



Fulu Holdings Limited
福祿控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2101

Interim Report
2021

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BOARD OF DIRECTORS

Executive Directors

Mr. Fu Xi (符熙) (*Chairman and CEO*)
Mr. Zhang Yuguo (張雨果)
Mr. Shui Yingyu (水英聿)
Mr. Zhao Bihao (趙筆浩)
Mr. Mao Feng (茅峰)

Independent Non-executive Directors

Mr. Li Wai Chung (李偉忠)
Ms. Wang Yuyun (王雨雲)
(alias Wang Yuyun (王雨蘊))
Mr. Wong Sincere (黃誠思)

AUDIT COMMITTEE

Mr. Li Wai Chung (李偉忠) (*Chairman*)
Ms. Wang Yuyun (王雨雲)
Mr. Wong Sincere (黃誠思)

REMUNERATION COMMITTEE

Ms. Wang Yuyun (王雨雲) (*Chairman*)
Mr. Fu Xi (符熙)
Mr. Wong Sincere (黃誠思)

NOMINATION COMMITTEE

Mr. Fu Xi (符熙) (*Chairman*)
Mr. Wong Sincere (黃誠思)
Mr. Li Wai Chung (李偉忠)

JOINT COMPANY SECRETARIES

Mr. Mao Feng (茅峰)
Ms. Ng Ka Man (吳嘉雯) (*ACG, ACS*)

AUTHORIZED REPRESENTATIVES

Mr. Mao Feng (茅峰)
Ms. Ng Ka Man (吳嘉雯) (*ACG, ACS*)

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The PRC

STOCK CODE

2101

COMPANY'S WEBSITE

www.fulu.com

FINANCIAL SUMMARY

	Unaudited		
	For the six months ended June 30,		
	2021	2020	Change
	<i>(RMB in thousands, except for percentage)</i>		<i>(%)</i>
Revenue	200,538	158,650	26.4
Gross profit	145,235	132,813	9.4
Gross profit margin ⁽¹⁾	72.4%	83.7%	(11.3)
Profit before taxation	75,805	74,575	1.6
Profit and total comprehensive income for the period	72,462	71,223	1.7

Note:

(1) Gross profit margin is calculated based on gross profit divided by revenue and multiplied by 100%.

	Unaudited	Audited	Change
	As at June 30, 2021	As at December 31, 2020	
	<i>(RMB in thousands)</i>		<i>(%)</i>
Assets			
Current assets	1,237,790	1,227,986	0.8
Non-current assets	80,660	165,839	(51.4)
Total assets	1,318,450	1,393,825	(5.4)
Liabilities			
Current liabilities	244,120	285,931	(14.6)
Non-current liabilities	1,672	1,811	(7.7)
Total liabilities	245,792	287,742	(14.6)
Net assets	1,072,658	1,106,083	(3.0)
Equity attributable to owners of the parent			
Share capital	273	273	–
Reserves	1,072,385	1,105,810	(3.0)
Total Equity	1,072,658	1,106,083	(3.0)

Dear Shareholders, Partners and Colleagues,

Thank you for your continued investment and long-term trust in Fulu Holdings, which helped us make tremendous progress in the past 6 months. In the first half of 2021, the GMV of Fulu reached RMB9,979,496,000, representing a year-on-year increase of 32.4%. We generated revenue of over RMB200,538,000 for our Shareholders, representing a year-on-year increase of 26.4%; and realized gross profit of RMB145,235,000, representing a year-on-year increase of 9.4%. We rewarded our Shareholders with dividends amounting to RMB105,887,000, and made a commitment to distribute cash dividends of no less than 35% of the current year's distributable profit for the next three years. I am so proud of Fulu's abilities in assisting partners in various industries to achieve sales and procurement through our open platform, and in empowering partners of different sizes to improve efficiency and capability through innovative technology. Everyday we are here with our partners, we build digital bridges and expand new customers with them. Our Fulu Open Platform is gaining the trust from more enterprises.

BUSINESS OVERVIEW

The leisure and entertainment segment is our main source of revenue. In the first half of 2021, revenue from this segment amounted to RMB95,940,000, representing a year-on-year increase of 27.2%. In order to seize market share, our gross profit margin dropped from 89.0% to 79.0%. In the first half of 2021, Fulu created a joint membership for Baidu Library; and entered into an e-commerce exclusive agency cooperation with Mango TV. Meanwhile, we continued to expand new application scenarios and officially set foot on Tiktok platform as the first all-category digital entitlement goods store.

In the first half of 2021, revenue from the games segment amounted to RMB37,229,000, representing a year-on-year decrease of 35.9%. Based on our judgment on the industry situation and policy environment this year, we actively reduced the proportion of games business in the Company's business revenue and adjusted our product mix, as a result, the gross profit margin of the games business decreased from 85.3% to 65.2%. On the strategic level, we will continue to tap into new game service markets and commence cooperation with War Flames flagship store. In the first half of 2021, we customized "Tuan Tuan Jia Yuan (團團家園)", a red-envelope simulation game, for Meituan, and provided entitlement goods and price-break coupon promotion services to users in the NetEase Game Member APP.

In the first half of 2021, revenue from the telecommunications segment amounted to RMB45,814,000, representing a year-on-year increase of 144.7%, which was mainly benefited from our sufficient liquidity, whilst the newly added JD phone top-up channel was a huge success during the 618 Event. The gross profit margin of this segment rose from 57.2% to 57.9%.

In the first half of 2021, revenue from the lifestyle segment amounted to RMB21,555,000, representing a year-on-year increase of 234.7%. This segment experienced an explosive growth in the second half of 2020, and we managed to achieve an increase of 21.6% as compared with the high base of the previous six-month period, and the gross profit margin increased from 84.3% to 86.8%. In the first half of 2021, the Company provided entitlement support to Atour Zhotel (亞朵 Zhotel) in the WeChat Mini Program to enhance the customized membership service experience; created mall membership privileges with virtual privilege points for Xiaohutuxian "Lixiang+" Mini Program (小糊塗仙「禮享+」小程序), launched "Binfenli (繽紛禮)", a comprehensive entitlement APP covering the basic necessities of life and shopping. We also won the bidding of the 2021 "Zuifuli (最福利)" coupons and digital top-up services projects; provided digital commodities such as lifestyle coupons for the online points mall of XPeng (小鵬汽車), provided pushing services of digital commodities and coupons for 360 Calendar (360 日曆插件); and carried out a recruitment event of 800,000 new members for Xiaoju Jiayou (小桔加油). Last but not least, we provided 10,000,000 digital entitlement redemption vouchers in respect of the travelling interests of "Huacai Shenghuo (華彩生活)", the credit card APP of Hua Xia Bank; supported the tea tasting campaign of Master Kong (康師傅); and developed an all-round cooperation with Lianlianlvyou (聯聯周邊遊) in user traffic and channel resources.

In the first half of 2021, revenue from the value-added service segment amounted to RMB29,960,000, representing a year-on-year decrease of 22.9%, which was mainly because the product mix in games stores which we operate as agent underwent significant adjustments, thereby affecting the revenue generated from the stores. We are rapidly developing new partners to reduce the impact brought by the adjustment of product mix. Currently, we operate 105 stores, representing an increase of 23.5% as compared with the end of last year; and 67 flagship stores obtained authorization, representing an increase of 42.6% as compared with the end of last year. We newly offered agent operation services for stores such as NetEase Cloud Music (網易雲音樂), Green Tangerine (青桔) and Fun Age (開心麻花); provided membership distribution in e-commerce channels and commenced agent operation of JD flagship store for Bilibili; and provided customer promotion services in third, fourth or fifth-tier cities for Alipay, JD and QQ Music. Moreover, we operated, as agent, the KFC flagship store in the Ping An Pocket Bank APP (平安口袋銀行APP); launched online an Android-based application called "Didida (滴滴嗒)" (which provides timing function for important matters and also top-up services for phone bills, traffic, and video members); provided marketing mini-games for Wuliangye WeChat official account; and launched online the WeChat Mini Program "Entitlement Lifestyle Platform (權益生活平台)" to provide users with cost-effective products. Furthermore, we launched online "Fuqitaotao (福氣淘淘)", a WeChat Mini Program targeting the online marketing and offline retention and payment scenario solutions for merchants and banks; and entered the field of live-streaming e-commerce, and opened stores in Kuaishou (快手) and Tiktok (抖音).

Fulu Open Platform demonstrated extremely high user stickiness. Certain of our applications continued to be promoted rapidly in the first half of 2021. For example, the number of users of “Batch Top-up and Batch Purchase (批充批採)” increased by 36.4% as compared with the beginning of the year, the number of users of “I Want To Supply (我要供貨)” increased by 29.0% as compared with the beginning of the year, and the number of Tuiker (推客) users reached 52,281, representing an increase of 377.4% as compared with the beginning of the year. Two platform applications (Fulu Alliance (福祿聯盟) and Fulu Card Butler (福祿卡管家)) were newly launched online in the first half of 2021. The Company is gradually transforming from a pure e-commerce company to a platform service company. Corresponding adjustment to the organizational structure of the Company is made during the process, and various important positions are filled by new talents recruited continuously to improve organizational capabilities. In particular, in order to strengthen its product development capabilities, the Company recruited numerous research and development and related operations personnel in the first half of this year, so the salary expenses in the first half of 2021 increased by 72.7% year-on-year. The increase in salary expenses and the adjustment of business structure increased our labor costs and actively adjusted our revenue from games business. In 2021, in order to obtain the exclusive authorization for some businesses, we increased the advance payment. All of these had a certain impact on the operating cash flow in the first half of 2021. Fortunately, with the changes in social trends, the payment habits of users have been developed in all aspects, therefore, Fulu Open Platform plans to start a paid subscription for certain applied services in the second half of 2021. Through the technological empowerment of Fulu Open Platform, we firmly believe that the number of customers will increase significantly, and our market share will also be further increased through our continuous expansion of downstream channels.

I am honored to lead Fulu and our staff across China to work hard every day, win the trust of customers and help them achieve their goals. Every day we meet their needs through innovation, and provide them with the best solutions. For example, the Alipay Quanyi Bao (權益寶) project launched online this year is a typical case of the “Connect + Service” model. The individual users' points received from an enterprise can obtain a wider range of application options that are almost equivalent to cash through the interactive scenarios of Alipay. Moreover, the three parties will eventually meet their respective needs and be satisfied with the result through the ingenious design of the scheme.

On corporate governance, we adhere to a simple and efficient decision-making process, as change and innovation are the eternal themes in the Internet business logic. At the same time, we can also change the direction in time through a collective decision-making system adopting a simple majority rule.

We are willing to accept unknown challenges every day, because we keep learning and stay loyal to the long standing values: openness and inclusiveness, honesty and trust, fulfillment of duties, pursuit of perfection and passion, so that we can make self-progress. I am pleased for the progress of all our staff.

ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY

The COVID-19 pandemic broke the traditional view of development. Long-dominant development models, such as market liberalization, globalization and carbon-intensive industries are now under unprecedented challenge, with the COVID-19 crisis having revealed the limits of a conventional model of economic growth. Rather than returning to a high-carbon economy measured in terms of narrow indicators of GDP growth, it is better to suggest diverse alternatives. Therefore, we rethink the “value” and “purpose” in the economy, that is, is “growth” the only goal? Or are there other values, such as fairness or sustainability, that are more important for human well-being? Life making or profit making? How to address the contradiction between social welfare and capital to combine the social bottom line of protecting the disadvantaged groups with the measures of promoting economic development? The answers are cooperation, regeneration and circulation, but not uncontrolled exploitation and expansion. No doubt, these will become the new principles of our economic development, and the policy of common prosperity will be raised to an unprecedented height.

Our mission is to build a diversified and interesting digital business, which creates a better life for the people. We strive to participate in the creation of a sustainable future, so that everyone can have the benefits and convenience brought about by technology and innovation. To reflect our emphasis on promoting environmental and social improvement, the Board has appointed a professional company to assist in identifying and supervising its commitment to environmental sustainability and corporate social responsibility. We, as a technology company, is able to achieve and accelerate the digital transformation of products for a low-carbon future. Moreover, we are committed to ensuring the sustainability of data center. Its infrastructure is built on Aliyun. Cloud computing itself is a green technology which improves the overall CPU utilization rate of the society. The resource utilization rate of the Cloud is 5 to 10 times more than that of our self-built computer room by gathering computing resources and transferring workloads. With the help from our partners, Fulu utilizes clean energy such as wind and solar energy indirectly. Meanwhile, we use “DingTalk” to promote low-carbon, environmentally friendly and paperless office, put green concept into practice, and continue to contribute to the improvement of the ecological environment.

“People are the source of value” is not just a slogan in Fulu. Our core strength lies in the talents we recruited. For enterprises which do not operate physical product business, “people” are more important. The ability to recruit top talents and let them understand the value of work is highly related to the survival and development of enterprises. Fulu continues to improve the benefits and remuneration of our staff to retain talents, and we recognize the importance of giving priority to the health, emotional and economic welfare of our staff and their family members. We adopt a more caring, tolerant and pleasant working model, and provide industry-leading benefits, including paid leave under various situations, such as monthly maternity check-ups for female pregnant staff, holiday on Women’s Day and the right for parents to accompany their children on Children’s Day on 1st June. Under the intense competition environment of domestic internet enterprises, Fulu attaches importance to the development of “soft infrastructure”, firmly implements 5-day work per week ruling out the 996 working hour system, and strives to create a working environment where everyone can take the initiative to do their best.

We sincerely believe that only enterprises with a pool of top talents can continue to facilitate innovation and achieve product iteration along with the consumption upgrades. An enterprise where talents try to escape will definitely be eliminated by the era. 106 new employees joined us in the first half of 2021, 41 of them are R&D staff. Currently, the R&D staff of the Company account for 27% of total employees. As a core platform for providing external technical services, Fulu platform has the gene of technology, and the platform will definitely become the leader of the second curve of Fulu.

OUTLOOK FOR THE SECOND HALF YEAR

In the past three months, the government issued a series of rectification policies covering industries such as education, e-cigarette and e-commerce platform. The high intensity and strength of such policies are rare in recent years. It is expected that the government will impose more stringent supervision on various industries in the second half of 2021. We are continuously concerned about the medium and long-term impact of each policy as to whether it has changed the growth prospects of our industry, and whether it has changed the rules of competition. The rectification policies in certain industries have indeed changed their long-term development trend, while others have not. Whether a relatively loose policy window period will be ushered in remains unclear. Antitrust movements in digital economy has commenced in the EU, the US and the PRC in full swing since 2020. Benefits generated by the PRC internet enterprises to society and consumers are widely recognized. However, a “winner takes all” situation can easily arise in this industry, which inevitably leads to problems of exclusion and restriction on competition, while competition is exactly the crucial foundation of driving innovation and economic development. We believe that antitrust movements can exert pressure for competition upon major digital enterprises, and compel them to continuously provide consumers with quality products at reasonable prices. As a service provider, the Company will also gain a higher turnover as a result of antitrust movements. What we need to do is to accommodate to the policies, adjust product mix, and target the correct customer base. In addition to its talents and open platform, the biggest asset of Fulu is the behavior data of users that use the Company's products, which has great value. Comparable to land, oil and capital, data are the “assets” that can generate profits. With the technology advancement, people have realized the true value of data, especially cross-border data mobility, which has become a core topic relevant to politics, economy and society in various countries. In the second half of 2021, we will formulate a compliance framework applicable to the Company on the basis of steadfastly complying with data security-related laws, further enhance network security, and use our data assets rationally and effectively to provide our upstream and downstream users with more accurate and efficient services.

CHAIRMAN'S STATEMENT

We will continue to hire outstanding R&D talents to improve users' satisfaction with our products. Through our constant innovation in the application field, we will help our partners to jointly seize business opportunities today and in the future. As of June 30, 2021, we have served more than 560 million users accumulatively (after deduplication). I look forward to working with our 600 employees to help more than 3,455 upstream and downstream partners and consumers in the PRC create a rich and interesting digital life through the power of technology. When I look back at the past six months, I am proud of the Company's progress, and I am fully confident about the opportunities in the future. Finally, I would like to thank every Shareholder for the long-term support, thank each partner that gives us an opportunity for providing service, and thank Fulu's colleagues for their hard work and enthusiasm.

Fu Xi

Chairman

August 19, 2021

MANAGEMENT DISCUSSION AND ANALYSIS

SIX MONTHS ENDED JUNE 30, 2021 COMPARED TO SIX MONTHS ENDED JUNE 30, 2020

The following table sets forth the comparative figures for the first half of 2020 and 2021:

	Unaudited	
	For the six months ended June 30,	
	2021	2020
	<i>(RMB in thousands)</i>	
Revenue	200,538	158,650
Cost of sales	(55,303)	(25,837)
Gross profit	145,235	132,813
Other income and gains	9,149	5,504
Selling and distribution expenses	(35,100)	(25,488)
Administrative expenses	(22,640)	(21,813)
Research and development costs	(17,279)	(12,281)
Impairment losses on financial and contract assets, net	(313)	(563)
Other expenses	(2,932)	(581)
Operating profits	76,120	77,591
Finance costs	(315)	(3,016)
Profit before taxation	75,805	74,575
Income tax expense	(3,343)	(3,352)
Profit and total comprehensive income for the period	72,462	71,223
Attributable to:		
Owners of the parent	72,462	71,223

REVENUE

Our revenue increased by 26.4% from RMB158,650,000 in the first half of 2020 to RMB200,538,000 in the first half of 2021. This increase was primarily driven by an increase in services fees from online store operation services, primarily driven by an increase in online stores we operated for digital goods vendors and the GMV of transactions that occurred in these stores.

Revenue by Nature

Our revenue primarily includes (a) commissions from digital goods-related services; and (b) service fees from online store operation services and other value-added services. The following table sets forth revenue breakdown by types of services, in absolute amount and as a percentage of total revenue, in the first half of 2021 and 2020:

	Unaudited			
	For the six months ended June 30,			
	2021		2020	
	RMB	%	RMB	%
	<i>(RMB in thousands, except for percentage)</i>			
Digital goods-related services	170,578	85.1	119,801	75.6
Value-added services				
Online store operation services	25,140	12.5	36,290	22.8
Others ⁽¹⁾	4,820	2.4	2,559	1.6
Total	200,538	100.0	158,650	100.0

Note:

(1) Include user acquisition and management services (e.g. mini-game development services) and IT solutions.

Digital goods-related services. Revenue from digital goods-related services increased by 42.4% from RMB119,801,000 in the six months ended June 30, 2020 to RMB170,578,000 in the six months ended June 30, 2021. The revenue across the business segments remaining stable, with a relatively greater increase in revenue from the lifestyle and telecommunications segments.

Value-added services. Our value-added services consist primarily of online store operation services and other value-added services. Revenue from online store operation services decreased by 30.7% from RMB36,290,000 in the six months ended June 30, 2020 to RMB25,140,000 in the six months ended June 30, 2021, primarily due to the decrease in revenue from the value-added services of our games and online store operation services. Revenue from our other services increased by 88.4% from RMB2,559,000 in the six months ended June 30, 2020 to RMB4,820,000 in the six months ended June 30, 2021, primarily attributable to an increase in the business of IT solutions.

Revenue by Segment

We generate revenue from four business segments: (i) leisure and entertainment; (ii) games; (iii) telecommunications; and (iv) lifestyle. The following table sets forth our revenues by segment in absolute amount and as a percentage of our total revenue in the first half of 2020 and 2021:

	Unaudited			
	For the six months ended June 30,			
	2021		2020	
	RMB	%	<i>RMB</i>	%
<i>(RMB in thousands, except for percentage)</i>				
Leisure and entertainment	95,940	47.9	75,403	47.5
Games	37,229	18.6	58,088	36.6
Telecommunications	45,814	22.8	18,719	11.8
Lifestyle	21,555	10.7	6,440	4.1
Total	200,538	100.0	158,650	100.0

The following table sets forth the GMV attributable to different industries for the periods indicated:

	Unaudited			
	For the six months ended June 30,			
	2021		2020	
	RMB	%	<i>RMB</i>	%
<i>(RMB in thousands, except for percentage)</i>				
Leisure and entertainment	2,147,478	21.5	991,713	13.0
Games	808,744	8.1	1,106,825	15.0
Telecommunications	6,348,350	63.6	5,198,231	69.0
Lifestyle	674,924	6.8	237,892	3.0
Total	9,979,496	100.0	7,534,661	100.0

Leisure and entertainment. Revenue from the leisure and entertainment segment increased by 27.2% from RMB75,403,000 in the six months ended June 30, 2020 to RMB95,940,000 in the six months ended June 30, 2021, primarily driven by an increase in the leisure and entertainment digital goods transactions we facilitated. The GMV of leisure and entertainment digital goods transactions we facilitated increased by 116.5% from RMB991,713,000 in the six months ended June 30, 2020 to RMB2,147,478,000 in the six months ended June 30, 2021.

Games. Revenue from the games segment decreased by 35.9% from RMB58,088,000 in the six months ended June 30, 2020 to RMB37,229,000 in the six months ended June 30, 2021. The GMV of games-related digital goods transactions we facilitated decreased by 26.9% from RMB1,106,825,000 in the six months ended June 30, 2020 to RMB808,744,000 in the six months ended June 30, 2021. The revenue from the games segment decreased, primarily due to the decrease in overall gross profit margin resulting from the adjustment of upstream customer strategy and the reduction of event budget; while the GMV of the games-related digital goods transactions we facilitated decreased, primarily because of the decrease in transactions of some of our games due to the adjustment of operating strategy and the adjustment of businesses with low gross profit points.

Telecommunications. Revenue from the telecommunications segment increased by 144.7% from RMB18,719,000 in the six months ended June 30, 2020 to RMB45,814,000 in the six months ended June 30, 2021, primarily driven by an increase in the commission rates and GMV of the telecommunications digital goods transactions we facilitated. The commission rates increased because (i) we facilitated more digital goods transactions for new digital goods vendors; and (ii) digital goods transactions conducted through a new e-commerce platform increased; we typically earn higher commissions from these transactions. The GMV of telecommunications digital goods transactions we facilitated increased by 22.1% from RMB5,198,231,000 in the six months ended June 30, 2020 to RMB6,348,350,000 in the six months ended June 30, 2021.

Lifestyle. Revenue from the lifestyle segment increased by 234.7% from RMB6,440,000 in the six months ended June 30, 2020 to RMB21,555,000 in the six months ended June 30, 2021, primarily driven by an increase in the lifestyle digital goods transactions we facilitated. The GMV of lifestyle digital goods transactions we facilitated increased by 183.7% from RMB237,892,000 in the six months ended June 30, 2020 to RMB674,924,000 in the six months ended June 30, 2021.

The following table sets forth the GMV attributable to our key operating entities for the Reporting Period:

	For the six months ended June 30, 2021	
	GMV (RMB in thousands, except for percentage)	% of the Group's total GMV
Wuhan Fulu	7,261,781	72.8%
Tibet Fulu	1,316,283	13.2%
Hubei Kejin	471,306	4.7%
Wuhan Souka	267,249	2.7%
Wuhan Yiqiyou	257,278	2.6%
Xinjiang Fulu	182,746	1.8%
Wuhan Lishuo	176,500	1.8%
Kashgar Yiqiwan	17,534	0.2%
Wuhan Tianshi	14,893	0.1%
Wuhan Yilu	13,883	0.1%
Tibet Huluwa	—	—

COST OF SALES

Cost of sales increased by 114.0% from RMB25,837,000 in the six months ended June 30, 2020 to RMB55,303,000 in the six months ended June 30, 2021, primarily due to (i) an increase in commissions and services fees from online stores driven by an increase in online stores we operated for digital goods vendors and the GMV of transactions that occurred in these stores; and (ii) an increase in labor cost as a result of the increase in number of employees and optimization of our staff structure.

Cost of Sales by Nature

The following table sets forth the components of cost of sales, in absolute amount and as a percentage of total cost of sales, for the six months ended June 30, 2020 and 2021:

	Unaudited For the six months ended June 30,			
	2021		2020	
	RMB	%	RMB	%
	<i>(RMB in thousands, except for percentage)</i>			
Commissions	28,212	51.0	14,401	55.7
Labor-related costs	23,998	43.4	10,027	38.8
Others ⁽¹⁾	3,093	5.6	1,409	5.5
Total	55,303	100.0	25,837	100.0

Note:

- (1) Primarily include fixed fees paid to digital goods sales channels and server and software costs.

Commissions increased by 95.9% from RMB14,401,000 in the six months ended June 30, 2020 to RMB28,212,000 in the six months ended June 30, 2021, primarily due to an increase in commissions and services fees from online stores driven by an increase in online stores we operated for digital goods vendors and the GMV of transactions that occurred in these stores.

Labour-related costs increased by 139.3% from RMB10,027,000 in the six months ended June 30, 2020 to RMB23,998,000 in the six months ended June 30, 2021, primarily because of the increase in number of employees and optimization of our staff structure.

Other costs increased by 119.5% from RMB1,409,000 in the six months ended June 30, 2020 to RMB3,093,000 in the six months ended June 30, 2021, primarily because of the increase in store operation service fees as well as server and other operating software costs resulting from an increase in online stores we operated.

Cost of Sale by Segment

The following table sets forth segment cost of sales, in absolute amount and as a percentage of total cost of sales, for the six months ended June 30, 2021 and 2020:

	Unaudited			
	For the six months ended June 30,			
	2021		2020	
	RMB	%	RMB	%
	<i>(RMB in thousands, except for percentage)</i>			
Leisure and entertainment	20,184	36.5	8,286	32.1
Games	12,959	23.4	8,528	33.0
Telecommunications	19,308	34.9	8,014	31.0
Lifestyle	2,852	5.2	1,009	3.9
Total	55,303	100.0	25,837	100.0

Leisure and entertainment. Cost of sales from the leisure and entertainment segment increased by 143.6% from RMB8,286,000 in the six months ended June 30, 2020 to RMB20,184,000 in the six months ended June 30, 2021, primarily due to the increase in the volume of leisure and entertainment digital goods transactions.

Games. Cost of sales from the games segment increased by 52.0% from RMB8,528,000 in the six months ended June 30, 2020 to RMB12,959,000 in the six months ended June 30, 2021, primarily due to the structural adjustment of our games operation team, the increase in personnel reserve and the increase in labor costs.

Telecommunications. Cost of sales from the telecommunications segment increased by 140.9% from RMB8,014,000 in the six months ended June 30, 2020 to RMB19,308,000 in the six months ended June 30, 2021, reflecting an increase in the volume of telecommunications digital goods transactions we facilitated through e-commerce platforms; we generally pay commissions to e-commerce platforms for these services.

Lifestyle. Cost of sales from the lifestyle segment increased by 182.7% from RMB1,009,000 in the six months ended June 30, 2020 to RMB2,852,000 in the six months ended June 30, 2021, primarily due to (i) an increase in commissions charged by e-commerce platforms as we facilitated more lifestyle-related digital goods transactions; and (ii) an increase in the number of employees in our lifestyle operations team.

GROSS PROFIT AND GROSS PROFIT MARGIN

The following table sets forth our gross profit and gross profit margin by each segment for the six months ended June 30, 2020 and 2021:

	Unaudited			
	For the six months ended June 30,			
	2021		2020	
	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(RMB in thousands, except for percentage)</i>			
Leisure and entertainment	75,756	79.0	67,117	89.0
Games	24,270	65.2	49,560	85.3
Telecommunications	26,506	57.9	10,705	57.2
Lifestyle	18,703	86.8	5,431	84.3
Total	145,235	72.4	132,813	83.7

Our overall gross profits increased by 9.4% from RMB132,813,000 in the six months ended June 30, 2020 to RMB145,235,000 in the six months ended June 30, 2021 and our gross profit margin decreased from 83.7% in the six months ended June 30, 2020 to 72.4% in the same period in 2021, primarily due to an increase in number of employees in operation team.

The gross profit from the leisure and entertainment segment increased by 12.9% from RMB67,117,000 in the six months ended June 30, 2020 to RMB75,756,000 in the six months ended June 30, 2021, mainly due to an expansion in product categories and an increase in volume of transactions.

The gross profit from the games segment decreased by 51.0% from RMB49,560,000 in the six months ended June 30, 2020 to RMB24,270,000 in the six months ended June 30, 2021, mainly due to (i) an adjustment of upstream customer strategy; (ii) an increase in number of employees in operation team; and (iii) an active adjustment of operating strategy in the light of the adjustment of regulatory policy made by the government.

The gross profit from the telecommunications segment increased by 147.6% from RMB10,705,000 in the six months ended June 30, 2020 to RMB26,506,000 in the six months ended June 30, 2021, mainly due to an increase in the volume of transactions, an increase in sales channels and structural optimization.

The gross profit from the lifestyle segment increased by 244.4% from RMB5,431,000 in the six months ended June 30, 2020 to RMB18,703,000 in the six months ended June 30, 2021, mainly due to an increase in the volume of transactions and relevant revenue.

OTHER INCOME AND GAINS

Other income and gains increased by 66.2% from RMB5,504,000 in the six months ended June 30, 2020 to RMB9,149,000 in the six months ended June 30, 2021, primarily attributable to the tax incentives⁽¹⁾ and an increase in interests income from large-denomination certificates of deposit.

Note:

- (1) The Group enjoyed the tax incentives on input value-added tax according to the related regulations in the PRC.

SELLING AND DISTRIBUTION EXPENSES

Our selling and distribution expenses increased by 37.7% from RMB25,488,000 in the six months ended June 30, 2020 to RMB35,100,000 in the six months ended June 30, 2021, primarily due to the increase in distribution expenses. Distribution expenses increased by 19.6% from RMB21,841,000 in the six months ended June 30, 2020 to RMB26,123,000 in the six months ended June 30, 2021, as we paid more advertising fees to certain e-commerce platforms (including the largest e-commerce platform in China) to enhance our promotion of the digital goods sold by these platforms. Our salary and welfare expenses increased by 74.9% from RMB3,117,000 in the six months ended June 30, 2020 to RMB5,453,000 in the six months ended June 30, 2021, reflecting a change in the employee structure and an increase in the number of employees.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 3.8% from RMB21,813,000 in the six months ended June 30, 2020 to RMB22,640,000 in the six months ended June 30, 2021, primarily due to a change in the employee structure and an increase in the number of employees, and an increase in administrative and office supplies and an increase in management software expenses.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs increased by 40.7% from RMB12,281,000 in the six months ended June 30, 2020 to RMB17,279,000 in the six months ended June 30, 2021, reflecting our enhanced research and development efforts.

IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS

Impairment losses on financial and contract assets decreased by 44.4% from RMB563,000 in the six months ended June 30, 2020 to RMB313,000 in the six months ended June 30, 2021, primarily due to the fact that the Group strengthened the credit risks management and control on customers, which reduced the losses caused by impairment.

OTHER EXPENSES

Other expenses increased by 404.6% from RMB581,000 in the six months ended June 30, 2020 to RMB2,932,000 in the six months ended June 30, 2021, which was due to the exchange loss of RMB2,932,000 resulting from the exchange rate difference of oversea funding raised by the Global Offering.

FINANCE COSTS

Finance costs decreased by 89.6% from RMB3,016,000 in the six months ended June 30, 2020 to RMB315,000 in the six months ended June 30, 2021, reflecting a decrease in interest expenses after a reduction in borrowings.

FAIR VALUE CHANGES ON INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The fair value changes on investments at fair value through profit or loss in the six months ended June 30, 2021 increased by RMB99,000 as compared with the six months ended June 30, 2020, primarily due to an increase in fair value gains on investment.

OPERATING PROFITS

Our operating profit was RMB76,120,000 in the six months ended June 30, 2021, compared to operating profit of RMB77,591,000 in the six months ended June 30, 2020.

PROFIT BEFORE TAX

After the deduction of finance costs, our profit before income tax was RMB75,805,000 in the six months ended June 30, 2021, compared to a profit of RMB74,575,000 in the six months ended June 30, 2020.

INCOME TAX EXPENSES

Because some of our Consolidated Affiliated Entities are subject to preferential tax treatment as they are engaged in encouraged industries and/or the favorable tax policies applicable to their places of establishment, the income tax expense decreased by 0.3% from RMB3,352,000 in the six months ended June 30, 2020 to RMB3,343,000 in the six months ended June 30, 2021.

PROFIT FOR THE PERIOD

As a result of the foregoing, our profit increased by 1.7% from RMB71,223,000 in the six months ended June 30, 2020 to RMB72,462,000 in the six months ended June 30, 2021.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The Board approved a restricted share unit scheme (the “Scheme”) on August 19, 2021 for the purpose of recognizing and rewarding eligible persons for their contribution to the Group, attracting best available personnel and providing additional incentives to them so as to align the interests of these eligible persons with those of the Group and to further promote the success of the Group’s business.

The Company may, at its sole discretion, establish a trust in connection with the Scheme and appoint a trustee prior to the grant of any award by the Board or its delegate(s), which may vest (a) in the form of the shares (the “RSUs”); or (b) in the form of cash equivalent to the actual selling price of the RSUs in cash in accordance with the Scheme.

Unless otherwise duly approved by the Shareholders, the total number of shares underlying the Scheme shall not exceed 20,000,000 shares (excluding RSUs that have lapsed, been cancelled or forfeited in accordance with the Scheme rules) subject to an annual limit of 3% of the total number of issued shares of the Company at the relevant time.

No RSUs have been granted under the Scheme as at the date of this report.

Save as disclosed above, the Company has no other significant subsequent events. For details of the subsequent events, please refer to note 15 to the Interim Condensed Consolidated Financial Information in this report.

OTHER FINANCIAL INFORMATION

Liquidity and Capital Resources

Our principal sources of liquidity were cash from operations, and bank and other borrowings. As of June 30, 2021, we had cash and cash equivalents of RMB131,582,000, which were all denominated in Renminbi. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from our operations, bank loans, net proceeds from the Global Offering and other funds raised from capital markets from time to time, when necessary.

The following table sets forth a summary of our net cash flow for the six months ended June 30, 2020 and 2021:

	Unaudited	
	For the six months ended	
	June 30,	
	2021	2020
	<i>(RMB in thousands)</i>	
Operating cash flow before change in working capital	78,052	79,683
Changes in working capital	(302,466)	(67,702)
Income tax paid	(5,380)	(4,323)
Net cash (used in)/generated from operating activities	(229,794)	7,658
Net cash (used in)/generated from investing activities	(684)	89
Net cash used in financing activities	(94,352)	(11,308)
Net decrease in cash and cash equivalents	(324,830)	(3,561)
Effect of foreign exchange gains and losses	(1,480)	–
Cash and cash equivalent at the end of period	131,582	5,422

Net Cash Used in Operating Activities

Net cash used in operating activities in the six months ended June 30, 2021 was RMB229,794,000, primarily attributable to profit before taxation of RMB75,805,000, as adjusted by:

- (i) non-cash and non-operating items, which primarily comprised effect of foreign exchange loss of RMB1,480,000; and
- (ii) changes in working capital, which primarily comprised:
 - (a) a RMB156,855,000 increase in prepayments, other receivables and other assets, primarily reflecting (i) an increase in prepayments to digital goods vendors, primarily driven by the growth of our business; and (ii) an increase in other receivables, primarily representing amounts due from certain digital goods sales channels;
 - (b) a RMB74,514,000 increase in trade receivables and contract assets, primarily due to an increase in service fees due from third-party games-related digital goods and services platform operators;
 - (c) a RMB38,696,000 increase in trade payables, primarily reflecting the overall growth of our business and the extension of business credit period;
 - (d) a RMB5,147,000 decrease in other payables and accruals, primarily due to a decrease in receipts in advance in the six months ended June 30, 2021 because digital goods sales channels made more advances at the end of 2020 which were utilized in the first quarter of 2021; and
 - (e) net cash used in operating activities of RMB229,794,000 in the six months ended June 30, 2021. According to the IFRS measure, restricted cash of RMB116,685,000 was accounted for as cash outflow from operating activities, and such amount was actually the fund retained by the bank which was not cleared in time, and the Group has the right to withdraw it. The Group did not withdraw such amount as at June 30, 2021, but the clearing of RMB101,537,000 was completed, which was deposited into the bank account on July 1, 2021. If an amount of RMB116,685,000 is added backed based on the non-IFRS adjustment, the adjusted net cash used in operating activities in the six months ended June 30, 2021 would be RMB113,109,000.

Net Cash Used in Investing Activities

Net cash used in investing activities in the six months ended June 30, 2021 was RMB684,000, comprising capital expenditure of RMB2,635,000 and interest received of RMB1,944,000.

Net Cash Used in Financing Activities

Net cash used in financing activities in the six months ended June 30, 2021 was RMB94,352,000, primarily due to (i) new bank and other borrowings of RMB433,742,000; (ii) repayment of bank and other borrowings of RMB505,614,000; (iii) dividends paid of RMB105,887,000; and (iv) redemption of large-denomination certificates of deposit of RMB85,000,000 due to maturity of pledged deposits.

Capital Expenditures

Our capital expenditures principally consist of expenditures for the purchases of property, plant and equipment and intangible assets. Our capital expenditures increased by RMB2,625,000 from RMB10,000 in the six months ended June 30, 2020 to RMB2,635,000 in the six months ended June 30, 2021. This is because there were office renovation expenses and expenses arising from purchase of office furniture, computers and intangible assets in the six months ended June 30, 2021.

Indebtedness, Off-balance Sheet Commitment and Contingent Liabilities

As of June 30, 2021, our total indebtedness amounted to RMB245,792,000, as compared with RMB287,742,000 as of December 31, 2020. Of which, our interest-bearing indebtedness consist of lease liabilities of RMB2,744,000 and interest-bearing bank and other borrowings of RMB66,928,000 as of June 30, 2021. As of June 30, 2021, all our bank and other borrowings were dominated in Renminbi. For the six months ended June 30, 2021, our bank loans and other borrowings were interest-bearing at rates ranging from 4.18% to 5.00% per annum (for the year ended December 31, 2020: ranging from 4.45% to 6.50%).

As of June 30, 2021, we had investment contracted but not provided for amounting to RMB8,700,000. For details of the off-balance sheet arrangements, please refer to note 12 to the Interim Condensed Consolidated Financial Information in this report.

As of June 30, 2021, we did not have material contingent liabilities.

Significant Investments Held

For the six months ended June 30, 2021, we did not have any significant investments.

Material Acquisitions, Disposals and Future Plans for Subsidiaries

For the six months ended June 30, 2021, we did not have any material acquisitions or disposals of subsidiaries.

Gearing Ratio

As of June 30, 2021, we did not have any net debt (represented by interest-bearing borrowings minus cash and cash equivalents), as the Group's cash and cash equivalents were more than its interest-bearing borrowings. As such, the gearing ratio (calculated as net debt divided by total equity plus net debt of the Group) did not apply to us.

Pledge of Assets

As at June 30, 2021, the Group's interest-bearing bank loans of RMB66,928,000 were secured by the pledge of the Group's large-denomination certificates of deposit of RMB60,000,000.

Interim Dividends

The Board did not recommend the payment of interim dividend for the six months ended June 30, 2021.

Foreign Exchange Risk Management

We mainly carry out our operations in the PRC with most transactions settled in Renminbi. As of June 30, 2021, our cash and cash equivalent balance was mainly denominated in Renminbi. Management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities denominated in the currencies other than the respective functional currencies of our entities. As of June 30, 2021, we did not have significant foreign currency exposure in our operations.

Employee and Remuneration Policy

As of June 30, 2021, we had 600 full-time employees, all of whom were based in the PRC.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive remuneration packages, which generally include basic wages, variable wages, bonuses and other benefits.

We participate in employee benefit plans mandated by the PRC government, including basic pension insurance, work-related injury insurance, maternity insurance, basic medical insurance, unemployment insurance and housing provident fund scheme. We must contribute to employee benefit plans based on specified percentages of the total remuneration of our employees up to a maximum amount specified by local governmental authorities.

CORPORATE GOVERNANCE

We are committed to maintaining a high standard of corporate governance to safeguard the interests of the Company and its Shareholders. The Company has adopted the Corporate Governance Code as its own code of corporate governance. During the Reporting Period, the Company has complied with all the applicable code provisions under the Corporate Governance Code with the exception for the deviation from code provision A.2.1 of the Corporate Governance Code.

Pursuant to code provision A.2.1 of the Corporate Governance Code, the roles between the chairman and the chief executive officer should be separate and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer. Mr. Fu Xi is both the chairman of the Board and the chief executive officer. Mr. Fu Xi is a key person to our Group's establishment and development. With extensive experience in the industry, Mr. Fu Xi is responsible for the Group's strategies, corporate culture and oversees our senior management team. Mr. Fu Xi acting as both the chairman of the Board and the chief executive officer will provide strong and consistent leadership to our Group and facilitate the efficient execution of our business strategies. The Directors consider it appropriate and beneficial to our business development and prospects that Mr. Fu Xi continues to act as both the chairman of the Board and the chief executive officer at the current stage of development of the Company, and therefore do not propose to separate these two roles. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively.

The Board will continue to review and monitor its corporate governance practices in order to ensure the compliance with the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the Reporting Period.

The Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

AUDIT COMMITTEE

The Board has established the Audit Committee, comprising of three independent non-executive Directors, namely, Mr. Li Wai Chung (Chairman), Ms. Wang Yuyun and Mr. Wong Sincere. The primary duties of the Audit Committee are to review and supervise our financial reporting process and the internal control system of the Group, manage risk, perform internal audit, provide advice and comments to the Board and perform other duties and responsibilities as may be assigned by the Board.

The Audit Committee and the management have reviewed the accounting standards and policies adopted by the Group as well as the interim report of the Group for the six months ended June 30, 2021. The financial results for the six months ended June 30, 2021 have not been audited by the auditors of the Company but have been reviewed by the Audit Committee.

CHANGES TO DIRECTORS' INFORMATION

Mr. Wong Sincere, an independent non-executive Director, has served as an independent non-executive director of U Banquet Group Holding Limited (a company listed on the Stock Exchange, stock code: 1483) since September 2018. U Banquet Group Holding Limited has been renamed as Net-a-Go Technology Company Limited.

Save as disclosed above, the Directors confirm that there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

JOINT COMPANY SECRETARY, AUTHORIZED REPRESENTATIVE AND PROCESS AGENT

During the Reporting Period, Ms. Lam Yuk Ling was the joint company secretary, authorized representative and process agent of the Company. On June 30, 2021, Ms. Ng Ka Man has been appointed as the joint company secretary, authorized representative and process agent of the Company, and the resignation of Ms. Lam Yuk Ling took effect on the same day. Ms. Ng is a manager of the Listing Services Department of TMF Hong Kong Limited and is responsible for provision of corporate secretarial and compliance services to listed company clients. She has over 15 years of experience in the company secretarial field. She is a fellow member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

USE OF NET PROCEEDS FROM LISTING

The Shares of the Company were listed on the Hong Kong Stock Exchange on September 18, 2020. The offer price was determined at HK\$8.90 per offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The Global Offering of the Company comprised 100,000,000 Shares.

The net proceeds from the Listing are approximately HK\$803.42 million, net of underwriting fees, commissions and related total expenses paid and payable in connection thereto.

Since the Listing, the Company has gradually utilized the listing proceeds for the purposes consistent with those set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus. The following table sets forth the use of the net proceeds and fund balances as at June 30, 2021.

No.	Use	The net proceeds (HK\$ million)	Utilized amount from the Listing Date to June 30, 2021 (HK\$ million)	Unutilized amount as of June 30, 2021 (HK\$ million)	Expected timeline of application of remaining net proceeds
1.	To facilitate digital goods transactions for more digital goods vendors and increase the varieties of digital goods transactions we facilitate;	241.03 (representing approximately 30% of total net proceeds)	241.03	–	N/A
2.	To increase the number of our digital goods sales channel partners;	160.68 (representing approximately 20% of total net proceeds)	160.68	–	N/A
3.	To develop our value-added services, such as membership management and interactive advertising services, virtual employee benefit services for enterprise customers, game leveling and companion services and professional game account leasing services;	160.68 (representing approximately 20% of total net proceeds)	101.30	59.38	on or before December 31, 2023
4.	For potential acquisitions of businesses and assets complementary to our business, including companies in games-related industries; and	160.68 (representing approximately 20% of total net proceeds)	–	160.68	on or before December 31, 2023
5.	To fund working capital and other general corporate purposes	80.35 (representing approximately 10% of total net proceeds)	80.35	–	N/A
		803.42	583.36	220.06	

As a wholly foreign-owned enterprise, we will need to make capital contributions and loans to our PRC subsidiaries or through loans to our Consolidated Affiliated Entities such that the net proceeds of the Listing can be used in the manner described above. Such capital contributions and loans are subject to a number of limitations and approval processes under PRC laws and regulations. There are no costs associated with registering loans or capital contributions with relevant PRC authorities, other than nominal processing charges. Under PRC laws and regulations, the PRC governmental authorities are required to process such approvals, filings or registrations or deny our application within a prescribed period, such period generally shall be less than 90 days. The actual time taken, however, may be longer due to administrative delay. We cannot assure you that we can obtain the approvals from the relevant governmental authorities, or complete the registration and filing procedures required to use our net proceeds as described above, in each case on a timely basis, or at all. As PRC regulation of loans and direct investment by wholly foreign-owned enterprise to PRC entities may delay or prevent us from using the proceeds of the Listing to make loans or additional capital contributions to our PRC Holdcos or Consolidated Affiliated Entities, this could materially and adversely affect our liquidity and our ability to fund and expand our business.

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

As of June 30, 2021, interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interests in Shares

Name of Director	Capacity	Nature of interest	Number of Shares	Approximate percentage of the issued share capital of the Company (%)
Mr. Fu Xi (符熙)	Interest in controlled corporations ⁽¹⁾	Long position	178,445,100	44.61
Mr. Zhang Yuguo (張雨果)	Interest in controlled corporation ⁽²⁾	Long position	45,999,600	11.50
Mr. Shui Yingyu (水英聿)	Interest in controlled corporation ⁽³⁾	Long position	21,103,200	5.28
Mr. Zhao Bihao (趙筆浩)	Interest in controlled corporation ⁽⁴⁾	Long position	16,828,800	4.21

Notes:

- (1) Mr. Fu Xi holds the entire share capital of FuXi Limited, Fuzhi Holdings and Fuxu Holdings, which in turn directly hold 178,445,100 Shares. Mr. Fu Xi is the sole shareholder of FuXi Limited. Under the SFO, Mr. Fu Xi is deemed to be interested in the Shares held by FuXi Limited, Fuzhi Holdings and Fuxu Holdings.
- (2) Mr. Zhang Yuguo holds the entire share capital of Zhangyuguo Holdings, which in turn directly holds 45,999,600 Shares. Under the SFO, Mr. Zhang Yuguo is deemed to be interested in the Shares held by Zhangyuguo Holdings.
- (3) Mr. Shui Yingyu holds the entire share capital of Shuiyingyu Holdings, which in turn directly holds 21,103,200 Shares. Under the SFO, Mr. Shui Yingyu is deemed to be interested in the Shares held by Shuiyingyu Holdings.
- (4) Mr. Zhao Bihao holds the entire share capital of Zhaobihao Holdings, which in turn directly holds 16,828,800 Shares. Under the SFO, Mr. Zhao Bihao is deemed to be interested in the Shares held by Zhaobihao Holdings.

(ii) Interests in Associated Corporations

Name of Director	Capacity	Associated corporations	Nature of interest	Amount of registered capital (RMB)	Percentage of shareholding in the associated corporation (%)
Mr. Fu Xi (符熙)	Beneficial interest	Wuhan Fulu	Long position	9,850,000	50.03
	Interest in controlled corporations ⁽¹⁾	Wuhan Fulu	Long position	4,759,091	24.17
	Total interest of Mr. Fu Xi in Wuhan Fulu			14,609,091	74.20
Mr. Zhang Yuguo (張雨果)	Beneficial interest	Wuhan Fulu	Long position	2,968,324	15.08
	Beneficial interest ⁽²⁾	Kashgar Yiqiwan	Long position	9,900,000	99.00
Mr. Shui Yingyu (水英聿)	Beneficial interest	Wuhan Fulu	Long position	1,384,998	7.03
Mr. Zhao Bihao (趙筆浩)	Beneficial interest	Wuhan Fulu	Long position	726,522	3.69

Notes:

- (1) Mr. Fu Xi is the general partner of Tibet Fuxu and Tibet Fulong, which in turn directly hold 12.72% and 11.45% of the equity interests in Wuhan Fulu respectively. Under the SFO, Mr. Fu Xi is deemed to be interested in the 24.17% of the equity interests together held by Tibet Fuxu and Tibet Fulong in Wuhan Fulu.
- (2) Mr. Zhang Yuguo is holding 99% equity interest in Kashgar Yiqiwan as registered shareholder of Kashgar Yiqiwan, as designated by WFOE.

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

As of June 30, 2021, to the best knowledge of the Directors, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Capacity	Nature of interest	Number of Shares	Approximate percentage of the issued share capital of the Company (%)
FuXi Limited ⁽¹⁾	Beneficial interest	Long position	141,094,800	35.27
	Interest in controlled corporations	Long position	37,350,300	9.34
Zhangyuguo Holdings ⁽²⁾	Beneficial interest	Long position	45,999,600	11.50
Shuiyingyu Holdings ⁽³⁾	Beneficial interest	Long position	21,103,200	5.28
Luzhi Holdings ⁽⁴⁾	Beneficial interest	Long position	39,433,800	9.86
Xu Jian ⁽⁴⁾	Interest in controlled corporation	Long position	39,433,800	9.86

Notes:

- (1) Fuxu Holdings, Fuzhi Holdings and FuXi Limited directly hold 19,350,300 Shares, 18,000,000 Shares and 141,094,800 Shares, respectively; and Fuxu Holdings and Fuzhi Holdings are wholly-owned subsidiaries of FuXi Limited. Under the SFO, FuXi Limited is deemed to be interested in the Shares held by Fuzhi Holdings and Fuxu Holdings.
- (2) Mr. Zhang Yuguo holds the entire share capital of Zhangyuguo Holdings. Under the SFO, Mr. Zhang Yuguo is deemed to be interested in the Shares held by Zhangyuguo Holdings.
- (3) Mr. Shui Yingyu holds the entire share capital of Shuiyingyu Holdings. Under the SFO, Mr. Shui Yingyu is deemed to be interested in the Shares held by Shuiyingyu Holdings.
- (4) Luzhi Holdings is owned as to 14.52%, 3.65%, 2.99%, 2.72%, 2.72%, 34.36%, 10.24%, 3.39%, 3.21%, 7.14%, 11.00% and 4.06% by Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Xu Jian, Mr. Ren Wei, Mr. Mei Qiaojun, Mr. Li Jun, Mr. Ding Chao, Mr. Chen Tianjun and Mr. Tian Xuan, respectively. Under the SFO, because Mr. Xu Jian holds 34.36% of the total issued share capital of Luzhi Holdings, Mr. Xu Jian is deemed to be interested in the Shares held by Luzhi Holdings.

Save as disclosed above, as of June 30, 2021, the Company is not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

MATERIAL LITIGATION

During the Reporting Period, the Company was not involved in any material litigation or arbitration. Nor were the Directors aware of any material litigation or claims that were pending or threatened against the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
REVENUE	4	200,538	158,650
Cost of sales		(55,303)	(25,837)
Gross profit		145,235	132,813
Other income and gains		9,149	5,504
Selling and distribution expenses		(35,100)	(25,488)
Administrative expenses		(22,640)	(21,813)
Research and development costs		(17,279)	(12,281)
Impairment losses on financial and contract assets, net		(313)	(563)
Other expenses		(2,932)	(581)
Finance costs		(315)	(3,016)
PROFIT BEFORE TAX	5	75,805	74,575
Income tax expense	6	(3,343)	(3,352)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		72,462	71,223
Attributable to:			
Owners of the parent		72,462	71,223
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
For profit for the period (RMB)	8	0.18	0.24

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

	Notes	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,482	1,550
Right-of-use assets		2,535	3,951
Goodwill		674	674
Other intangible assets		6,202	6,603
Investment in an associate		40	40
Deferred tax assets		7,727	8,021
Pledged deposits		60,000	145,000
Total non-current assets		80,660	165,839
CURRENT ASSETS			
Trade receivables	9	202,197	132,048
Contract assets		40,710	36,345
Prepayments, other receivables and other assets	10	726,391	569,536
Due from related parties	13	12,231	12,231
Financial assets at fair value through profit or loss		4,082	3,983
Restricted cash		120,597	15,951
Cash and cash equivalents		131,582	457,892
Total current assets		1,237,790	1,227,986
CURRENT LIABILITIES			
Trade payables	11	76,893	38,197
Other payables and accruals		93,310	98,475
Interest-bearing bank and other borrowings		66,928	138,800
Lease liabilities		1,072	2,211
Tax payable		5,917	8,248
Total current liabilities		244,120	285,931
NET CURRENT ASSETS		993,670	942,055
TOTAL ASSETS LESS CURRENT LIABILITIES		1,074,330	1,107,894
NON-CURRENT LIABILITIES			
Lease liabilities		1,672	1,811
Total non-current liabilities		1,672	1,811
NET ASSETS		1,072,658	1,106,083
EQUITY			
Equity attributable to owners of the parent			
Share capital		273	273
Reserves		1,072,385	1,105,810
TOTAL EQUITY		1,072,658	1,106,083

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Attributable to owners of the parent						
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Merger reserve and others <i>RMB'000</i>	Share-based payment reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2021 (audited)	273	731,218	19,416	43,722	19,924	291,530	1,106,083
Profit for the period	-	-	-	-	-	72,462	72,462
Final 2020 dividend declared	-	(105,887)	-	-	-	-	(105,887)
At 30 June 2021 (unaudited)	273	625,331	19,416	43,722	19,924	363,992	1,072,658

	Attributable to owners of the parent						
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Merger reserve and others <i>RMB'000</i>	Share-based payment reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2020 (audited)	70	-	19,416	43,722	16,332	174,224	253,764
Profit for the period	-	-	-	-	-	71,223	71,223
At 30 June 2020 (unaudited)	70	-	19,416	43,722	16,332	245,447	324,987

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Notes	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		75,805	74,575
Adjustments for:			
Depreciation of property, plant and equipment	5	693	821
Amortisation of intangible assets	5	383	309
Depreciation of right-of-use assets	5	1,416	1,018
Interest income		(1,944)	(60)
Finance costs		315	3,016
Loss on disposal of property, plant and equipment		3	4
Financial assets at fair value through profit or loss		(99)	–
Foreign exchange loss		1,480	–
		78,052	79,683
Increase in trade receivables		(70,149)	(27,036)
Increase in contract assets		(4,365)	(2,409)
Increase in prepayments, other receivables and other assets		(156,855)	(46,180)
Decrease in due from related parties		–	79
Increase in restricted cash		(104,646)	–
Increase in trade payables		38,696	33,968
Decrease in other payables and accruals		(5,147)	(26,124)
Cash (used in)/generated from operations		(224,414)	11,981
Income tax paid		(5,380)	(4,323)
Net cash flows (used in)/from operating activities		(229,794)	7,658
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(2,635)	(10)
Addition to intangible assets		–	39
Interest received		1,944	60
Proceeds from disposal of property, plant and equipment		7	–
Net cash flows (used in)/from investing activities		(684)	89

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

Notes	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in pledged deposits	85,000	550
New bank and other borrowings	433,742	71,600
Principal portion of lease payments	(1,278)	(685)
Repayment of bank and other borrowings	(505,614)	(63,080)
Borrowing from related parties	–	17,895
Repayment of loans from related parties	–	(19,896)
Dividends paid	(105,887)	(15,000)
Interest paid	(315)	(2,692)
Net cash flows used in financing activities	(94,352)	(11,308)
NET DECREASE IN CASH AND CASH EQUIVALENTS		
Effect of foreign exchange rate changes, net	(1,480)	–
Cash and cash equivalents at beginning of the period	457,892	8,983
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
	131,582	5,422
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	312,179	5,472
Less: Pledged bank balances and restricted cash	(180,597)	(50)
	131,582	5,422

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

2 CHANGES IN ACCOUNTING POLICIES

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 2020, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.

30 June 2021

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

- (b) Amendment to IFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendments did not have any impact on the financial position and performance of the Group.

3 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has four reportable operating segments as follows:

- (a) Leisure and entertainment, which primarily includes commissions earned from facilitating the sale of digital goods offered by leisure and entertainment content providers, operating services for online stores and other services provided to leisure and entertainment content providers;
- (b) Games, which primarily includes commissions earned from facilitating the sale of digital goods offered by game producers, operating services for online stores and other services provided to game producers;
- (c) Telecommunications, which primarily includes commissions earned from providing digital goods related agency services and other services to telecom providers; and
- (d) Lifestyle, which primarily includes commissions earned from facilitating the sale of digital goods offered by lifestyle services providers and other services provided to lifestyle services providers.

3 OPERATING SEGMENT INFORMATION (CONTINUED)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment operating profit which is calculated based on gross profit. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision-maker for review.

Six months ended 30 June 2021	Leisure and entertainment <i>RMB'000</i> (Unaudited)	Games <i>RMB'000</i> (Unaudited)	Telecommunications <i>RMB'000</i> (Unaudited)	Lifestyle <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue					
External customers (note 4)	95,940	37,229	45,814	21,555	200,538
Segment cost	(20,184)	(12,959)	(19,308)	(2,852)	(55,303)
Gross profit	75,756	24,270	26,506	18,703	145,235
<i>Reconciliation:</i>					
Unallocated income and gains					9,149
Corporate and unallocated expense					(78,264)
Finance costs					(315)
Profit before tax					75,805

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

3 OPERATING SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2020	Leisure and entertainment <i>RMB'000</i> (Unaudited)	Games <i>RMB'000</i> (Unaudited)	Telecommunications <i>RMB'000</i> (Unaudited)	Lifestyle <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue					
External customers (note 4)	75,403	58,088	18,719	6,440	158,650
Segment cost	(8,286)	(8,528)	(8,014)	(1,009)	(25,837)
Gross profit	67,117	49,560	10,705	5,431	132,813
<i>Reconciliation:</i>					
Unallocated income and gains					5,504
Corporate and unallocated expense					(60,726)
Finance costs					(3,016)
Profit before tax					74,575

(a) Revenue from external customers

All significant external customers of the Group are located in Mainland China. Accordingly, no geographical information of external customers is presented.

(b) Non-current assets

All significant non-current assets of the Group are located in Mainland China. Accordingly, no geographical information of segment assets is presented.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

4 REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
<i>Revenue from contracts with customers</i>		
Digital goods-related services		
– acted as an agent	170,578	119,801
Online stores operating services		
– acted as an agent	25,140	36,290
Others		
– acted as a principal	4,820	2,559
	200,538	158,650

Disaggregated revenue information for revenue from contracts with customers

Six months ended 30 June 2021

Segments	Leisure and entertainment RMB'000 (Unaudited)	Games RMB'000 (Unaudited)	Telecommunications RMB'000 (Unaudited)	Lifestyle RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Type of services					
Provision of digital goods-related services	84,365	20,709	45,814	19,690	170,578
Provision of online stores operating services	11,575	13,341	–	224	25,140
Others	–	3,179	–	1,641	4,820
Total revenue from contracts with customers	95,940	37,229	45,814	21,555	200,538
Timing of revenue recognition:					
Services transferred at a point in time	95,940	37,229	45,814	21,555	200,538

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

4 REVENUE (CONTINUED)

Disaggregated revenue information for revenue from contracts with customers (continued)

Six months ended 30 June 2020

Segments	Leisure and entertainment <i>RMB'000</i> (Unaudited)	Games <i>RMB'000</i> (Unaudited)	Telecommunications <i>RMB'000</i> (Unaudited)	Lifestyle <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Type of services					
Provision of digital goods-related services	66,951	27,691	18,719	6,440	119,801
Provision of online stores operating services	7,731	28,559	–	–	36,290
Others	721	1,838	–	–	2,559
Total revenue from contracts with customers	75,403	58,088	18,719	6,440	158,650
Timing of revenue recognition:					
Services transferred at a point in time	75,403	58,088	18,719	6,440	158,650

The Group's revenue was derived solely from its operation in Mainland China.

5 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
Employee benefit expense* (including directors' and chief executive's remuneration):		
Wages and salaries	46,623	30,380
Pension scheme contributions	3,993	544
Social security contributions and accommodation benefits	4,397	938
	55,013	31,862
Promotion and marketing expenses	26,123	21,841
Commission to third party platforms	28,212	14,401
Listing expenses	–	9,593
Foreign exchange losses	2,932	–
Platform usage fees and others	3,093	1,409
Auditor's remuneration	600	–
Depreciation of right-of-use assets	1,416	1,018
Depreciation of property, plant and equipment	693	821
Impairment losses on financial and contract assets, net	313	563
Amortisation of intangible assets	383	309

* Employee benefit expenses of RMB15,731,000 and RMB11,085,000 were included in the research and development costs for the six months ended 30 June 2021 and 2020, respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

6 INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The majority of the Company's subsidiaries are domiciled in the PRC. Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in the PRC during the Relevant Periods was 25% of their taxable profits.

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
Current – PRC		
Charge for the year	3,049	3,426
Deferred tax	294	(74)
Total tax charge for the period	3,343	3,352

7 DIVIDENDS

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
Final declared and paid – HKD0.32 (2020: N/A) per ordinary share	105,887	–

On 12 May 2021, the final dividend of HKD0.32 (six months ended 30 June 2020: N/A) per ordinary share of the Company for the year ended 31 December 2020 was approved and declared payable by the shareholders at the annual general meeting of the Company, and had been fully paid as of the date of this report.

8 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 400,000,000 (For six months ended 30 June 2020: 300,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the reporting period.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	72,462	71,223

	Number of shares Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	400,000,000	300,000,000

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

9 TRADE RECEIVABLES

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Trade receivables	203,524	134,510
Impairment allowance	(1,327)	(2,462)
	202,197	132,048

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

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Within 3 months	150,205	101,235
4 to 6 months	34,631	22,034
7 to 12 months	15,327	7,271
Over 1 year	2,034	1,508
	202,197	132,048

30 June 2021

10 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Prepayments to digital goods providers		
Non-refundable	450,751	413,183
Refundable	92,581	60,907
Other receivables	78,355	37,247
Deposits to digital goods providers	67,377	52,261
Prepaid value-added tax	36,763	23,263
Prepayments for various services	2,985	1,391
Interest receivables	–	1,533
	728,812	589,785
Impairment allowance	(2,421)	(20,249)
	726,391	569,536

Refundable prepayments, deposits and other receivables mainly represent refundable prepayments and deposits to digital goods providers, receivables from online platform operators (such as Tmall and JD) and other receivables from third parties. Where applicable, an impairment analysis is performed at 30 June 2021 and 31 December 2020 by considering the probability of default of the industry. Except for specific balances, for which a 100% ECL rate is determined, as at 30 June 2021 and 31 December 2020, the probability of default applied ranged from 0.001% to 1.40% for each reporting period. And the loss given default was estimated to be 65.65% for each reporting period. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

11 TRADE PAYABLES

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

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Within 3 months	74,481	30,827
4 to 6 months	278	4,040
7 to 12 months	311	2,115
Over 1 year	1,823	1,215
	76,893	38,197

12 COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contracted, but not provided for:		
Investment	8,700	–

13 RELATED PARTY TRANSACTIONS

The Group's principal related parties are as follows:

Name	Relationship with the Company
Wuhan Xunyue Technology Co., Ltd.	Controlled by the Controlling shareholder
Mr. Shui Yingyu	Director of the Company and key management personnel of the Group
Mr. Zhao Bihao	Director of the Company and key management personnel of the Group
Mr. Xu Jian	Key management personnel of the Group
Mr. Ren Wei	Key management personnel of the Group
Mr. Chen Tianjun	Key management personnel of the Group

NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

30 June 2021

13 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) *The Group had the following transactions with related parties during the reporting period:*

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
<i>Borrowing from related parties</i>		
Mr. Shui Yingyu	–	16,278
Wuhan Xunyue Technology Co., Ltd.	–	590
	–	16,868
<i>Repayment of loans to related parties</i>		
Wuhan Xunyue Technology Co., Ltd.	–	11
Mr. Shui Yingyu	–	19,885
	–	19,896
<i>Interest paid to related parties</i>		
Mr. Shui Yingyu	–	308

13 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) *Outstanding balances with related parties:*

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
<i>Due from related parties</i>		
Mr. Xu Jian	6,196	6,196
Mr. Zhao Bihao	2,371	2,371
Mr. Ren Wei	1,911	1,911
Mr. Chen Tianjun	1,677	1,677
Mr. Shui Yingyu	76	76
	12,231	12,231
<i>Lease liabilities</i>		
Wuhan Xunyu Technology Co., Ltd.	–	280

The aggregate amounts due from Mr. Xu Jian, Mr. Zhao Bihao, Mr. Ren Wei, Mr. Chen Tianjun and Mr. Shui Yingyu amounted to RMB12,231,000 and RMB12,231,000 as at 30 June 2021 and 31 December 2020 respectively, which were of withholding individual income tax for equity-settled shared-based payments.

Except for lease liabilities, other balances with related parties were all interest-free and with no fixed repayment terms.

NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

30 June 2021

13 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) *Compensation of key management personnel of the Group*

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Salaries, allowances and benefit in kind	2,161	1,833
Pension scheme contributions	119	11
Total compensation paid to key management personnel	2,280	1,844

14 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Carrying amounts

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Financial assets		
Financial assets measured at fair value through profit or loss	4,082	3,983

Fair values

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Financial assets		
Financial assets measured at fair value through profit or loss	4,082	3,983

14 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair values (continued)

Management has assessed that the fair values of cash and cash equivalents, restricted cash, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from/to related parties and short-term interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At the end of the reporting period, the finance department analysed the movements in the values of financial instruments and determined the major inputs applied in the valuation. The valuation was reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of wealth management products measured at fair value through profit or loss are determined using a market approach.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

14 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
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As at 30 June 2021

Financial assets at fair value through profit or loss	–	4,082	–	4,082
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As at 31 December 2020

Financial assets at fair value through profit or loss	–	3,983	–	3,983
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Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 30 June 2021 and 31 December 2020.

15 EVENTS AFTER THE REPORTING PERIOD

The board of directors (the “Board”) approved a restricted share unit scheme (the “Scheme”) on 19 August 2021 for the purpose of recognizing and rewarding eligible persons for their contribution to the Group, attracting best available personnel and providing additional incentives to them so as to align the interests of these eligible persons with those of the Group and to further promote the success of the Group’s business.

The Company may, at its sole discretion, establish a trust in connection with the Scheme and appoint a trustee prior to the grant of any award by the Board or its delegate(s), which may vest (a) in the form of the shares (the “RSUs”); or (b) in the form of cash equivalent to the actual selling price of the RSUs in cash in accordance with the Scheme.

Unless otherwise duly approved by the shareholders, the total number of shares underlying the Scheme shall not exceed 20,000,000 shares (excluding RSUs that have lapsed, been cancelled or forfeited in accordance with the Scheme rules) subject to an annual limit of 3% of the total number of issued shares of the Company at the relevant time.

No RSUs have been granted under the Scheme as at the date of this report.

DEFINITIONS AND GLOSSARY

Unless the context otherwise requires, the following expressions in this report shall have the following meanings:

“Audit Committee”	the audit committee of our Company
“Auditor”	the external auditor of our Company
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company” or “our Company” or “the Company” or “Fulu” or “we” or “us”	Fulu Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board of the Stock Exchange (Stock Code: 2101)
“Consolidated Affiliated Entities”	the entities we control through the contractual arrangements, namely the PRC Holdcos and their respective subsidiaries
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to each of Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu, Mr. Zhao Bihao, FuXi Limited, Fuxu Holdings, Fuzhi Holdings, Zhangyuguo Holdings, Shuiyingyu Holdings and Zhaobihao Holdings or all of them as a group of Controlling Shareholders
“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Directors”	director(s) of our Company
“Fulu Open Platform”	our proprietary technology platform that offers applications to digital goods vendors and digital goods sales channels to enable them to better manage the digital goods and services transaction process
“Fulu Technology” or “WFOE”	Fulu (Wuhan) Technology Co., Ltd (福祿(武漢)科技有限公司), a limited liability company established in the PRC on December 25, 2019 and a wholly-owned subsidiary of our Company
“FuXi Limited”	FuXi Limited, a limited liability company incorporated in the BVI on June 27, 2019 and wholly owned by Mr. Fu Xi. It is one of our Controlling Shareholders
“Fuxu Holdings”	Fuxu Holdings Limited, a limited liability company incorporated in the BVI on September 12, 2019 and wholly owned by FuXi Limited. It is one of our Controlling Shareholders

“Fuzhi Holdings”	Fuzhi Holdings Limited, a limited liability company incorporated in the BVI on September 3, 2019 and wholly owned by FuXi Limited. It is one of our Controlling Shareholders
“Global Offering”	the global offering comprises the Hong Kong public offering of 50,000,000 Shares and the international offering of 50,000,000 Shares (subject to the over-allotment option granted by the Company)
“GMV”	gross merchandize value, which equals to the sales price per item (inclusive of VAT) multiplied by the number of items sold. The GMV of digital goods transactions we facilitated as disclosed in this report excludes the GMV of digital goods transactions that occur in online stores we operate for digital goods vendors
“Group” or “our Group” or “the Group”	our Company, our subsidiaries and the Consolidated Affiliated Entities from time to time, or where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the subsidiaries as if they were the subsidiaries of our Company at the relevant time (or our Company and any one or more of its subsidiaries, as the context may require)
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hubei Kejin”	Hubei Kejin Network Technology Co., Ltd. (湖北氩金網絡科技有限公司), a limited liability company established in the PRC on May 22, 2017, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“IFRS”	International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standards Board
“Kashgar Yiqiwan”	Kashgar Yiqiwan Network Technology Co., Ltd. (喀什一起玩網絡科技有限公司), a limited liability company established in the PRC on March 27, 2017, and one of the PRC Holdcos
“Listing”	listing of the Shares on the Main Board of the Stock Exchange

DEFINITIONS AND GLOSSARY

“Listing Date”	September 18, 2020, being the date on which the Shares were listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Luzhi Holdings”	Luzhi Holdings Limited, a limited liability company incorporated in the BVI on September 20, 2019 and owned as to 14.52%, 3.65%, 2.99%, 2.72%, 2.72%, 34.36%, 10.24%, 3.39%, 3.21%, 7.14%, 11.00% and 4.06% by Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Xu Jian, Mr. Ren Wei, Mr. Mei Qiaojun, Mr. Li Jun, Mr. Ding Chao, Mr. Chen Tianjun and Mr. Tian Xuan, respectively
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“PRC” or “China”	the People’s Republic of China. For the purposes of this report only and except where the context requires otherwise, excludes Hong Kong, Macau and Taiwan
“PRC Holdcos”	Kashgar Yiqiwan and Wuhan Fulu
“Prospectus”	the prospectus of the Company dated September 7, 2020
“Reporting Period”	the six months ended June 30, 2021
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SFC”	the Securities and Futures Commission of Hong Kong
“Shareholder(s)”	holder(s) of our Shares
“Shares”	ordinary share(s) with a nominal value of US\$0.0001 each in the capital of our Company

“Shuiyingyu Holdings”	Shuiyingyu Holdings Limited, a limited liability company incorporated in the BVI on June 25, 2019. It is one of our Controlling Shareholders
“Tibet Fulong”	Tibet Fulong Venture Capital Management Partnership (Limited Partnership) (西藏福隆創業投資管理合夥企業(有限合夥)), a limited liability partnership established in the PRC on January 12, 2017 and owned by Mr. Ren Wei as to 11.75%, Mr. Fu Xi as to 35.36%, Mr. Ding Chao as to 6.29%, Mr. Xu Jian as to 39.31%, Mr. Chen Tianjun as to 4.37%, Mr. Mei Qiaojun as to 1.18% and Mr. Li Jun as to 1.75%. Mr. Fu Xi is our Controlling Shareholder and an executive Director. Mr. Ren Wei, Mr. Xu Jian and Mr. Chen Tianjun are members of our senior management. Mr. Ding Chao, Mr. Mei Qiaojun and Mr. Li Jun are our employees. Mr. Fu Xi is the sole general partner of Tibet Fulong
“Tibet Fulu”	Tibet Fulu Network Technology Co., Ltd. (西藏福祿網絡科技有限公司), a limited liability company established in the PRC on December 8, 2016, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Tibet Fuxu”	Tibet Fuxu Venture Capital Management Partnership (Limited Partnership) (西藏福旭創業投資管理合夥企業(有限合夥)), a limited liability partnership established in the PRC on January 17, 2017 and owned by Mr. Fu Xi as to 37.74%, Mr. Yang Yuquan as to 15.01%, Mr. Liu Lufeng as to 3.78%, Ms. Shen Yaling as to 3.09%, Mr. Wang Qiang as to 2.81%, Ms. Guo Chenxi as to 2.81%, Mr. Zhang Yuguo as to 2.02%, Mr. Zhao Bihao as to 15.09%, Mr. Tian Xuan as to 4.19%, Mr. Xu Jian as to 0.11%, Mr. Ding Chao as to 1.72%, Mr. Mei Qiaojun as to 2.44%, Mr. Chen Tianjun as to 7.43% and Mr. Li Jun as to 1.75%. Mr. Fu Xi, Mr. Zhang Yuguo and Mr. Zhao Bihao are our Controlling Shareholders and executive Directors. Mr. Chen Tianjun and Mr. Xu Jian are members of our senior management. Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Ding Chao, Mr. Mei Qiaojun and Mr. Li Jun are our employees. Mr. Tian Xuan is a former employee of the Group. Mr. Fu Xi is the sole general partner of Tibet Fuxu
“Tibet Huluwa”	Tibet Huluwa Network Technology Co., Ltd. (西藏葫蘆娃網絡科技有限公司), a limited liability company established in the PRC on May 15, 2019, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“US\$”	U.S. dollars, the lawful currency of the United States of America

DEFINITIONS AND GLOSSARY

“VAT”	value-added tax
“Wuhan Fulu”	Wuhan Fulu Network Technology Co., Ltd. (武漢福祿網絡科技有限公司), a limited liability company established in the PRC on March 24, 2009, and one of our PRC Holdcos
“Wuhan Lishuo”	Wuhan Lishuo Technology Co., Ltd. (武漢立碩科技有限公司), a limited liability company established in the PRC on January 6, 2017, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Wuhan Souka”	Wuhan Souka Technology Co., Ltd. (武漢搜卡科技有限公司), a limited liability company established in the PRC on June 8, 2017, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Wuhan Tianshi”	Wuhan Tianshi Technology Co., Ltd. (武漢天識科技有限公司), a limited liability company established in the PRC on July 24, 2014, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Wuhan Yilu”	Wuhan Yilu Network Technology Co., Ltd. (武漢億祿網絡科技有限公司), a limited liability company established in the PRC on November 19, 2015, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Kashgan Yiqiwan
“Wuhan Yiqiyou”	Wuhan Yiqiyou Network Technology Co., Ltd. (武漢一起遊網絡科技有限公司), a limited liability company established in the PRC on June 4, 2012, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Xinjiang Fulu”	Xinjiang Fulu Network Technology Co., Ltd. (新疆福祿網絡科技有限公司), a limited liability company established in the PRC on December 27, 2016, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Zhangyuguo Holdings”	Zhangyuguo Holdings Limited, a limited liability company incorporated in the BVI on June 25, 2019. It is one of our Controlling Shareholders
“Zhaobihao Holdings”	Zhaobihao Holdings Limited, a limited liability company incorporated in the BVI on June 25, 2019. It is one of our Controlling Shareholders
“%”	per cent