the most robust stage of its life cycle and expand into key overseas markets, contributing to the Group’s revenue. MLB Clutch Hit Baseball (MLB棒球大師) is expected to achieve rapid growth in revenue scale in the second half of the year through continuous iteration and optimisation.

The Group will also continue to launch boutique and diversified game products, tapping into the development opportunities in the niche areas of sports games. As of now, the Group has three games under development, namely the fishing simulation game “Project Code: Fishing Master”, the action-based basketball game “Project Code: Operation Basketball” and the action-based American football game. “Project Code: Fishing Master” will adopt real physics engine, motion capture technology, weather change system, realistic water flow effect, high-definition fish modeling, providing users with an immersive fishing experience. “Project Code: Operation Basketball” will continue to adopt the upgraded motion capture and human motion engine, the Group’s AI technology, and

real audience rendering technology to maximise the reproduction of basketball player movements, tactical positioning, and court interaction details in real basketball games, allowing users to enjoy a next-generation basketball experience on mobile devices. The above-mentioned games under development are expected to be launched within the next half year to two years, and “Project Code: Fishing Master” is expected to start testing within 2023.

The Group is full of confidence in the sports gaming track we are in. Moreover, with the advancement of technology, the Group can further optimise the game quality of the released games, and can increase the efficiency of development and iteration of the games in the pipeline. We will keep up with the pace of technological updates, increase the reserve of core talents in game R&D and operations, accelerate the application and research breakthroughs of AIGC technology, expand our layout in the field of casual games, launch a more diversified product portfolio, and provide users with higher quality game content.

FINANCIAL REVIEW

Revenue

The following table sets forth a breakdown of revenue by publishing models in absolute amounts and as percentages to the total revenue of the Group for the periods indicated:

	Six months ended 30 June			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Self-publishing games	352,386	99.4	292,106	99.1
Third party publishing game	2,013	0.6	2,669	0.9
Total	354,399	100.0	294,775	100.0

Revenue increased by approximately RMB59.6 million, or 20.2%, from approximately RMB294.8 million for the six months ended 30 June 2022 to approximately RMB354.4 million for the six months ended 30 June 2023, which was mainly attributable to the revenue generated from a new game launched in July 2022 — Total Football (最佳球會).

Cost of revenue

The following table sets forth a breakdown of the cost of revenue in absolute amounts and as percentages to the total cost of revenue of the Group for the periods indicated:

	Six months ended 30 June			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Commission fee to the Platforms	100,550	64.8	102,290	70.1
License fees	36,734	23.7	29,813	20.4
Revenue sharing to third-party publishers	1,533	1.0	2,244	1.5
Staff costs	9,762	6.3	5,782	4.0
Server usage expenses	5,669	3.7	5,121	3.5
Others*	983	0.5	660	0.5
Total	<u>155,231</u>	<u>100.0</u>	<u>145,910</u>	<u>100.0</u>

* Others mainly consist of depreciation of property, plant and equipment and depreciation of right-of-use assets.

Cost of revenue increased by approximately RMB9.3 million, or 6.4%, from approximately RMB145.9 million for the six months ended 30 June 2022 to approximately RMB155.2 million for the six months ended 30 June 2023. The increase in cost of revenue was primarily attributable to (i) the increase of approximately RMB6.9 million, or 23.2% of license fees as the Group acquired the IP right licenses from MLB and MLBPA during the six months ended 30 June 2023 for the newly launched baseball action simulation game, MLB Clutch Hit Baseball (MLB棒球大師) and some of the Group's IP licensing arrangements provide for revenue sharing from our income generated; and (ii) the increase of approximately RMB4.0 million, or 68.8% of staff costs due to the increase in the number of staff in maintenance, operation and customer service for our newly launched games, namely Total Football (最佳球會) and MLB Clutch Hit Baseball (MLB棒球大師).

Gross profit

The gross profit increased by approximately RMB50.3 million, or 33.8%, from approximately RMB148.9 million for the six months ended 30 June 2022 to approximately RMB199.2 million for the six months ended 30 June 2023. The gross profit margin of the Group increased from approximately 50.5% for the six months ended 30 June 2022 to approximately 56.2% for the six months ended 30 June 2023. The increase in gross profit margin was primarily due to (i) the gross profit margin of Total Football (最佳球會), which was launched in the second half of 2022, was approximately 63.7% for the six months ended 30 June 2023; and (ii) the gross profit margin of

Football Champion (最佳11人 — 冠軍球會) was approximately 64.0% for the six months ended 30 June 2023, as compared with approximately 59.5% for the corresponding period in 2022.

Other (losses)/gains, net

The net other (losses)/gains primarily consisted of (i) fair value (losses)/gains on financial assets and liabilities at FVTPL; and (ii) net foreign exchange gains/(losses). For the six months ended 30 June 2023, our net other losses amounted to approximately RMB3.8 million as compared with net other gains of RMB1.0 million for the corresponding period in 2022, mainly because of the fluctuation of foreign currency exchange.

Other income

The other income primarily consisted of government grants. Other income increased by approximately RMB3.4 million, or 95.9%, from approximately RMB3.6 million for the six months ended 30 June 2022 to approximately RMB7.0 million for the six months ended 30 June 2023, mainly because the Group received certain new grants and/or subsidies from the local governmental departments during the six months ended 30 June 2023.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB7.0 million, or 9.5%, from approximately RMB73.4 million for the six months ended 30 June 2022 to approximately RMB80.5 million for the six months ended 30 June 2023, which was primarily attributable to the increase in advertising and marketing expenses as the Group carried out more advertising activities during the six months ended 30 June 2023 for promoting the newly launched game, Total Football (最佳球會).

General and administrative expenses

General and administrative expenses increased by approximately RMB7.9 million, or 45.1%, from approximately RMB17.5 million for the six months ended 30 June 2022 to approximately RMB25.3 million for the six months ended 30 June 2023, which was primarily attributable to the increase in salaries and bonuses for general and administrative staff by approximately RMB2.8 million, or 46.7% and increase in other general and administrative expenses by approximately RMB4.5 million as a result of business development and the incurrence of professional fees after Listing.

Research and development expenses

Research and development expenses increased by approximately RMB12.8 million, or 34.2%, from approximately RMB37.5 million for the six months ended 30 June 2022 to approximately RMB50.3 million for the six months ended 30 June 2023, which was primarily attributable to the increase in employee benefits and salaries of the research and development staff of approximately RMB11.5 million, or 35.3% primarily due to the increase in the number of the Group's R&D staff during the six months ended 30 June 2023 for the development of the new mobile sports games released and in the pipeline during the six months ended 30 June 2023 and the salary increment offered to reward the talented R&D personnel of the Group.

Impairment loss under expected credit loss model, net of reversal

The net impairment loss on financial assets decreased by approximately RMB1.1 million, or 63.5%, from approximately RMB1.8 million for the six months ended 30 June 2022 to approximately RMB0.6 million for the six months ended 30 June 2023, which was mainly because the Group made provision for impairment of trade receivables regarding an overdue amount by one of the payment vendors of approximately RMB1.8 million during the six months ended 30 June 2022, but there was no such provision made for the six months ended 30 June 2023. The Group have taken measures to recover the outstanding amount by serving payment demand request on the payment vendor and the finance team closely monitored the collectability of this payment and will continue to communicate with the payment vendor to obtain updates of its anticipated settlement.

Finance (cost)/income, net

For the six months ended 30 June 2023, the net finance cost of approximately RMB2.4 million mainly consists of interest cost on lease liabilities and interest accretion on non-current license fee and royalties payables. For the six months ended 30 June 2022, the net finance income of approximately RMB0.6 million mainly consists of interest income from bank deposits of approximately RMB1.1 million.

Income tax expenses

Income tax expenses increased by approximately RMB0.4 million, or 11.8%, from approximately RMB3.6 million for the six months ended 30 June 2022 to approximately RMB4.0 million for the six months ended 30 June 2023, which was primarily due to the increase in profit before income tax expenses.

Liquidity, Financial and Capital Resources

As of 30 June 2023, the Group's cash and cash equivalents was approximately RMB285.4 million, represented an increase of approximately RMB52.8 million from approximately RMB232.6 million as of 31 December 2022, primarily due to (i) proceeds from the Listing; and (ii) revenue generated from game development and operation of the Group. The cash and cash equivalents were mainly denominated in Renminbi (“RMB”).

The net current assets of the Group increased by approximately RMB149.3 million from approximately RMB76.1 million as of 31 December 2022 to approximately RMB225.4 million as of 30 June 2023. As of 30 June 2023, the Group's current ratio (current assets/current liabilities) was approximately 2.72 (31 December 2022: approximately 1.33).

As of 30 June 2023, the Group did not have any bank borrowings (31 December 2022: nil).

Gearing ratio

As at 30 June 2023, gearing ratio (defined as debt divided by total equity, where debt includes lease liabilities and a financial liability at FVTPL) was 0.03 times (31 December 2022: 0.66 times).

	As of 30 June 2023 <i>RMB'000</i>	As of 31 December 2022 <i>RMB'000</i>
Leases liabilities		
— Current	7,484	6,651
— Non-current	977	4,475
Financial liability at FVTPL	—	69,393
	<hr/>	<hr/>
Debt	8,461	80,519
Equity	298,750	122,614
	<hr/>	<hr/>
Gearing ratio	<u>0.03 times</u>	<u>0.66 times</u>

Contingent Liabilities

As at 30 June 2023, the Group did not have any contingent liabilities (31 December 2022: nil).

Pledge of Assets

As at 30 June 2023, none of the assets of the Group were pledged (31 December 2022: nil).

Capital Commitments

Capital commitments of the Group as at 30 June 2023 amounted to approximately RMB4.2 million, which primarily consisted of purchase of intangible assets (31 December 2022: RMB92.3 million).

Material Acquisitions and Disposal of Subsidiaries

The Group had neither material acquisition nor disposal of subsidiaries, associates and joint ventures for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

Significant Investments

As at 30 June 2023, the Group did not have any significant investments (31 December 2022: nil).

Future Plans for Material Investments and Capital Assets

As at 30 June 2023, save as disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 30 December 2022 (the “**Prospectus**”) the Group did not have any other future plans for material investments or capital assets (31 December 2022: same).

Treasury Policies and Foreign Exchange Exposure

The Group has adopted a prudent approach on treasury management for the purpose of investing the sufficient financial resources in wealth management products.

The Group’s foreign currency transactions are mainly denominated in United States dollar (“**US\$**”), European dollar (“**EUR**”) and Hong Kong dollar (“**HK\$**”). The majority of assets and liabilities are denominated in RMB, US\$, EUR and HK\$ and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities denominating in a currency other than RMB, which is the functional currency of the major operating companies within the Group.

The Group did not experience any significant liquidity problems resulting from currency exchange fluctuations during the six months ended 30 June 2023. The Group did not hedge its foreign currency exposure during the period ended 30 June 2023 (six months ended 30 June 2022: same). However, continuous monitoring on the foreign exchange exposure is carried out by the management.

Employees and Remuneration Policy

As of 30 June 2023, the Group had 398 full-time employees (31 December 2022: 367), most of whom were based in the PRC. During the six months ended 30 June 2023, the total staff costs were approximately RMB70.4 million (six months ended 30 June 2022: RMB49.2 million). The Group has established rules and procedures of recruitment, job promotion, compensation, benefits, leave, dismissal, etc. The Group determines employees' compensation packages on the basis of work performance and the market standard of remuneration. The Group compensates its employees with base salaries and performance-based bonuses. The Group has also adopted a share option scheme as a long term incentive to Directors and employees. In addition, training and development programmes are provided on an on-going basis throughout the Group.

The Group's companies incorporated in the PRC contribute, based on certain percentage of the salaries of the employees, to a defined contribution retirement benefit plan and other defined contribution social security plans organised by relevant government authorities in the PRC on a monthly basis.

DIVIDEND

After taking into consideration the capital expenditure required by the Group's plan to develop new games and promote its existing games and new games in overseas markets in 2023, the Board recommended not to declare any interim dividend of the Company for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

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

For 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.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The Group did not have any significant events after 30 June 2023.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company's net proceeds from the global offering were approximately HK\$11.0 million (after deducting the underwriting commissions and other expenses in connection with the global offering). The following table sets forth details of the use of net proceeds from the Listing Date to 30 June 2023:

Purpose of the net proceeds	Percentage of total amount of net proceeds (%)	Amount of net proceeds allocated* (HK\$'000)	Actual usage from the Listing Date and up to 30 June 2023 (HK\$'000)	Unutilised net proceeds as at 30 June 2023 (HK\$'000)	Expected timeline for usage of net proceeds
Renew existing IP right licenses and obtain additional IP right licenses from sports leagues, sports associations and sports clubs for the development of existing and new mobile sports games	30%	3,289	825	2,464	By December 2024
Solidifying the marketing efforts to actively promote the Group's games to both PRC and overseas markets	35%	3,838	975	2,863	By December 2024
Further strengthening the Group's talent pool and further improving the Group's research and development capabilities	25%	2,741	700	2,041	By December 2024
Working capital and general corporate purposes	10%	1,096	250	846	By December 2024
Total	<u>100%</u>	<u>10,964</u>	<u>2,750</u>	<u>8,214</u>	

* Refers to the intend to use of proceeds under heading "Use of Proceeds" as stated in the Prospectus.

The unutilised net proceeds is currently held in bank deposits at authorised financial institutions and/or licensed banks as defined under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and laws in the relevant jurisdictions (where applicable) and it will be used in the manner consistent with the proposed allocations and expected timeframe as disclosed in the Prospectus and above.

CHANGE OF INDEPENDENT AUDITOR

As disclosed in the announcement and circular of the Company dated 22 May 2023 and 24 May 2023 respectively, PricewaterhouseCoopers retired as the independent auditor of the Company upon expiration of its term of office at the conclusion of the annual general meeting of the Company held on 16 June 2023 (the “AGM”). Deloitte Touche Tohmatsu was appointed as the Company’s independent auditor with effect from the conclusion of the AGM and until the conclusion of the next annual general meeting of the Company.

AUDIT COMMITTEE

The Company has established the audit committee (the “**Audit Committee**”) on 21 December 2022 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and code provision D.3.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “**CG Code**”). The Audit Committee consists of three members, namely Mr. Leung Ming Shu (chairman of the Audit Committee), Ms. Chak Hoi Kee Clara and Mr. Zhan Peixun, all being independent non-executive Directors.

The primary duties of the Audit Committee include, but are not limited to, (i) reviewing and supervising the financial reporting process and internal control system of the Group, risk management and internal audit; (ii) providing advice and comments to the Board; and (iii) performing other duties and responsibilities as may be assigned by the Board.

The Audit Committee had discussed and reviewed the Group’s unaudited interim results for the six months ended 30 June 2023 with the Company’s management.

The Group’s unaudited interim results for the six months ended 30 June 2023 have been reviewed by the Company’s independent auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set forth in Appendix 10 to the Listing Rules since the Listing Date. The Company has made specific enquiry with the Directors and all Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2023.

CORPORATE GOVERNANCE CODE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability.

Since the Listing Date, the Company has adopted and applied the code provisions under the CG Code as its own. The Board has reviewed the Company's corporate governance practices and is satisfied that save as disclosed below, the Company has been in compliance with the code provisions set out in Part 2 of the CG Code during the six months ended 30 June 2023.

According to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Jia Xiaodong (“**Mr. Jia**”) is currently the chairman of the Board and the chief executive officer of the Group. Taking into account Mr. Jia's extensive experience in the online game industry and in view of Mr. Jia's role in the overall management of the Group since the Group's founding, the Board believes that it is in the interest of the Group for Mr. Jia to take up both roles for effective management and operations. Therefore, the Directors consider that the deviation from such code provision is appropriate. Notwithstanding such deviation, the Directors are of the view that the Board is able to function efficiently and perform its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions will be made in consultation with the members of the Board and the relevant Board committees, and there are three independent non-executive Directors on the Board who can provide independent advice on the operations and management of the Group, the Board takes the view that there is adequate safeguard in place to ensure a sufficient balance of powers within the Board. The Board will also review the structure and composition of the Board and senior management team from time to time in light of the prevailing circumstances to maintain a high standard of corporate governance practices of the Company.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.galasports.com) and the Stock Exchange (www.hkexnews.hk). The interim report containing all the information required by the Listing Rules will be available on the above websites and despatched to shareholders of the Company in due course.

By Order of the Board
Gala Technology Holding Limited
Jia Xiaodong
*Executive Director, Chairman and
Chief Executive Officer*

Hong Kong, 25 August 2023

As at the date of this announcement, the executive Directors are Mr. Jia Xiaodong (Chairman and Chief Executive Officer), Mr. Huang Xiang and Mr. Li Xin; and the independent non-executive Directors are Mr. Zhan Peixun, Mr. Leung Ming Shu and Ms. Chak Hoi Kee Clara.