

REPORT ANNUAL

2021年度報告



FRIENDTIMES INC.
Incorporated in the Cayman Islands
with limited liability
Stock Code
06820.HK

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Definitions

“Adoption Date”	14 September 2020, being the date on which the Board adopted the Share Award Scheme
“AGM”	the forthcoming annual general meeting of the Company to be held on 16 May 2022
“Articles” or “Articles of Association”	the articles of association of the Company (as amended from time to time), conditionally adopted on 11 September 2019 with effect from the Listing Date
“Audit Committee”	the Company’s audit committee which was established in accordance with the requirements of the Listing Rules, for the purposes of reviewing and providing supervision over the Group’s financial reporting system, risk management and internal control
“Auditor”	KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
“Award”	an award by the Board to a Selected Participant entitling the Selected Participant to receive such number of Awarded Shares and the related income on such terms and conditions as the Board may determine
“Awarded Shares”	in respect of a Selected Participant, such number of Shares determined by the Board under an Award
“Board” or “Board of Directors”	board of directors of the Company
“CEO”	chief executive officer
“CG Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Chairman”	chairman of the Board
“Cheeryoo”	Suzhou Cheeryoo Network Technology Co., Ltd. (蘇州沁遊網絡科技有限公司), a company established under the laws of the PRC with limited liability on 11 January 2018 and wholly-owned by FriendTimes Technology, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“China” or “PRC”	the People’s Republic of China, unless otherwise stated, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan herein
“Company” or “our Company” or “the Company” or “FriendTimes”	FriendTimes Inc., an exempted company incorporated in the Cayman Islands on 16 November 2018 with limited liability and listed on the Main Board of the Stock Exchange on 8 October 2019 (Stock code: 6820)
“Contractual Arrangements”	certain contractual arrangements entered into on 20 February 2019 and 6 March 2019 by us
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the context of this annual report, refers to the controlling shareholders of our Company, being Mr. Jiang, Gorgeous Sunshine, Eternal Heart, Ling Long, Lucky Fish, Future Wisdom, Warm Sunshine, Agile Eagle, Purple Dream, Purple Crystal (as defined respectively in the Prospectus), Friends Together Holdings Limited and Friends Fruit Holdings Limited

Definitions

“Director(s)”	director(s) of the Company
“Eligible Participant”	any senior and mid-level management, core technical personnel and key employees who, at the absolute discretion of the Board, will contribute or have contributed to any member of the Group
“Equity Pledge Agreement”	the equity pledge agreement entered into among Suzhou Eagle, FriendTimes Technology and the Registered Shareholders (as defined in the Prospectus) dated 20 February 2019
“Exclusive Business Cooperation Agreement”	the exclusive business cooperation agreement entered into between Suzhou Eagle and FriendTimes Technology dated 20 February 2019
“Exclusive Option Agreement”	the exclusive option agreement entered into among Suzhou Eagle, FriendTimes Technology and the Registered Shareholders (as defined in the Prospectus) dated 20 February 2019
“Framework Loan Agreement”	the framework loan agreement entered into between Suzhou Eagle and FriendTimes Technology dated 6 March 2019
“Friend Century”	Friend Century Limited, a company incorporated under the laws of Hong Kong with limited liability on 7 December 2018 which is wholly-owned by Friend World and is our subsidiary
“Friend World”	Friend World Holdings Limited, a company incorporated under the laws of the British Virgin Islands with limited liability on 26 November 2018 and is a wholly-owned subsidiary by our Company
“FriendTimes Chengdu”	FriendTimes (Chengdu) Network Technology Co., Ltd. (友誼時光(成都)網絡科技有限公司), a WFOE established under the laws of the PRC with limited liability on 9 June 2021 which is wholly-owned by Suzhou Eagle and is our subsidiary
“FriendTimes Technology”	FriendTimes Technology Inc. (友誼時光科技股份有限公司), a company established under the laws of the PRC with limited liability on 11 May 2010, and the holding company of Operating Entities, and by virtue of the Contractual Arrangements, accounted for as our subsidiary. Formerly known as: Suzhou FriendTimes Technology Inc. (蘇州玩友時代科技股份有限公司)
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	the Company and its subsidiaries, or where the context refers to any time prior to the Company becoming the holding company of its present subsidiaries, the present subsidiaries of the Company and the businesses operated by such subsidiaries or their predecessors (as the case may be)
“HKFRS”	Hong Kong Financial Reporting Standards

Definitions

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK dollars” or “HK\$” or “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“IP”	intellectual property
“Latest Practicable Date”	12 April 2022, being the latest practicable date prior to the printing of this annual report
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	8 October 2019, the date on which the Shares of the Company were listed on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Macau”	the Macau Special Administrative Region of the PRC
“Model Code”	the Model Code of Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules
“Nomination Committee”	the Company’s nomination committee which was established in accordance with the requirements of the Listing Rules
“Operating Entity(ies)”	FriendTimes Technology, Purple Blaze, Cheeryoo, Purple Wing, FriendTimes Chengdu and Wu Linglong, the financial results of which have been consolidated and accounted for as subsidiaries of our Company by virtue of the Contractual Arrangements
“Prospectus”	the prospectus of the Company dated 24 September 2019
“Purple Blaze”	Suzhou Purple Blaze Network Technology Co., Ltd. (蘇州紫焰網絡科技有限公司), a company established under the laws of the PRC with limited liability on 23 March 2017 and wholly-owned by FriendTimes Technology, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“Purple Wing”	Shanghai Purple Wing Network Technology Co., Ltd. (上海紫翊網絡科技有限公司), a company established under the laws of the PRC with limited liability on 5 February 2018 and wholly-owned by FriendTimes Technology, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“Registered Shareholders”	Mr. Jiang Xiaohuang (蔣孝黃先生), Suzhou Zixin, SEC Electric, Nanjing Liheng, Song Dawei (宋大偉), Song Huan (宋歡), Wang Jianyu (王建裕), Suzhou Luoyuan, Lin Zhirong (林直榮) and Zhang Min (張敏), as registered shareholders of FriendTimes Technology (as defined respectively in the Prospectus)
“Remuneration Committee”	the Company’s remuneration committee which was established in accordance with the requirements of the Listing Rules
“Reporting Period”	from 1 January 2021 to 31 December 2021
“RMB”	Renminbi, the lawful currency of the PRC

Definitions

“Scheme Rules”	the rules of the Share Award Scheme, as amended from time to time
“Selected Participant”	Eligible Participant(s) selected by the Board pursuant to the Scheme Rules who holds a subsisting Award
“Senior Management”	senior management of the Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary share(s) in the issued capital of the Company with nominal value of US\$0.00001 each
“Shareholder(s)”	holder(s) of the Shares
“Share Award Scheme”	the share award scheme adopted by the Company on the Adoption Date (in its present or any amended form)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	the company(ies) which are for the time being and from time to time the subsidiary(ies) (within the meaning of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Listing Rules) of the Company, whether incorporated in Hong Kong, the British Virgin Islands, the PRC or elsewhere
“Suzhou Bojoy”	Suzhou Bojoy Information Technology Co., Ltd. (蘇州寶將信息科技有限公司), the predecessor of FriendTimes Technology
“Suzhou Eagle”	Suzhou Eagle Network Technology Co., Ltd. (蘇州億歌網絡科技有限公司), a WFOE established under the laws of the PRC with limited liability on 24 January 2019 which is wholly-owned by Friend Century and is our subsidiary
“Taiwan”	Taiwan Province of the PRC
“Trust”	the trust constituted by the Trust Deed
“Trust Deed”	a trust deed dated 3 August 2020 and entered into by and among the Company, the Trustee and its nominee (as restated, supplemented and amended from time to time)
“Trustee”	TMF Trust (HK) Limited, the trustee which has been appointed by the Company to manage the Share Award Scheme
“Voting Rights Proxy Agreement and Powers of Attorney”	the voting rights proxy agreement and powers of attorney entered into among FriendTimes Technology, the Registered Shareholders and Suzhou Eagle dated 20 February 2019
“Wish Interactive”	Wish Interactive Technology Limited (心願互動科技有限公司), a company incorporated under the laws of Hong Kong with limited liability on 19 May 2015, which is wholly-owned by Friend World and is our subsidiary
“Wu Linglong”	Jiangsu Wu Linglong Culture Development Co., Ltd (江蘇吳玲瓏文化發展有限公司), a company incorporated under the laws of the PRC with limited liability on 13 May 2020, which is wholly owned by FriendTimes Technology and is accounted for as our subsidiary under a contractual arrangement
“%”	per cent

Corporate Information

EXECUTIVE DIRECTORS

Mr. Jiang Xiaohuang (*Chairman of the Board and CEO*)
Mr. Xu Lin
Mr. Sun Bo
Mr. Wu Jie

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhu Wei
Mr. Zhang Jinsong
Ms. Tang Haiyan

MEMBERS OF AUDIT COMMITTEE

Mr. Zhu Wei (*Chairman*)
Mr. Zhang Jinsong
Ms. Tang Haiyan

MEMBERS OF REMUNERATION COMMITTEE

Mr. Zhang Jinsong (*Chairman*)
Mr. Zhu Wei
Mr. Jiang Xiaohuang

MEMBERS OF NOMINATION COMMITTEE

Mr. Jiang Xiaohuang (*Chairman*)
Mr. Zhang Jinsong
Mr. Zhu Wei

JOINT COMPANY SECRETARIES

Mr. Liu Gongyou
Ms. Fung Wai Sum

AUTHORISED REPRESENTATIVES

Mr. Jiang Xiaohuang
Ms. Fung Wai Sum

REGISTERED OFFICE

Campbells Corporate Services Limited
Floor 4, Willow House, Cricket Square
Grand Cayman KY1-9010
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN THE PRC

FriendTimes Building
No. 68 Qitai Road
Suzhou Industrial Park
Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.friendtimes.net

STOCK CODE

6820

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Campbells Corporate Services Limited
Floor 4, Willow House, Cricket Square
Grand Cayman KY1-9010
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Corporate Information

LEGAL ADVISER

As to Hong Kong law:
Tian Yuan Law Firm LLP
Suites 3304-3309, 33/F Jardine House
One Connaught Place
Central Hong Kong

PRINCIPAL BANKS

China Construction Bank Suzhou Branch
Jianyuan Building, No. 18 Suzhou Avenue
Suzhou Industrial Park
Suzhou, Jiangsu Province
PRC

The Hongkong and Shanghai Banking Corporation Limited
6/F, 88 Gloucester Road, Wan Chai, Hong Kong

AUDITOR

KPMG
Public Interest Entity Auditor registered in
accordance with the Financial Reporting
Council Ordinance
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

* For illustrative purposes only

Financial Summary

The following is a summary of the annual results of the Group for the last five financial years:

RESULTS

	Year ended 31 December				2021 RMB'000
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	
Revenue	700,247	1,464,290	1,689,051	2,182,257	1,616,137
Gross profit	432,274	918,290	1,102,077	1,468,345	1,089,428
Profit before taxation	143,229	361,284	438,204	526,607	233,869
Profit for the year	117,903	336,703	415,527	503,519	275,483
Adjusted profit for the year*	117,903	343,883	442,545	503,519	308,956

ASSETS, LIABILITIES AND EQUITY

	As at 31 December				2021 RMB'000
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	
Total assets	475,123	735,948	1,511,219	1,792,179	1,806,723
Total liabilities	119,364	162,466	204,382	225,758	160,318
Total equity	355,759	573,482	1,306,837	1,566,421	1,646,405

* Adjusted profit for the year represents profit for the year excluding listing expenses and share-based remuneration expenses. HKFRS does not define adjusted profit for the year and therefore it may not be comparable to similar indicators presented by other listed companies.

Chairman's Statement

As a leading mobile online game manufacturer and operator in China, FriendTimes has been focusing on content and quality products since its establishment 11 years ago, adhering to the mission of "Let Culture Create Value", making games as a new driver of culture and public welfare, expanding our global strategic map and gradually growing into a leader in the female-oriented mobile game segment.

Insist in the inheritance and promotion of traditional Chinese culture. FriendTimes integrates traditional Chinese cultural elements into game product content and art materials, and shows the charm of traditional culture to the world through its mobile game products enriched with Chinese cultural heritage such as the Fate of the Empress (浮生為卿歌) and Promise of Lingyun (凌雲諾). In the game's internal scenery design, the Fate of the Empress combines the grandeur of Tang-style architecture with the scene of Jiangnan courtyards, while the main scenery of Promise of Lingyun draws on the layout of the Epang Palace and the essence of traditional Chinese architectural styles such as pavilions, terraces and towers. In addition, the Fate of the Empress and Promise of Lingyun incorporate the four art (i.e. qin, chess, calligraphy and painting), verses, ditties, odes and songs, Quyi (Chinese folk art forms) and embroidery in their gameplay to show rich and colorful traditional customs in a more natural and vivid way, allowing players to experience Chinese traditional culture in the game products.

Globalization strategy helps to promote the "going out" of Chinese culture. As an important carrier of cultural export, games undertake the mission of cultural dissemination with imaginative and creative artistic expressions. FriendTimes has always been based on the domestic market and constantly explore overseas markets such as South Korea, Japan, Southeast Asia, Europe and the United States, etc. A number of products have been selected as "National Cultural Export Key Projects" and "International Cooperation Key Projects in the Cultural Tourism Industry" by the Ministry of Culture and Tourism of China. We hope to use games as a vehicle to establish a bridge of communication with global users, tell Chinese stories, promote traditional culture, show the cultural strength of game products, and promote traditional culture to the world.

Continuously focus on the market segment of female-oriented games. FriendTimes has made precise breakthroughs in the market segment of female-oriented games, and has extensively developed the fields of fascinating ancient Chinese-style, metropolitan workplace style and its cultural and entertainment derivatives with innovative high-quality game contents, and actively explored more female-oriented game segment to build a diversified product matrix to meet diversified and differentiated market demands. FriendTimes will continue to get in-depth understanding of female users, gain insight into the changing needs of contemporary women, and produce quality products with positive social values. For example, A Story of Lala's: Rising Star (杜拉拉升職記), our game under development, targets at female users in the new era and showing the self-improvement and independence of contemporary women, with a significant imprint of the spirit of the times.

Always actively undertake social responsibility. Regarding the issue of anti-addiction of minors, FriendTimes quickly responds to the regulatory measures and calls of national authorities with real-name authentication, game registration, game time limit, etc., to build a complete real-name account system and anti-addiction system, supplemented by safeguard measures such as special complaint channel for minors and other protection measures, to comprehensively build a protection system for minors and strive to create a clear and clean network environment. In addition, FriendTimes actively devotes itself to social public welfare projects, such as assisting left-behind children, jointly fighting against pandemics and helping with the flooding in Henan Province to actively fulfill its social responsibility.

Chairman's Statement

In the future, FriendTimes will fully explore cultural resources, undertake the mission of cultural dissemination, creatively superimpose multicultural elements through digital technology, continuously cultivate and shape original IPs with distinctive Chinese cultural characteristics, carry out more exploration and innovation on the road of "Chinese culture Going Out", strive to fulfill the mission and responsibility of spreading excellent traditional Chinese culture, and continuously inject new momentum for the high-quality development of digital cultural industry.

Lastly, on behalf of the Board, I would like to take this opportunity to thank the management of the Group and all our staff for their hard work over the past year. I would also like to extend my sincere gratitude to our Shareholders, business partners and stakeholders for their continued support, and wish for continuous support in the future.

Jiang Xiaohuang

Chairman

Management Discussion and Analysis

OVERVIEW

The Group is a leading integrated and well-established mobile game developer, publisher and operator. The Group is headquartered in Suzhou, China, with branches in regions including Shanghai, Wuxi and Hong Kong in China, and South Korea and Japan, and was listed on the Main Board of the Stock Exchange on 8 October 2019. Since our inception in 2010, we have been strategically focusing on mobile games targeting female players to capture the significant growth potential in both the mobile game industry and the female-oriented game market. We successfully launched core products such as the Legend of Empress (熹妃傳), the Royal Chaos (熹妃Q傳), the Fate of the Empress (浮生為卿歌), Promise of Lingyun (凌雲諾) and others, which are well received among users.

As a key national cultural export enterprise and a pioneer in the segment of ancient Chinese style female-oriented games, the Group keeps a professional global distribution and operation team, while consolidating the leading position in the domestic female market, we are also exploring overseas markets actively. We continue to adhere to the corporate cultural mission of "Let Culture Create Values", and are committed to spreading excellent traditional Chinese culture to a wider group and region, so as to build a carrier for global outstanding cultural exchanges, promote cultural inheritance and heritage, constantly explore cultural values, and shape a more profound influence of culture.

REVIEW

For the year ended 31 December 2021, the Group's total revenue was approximately RMB1,616.1 million, decreasing by approximately 25.9% as compared to last year; the net profit for the year was approximately RMB275.5 million, decreasing by approximately 45.3% as compared to last year; the adjusted profit for the year was approximately RMB309.0 million, decreasing by approximately 38.6% as compared to the corresponding period of last year.

The decrease in the revenue and net profit of the Group was mainly due to the facts that no major new products were launched during the year as a result of product scheduling and the revenue from existing products has a normal decline to a certain extent as affected by their life cycles; investment related to research and development increased to expand the portfolio of game products, strengthen the self-development ability of games and enhance the technical level and users' experience while further enhancing the talent cultivation system, office environment and daily benefits; and the provision of the share-based remuneration expenses increased as a result of the Share Award Scheme.

Management Discussion and Analysis

In terms of overseas strategy of games, we took full advantage of our strong globalized independent distribution ability, and through the strategy of combining localized adaptation with promotion together with our cooperative relationship with advertising platforms such as App Store, Google Play, Facebook and Google, our overseas products continued to achieve outstanding results. Meanwhile, we continuously enhance the inheritance and promotion of traditional culture and incorporate elements of the Jiangnan culture and Suzhou to our products to showcase the beauty of China to overseas users. In 2021, the Fate of the Empress (浮生為卿歌) ranked fourth, first and ninth in Hong Kong, Macau and Taiwan's iOS Best-selling Games respectively, and ranked thirteenth in South Korea's iOS Best-selling Games.

In terms of the strategy of product operations, we adopt the strategy of long life cycles for refined product operations. After product release, we frequently develop enhanced versions and constantly create and update with long-term purchase deployment to ensure the stability of product flow. In 2021, we have elaborately prepared a series of events to ensure players' gaming experience. For example, we launched crossover fashion outfits with the national first-tier chain photography agency "Poetic Oriental Beauty (盤子女人坊)" twice, with "reshaping the new national tide" and "glamorous traditional Chinese costume" as the theme. We organized a crossover event "The Fate of the Paladin (浮生亦逍遙)" between the Fate of the Empress (浮生為卿歌) and the Chinese Paladin: Sword and Fairy (仙劍奇俠傳), which unlocked new gameplay, maps, costumes, and pet mounts, etc.. Cooperated with Qiaomai New Year Painting Studio (喬麥年畫工作室) in which, Qiao Langrong (喬蘭蓉), the renowned painter of Suzhou Tahuawu wood-block new year paintings, created new year paintings of koi, dragon gates and the spring festival based on the pet mounts in the Fate of the Empress (浮生為卿歌) as the prototype, as well as designed and created mystery box (盲盒) for the series of ancient Chinese-style fairy pets namely Yooe.

GAMES RELEASED RECENTLY

Promise of Lingyun (凌雲諾)



Management Discussion and Analysis

Promise of Lingyun (凌雲諾) is a glamorous Chinese-style social mobile game created with the new Chinese-style art with the integration of ancient and modern art, demonstrating the fascinating ancient Chinese culture. The game was officially released on all platforms on 20 January 2022. It was recommended by the Apple App Store as the game of Today on its front page and soon ranked first among the iOS Top Free Games in Mainland China. Subsequently, it has achieved outstanding results, including being a recommended game on the Apple App Store and the best game in January chosen by editors. As at the Latest Practicable Date, Promise of Lingyun (凌雲諾) has ranked at a peak of 34th among the iOS Best-selling Games in Mainland China.

Promise of Lingyun (凌雲諾) features a variety of Chinese-style gameplay such as poetry and painting social interaction, bonding, and costumes. By using the traditional yet novel Chinese brush painting method, the game combines the traditional Chinese classical culture with the essence of contemporary art techniques to create a new aesthetic impression of Chinese-style. The game emphasizes subtle presentation of female emotions. Characters and players, as well as players and players would interact with each other during occasions such as studying and working together to trigger diversified social relationships involving various emotions such as teacher and student relationship, family relationship and friendship. Meanwhile, the narrative of the game is based on the specific timeline of the simulation of "career establishment (搞事業)". Together with light fighting scenes, the game can be more realistic and thus enhancing the immersive game experiences of users.

In terms of presentation of Chinese style and culture, Promise of Lingyun (凌雲諾), in combination with contemporary aesthetics, incorporates painting techniques of Chinese ink painting with lines and colours of traditional Chinese paintings to create new Chinese style aesthetics for the game. The game presents the charm of the Chinese style and culture to players visually and aurally through detailed artistic presentation of clothes, buildings, symbols and vocals with strong Chinese style. In January 2022, in cooperation with four members of the new generation of the Chinese style and culture, namely Ye Luying (葉露盈), a Chinese painting artist, Yang Xue (楊雪), successor of intangible cultural heritage of Suzhou embroidery, Gu Xiaosi (顧小思), successor of traditional hand-made medicinal fragrance, and Wang Jiajia (王佳佳), a Hanfu designer of the brand Hua Zhao Ji (花朝記), Promise of Lingyun (凌雲諾) created a new Chinese style impression PV of "new Chinese-style essence originated from Promise of Lingyun (國風新韻·緣起雲諾)" for the inheritance of intangible cultural heritage.

Management Discussion and Analysis

GAME AGENCY



In February 2022, we officially launched agency product named *Armed Girls Union: Crisis of the Blue Planet* (姬械聯盟：藍星危機), an idle role-playing card mobile game, in Hong Kong, Macau and Taiwan. As at the Latest Practicable Date, it ranks at the peak of 8th and 32nd in Macau and Taiwan's Top iOS Games respectively.

GAME RESERVE

A Story of Lala's: Rising Star (杜拉拉升職記)



Management Discussion and Analysis

A Story of Lala's: Rising Star (杜拉拉升職記) is an authentic inspirational female-oriented simulation mobile game. It is adapted from a novel with the same title, and is a role-playing game in the modern female workplace setting. By focusing on the perspective of modern women, the game constructs the core value of "upholding attitudes even in the workplace" and emphasizes on self-confidence and independence of modern women in metropolis. The product incorporates the classic storyline of the novel with glamorous 3D workplace scenes and delicate portraits, combines a variety of game play and practical tips in the workplace, allowing players to experience personal growth and socialisation in a relaxing and enjoyable gaming environment. In addition, we jointly established courses of professional knowledge training and talent cultivation with the department of fashion design of a renowned university to lay a solid foundation for art design and talent cultivation for subsequent games.

Code: FS2 (代號: FS2)

As the Company's strategic flagship product, Code: FS2 (代號: FS2), a new generation of female-oriented traditional Chinese-style mobile game, is inherited from the Fate of the Empress (浮生為卿歌), and adopts new engine effects, artistic production techniques and innovative gameplay features, aiming to bring players a free, realistic and multifaceted gameplay experience. The landscape design of the game imitates the gardens of Suzhou to showcase the exquisiteness and subtle beauty of poetic landscape of "naturally uneven rocks around ponds and blooming mountains", (池沼石岸高低屈曲任自然·花樹藤蘿盤曲相間山水意)" of the Suzhou gardens and to deliver the historical background of Jiangnan to every user.

PRODUCT AGENCY

During the past two years, the Company has invested in several research and development studios and entered into agency agreement of its products under development. Diversified projects including Girls Idol Party (少女偶像派對), a simulation game with idols as the theme, Star Girls (星之少女), an ACG idle trading cards mobile game, and Code:G (代號: G), a trading cards mobile game with the theme of animal protection are under steady development.

OUTLOOK

In the future, FriendTimes will launch new games in different and diversified styles while ensuring the long-term operation of existing games at the same time, in order to cope with the increasingly competitive industry environment. We will continue to increase our investment in research and development, distribution and operation talents of games, enhance industrialization and efficiency of research and development tools, build a diversified and innovative product portfolio and strengthen our global competitiveness. While adhering to self-development and innovation, FriendTimes will continue to explore valuable cultural resources and the value of traditional Chinese culture in the contemporary world and to create more original products with the Chinese cultural features to bring about new dynamics to the Group's long term development.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2021, the Group recorded revenue of approximately RMB1,616.1 million, representing a decrease of RMB566.2 million or approximately 25.9% from approximately RMB2,182.3 million for the year ended 31 December 2020. The decrease in revenue was due to the fact that no large-scale new products were launched during 2021 resulting from the arrangement of product schedules, and income from existing products dropped to a certain extent. Promise of Lingyun (凌雲諾), our new product launched in 2022, has achieved outstanding performance. It is expected that the product will continue to contribute to revenue growth in the future.

The table below sets forth a breakdown of revenue by activity, shown in actual amounts and as percentage to total revenue for the periods indicated:

	Year ended 31 December				
	2021		2020		Year-on-year % change
	RMB'000	%	RMB'000	%	
Revenue from games	1,616,108	100.0%	2,182,216	100.0%	-25.9%
Others	29	0.0%	41	0.0%	-29.3%
Revenue	1,616,137	100.0%	2,182,257	100.0%	-25.9%

Revenue from games by geographic markets

The table below sets forth a breakdown of revenue from games by geographic markets in absolute amounts and as percentages to our total revenue from games for the periods indicated:

	Year ended 31 December				
	2021		2020		Year-on-year % change
	RMB'000	%	RMB'000	%	
Mainland of the PRC	1,130,879	70.0%	1,713,805	78.5%	-34.0%
Overseas	485,229	30.0%	468,411	21.5%	3.6%
Revenue from games	1,616,108	100.0%	2,182,216	100.0%	-25.9%

Management Discussion and Analysis

Cost of sales

The Group's cost of sales decreased by 26.2% from approximately RMB713.9 million for the year ended 31 December 2020 to approximately RMB526.7 million for the year ended 31 December 2021, mainly due to the decrease in distribution costs charged by distribution platforms resulting from the decrease in revenue from games.

Gross profit and gross profit margin

As a result of the above, gross profit decreased by 25.8% from approximately RMB1,468.3 million for the year ended 31 December 2020 to approximately RMB1,089.4 million for the year ended 31 December 2021. Gross profit margin increased from approximately 67.3% for the year ended 31 December 2020 to approximately 67.4% for the year ended 31 December 2021.

Sales and marketing expenses

For the year ended 31 December 2021, the Group's sales and marketing expenses amounted to approximately RMB455.8 million, representing a decrease of RMB156.6 million or approximately 25.6% from approximately RMB612.4 million for the year ended 31 December 2020, mainly due to (i) decrease in promotion expenses; and (ii) the increase in the share-based remuneration expenses of the sales department.

Research and development expenses

For the year ended 31 December 2021, the Group's research and development expenses amounted to approximately RMB364.9 million, representing an increase of RMB100.2 million or approximately 37.9% from approximately RMB264.7 million for the year ended 31 December 2020, mainly due to (i) the increase in employee expenses in 2021 resulting from the research and development of new games and continuous upgrade of existing games; (ii) the increase in the share-based remuneration expenses of research and development department; and (iii) the increase in art production cost.

General and administrative expenses

For the year ended 31 December 2021, the Group's administrative expenses amounted to approximately RMB66.9 million, representing an increase of RMB20.6 million or approximately 44.5% from approximately RMB46.3 million for the year ended 31 December 2020, mainly due to (i) the increase in number and remuneration of management personnel; (ii) the increase in benefit expenses for the Group's employees; and (iii) the increase in the share-based remuneration expenses of management personnel.

Management Discussion and Analysis

Finance costs

For the year ended 31 December 2021, the Group's finance costs amounted to approximately RMB0.05 million, representing a decrease of RMB0.06 million from approximately RMB0.11 million for the year ended 31 December 2020.

Income tax

For the year ended 31 December 2021, the Group's income tax expense amounted to approximately RMB41.6 million, representing a decrease of RMB64.7 million from approximately RMB23.1 million for the year ended 31 December 2020, mainly due to the decrease in profit before tax and the effect from the entitlement to preferential income tax policies.

Profit for the year

In 2021, our profit for the year amounted to approximately RMB275.5 million, representing a decrease of approximately RMB228.0 million or approximately 45.3% from approximately RMB503.5 million in 2020.

Adjusted profit for the year

Adjusted profit for the year is calculated by adding back listing expenses and share-based remuneration expenses to the profit for the year.

The table below sets forth the reconciliation between the Group's profit and adjusted profit for the years ended 31 December 2021 and 2020:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Profit for the year	275,483	503,519
Add: Listing expenses	–	–
Add: Share-based remuneration	33,473	–
Adjusted profit for the year	308,956	503,519

Management Discussion and Analysis

Liquidity and capital resources

As of 31 December 2021, the Group's current liabilities/net assets amounted to approximately 0.09 (31 December 2020: 0.14).

As of 31 December 2021, the Group's cash and cash equivalents amounted to approximately RMB752.3 million. The Group monitors and maintains cash and cash equivalents to a level that management believes to be sufficient to meet the Group's operating needs, reducing the impact of cash flow fluctuations.

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Net cash generated from operating activities	262,656	575,015
Net cash used in investing activities	(385,542)	(128,001)
Net cash used in financing activities	(217,038)	(221,653)
Net (decrease)/increase in cash and cash equivalents	(339,924)	225,361
Cash and cash equivalents as at the beginning of the year	1,093,324	893,400
Effect of foreign exchange rate changes	(1,136)	(25,437)
Cash and cash equivalents as at 31 December	752,264	1,093,324

Operating activities

For the year ended 31 December 2021, net cash generated from operating activities was RMB262.7 million, compared to RMB575.0 million for the year ended 31 December 2020.

Investing activities

For the year ended 31 December 2021, net cash used in investing activities was RMB385.5 million, which primarily included (1) payments for purchase of investments measured at fair value through profit or loss of RMB818.4 million; (2) the proceeds from redemption of investments measured at fair value through profit or loss amounted to RMB629.1 million; (3) our payment for purchase of investments of time deposits of RMB178.8 million; and (4) our payment for purchase of property, plant and equipment, intangible assets and other non-current assets of RMB56.5 million as a result of the construction of our new office building and purchase of office equipment. For the year ended 31 December 2020, net cash used in investing activities was RMB128.0 million.

Management Discussion and Analysis

Financing activities

For the year ended 31 December 2021, net cash used in financing activities was RMB217.0 million, mainly include payment of dividends amounted to RMB214.7 million. For the year ended 31 December 2020, net cash used in financing activities was RMB221.7 million.

Capital expenditures

The Group's capital expenditures mainly included (1) construction of our new office building in Suzhou, purchase of property, plant and equipment such as servers and computer equipment; (2) software and IP licenses of literature and intangible assets such as various office software that has been used or to be used by our games; and (3) increase in right-of-use assets arising from housing leases. Capital expenditures for the years ended 31 December 2021 and 2020 are set out below:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Property, plant and equipment	35,413	71,640
Right-of-use assets	2,235	2,332
Intangible assets	821	164

Capital commitments

As of 31 December 2021, the Group did not have any capital commitments (31 December 2020: RMB18.0 million).

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Contracted for but not provided for	–	17,729
Authorized but not contracted for	–	288
	–	18,017

Gearing ratio

As at 31 December 2021, gearing ratio was 0.1% (31 December 2020: 0.1%). As at 31 December 2021, the Group did not have bank borrowings (31 December 2020: Nil).

Capital structure

For the year ended 31 December 2021, the Group's capital structure has not changed.

Contingent liabilities

As of 31 December 2021, the Group did not have any unrecorded significant contingent liabilities or any guarantees (2020: Nil).

Management Discussion and Analysis

Employees and remuneration policies

As of 31 December 2021, the Group had a total of 1,362 employees (31 December 2020: 1,456 employees), all based in the PRC. The Group determined the remuneration policy for the employees based on their performance, work experience and the current market salary scale. We did not experience any material labour disputes during the year ended 31 December 2021.

Restructuring and significant investments

During the year ended 31 December 2021, the Group did not have any restructuring and significant investments.

Material acquisitions and disposals of assets

For the year ended 31 December 2021 and up to date of this report, there were no material acquisitions and disposals of assets.

Financial assets

1. As of 31 December 2021, the Group's wealth management products were issued by listed commercial banks in China, all of which were principal-protected deposits at floating rate. During the respective investment period of wealth management products, the Company shall not terminate any relevant subscription agreements, redeem or withdraw principal before the respective maturity dates of financial products of the commercial banks. The commercial banks also have no right to terminate any subscription agreements.

As of 31 December 2021, the wealth management products of the Group which meet the disclosable transaction requirements of the Listing Rules have been disclosed in relevant announcements. None of the remaining wealth management products accounted for more than 5% of the Group's total assets.

2. As at 31 December 2021, the Group's limited partnership investments were investments in two venture capital limited partnerships as limited partners, and the fair value of the investments did not exceed 5% of the Group's total assets.
3. As of 31 December 2021, the Group's stock investments were all stock investments with an active stock market, and the fair value of stock investments did not exceed 5% of the Group's total assets.
4. As of 31 December 2021, the Group's financial assets measured at fair value through other comprehensive income were equity investments in unlisted companies for strategic purposes. The invested companies are principally engaged in mobile game development. The fair value of such investments did not exceed 5% of the Group's total assets.
5. The Company has formulated standardized capital and investment management policies to monitor and control potential risks related to investment activities. When considering whether to invest and what kind of products to invest in, the management will consider, among other things, the risk level, investment return, liquidity and maturity of the relevant wealth management products on a case-by-case basis. Our investment portfolio and policies are regularly reviewed by our Directors and management team.

Off-balance sheet arrangements

The Group has not entered into and has no intention to enter into any off-balance sheet arrangements. The Group has not entered into any financial guarantees or made other commitments to guarantee the payment obligations of third parties.

Management Discussion and Analysis

Pledge of assets by the Group

As of 31 December 2021, the Group did not pledge any assets as collateral for bank borrowings or any other financing activities (31 December 2020: Nil).

Foreign currency exchange risks

For the year ended 31 December 2021, most of transactions denominated in non-RMB were denominated in U.S. dollars and Hong Kong dollars. The management team closely monitors foreign currency exchange risks to ensure that appropriate measures are implemented in a timely and effective manner. In the past, the Group has not incurred any significant foreign currency exchange losses in its operations. The management team will continue to closely monitor the Group's foreign currency exchange risks and will consider implementing appropriate measures.

Use of Proceeds from the Listing

Since the Listing Date and up to 31 December 2021, the Group has gradually utilized the IPO Proceeds in accordance with the intended purposes stated in the Prospectus.

The IPO total net proceeds from the listing of the shares of the Company on the Main Board of the Stock Exchange, after deducting professional fees, underwriting commission and other listing related expenses, were approximately RMB434.0 million. For the year ended 31 December 2021, the IPO proceeds were utilized in accordance with the intended purposes stated in the Prospectus published by the Company, with the balance amounted to approximately RMB143.7 million. The balance of IPO proceeds will continue to be utilized according to the manner and proportions as disclosed in the Prospectus. For details, please refer to the following table:

		Actual		
	Net proceeds available from the Listing (RMB million)	net amount utilized as at 31 December 2021 (RMB million)	Unutilized net amount as at 31 December 2021 (RMB million)	Expected date of full utilization of unutilized proceeds
R&D of game products, R&D and upgrading of core technology platform	130.2	78.2	52.0	31 December 2022
Global market launch and operation	151.9	104.2	47.7	31 December 2022
IP ecological construction	65.1	50.4	14.7	31 December 2022
Acquisition of upstream and downstream industries	43.4	22.8	20.6	31 December 2022
Working capital and general corporate use	43.4	34.7	8.7	31 December 2022
Total	434.0	290.3	143.7	

Management Discussion and Analysis

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2021

1. On 4 January 2022, the Board, based on the recommendation of the remuneration committee of the Company, resolved to grant a total of 16,000,000 Awarded Shares, which have been held by the Trustee on behalf of the Selected Participants, at nil consideration to the Share Award Grantees. The grant of Awarded Shares has been effective from 5 January 2022. The Share Award Grantees are employees of the Company.
2. From 1 January 2022 to the Latest Practicable Date, Friends Fruit Holdings Limited accumulatively purchased 858,000 shares of the Company as the share reserve for the Share Award Scheme.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Jiang Xiaohuang (蔣孝黃), aged 39, is an executive Director, the chairman of the Board and the CEO of our Company. Mr. Jiang is responsible for the overall management, decision-making and strategic planning of our Group.

Mr. Jiang is the founder of our Group and he has near 17 years of experience in the game industry. Prior to founding our Group, from October 2004 to February 2009, Mr. Jiang served as the research and development director in Suzhou Snail Digital Technology Co., Ltd. (蘇州蝸牛數字科技股份有限公司), which is principally engaged in the development and operation of online games. Mr. Jiang founded Suzhou Bojoy, the predecessor of FriendTimes Technology, in May 2010 and currently serves as the CEO of our Group. He is also a director of Friend World, Friend Century, Wish Interactive, Suzhou Eagle, FriendTimes Technology and Purple Blaze.

Mr. Jiang obtained his bachelor's degree (through online learning) in computer science and technology from Beihang University (北京航空航天大學) in July 2016 and his executive master of business administration (EMBA) from Tsinghua University (清華大學) in January 2017.

Mr. Xu Lin (徐林), aged 41, is an executive Director and the vice president of our Company. He is primarily responsible for assisting in the overall management, strategic planning and decision-making of products research and development of our Group.

Mr. Xu has over 16 years of experience in the technology industry. Prior to joining our Group, from July 2005 to June 2006, Mr. Xu had served as the art planner in Suzhou Industrial Park Jima Game Software Co., Ltd. (蘇州工業園區吉碼遊戲軟件有限公司), where Mr. Xu was responsible for the artworks and strategic planning of games. From October 2006 to October 2008, Mr. Xu had worked in Suzhou Zhuo Ao You Electronics Co., Ltd. (蘇州卓奧友電子有限公司), a company primarily engaged in the development and sales of computer hardware and software and educational products. Mr. Xu joined FriendTimes Technology in November 2010 and currently serves as the vice president of our Group. He is also a director of FriendTimes Technology.

Mr. Xu obtained his bachelor's degree in history from Suzhou University of Science and Technology (蘇州科技大學) in June 2005, and his master's degree in business administration (MBA) from Concordia University in March 2019.

Mr. Wu Jie (吳傑), aged 35, is an executive Director and the vice president of our Company. Mr. Wu is responsible for assisting in overall management, strategic planning and decision-making of marketing of our Group.

Mr. Wu has over 9 years of experience in the game industry. From August 2012 to August 2013, Mr. Wu had served as the head of mobile and web games department in Suzhou Le Peng Culture Communication Co., Ltd. (蘇州樂朋文化傳播有限公司), a company primarily engaged in the development and sale of game software, where Mr. Wu was responsible for the publishing and operation of the mobile and web games. Mr. Wu joined FriendTimes Technology in August 2013 and currently serves as the vice president of our Group. He is also a director of FriendTimes Technology and FriendTimes Chengdu.

Mr. Wu obtained his professional diploma in computer application and technology from Jinshan Vocational Technical College (金山職業技術學院) in June 2009, and his executive master's degree in business administration (EMBA) from University of Liege, Belgium in October 2017.

Directors and Senior Management

Mr. Sun Bo (孫波), aged 37, is an executive Director and the vice president of our Company. Mr. Sun is responsible for assisting in overall management, strategic planning and decision-making of products operation of our Group.

Mr. Sun has over 17 years of experience in the game industry. Prior to joining our Group, from December 2004 to December 2008, Mr. Sun had served as the operation manager in Suzhou Snail Digital Technology Co., Ltd. (蘇州蝸牛數字科技股份有限公司), a company primarily engaged in the development and operation of online games, where Mr. Sun was responsible for game operation. From February 2009 to November 2009, Mr. Sun had served as the game operation director of game operation department in Hangzhou Yi Te Wangwang Network Technology Co., Ltd. (杭州易特旺旺網路技術有限公司), which is principally engaged in the development of computer software, where Mr. Sun was responsible for the game operation. From December 2009 to November 2010, Mr. Sun had worked in Hangzhou Jiushang Technology Co., Ltd. (杭州久尚科技有限公司), which is principally engaged in the development of computer software and internet technology. Mr. Sun joined FriendTimes Technology in December 2010 and currently serves as the vice president of our Group.

Mr. Sun obtained his professional diploma in network engineering and management from Anhui Wenda University of Information Engineering (安徽文達信息工程學院) in July 2005 and obtained his master's degree in business administration (MBA) from Asia Metropolitan University (亞洲城市大學) in December 2019.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhu Wei (祝偉), aged 50, is an independent non-executive Director of our Company. Mr. Zhu is responsible for supervising and providing independent advice to our Board.

Mr. Zhu has over 18 years of experience in accounting and taxation. Prior to joining our Group, Mr. Zhu worked in various companies being responsible in the finance and accounting aspects. From December 2003 to December 2006, Mr. Zhu had worked in Jiangsu Welsen CPA Co., Ltd. (江蘇華星會計師事務所). From December 2006 to November 2009, Mr. Zhu had worked in Jiangsu Xinzhongda CPA Co., Ltd. (江蘇新中大會計師事務所有限公司). From November 2009 until present, Mr. Zhu has been serving as a partner in Suzhou Newgrand Certified Public Accountants (蘇州仲華會計師事務所) where he is responsible for the operation and management. From August 2016 to July 2019, Mr. Zhu had served as an independent director of Jiangsu Yunyi Electric Co., Ltd. (江蘇雲意電氣股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 300304.SZ). Since May 2017, he has been serving as an independent director of Beijing Jetsen Technology Co., Ltd. (北京捷成世紀科技股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 300182.SZ). Mr. Zhu joined FriendTimes Technology in December 2015 and has been serving as independent director since then.

Mr. Zhu was qualified as a registered tax agent in China (中國註冊稅務師) in September 1999. Mr. Zhu was admitted as a certified accountant of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in August 2002 and he was admitted as a member of the Institute of Public Accountants, Australia in January 2011. Mr. Zhu also obtained the senior accountant qualification (高級會計師資格) in September 2006. Mr. Zhu obtained the Independent Director Qualification of Shenzhen Stock Exchange (深圳證券交易所) and Shanghai Stock Exchange (上海證券交易所) in March 2016 and April 2016, respectively.

Mr. Zhu obtained his professional diploma in financial accounting from Suzhou Radio and Television University (蘇州市廣播電視大學) in July 1992 and his bachelor's degree in international finance from Nanjing University (南京大學) in April 1999.

Directors and Senior Management

Ms. Tang Haiyan (唐海燕), aged 51, is an independent non-executive Director of our Company. Ms. Tang is responsible for supervising and providing independent advice to our Board.

Ms. Tang has over 28 years of experience as a PRC qualified lawyer. Since July 1995, Ms. Tang has been working in Y & T Lawyers (江蘇益友天元律師事務所) where she is currently a partner. From February 2015 to March 2021, Ms. Tang had served as an independent director of Suzhou Thvow Technology Co., Ltd. (蘇州天沃科技股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 002564.SZ). Since February 2016, Ms. Tang has been serving as an independent director of Sufa Technology Industry Co., Ltd. (中核蘇閩科技實業股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 000777.SZ). From August 2016 to June 2021, Ms. Tang had served as a director of Tibet Summit Resources Co., Ltd. (西藏珠峰資源股份有限公司) (a company listed on Shanghai Stock Exchange, stock code: 600338.SH). Since June 2019, Ms. Tang has been an independent director of Suzhou Veichi Electric Co., Ltd (蘇州偉創電氣科技股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 688698.SH). Ms. Tang joined FriendTimes Technology in April 2018 and has been serving as independent director since then.

Ms. Tang became a qualified PRC lawyer in May 1993. Ms. Tang is currently an arbitrator of the fifth Suzhou Arbitration Commission (蘇州仲裁委員會) and a member of the legal experts in Political Legal Committee of Suzhou Municipal Committee (蘇州市委政法委員會法律專家庫成員). Ms. Tang has obtained the Independent Director Qualification in Shanghai Stock Exchange (上海證券交易所) and Shenzhen Stock Exchange (深圳證券交易所) in September 2008 and September 2016, respectively.

Ms. Tang obtained her bachelor's degree in economic law from East China University of Political Science and Law (華東政法大學) in July 1992, her master's degree in international economic law from University of Canberra, Australia in July 2004, and her master's degree in business administration (MBA) from China Europe International Business School (中歐國際工商學院) in September 2008.

Mr. Zhang Jinsong (張勁松), aged 52, is an independent non-executive Director of our Company. Mr. Zhang is responsible for supervising and providing independent advice to our Board.

Mr. Zhang has over 14 years of experience in business management. From June 2007 to December 2019, Mr. Zhang had served as the general manager of merchant sales department of Suzhou Industrial Park Commercial Tourism Development Co., Ltd. (蘇州工業園區商業旅遊發展有限公司) where he is primarily responsible for the daily sales operation and management. Since January 2020, Mr. Zhang has been serving as the general manager of risk control department of Suzhou Industrial Park Neighborhood Center Development Co., Ltd. (蘇州工業園區鄰里中心發展有限公司) where he is primarily responsible for the risk control.

Mr. Zhang obtained his professional diploma in trade economics from Suzhou Vocational University (蘇州市職業大學) in July 2003 and his bachelor's degree in economic information management from Naval Aeronautical and Astronautical University (中國人民解放軍海軍航空工程學院) in June 2006.

Directors and Senior Management

SENIOR MANAGEMENT

Ms. Li Ya (李姪), aged 40, is the chief financial officer of our Company. Ms. Li is responsible for providing financial management and formulating financial strategies of our Group.

Ms. Li has over 15 years of experience in accounting and finance. From February 2007 to December 2008, Ms. Li worked as an accountant in the finance department of Suzhou Xinrui Meiwen Computer Engineering Co., Ltd. (蘇州新銳美文計算器工程有限公司). From January 2009 to October 2010, Mr. Li worked as a finance manager of Jiangsu Century Ark Culture Development Co., Ltd. (江蘇世紀方舟文化發展有限公司). Ms. Li joined our Group in December 2010 and currently serves as the chief financial officer of FriendTimes Technology.

Ms. Li was admitted as a member of the Institute of Public Accountants Australia in December 2016 and she obtained the intermediate accountant qualification certificate of PRC (中級會計職稱) in February 2017. She was admitted as an associate of the Association of International Accountants in February 2019. Ms. Li also obtained the Board Secretary Qualification of Shenzhen Stock Exchange in May 2016.

Ms. Li obtained her professional diploma in accounting from Nanjing University of Finance & Economics (南京財經大學) in January 2009 and her master's degree in business administration (MBA) from Hong Kong Asia Business College (香港亞洲商學院) in December 2017.

Mr. Liu Gongyou (劉功友), aged 40, has been appointed as one of our joint company secretaries on 21 February 2019. Mr. Liu is responsible for overseeing the matters relating to the Listing, legal and compliance issues of our Group.

Mr. Liu has over 11 years of experience in legal and compliance. From September 2010 to March 2012, Mr. Liu worked as a PRC qualified lawyer in Jiangsu Zheng & Zheng Partners (江蘇正和正律師事務所). From March 2012 to August 2013, Mr. Liu had served as securities affairs representative in Shanghai Beite Technology Co., Ltd. (上海北特科技股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 603009.SH). From January 2014 to October 2014, Mr. Liu had served as the assistant to the chairman in Jiangsu Zhonghong Investment Industrial Co., Ltd. (江蘇中宏投資實業有限公司). From November 2014 to July 2015, Mr. Liu had served as the legal manager in Wuzhou International Holdings Limited (五洲國際控股有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 1369.HK). Mr. Liu joined our Group in August 2015 and currently serves as the board secretary of FriendTimes Technology. He also serves as a director of Wu Linglong.

Mr. Liu obtained the Legal Professional Qualification Certificate of PRC (中華人民共和國法律職業資格證書) in March 2010. Mr. Liu obtained the Board Secretary Qualification of Shenzhen Stock Exchange and Shanghai Stock Exchange in July 2013 and February 2017, respectively. Mr. Liu obtained the securities qualification certificate (證券從業資格) in June 2011 and the futures qualification certificate (期貨從業資格) in July 2011.

Mr. Liu obtained his professional diploma in economic law from Anhui University of Technology (安徽工業大學) in July 2001, his bachelor's degree in politics education from Huaibei Normal University (淮北師範大學) in July 2003 and his master's degree in law from Shanghai Jiao Tong University (上海交通大學) in December 2009.

For biographical information about Mr. Jiang Xiaohuang, Mr. Xu Lin, Mr. Wu Jie and Mr. Sun Bo (who form part of our Senior Management), please see the section headed "Executive Directors" above.

Directors and Senior Management

JOINT COMPANY SECRETARIES

Mr. Liu Gongyou (劉功友), please see “Senior Management” above for details.

Ms. Fung Wai Sum (馮慧森), aged 39, has been appointed as one of our joint company secretaries on 21 February 2019. Ms. Fung is a senior manager of Corporate Services of Tricor Services Limited.

Ms. Fung has over 15 years of experience in providing professional corporate secretarial services to private and listed companies. Ms. Fung is currently the company secretary of two listed companies on the Stock Exchange, namely, Tongdao Liepin Group (stock code: 6100.HK) and Greenland Hong Kong Holdings Limited (stock code: 0337.HK), and the joint company secretary of a listed company on the Stock Exchange, namely, Shenzhen Neptunus Interlong Bio-Technique Company Limited (stock code: 8329. HK).

Ms. Fung is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Chartered Governance Institute (formerly “The Hong Kong Institute of Chartered Secretaries”) and The Chartered Governance Institute in the United Kingdom. Ms. Fung obtained her bachelor’s degree in business administration in operations management and economics from The Hong Kong University of Science and Technology in November 2004, and her master’s degree in professional accounting and corporate governance from City University of Hong Kong in November 2008.

Corporate Governance Report

COMPLIANCE WITH THE CG CODE

The Company has adopted the code provisions as set out in the CG Code as its corporate governance framework. For the year ended 31 December 2021, the Company has complied with the code provisions set out in the CG Code except for the deviation from code provision C.2.1 as disclosed below.

Pursuant to the code provision C.2.1 of the CG Code, the roles of Chairman and CEO should be separated and should not be performed by the same individual.

Mr. Jiang Xiaohuang is the chairman of the Board and CEO of the Company currently. Due to Mr. Jiang's background, qualifications and experiences in the Company, he is considered to be the best candidate for both roles at present. The Board considers that Mr. Jiang's dual role at this stage is conducive to maintaining the continuity of the Company's policies and the operation efficiency and stability of the Company, which is appropriate and in the best interest of the Company and the Shareholders.

Besides, all major decisions of the Company have been made in appropriate consultation with members of the Board and appropriate committees, as well as the Senior Management. In addition, Directors are encouraged to participate actively in all meetings of the Board and of such Board committees of which they are members, and the Chairman ensures that all issues raised are properly briefed at the Board meetings, and he works with the Senior Management to provide adequate, accurate, clear, complete and reliable information to all members of the Board in a timely manner. Further, the Board meets with Mr. Jiang regularly to discuss issues relating to the operation of the Group.

The Board is therefore of the view that there is an adequate balance of power and that appropriate safeguards are in place. Mr. Jiang holding both positions of the chairman of the Board and CEO of the Company will not have any impact on the balance between power and authority of the Board and the Senior Management of the Company. However, the Board will continue to regularly monitor and review the Company's current structure and to make necessary changes when appropriate.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as its code for Directors to conduct securities transactions. The Company has made specified enquiry with all the Directors, who have confirmed that, they have complied with the required standards set out in the Model Code during the year ended 31 December 2021.

The Company has also established employee stock trading regulations on terms no less exacting than the Model Code for employees who are likely to be in possession of unpublished price-sensitive data of the Company. No incident of non-compliance of the employee stock trading regulations by the employees was noted by the Company.

Articles of Association

For the year ended 31 December 2021, the Company has not made any changes to the Articles of Association, and its current version is posted on the websites of the Stock Exchange and the Company.

Corporate Governance Report

THE BOARD OF DIRECTORS

Board Composition

The Board currently consists of 7 Directors comprising 4 executive Directors and 3 independent non-executive Directors.

Executive Directors

Mr. Jiang Xiaohuang (*Chairman of the Board and CEO*)

Mr. Xu Lin

Mr. Sun Bo

Mr. Wu Jie

Independent Non-executive Directors

Mr. Zhu Wei

Mr. Zhang Jinsong

Ms. Tang Haiyan

Brief biographical details of Directors and Senior Management are set out in the section headed “Directors and Senior Management” of this annual report. Save as disclosed in the Prospectus and in this annual report, to the best knowledge of the Company, there has been no financial, business, family, or other material/relevant relationships among members of the Board.

Independence of the Independent Non-Executive Directors

For the year ended 31 December 2021, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors confirming his/her independence in accordance with Rule 3.13 of the Listing Rules and the Company considers that all independent non-executive Directors are independent.

Appointment and Re-Election of Directors

All Directors (including independent non-executive Directors) are appointed for a specific term of three years which may be extended as each and the Company may agree, subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company. Article 16.19 of the Articles of Association of the Company provides that at each AGM, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years. The Company has implemented a set of effective procedures for appointment of new Directors. The nomination of new Directors shall be first deliberated by the Nomination Committee and then submitted to the Board, subject to approval by election at the general meeting.

Corporate Governance Report

Where vacancies on the Board exist, the Nomination Committee evaluates skills, knowledge and experience required by the Board, and identifies if there are any special requirements for the vacancy. The Nomination Committee identifies appropriate candidates and convenes Nomination Committee meeting to discuss and vote in respect of the nominated Directors, and recommends candidates for Directors to the Board.

The Nomination Committee considers candidates with individual skills, experience and professional knowledge that can best assist and facilitate the effectiveness of the Board. The Nomination Committee takes the policy on Board diversity of the Company into consideration when it considers the balance of composition of the Board as a whole.

BOARD DIVERSITY

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board Diversity Policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, age, gender, cultural and educational background, professional and industry experience, skills and knowledge, insight, and the potential contributions that such candidate could bring to the Board. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires being effective. The structure, size and composition (including, for example, gender, age, and length of service) of the Board will be reviewed from time to time by the Nomination Committee to ensure that the Board has a balance of skills, expertise and diversity of perspective for providing effective leadership to the Company and meeting the needs of the Group.

The Company recognizes and embraces the benefits of having a diverse Board, and considers diversity at Board level as an essential element in maintaining a competitive advantage. The Company also recognizes the importance of being able to attract, retain and motivate employees from the widest pool of available talent, and is committed to diversity at all levels, including gender, age, cultural and educational background, and professional experience. A truly diverse Board will include and make good use of differences in the talents, skills, regional and industry experience, background, gender and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objective.

The Nomination Committee of the Company reviews and assesses the composition of the Board and makes recommendations to the Board on appointment of new directors of the Company. The Nomination Committee also oversees the conduct of the annual review of the effectiveness of the Board.

In reviewing and assessing the composition of the Board, the Nomination Committee considers the benefits of all aspects of diversity, including without limitation, those described above, in order to maintain an appropriate range and balance of talents, skills, experience and diversity of perspectives on the Board. Factors to be taken into account include: gender, age, ethnicity, cultural and educational background, professional skills, experience and knowledge. Due regard is to be given to the business model and specific needs of the Company.

The Company has adopted the Director Nomination Policy. In recommending candidates for appointment to the Board, the Nomination Committee considers candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board. In overseeing the conduct of the annual review of the effectiveness of the Board, the Nomination Committee considers the balance of talents, skills, experience, independence and knowledge on the Board and the diversity representation of the Board.

Corporate Governance Report

Directors' and Senior Management's Liability Insurance

The Company has entered into Directors' and Senior Management's liability insurance policy to cover any possible legal action against them.

Delegation to the management

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's Senior Management independently.

The daily management, administration and operation of the Company are delegated to the Senior Management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the Senior Management.

Directors' Continuous Professional Development

All Directors are provided with necessary training and information to ensure that they have a proper understanding of the Company's operations, businesses and market in which it operates as well as his responsibilities under relevant statues, laws, rules and regulations. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole to discharge their duties. The Directors and Senior Management also meet on a regular basis or as necessary to discuss issues such as operation of the Company, corporate governance policies, and regulatory compliance.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The joint company secretaries of the Company have from time to time updated and provided written training materials relating to the roles, functions and duties of a Director.

The training record of each Director for the year ended 31 December 2021 is set out below:

Name of Directors	Reading materials in relation to Corporate Governance and Regulations	Training in relation to Corporate Governance and Regulations
Executive Directors		
Mr. Jiang Xiaohuang	Yes	Yes
Mr. Xu Lin	Yes	Yes
Mr. Sun Bo	Yes	Yes
Mr. Wu Jie	Yes	Yes
Independent Non-executive Directors		
Mr. Zhu Wei	Yes	Yes
Mr. Zhang Jinsong	Yes	Yes
Ms. Tang Haiyan	Yes	Yes

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code.

For the year ended 31 December 2021, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and Senior Management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and the disclosure in this Corporate Governance Report.

BOARD MEETINGS

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board committee meetings, reasonable notice is given. The agenda and accompanying board papers are dispatched to the Directors or Board committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting. Minutes of meetings are kept by the joint company secretaries with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

For the year ended 31 December 2021, the Company held five Board meetings. The Company will continue to fully comply with code provision C.5.1 of the CG Code to hold Board meetings at least four times a year, and at approximately quarterly intervals. The attendance record of the Directors at the Board meeting is set out below:

Name of Directors	Attendance/ Number of meetings eligible to attend
Executive Directors	
Mr. Jiang Xiaohuang	5/5
Mr. Xu Lin	5/5
Mr. Sun Bo	5/5
Mr. Wu Jie	5/5
Independent Non-executive Directors	
Mr. Zhu Wei	5/5
Mr. Zhang Jinsong	5/5
Ms. Tang Haiyan	5/5

Corporate Governance Report

GENERAL MEETINGS

For the year ended 31 December 2021, the Company held one general meeting in total. The attendance record of the Directors at the general meeting is set out below:

Name of Directors	Attendance/ Number of meetings eligible to attend
Executive Directors	
Mr. Jiang Xiaohuang	1/1
Mr. Xu Lin	1/1
Mr. Sun Bo	1/1
Mr. Wu Jie	1/1
Independent Non-executive Directors	
Mr. Zhu Wei	1/1
Mr. Zhang Jinsong	1/1
Ms. Tang Haiyan	1/1

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Group's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's and the Stock Exchange's websites.

The majority of the members of each Board committee are independent non-executive Directors. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Audit Committee

The Audit Committee was established by our Company pursuant to a resolution of the Board on 11 September 2019 with written terms of reference in compliance with the Rule 3.22 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to make recommendations to our Board on the appointment, re-appointment and removal of external auditors; review the financial statements; provide material advice in respect of our financial reporting process; oversee our internal control and risk management systems and audit process; and provide advice and comment to our Board on matters related to corporate governance. The members of the Audit Committee are Mr. Zhu Wei, Mr. Zhang Jinsong and Ms. Tang Haiyan, all of whom are independent non-executive Directors. Mr. Zhu Wei is the chairman of the Audit Committee.

Corporate Governance Report

For the year ended 31 December 2021, the Audit Committee held three meetings. The attendance of each member is set out below:

Name of members	Attendance/ Number of meetings eligible to attend
Mr. Zhu Wei	3/3
Mr. Zhang Jinsong	3/3
Ms. Tang Haiyan	3/3

The Audit Committee has reviewed the Company's audited consolidated results for the year ended 31 December 2021 and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The Audit Committee has also discussed the auditing, internal control and financial reporting matters.

Remuneration Committee

The Remuneration Committee was established by our Company pursuant to a resolution of the Board on 11 September 2019 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to review and make recommendations to our Board on the terms of remuneration packages, bonuses and other compensation payable to Directors and Senior Management of our Group. The members of the Remuneration Committee are Mr. Zhang Jinsong, Mr. Zhu Wei and Mr. Jiang Xiaohuang. Mr. Zhang Jinsong is the chairman of the Remuneration Committee.

For the year ended 31 December 2021, the Remuneration Committee held one meeting. The attendance of each member is set out below:

Name of members	Attendance/ Number of meetings eligible to attend
Mr. Zhang Jinsong	1/1
Mr. Zhu Wei	1/1
Mr. Jiang Xiaohuang	1/1

Corporate Governance Report

Nomination Committee

The Nomination Committee was established by our Company pursuant to a resolution of the Board on 11 September 2019 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to review the structure, size and composition of our Board; and review and make recommendations to the Board on appointment of Directors and the management of the Board succession. The members of the Nomination Committee are Mr. Jiang Xiaohuang, Mr. Zhang Jinsong and Mr. Zhu Wei. Mr. Jiang Xiaohuang is the chairman of the Nomination Committee.

For the year ended 31 December 2021, the Nomination Committee held one meeting. The attendance of each member is set out below:

Name of members	Attendance/ Number of meetings eligible to attend
Mr. Jiang Xiaohuang	1/1
Mr. Zhu Wei	1/1
Mr. Zhang Jinsong	1/1

DIRECTORS' RESPONSIBILITIES IN RESPECT TO CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for year ended 31 December 2021 which give a true and fair view of the affairs of the Company and of the Company's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. During the Reporting Period, the Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the Auditor regarding their reporting responsibilities on the audited consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 100 to 104 of this annual report.

Directors' interests in shares

Details of the Directors' interests in the Company's Shares are set out in the section headed "Report of the Directors" of this annual report.

Dividend Policy

The Company has adopted the Dividend Policy on payment of dividends. Subject to the Companies Law of the Cayman Islands and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board.

The Board will determine the level of dividends after considering the factors of the Company including (i) the results of operations, (ii) cash flows, (iii) future prospects, (iv) financial condition, (v) economic and political conditions of the business environment, (vi) share buy-back, (vii) the statutory and regulatory restrictions on the payment of dividends and (viii) other factors as may be considered relevant by the Board, and subject to the approval of Shareholders. The Board has the absolute discretion to recommend any dividends.

Corporate Governance Report

Auditor's Remuneration

Remuneration payable to KPMG, the external auditor of the Company, for the year ended 31 December 2021 is as follows:

Service nature	Amount RMB'000
Audit services	
— Audit service on 2021 annual financial statements	2,080.0
— Non-audit service	—
Total	2,080.0

Accountability and Audit

The Directors are responsible for preparing the financial statements which give a true and fair view of the financial position of the Group and the results and cash flows for the year ended 31 December 2021. The statement by the Auditor regarding their reporting responsibilities on the financial statements is set out on pages 100 to 104 of this annual report. During the preparation of the financial statements for the year ended 31 December 2021, the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant impact on the Group's ability to continue as a going concern.

The Company's long-term basis for generating or preserving value and its strategy for achieving its goals are detailed in the "Management Discussion and Analysis" on pages 11 to 23 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board continuously supervises the effectiveness of the Company's risk management and internal control system with the assistance of the Audit Committee, so as to protect the Company's assets and the interests of Shareholders. The Company's risk management and internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatements or losses.

The Company has established its internal audit function, which is responsible for independently reviewing the adequacy and effectiveness of the Company's risk management and internal control system and reporting the results to the Audit Committee. The Internal Control Supervisor of the Company coordinates the detailed work of internal control and takes charge of sorting out and optimizing business processes and the management mechanism, as well as conducting evaluation on the effectiveness of internal control. In addition to the internal control and internal audit functions, all employees are accountable for risk management and internal control within their business scope. Business departments actively cooperate with internal control and internal audit functions, report to the management team on any important business development and how policies and strategies established by the Company are implemented within the department, and timely identify, assess and manage major risks.

Corporate Governance Report

The Company has formulated risk management and internal control management policies to construct a fundamental environment for risk management and internal control. Currently, the Company has set up the internal control framework, which relates to business processes such as procurement, sales, human resources and payroll management, marketing management, tax management, capital management, information security and intellectual property rights, financial reporting and disclosure. Risk assessment is conducted on a regular basis (at least once a year), to ensure the effective operation of risk management and internal control.

The Company has taken a series of rectification measures for the relevant risk issues disclosed in the Prospectus prior to the Listing of the Company and will continue to follow up.

During the year ended 31 December 2021, the Board has reviewed the effectiveness of the risk management and internal control system of the Company. The review included key controls, including financial, operational and compliance control and risk management functions. The Board considered that the Company's resources for accounting, internal audit and financial reporting functions are generally sufficient and the training programs received by staff and the related budgets are also sufficient. The review has been discussed by the Company's management, external and internal auditors and evaluated by the Audit Committee.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, Senior Management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

Company Secretaries

Mr. Liu Gongyou, the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Fung Wai Sum, a senior manager of Tricor Services Limited (a company secretarial service provider), as another joint company secretary to assist Mr. Liu Gongyou to discharge his duties as a company secretary of the Company. The primary contact person at the Company is Mr. Liu Gongyou.

Mr. Liu Gongyou and Ms. Fung Wai Sum have informed the Company that they have taken no less than 15 hours of relevant professional training during the year ended 31 December 2021. Their trainings satisfied the requirements under Rule 3.29 of the Listing Rules.

SHAREHOLDERS

Communication with Shareholders and Investor Relations

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and investors' understanding of the Company's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meetings provides opportunity for the Shareholders to communicate directly with the Directors. The Chairman of the Company and the chairmen of the Board committees of the Company will attend the annual general meetings to answer Shareholders' questions. The external auditor of the Company will also attend the annual general meetings to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

Corporate Governance Report

The Company encourages the Shareholders attend to annual general meetings and other general meetings, which allows the Shareholders to communicate with the Board, and exercise their right to vote.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at <http://www.friendtimes.net>, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretaries of the Company whose contact details are as follows:

FriendTimes Building, No. 68 Qitai Road, Suzhou Industrial Park, Jiangsu Province, the PRC, or
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
(email address: ir@friendtimes.net)

Shareholders should direct their enquiries about their shareholdings to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Convening of extraordinary general meeting and putting forward proposals

Pursuant to Article 12.3 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitioner, provided that such requisitioner held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitioner(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Corporate Governance Report

There are no provisions under the Articles of Association or the Companies Law of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as a Director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Report of the Directors

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The Company is an investment holding company. The Group is a leading integrated and well-established mobile game developer, publisher and operator in the PRC with particular success in female-oriented games. Details of the principal activities of the principal subsidiaries of the Company are set out in note 16 to the financial statements. An analysis of the Group's revenue and operating profit for the year ended 31 December 2021 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report.

Business review

A fair review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year and an indication of likely future developments in the Group's business, could be found in the section headed "Management Discussion and Analysis" in this annual report. In addition, a discussion on relationships with its key stakeholders is included in the section headed "Management Discussion and Analysis". The review and discussion form part of this Report of the Directors.

Principal risks and uncertainties

We face various risks involved in our daily business operations, including risks that are specific to our game publishing business as well as the industry and regulatory landscape in the PRC. In particular, our commercial launch of mobile games is subject to certain pre-approval and post-filing procedures with the relevant competent regulatory authorities in the PRC, which may change from time to time. For details, please refer to the sections headed "Risk Factors" and "Business — Recent Change in Regulatory Environment" in the Prospectus.

Financial results and performance

The profit of the Group during the year ended 31 December 2021 and the financial position of the Group as at 31 December 2021 are set out in the financial statements on pages 105 to 108.

Charitable Donations

Details of the Group's charitable donations for the year are set out in the chapter headed "Environmental, Social and Governance Report — B8. Community Investment — Corporate Social Responsibility".

Summary of Financial Information for the past Five Years

A summary of results, assets and liabilities for the past five financial years of the Group is set out on page 8 of this annual report. This summary does not form part of the audited financial statements.

Relationship with employees, customers and suppliers

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

The Group also understands that maintaining good relationships with customers and suppliers is critical to achieving its long-term goals. During the year ended 31 December 2021, there were no serious disputes between the Group and its customers and/or suppliers.

Report of the Directors

Compliance with Laws and Regulations

The Group is subject to various PRC laws and regulations in relation to its game publishing operations in the PRC, including, without limitation, in the aspects of value-added telecommunication services, game examination, publishing and operation, virtual currency, real-name registration, anti-addiction system, information security and censorship, and privacy protection.

As far as the Board is aware, during the Reporting Period, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects.

Final dividend

The Board proposed the payment of final dividend of HK12 cents per ordinary share for the year ended 31 December 2021 (31 December 2020: HK12 cents per ordinary share). The payment of final dividend shall be subject to the approval by the Shareholders at the AGM. Upon the approval by the Shareholders, the final dividend is expected to be paid around Wednesday, 8 June 2022.

Annual General Meeting

The AGM will be held on Monday, 16 May 2022. A notice convening the AGM will be published and dispatched to the Shareholders in due course in the manner prescribed by the Listing Rules.

Closure of Register of Members

1. Entitlement to attend and vote at the 2022 AGM

For determination of the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 11 May 2022 to Monday, 16 May 2022 (both days inclusive), during which period no transfer of the Shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the AGM, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 10 May 2022.

2. Entitlement to the final dividend for 2021

For determination of the entitlement of Shareholders to the final dividend for 2021 (final dividend is subject to approval by the Shareholders at the AGM), the register of members of the Company will be closed from Tuesday, 24 May 2022 to Thursday, 26 May 2022 (both days inclusive), during which period no transfer of the Shares of the Company will be registered. The record date for entitlement to the final dividend for 2021 is Thursday, 26 May 2022. In order to qualify for the entitlement to the final dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 23 May 2022. The payment date for the final dividend for 2021 is expected to be on or around Wednesday, 8 June 2022.

Distributable Reserves

The Company's distributable reserves as at 31 December 2021 amounted to approximately RMB306.8 million, of which approximately RMB214.0 million is proposed to be used as the annual final dividend.

Property, plant and equipment

Details of the changes in property, plant and equipment of the Group for the year ended 31 December 2021 are set out in note 10 to the financial statements.

Report of the Directors

Environmental protection policy and performance

The Group understands the importance of environmental protection. There was no non-compliance with relevant laws and regulations in terms of business, including health and safety, factory conditions, employment and environment. The Group has implemented environmental protection measures and has encouraged employees to pay attention to environmental protection at work and consume electricity and paper according to actual needs to reduce energy consumption and minimize unnecessary waste. For further details, please refer to the section headed “Environmental, Social and Governance Report” of this annual report.

Share Capital

Details of the movements in share capital of the Company during the year ended 31 December 2021 are set out in note 27 to the financial statements.

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

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed the listed securities of the Company.

Report of the Directors

Directors

During the Reporting Period and up to the date of this annual report, the Directors of the Company are as follows:

Executive Directors

Mr. Jiang Xiaohuang (*Chairman of the Board and CEO*)

Mr. Xu Lin

Mr. Sun Bo

Mr. Wu Jie

Independent Non-executive Directors

Mr. Zhu Wei

Mr. Zhang Jinsong

Ms. Tang Haiyan

The biographical details of the Directors and Senior Management are set out in the section headed "Directors and Senior Management" of this annual report.

Directors' Service Contracts

Each of our executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of our independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors has or is proposed to have a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' interests in transactions, arrangements or contracts

There was no transaction, arrangement or contract of significance to which the Company or its subsidiaries, or its holding companies or any of its fellow subsidiaries was a party, and in which a Director or a entity connected with the Director was materially interested, whether directly or indirectly, subsisting during or at the end of the year ended 31 December 2021.

Directors' interests in competing business

None of the Directors have any interest in a business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

Emoluments of Directors, Senior Management and employees

The remuneration policy of the Group is formulated on the basis of the performance, work experience and salary level prevailing in the market. Particulars of Directors' remuneration, five highest paid individuals' emoluments and staff costs are set out in notes 7 and 8 to the financial statements.

During the year ended 31 December 2021, no emoluments were paid by the Group to the Director and the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. No Director waived any emolument during the year ended 31 December 2021.

Report of the Directors

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2021, the interests or short positions of the Directors and chief executive 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 (a) were required to be 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 he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to herein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interests in Shares or underlying Shares of the Company as at 31 December 2021			
Name	Capacity/Nature of interest	Number of shares held/ interested	Approximate percentage of interest ⁽²⁾
Mr. Jiang Xiaohuang ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾	Interest of a controlled corporation/ Founder of a discretionary trust	1,553,632,500 (L) ⁽¹⁾	71.24%
Mr. Xu Lin ⁽⁹⁾	Interest of a controlled corporation	7,141,974 (L) ⁽¹⁾	0.33%
Mr. Wu Jie ⁽¹⁰⁾⁽¹¹⁾	Beneficial owner	1,776,000 (L) ⁽¹⁾	0.08%
	Interest of a controlled corporation	3,570,987 (L) ⁽¹⁾	0.16%
	Beneficial owner	750,000 (L) ⁽¹⁾	0.03%
Mr. Sun Bo ⁽¹²⁾⁽¹³⁾	Person having a right to require delivery of the underlying Shares	502,000 (S) ⁽¹⁾	0.02%
	Interest of a controlled corporation	3,570,987 (L) ⁽¹⁾	0.16%
	Beneficial owner	1,650,000 (L) ⁽¹⁾	0.08%
	Person having a right to require delivery of the underlying Shares	502,000 (S) ⁽¹⁾	0.02%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares of the Company. The letter "S" denotes the person's short position in the Shares of the Company.
- (2) The calculation is based on the total number of 2,180,850,000 Shares in issue as at 31 December 2021.
- (3) 937,688,116 Shares are registered under the name of Etemal Heart Holdings Limited, the issued share capital of which is owned as to 100% by Gorgeous Sunshine Holding Limited, which is in turn the holding vehicle wholly-owned by TMF (Cayman) Ltd., the trustee of Jiang Family Trust. Jiang Family Trust is a discretionary trust established by Mr. Jiang as the settlor and protector. Accordingly, Mr. Jiang is deemed to be interested in the Shares held by Etemal Heart Holdings Limited for the purpose of Part XV of the SFO.
- (4) 187,000,000 Shares are registered under the name of Ling Long Holdings Limited, the issued share capital of which is owned as to 100% by Gorgeous Sunshine Holding Limited, which is in turn the holding vehicle wholly-owned by TMF (Cayman) Ltd., the trustee of Jiang Family Trust. Jiang Family Trust is a discretionary trust established by Mr. Jiang as the settlor and protector. Accordingly, Mr. Jiang is deemed to be interested in the Shares held by Ling Long Holdings Limited for the purpose of Part XV of the SFO.
- (5) 93,500,000 Shares are registered under the name of Lucky Fish Holdings Limited, the issued share capital of which is owned as to 100% by Gorgeous Sunshine Holding Limited, which is in turn the holding vehicle wholly-owned by TMF (Cayman) Ltd., the trustee of Jiang Family Trust. Jiang Family Trust is a discretionary trust established by Mr. Jiang as the settlor and protector. Accordingly, Mr. Jiang is deemed to be interested in the Shares held by Lucky Fish Holdings Limited for the purpose of Part XV of the SFO.

Report of the Directors

- (6) 189,754,000 Shares are registered under the name of Warm Sunshine Holdings Limited, the issued share capital of which is owned as to 100% by Future Wisdom Holdings Limited, which is in turn wholly-owned by Mr. Jiang. Accordingly, Mr. Jiang is deemed to be interested in the Shares held by Warm Sunshine Holdings Limited for the purpose of Part XV of the SFO.
- (7) 144,574,384 Shares are registered under the name of Purple Crystal Holdings Limited, the issued share capital of which is owned as to 100% by Purple Dream Holdings Limited, which is in turn owned as to 41.50% by Friends Fruit Holdings Limited. 100% of the issued share capital of Friends Fruit Holdings Limited is owned by Friends Together Holdings Limited. Mr. Jiang is the sole director of Friends Together Holdings Limited. Accordingly, Mr. Jiang is deemed to be interested in the Shares held by Purple Crystal Holdings Limited for the purpose of Part XV of the SFO.
- (8) 1,116,000 shares were purchased by Friends Fruit Holdings Limited under the Share Award Scheme. The issued share capital of Friends Fruit Holdings Limited is owned as to 100% by Friends Together Holdings Limited. Mr. Jiang is the sole director of Friends Together Holdings Limited. Accordingly, Mr. Jiang is deemed to be interested in the Shares held by Friends Fruit Holdings Limited for the purpose of Part XV of the SFO.
- (9) 7,141,974 Shares are registered under the name of Purple Crystal Holdings Limited, the issued share capital of which is owned as to 100% by Purple Dream Holdings Limited, which is in turn 4.94% owned by Mr. Xu. Accordingly, Mr. Xu is deemed to be interested in the Shares held by Purple Crystal Holdings Limited for the purpose of Part XV of the SFO.
- (10) 3,570,987 Shares are registered under the name of Purple Crystal Holdings Limited, the issued share capital of which is owned as to 100% by Purple Dream Holdings Limited, which is in turn 2.47% owned by Mr. Wu. Accordingly, Mr. Wu is deemed to be interested in the Shares held by Purple Crystal Holdings Limited for the purpose of Part XV of the SFO.
- (11) Pursuant to the Share Award Scheme, Mr. Wu was granted 502,000 Awarded Shares on 31 January 2021.
- (12) 3,570,987 Shares are registered under the name of Purple Crystal Holdings Limited, the issued share capital of which is owned as to 100% by Purple Dream Holdings Limited, which is in turn 2.47% owned by Mr. Sun. Accordingly, Mr. Sun is deemed to be interested in the Shares held by Purple Crystal Holdings Limited for the purpose of Part XV of the SFO.
- (13) Pursuant to the Share Award Scheme, Mr. Sun was granted 502,000 Awarded Shares on 31 January 2021.

Save as disclosed above, as at 31 December 2021, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code; or to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO.

Report of the Directors

Arrangement for directors to acquire shares or debentures

At no time during the year ended 31 December 2021 was the Company or any of its subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

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

As at 31 December 2021, to the best knowledge of the Company and the Directors, the following persons (not being a director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Interests in Shares or underlying Shares of the Company as at 31 December 2021			
Name of Shareholders	Capacity/ Nature of interest	Number of shares held/ interested	Approximate percentage of Interest ⁽²⁾
Mr. Jiang Xiaohuang ⁽³⁾⁽⁴⁾⁽⁵⁾	Interest of a controlled corporation/ Founder of a discretionary trust	1,553,632,500 (L) ⁽¹⁾	71.24%
Ms. Mao Yuyan ⁽⁶⁾	Interest of spouse	1,553,632,500 (L) ⁽¹⁾	71.24%
TMF (Cayman) Ltd. ⁽³⁾	Trustee of a trust	1,218,188,116 (L) ⁽¹⁾	55.86%
Gorgeous Sunshine Holdings Limited ⁽³⁾	Interest of a controlled corporation	1,218,188,116 (L) ⁽¹⁾	55.86%
Eternal Heart Holdings Limited	Beneficial owner	937,688,116 (L) ⁽¹⁾	43.00%
Ling Long Holdings Limited	Beneficial owner	187,000,000 (L) ⁽¹⁾	8.57%
Lucky Fish Holdings Limited	Beneficial owner	93,500,000 (L) ⁽¹⁾	4.29%
Future Wisdom Holdings Limited ⁽⁴⁾	Interest of a controlled corporation	189,754,000 (L) ⁽¹⁾	8.70%
Warm Sunshine Holdings Limited	Beneficial owner	189,754,000 (L) ⁽¹⁾	8.70%
TMF Trust (HK) Limited ⁽⁵⁾	Trustee of a trust	145,690,384 (L) ⁽¹⁾	6.68%
Friends Together Holdings Limited ⁽⁵⁾	Interest of a controlled corporation	145,690,384 (L) ⁽¹⁾	6.68%
Friends Fruit Holdings Limited ⁽⁵⁾	Interest of a controlled corporation	144,574,384 (L) ⁽¹⁾	6.63%
	Beneficial owner	1,116,000 (L) ⁽¹⁾	0.05%
Purple Dream Holdings Limited ⁽⁵⁾	Interest of a controlled corporation	144,574,384 (L) ⁽¹⁾	6.63%
Purple Crystal Holdings Limited	Beneficial owner	144,574,384 (L) ⁽¹⁾	6.63%
GIC Private Limited ⁽⁷⁾	Investment Manager	130,589,000 (L) ⁽¹⁾	5.99%

Report of the Directors

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the Company.
- (2) The calculation is based on the total number of 2,180,850,000 Shares in issue as at 31 December 2021.
- (3) Eternal Heart Holdings Limited, Ling Long Holdings Limited and Lucky Fish Holdings Limited are wholly-owned by Gorgeous Sunshine Holdings Limited which is the holding vehicle wholly-owned by TMF (Cayman) Ltd., the trustee of Jiang Family Trust. Jiang Family Trust is a discretionary trust established by Mr. Jiang as the settlor and protector. Accordingly, each of Mr. Jiang, Gorgeous Sunshine Holding Limited and TMF (Cayman) Ltd. is deemed to be interested in the Shares held by Eternal Heart Holdings Limited, Ling Long Holdings Limited and Lucky Fish Holdings Limited.
- (4) Warm Sunshine Holdings Limited is wholly-owned by Future Wisdom Holdings Limited which is in turn wholly-owned by Mr. Jiang. Accordingly, each of Mr. Jiang and Future Wisdom Holdings Limited is deemed to be interested in the Shares held by Warm Sunshine Holdings Limited.
- (5) Purple Crystal Holdings Limited is wholly-owned by Purple Dream Holdings Limited which is in turn owned as to 41.50% by Friends Fruit Holdings Limited, the sole director of which is Mr. Jiang. Friends Fruit Holdings Limited is wholly-owned by Friends Together Holdings Limited, which is in turn the holding vehicle wholly owned by TMF Trust (HK) Limited, the member of Advisory Committee of which is Mr. Jiang. Accordingly, each of Mr. Jiang, TMF Trust (HK) Limited, Friends Together Holdings Limited, Friends Fruit Holdings Limited and Purple Dream Holdings Limited is deemed to be interested in the Shares held by Purple Crystal Holdings Limited.
- (6) Ms. Mao Yuyan is the spouse of Mr. Jiang and therefore she is deemed to be interested in all the Shares held by Mr. Jiang by virtue of the SFO.
- (7) The source of information on the interests of GIC Private Limited is from the Disclosure of Interest Form published on the website of the Stock Exchange.

Save as disclosed above, as at 31 December 2021, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

ADOPTION OF SHARE AWARD SCHEME

Share Award Scheme

The Board has approved the adoption of the Share Award Scheme of the Company on 14 September 2020.

The Share Award Scheme does not constitute a share option scheme under Chapter 17 of the Listing Rules and is a discretionary scheme of the Company. No Shareholders' approval is required to adopt the Share Award Scheme.

Objectives of the Share Award Scheme

- (i) to further improve the Group's incentive system, align the interests of certain Eligible Participants with the Group's interests and encourage them to create long-term value for the Group; and
- (ii) to attract and motivate key professional talents to enhance the competitiveness and promote the sustainable development of the Group.

Administration of the Share Award Scheme

- (i) The Share Award Scheme is subject to the Scheme Rules and the terms of the Trust Deed (as the case may be);
- (ii) The Board may, by passing ordinary resolutions, appoint initial members of the advisory committee, and the advisory committee may by written instrument irrevocably appoint any person as an additional member of the advisory committee. The advisory committee gives instructions or notices to the Trustee on all matters in connection with the Share Award Scheme and other matters in the routine administration of the Trust; and
- (iii) The Trustee will hold the Shares and the income derived therefrom in accordance with the Scheme Rules and subject to the terms of the Trust Deed.

Report of the Directors

Sources of Awarded Shares of the Share Award Scheme

1. Mr. Jiang Xiaohuang, the controlling shareholder of the Company, decided to indirectly transfer an aggregate of 80,000,000 shares of the Company as a gift within three years, at nil consideration, as the pool of shares of the Share Award Scheme. As at the Latest Practicable Date, Mr. Jiang Xiaohuang indirectly transferred an aggregate of 60,000,000 Shares of the Company as a gift;
2. As at the Latest Practicable Date, Friends Fruit Holdings Limited purchased a total of 1,974,000 shares of the Company as the share reserve of the Share Award Scheme.

Duration and Termination of the Share Award Scheme

The Share Award Scheme shall be effective from the Adoption Date and shall be terminated at the earlier of (1) the tenth anniversary from the Adoption Date; or (2) the date of early termination determined by the advisory committee. The termination of this Share Award Scheme shall not cause any material and adverse effect on any existing rights of any Selected Participants under this Share Award Scheme.

Implementation of the Share Award Scheme

1. On 14 September 2020, Mr. Jiang Xiaohuang, a controlling shareholder of the Company, decided to indirectly transfer an aggregate of 80,000,000 shares of the Company as a gift within three years, at nil consideration, as the pool of shares of the Share Award Scheme.
2. On 1 December 2020, Mr. Jiang Xiaohuang completed the first annual share contribution plan and indirectly transferred an aggregate of 40,000,000 shares of the Company as a gift at nil consideration, as the pool of shares of the Share Award Scheme.
3. On 28 December 2020, the Board, based on the recommendation of the remuneration committee of the Company, resolved to grant a total of 40,000,000 Awarded Shares, which have been held by the Trustee on behalf of the Selected Participants, at nil consideration to the Share Award Grantees. The grant of Awarded Shares has been effective from 1 January 2021. The Share Award Grantees include (1) Mr. Wu Jie, an executive Director (awarded 2,000,000 shares of the Company); (2) Mr. Sun Bo, an executive Director (awarded 2,000,000 shares of the Company); and (3) employees of the Group (awarded 36,000,000 shares of the Company).
4. On 28 June 2021, Mr. Jiang Xiaohuang completed the second annual share contribution plan and indirectly transferred an aggregate of 20,000,000 Shares of the Company as a gift at nil consideration, as the pool of shares of the Share Award Scheme.
5. From 28 October to 1 November 2021, Friends Fruit Holdings Limited purchased a total of 1,116,000 shares of the Company as the share reserve of the Share Award Scheme.
6. On 4 January 2022, the Board, based on the recommendation of the remuneration committee of the Company, resolved to grant a total of 16,000,000 Awarded Shares, which have been held by the Trustee on behalf of the Selected Participants, at nil consideration to the Share Award Grantees. The grant of Awarded Shares has been effective from 5 January 2022. The Share Award Grantees are employees of the Company.
7. From 1 January 2022 to the Latest Practicable Date, Friends Fruit Holdings Limited accumulatively purchased 858,000 shares of the Company as the share reserve for the Share Award Scheme.

As at the Latest Practicable Date, the Company has granted a total of 56,000,000 Awarded Shares to the Selected Participants at nil consideration with remaining Award Share reserve of 5,974,000 shares.

Report of the Directors

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2021 are set out in note 30 to the financial statements. Such transactions were either (1) fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules; or (2) did not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background and Reasons

On 11 December 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the "FITE Regulations"), which were amended on 10 September 2008 and 6 February 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including internet content provider services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "Qualification Requirements"). Currently, none of the applicable PRC laws, regulations or rules provided clear guidance or interpretation on the Qualification Requirements. Therefore, in order for the Company to be able to carry on its business in the PRC, the Group has entered into the Contractual Arrangements to enable the Company to exercise and maintain control over operations of the Operating Entities and to consolidate these companies' financial results into the Company's results under International Financial Reporting Standards as if they are wholly-owned subsidiaries of the Company. Please refer to the section headed "Contractual Arrangements" of the Prospectus for details.

Up to the date of this annual report, there is no further update in relation to the Qualification Requirement.

Report of the Directors

Contractual Arrangements overview

1. Details of operating company and Registered Shareholders

Operating company: FriendTimes Technology Inc.

FriendTimes Technology is a company established in the PRC with limited liability. Registered Shareholders of FriendTimes Technology are Mr. Jiang Xiaohuang (70.14%), Suzhou Zixin Technology Investment Management Enterprise (LLP) (12.73%), SEC Electric Machinery Co., Ltd. (4.00%), Nanjing Liheng Venture Capital Investment Enterprise (LLP) (3.13%), Mr. Song Dawei (2.63%), Mr. Song Huan (2.00%), Mr. Wang Jianyu (1.62%), Suzhou Luoyuan Investment Centre (LLP) (1.25%), Mr. Lin Zhirong (1.25%) and Mr. Zhang Min (1.25%).

2. Description of the operating company's business

FriendTimes Technology is mainly engaged in the research and development, distribution and operation of mobile games.

3. Summary of terms of contractual arrangements

The Contractual Arrangements which were in place during the year ended 31 December 2021 are as follows:

- (1) The Exclusive Business Cooperation Agreement dated 20 February 2019, pursuant to which FriendTimes Technology agreed to engage Suzhou Eagle as its exclusive provider of technical support, consultation and other services, and FriendTimes Technology agreed to pay the service fee to Suzhou Eagle.
- (2) The Voting Rights Proxy Agreement and Powers of Attorney dated 20 February 2019, pursuant to which Registered Shareholders irrevocably and exclusively appointed Suzhou Eagle and/or its appointee, Mr. Liu Gongyou, but excluding any person who is not independent from the Registered Shareholders or may give rise to any conflict of interest, as his attorney-in-fact to exercise such shareholder's rights in FriendTimes Technology.
- (3) The Exclusive Option Agreement dated 20 February 2019, pursuant to which the Registered Shareholders jointly and severally granted Suzhou Eagle the irrevocable and exclusive rights to require the Registered Shareholders to transfer their equity interests and/or assets in FriendTimes Technology to Suzhou Eagle and/or a third party designated by it, in whole or in part at any time and from time to time, at a minimum purchase price permitted under the PRC laws and regulations.
- (4) The Equity Pledge Agreement dated 20 February 2019, pursuant to which the Registered Shareholders agreed to pledge all of their respective equity interests in FriendTimes Technology to Suzhou Eagle as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.
- (5) The Framework Loan Agreement dated 6 March 2019, pursuant to which Suzhou Eagle principally agreed to provide loans to our Operating Entities from time to time in accordance with the PRC laws and regulations and our Operating Entities principally agreed to utilise the proceeds of such loans for their business operations.

During the year ended 31 December 2021, FriendTimes Technology paid the service fee of approximately RMB68.1 million to Suzhou Eagle under the Exclusive Business Cooperation Agreement.

The revenue and net profit of the Operating Entities subject to the Contractual Arrangements amounted to approximately RMB1,209.0 million and RMB233.6 million for the year ended 31 December 2021, respectively. The total assets and total liabilities of the Operating Entities subject to the Contractual Arrangements amounted to approximately RMB1,589.6 million and RMB103.6 million as at 31 December 2021, respectively.

Report of the Directors

Risks associated with the Contractual Arrangements

For risks associated with the Contractual Arrangements, please see the section headed “Risk Factors — Risks Relating to Our Company Structure” in the Prospectus for details.

Material change in relation to the Contractual Arrangements

During the year ended 31 December 2021, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

Unwinding the Contractual Arrangements

The Company will unwind the Contractual Arrangements as soon as the laws allow the business of the Operating Entities to be operated without the Contractual Arrangements. However, for the year ended 31 December 2021, none of the Contractual Arrangements had been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements had been removed.

Waiver from the Stock Exchange

The Stock Exchange has granted a waiver to the Company from strict compliance with the connected transactions requirements under Chapter 14A of the Listing Rules in respect of the Contractual Arrangements. For details, please refer to the section “Connected Transactions” in the Prospectus.

Confirmation from independent non-executive Directors

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that during the year ended 31 December 2021 (i) the transactions carried out have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by FriendTimes Technology to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group; and (iii) the transactions contemplated under the Contractual Arrangements are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmations from the Company’s Independent Auditor

KPMG, the Company’s auditor, has carried out procedures annually to report on the Group’s Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 (Revised) “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Listing Rules, KPMG has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended 31 December 2021:

1. nothing has come to their attention that causes the Auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;
2. nothing has come to their attention that causes the Auditor to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and
3. under the contractual arrangements, nothing has come to our attention that causes us to believe that dividends or other distributions have been made by FriendTimes Technology to the equity shareholders of FriendTimes Technology which are not otherwise subsequently assigned or transferred to the Group.

Report of the Directors

MANAGEMENT CONTRACTS

No contracts, other than the service contracts with the Directors, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2021.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2021, the aggregate sales attributable to the Group's five largest customers accounted for approximately 3.8% and the largest customer accounted for approximately 1.7% of the Group's total revenue for the year.

During the year ended 31 December 2021, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 55.6% and the largest supplier accounted for approximately 25.2% of the Group's total purchases for the year.

For the year ended 31 December 2021, none of the Directors, their associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the issued Shares) has an interest in the five largest suppliers or customers of the Group.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in the annual report, the Company does not have any disclosure obligations under Rule 13.20, 13.21 and 13.22 of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the Latest Practicable Date, at least 25% of the Company's total number of issued Shares were held by the public at all time since Listing.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year ended 31 December 2021 or subsisted at the end of the year ended 31 December 2021.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS AND SIMILAR RIGHTS

As at 31 December 2021, the Company had no outstanding convertible securities, options, warrants or similar rights. There has been no issue or exercise of any convertible securities, options, warrants or similar rights during the year ended 31 December 2021.

Report of the Directors

RETIREMENT BENEFITS SCHEME

All of our employees are in PRC and they are members of the state-managed retirement benefits scheme operated by the PRC government. Our employees are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Details of the pension obligations of the Company are set out in note 5 to the financial statements in this annual report.

PERMITTED INDEMNITY PROVISION

The Articles of Association provide that the Directors are entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain in or about the execution of their duty in their respective offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director.

The Company has purchased and maintained Directors' liability insurance during the Reporting Period, which provides appropriate coverage for the Directors.

Fiscal Policies

The Group has adopted centralized financing and fiscal policies to strengthen control over bank deposits and ensure the safe and efficient operation of the Group's funds. The Group's surplus cash is generally short-term deposits in RMB, U.S. dollars or HK dollars. It is the Group's policy to conduct only conservative deposit transactions and restrict investment in high-risk financial products.

Auditor

There has been no change in auditors during the year ended 31 December 2021. The consolidated financial statements of the Company for the year ended 31 December 2021 have been audited by KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance, who shall retire and being eligible, offer itself for re-appointment, and a resolution to this effect shall be proposed at the forthcoming AGM.

By order of the Board

Mr. Jiang Xiaohuang

Chairman and Chief Executive Officer

22 March 2022

Environmental, Social and Governance Report

CHAIRMAN'S STATEMENT

Dear Shareholders,

The Group is pleased to issue its Environmental, Social and Governance Report (the "Report") for the period from 1 January 2021 to 31 December 2021 (the "Reporting Period" or the "FY2021"). The report is the third social responsibility related report issued by FriendTimes Inc. (the "Company", "FriendTimes" or "we") and its subsidiaries (the "Group"). The report summarizes the Group's initiatives, plans and performance in environmental, social and governance ("ESG") and demonstrates its commitment to sustainable development.

The Group actively promotes its products and platforms to participate in ESG strategies, and is committed to integrating sustainable development into daily operations in order to achieve long-term prosperity and business development, while improving the well-being of stakeholders and contributing to our planet. The Group wishes to promote ESG awareness through our commitment to sustainable business and best practices in daily operations, and enhance our cooperation with other industry participants, so as to minimize the potential negative environmental and social impacts of our operations and increase our competitiveness.

In order to fulfill the Group's commitment to sustainable development, the Group has integrated the management of ESG issues into the Group's entire corporate management framework, up to the board of directors (the "Board"), as well as the functions of the management team and business units. The Board assumes full responsibility for the Group's sustainability issues, including formulating strategies, overseeing the Company's ESG performance, and approving the Report. In order to facilitate a fundamentally internally consistent enterprise risk management, a risk management and internal control system has been established and the Board is responsible for continuously reviewing and assessing its effectiveness. Please refer to the section "ESG Governance Structure" for the ESG governance structure.

The Group is committed to creating long-term value for its stakeholders and to this end, the Group listens attentively to their views and feedback to understand their needs and expectations. In order to prioritize major ESG-related issues, the Board and the ESG Working Group ("Working Group") continuously communicate with the Group's stakeholders, taking into account the views of different stakeholders, and regularly invite them to participate in materiality assessments to determine the priority of different ESG issues, and to understand, evaluate and formulate strategies for the Group's ESG performance. Information on the stakeholder communication channels and the materiality assessment conducted by the Group are set out in the sections headed "Stakeholder Engagement" and "Materiality Assessment" respectively.

Although the Group has no significant environmental impact on its operation as a mobile game developer, publisher and operator, the Group still actively responds to the national environmental policies on carbon neutrality, energy saving and waste reduction to promote the sustainable development of the enterprise. The Group has been taking measures in different areas to reduce its environmental impact and regularly reviews the effectiveness of the relevant measures. In order to fulfill the Group's commitment to corporate social responsibility and to enable the Group's stakeholders to have a better understanding of the Group's ESG performance, the Group formulated ESG targets for the first time during the Reporting Period on important issues to the Group. The relevant targets and the manner in which the Board reviewed the progress of these targets are set out in the section headed "Environmental Goal Setting".

In July 2021, due to the extreme weather, many parts of Henan Province were affected by extremely heavy rainfall. People all over the country were deeply concerned about the flooding situation, making it imminent to conduct rescue operations. The Group donated RMB1 million to the disaster-stricken areas in Henan Province through the Henan Charity General Federation to support the emergency relief and post-disaster reconstruction work in the disaster-stricken areas in a modest way.

The Group's achievements indicated the correct decision-making of the management of the Group, the tacit cooperation of various departments, and also the hard work of all employees. On behalf of the Board, I would like to express my sincere gratitude to our shareholders, business partners and customers for their long-standing support, understanding and trust in the Group. I would also like to thank all departments and our important teams of the Group for their valuable contributions to the Group. In the future, we will continue to strengthen the corporate management system and further integrate ESG considerations into the Group's business operations. The Group will strengthen cooperation with various stakeholders and strive to create a better and longer future.

Mr. Jiang Xiaohuang

Founder and Chairman

Environmental, Social and Governance Report

CORPORATE AWARDS AND SIGNIFICANT EVENTS OF FRIENDTIMES

Corporate Awards

FriendTimes

- Rated as “Key National Cultural Export Enterprise for 2021-2022” and selected for three consecutive years;
- Selected in the list of “China’s Top 100 Internet Enterprises in Comprehensive Strength in 2021” issued by the Internet Society of China;
- Selected in the list of “Top 30 Private Cultural Enterprises in Jiangsu for 2020-2021” issued by the Publicity Department of Jiangsu Provincial Committee of the CPC;
- Selected in the list of “Top 100 Suzhou Private Enterprises in 2021” issued by Suzhou Federation of Industry and Commerce;
- Selected in the list of “Top 100 Enterprises in Comprehensive Strength of Software and Information Technology Service Industry in Jiangsu Province in 2021” issued by Jiangsu Software Industry Association;
- Rated as “Key Enterprise of Service Trade in Jiangsu Province” by the Department of Commerce of Jiangsu Province;
- Rated as one of the “Top 15 Competitive Listed Game Enterprises” in the “2021 China Listed/Non-listed Game Enterprise Competitiveness Report” issued by Gamma Data;
- Rated as one of the “Top 15 Enterprises of R&D Competitiveness” in the “2021-2021 China Game Enterprises R&D Competitiveness Report” issued by Gamma Data;
- Rated as “Outstanding ‘Go-global’ Game Enterprise” in the Top 10 Chinese Games issued by the GPC;
- Rated as “Best Overseas Game Enterprise of 2021” at the 9th Golden Tea Award granted by Game Tea House; and
- Rated as “Outstanding Game Company of 2021” at the 8th Golden Mouth Award in Game Industry granted by YXRB.

Product Awards

- Key National Cultural Export Project for 2021-2022: “Fate of the Empress” (浮生為卿歌);
- Top 10 Chinese Games — 2021 Top 10 Outstanding Mobile Games: “Fate of the Empress” (浮生為卿歌) issued by the GPC;
- Top 10 Chinese Games — 2021 Top 10 Outstanding Game Art: “Fate of the Empress” (浮生為卿歌) issued by the GPC;
- Top 10 Chinese Games — 2021 Top 10 Outstanding Game Art: “Promise of Lingyun” (凌雲諾) issued by the GPC;
- 2021 Outstanding Game Selection (Golden Plume Award) — Best Original Mobile Game: “Fate of the Empress” (浮生為卿歌);
- 2021 Outstanding Game Selection (Golden Plume Award) — Players’ Favourite Mobile Online Game: “Fate of the Empress” (浮生為卿歌);
- 2021 Outstanding Game Selection (Golden Plume Award) — Players’ Most Anticipated Mobile Online Game: “Promise of Lingyun” (凌雲諾);
- The 6th Golden Gyro Award — Expectation of the Year: “Promise of Lingyun” (凌雲諾) granted by Tuoluo Tech;
- The 8th Golden Mouth Award in Game Industry — 2021 Game Product of the Year: “Fate of the Empress” (浮生為卿歌) granted by YXRB;
- The 8th Golden Mouth Award in Game Industry — 2022 Most Anticipated Product: “A Story of Lala’s: Rising Star” (杜拉拉升職記) granted by YXRB; and
- The 9th Golden Tea Award — 2022 Most Anticipated Game: “Promise of Lingyun” (凌雲諾) awarded by Game Tea House.

Environmental, Social and Governance Report

Significant Events of FriendTimes

- May 2010 — Established and commenced our game development business
- December 2010 — Officially launched our first self-developed web game
- 2011 to 2015 — Gradually launched a series of our self-developed mobile games
- May 2015 — Officially established a subsidiary in Hong Kong
- December 2015 — Officially established a subsidiary in South Korea
 - Completed the shareholding restructuring and changed its name to FriendTimes (玩友時代)
- September 2017 — Officially launched our 3D ancient Chinese-style social mobile game Royal Chaos (熹妃Q傳)
- March 2018 — Established the Group's headquarter building
- August 2019 — Officially launched a supernatural creature cooking and restaurant management mobile game Yokai Kitchen (精靈食肆)
- October 2019 — Listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 6820
- December 2019 — Officially launched the major 3D open ancient Chinese-style mobile game Fate of the Empress (浮生為卿歌)
- April 2020 — Corporate branding upgraded on the 10th anniversary, and changed its name to FriendTimes (友誼時光)
- May 2020 — Fate of the Empress (浮生為卿歌) is ranked the 5th place in China's iOS Top Games
- August 2020 — FriendTimes was granted "Top 100 Suzhou Private Enterprises in 2020"
 - Officially established its subsidiary, Wu Linglong
- November 2021 — FriendTimes organized a 10th anniversary celebration at the Suzhou Olympic Sports Centre
- May 2021 — The new headquarters building of FriendTimes in Suzhou Industrial Park was officially put into operation
 - FriendTimes was granted "Top 30 Private Cultural Enterprises in Jiangsu"
- June 2021 — Officially established its Chengdu subsidiary

SUSTAINABLE DEVELOPMENT GOALS

In 2015, all member countries of the United Nations ("UN") unanimously adopted 17 Sustainable Development Goals ("SDGs") to end poverty, protect the planet and improve the lives and futures of all people. As a socially responsible company, the Group believes that supporting the achievement of the SDGs will help us to work with governments and other businesses to contribute to the achievement of the SDGs for our country and the world. Not all of the 17 SDGs are relevant to our business operations. To meet our commitment to the SDGs, we have identified two SDGs that are clearly most relevant to the nature of our business and our vision.



As a leading developer, publisher and operator of female-oriented mobile games in China, FriendTimes has been focusing on the needs of female gamers for years. At the same time, we are committed to creating a fair, diverse and inclusive work environment to achieve gender equality and empowerment of women. FriendTimes is committed to creating and maintaining a culture of inclusion in our workplace, implementing female- and family-friendly measures, and organizing the "Goddess Day" for several consecutive years to demonstrate the Group's concern and appreciation for women.



The core elements of FriendTimes's products are closely related to the SDG no. 9. The Group supports technology development and research innovation in China, including industry diversification and enhancement of product value. With the corporate culture mission of "Let culture create value and empower innovation for culture", FriendTimes further diversifies cultural industry forms, creates new consumption scenarios and stimulates cultural consumption potential by combining traditional culture and modern technology with efficient digital communication under the idea of "IP construction" of new cultural creation. For this reason, FriendTimes has been awarded "Key National Cultural Export Enterprise" for three consecutive years.

Environmental, Social and Governance Report

INTRODUCTION AND ESG STRATEGIES

About the Group

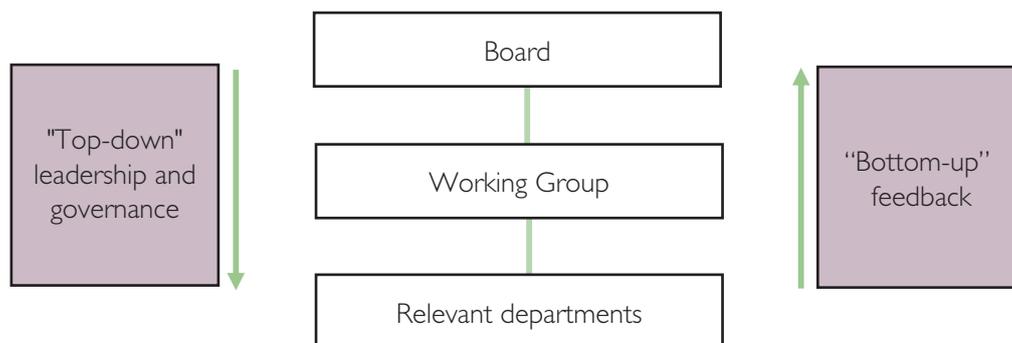
The Group is an outstanding integrated mobile game developer, publisher and operator that has a leading position in the industry. Since its establishment in 2010, the Group has been strategically focusing on female-oriented mobile games, tapping the growth potential of the market of the female-oriented mobile games, and creating our own brands of ancient Chinese-style female-oriented mobile games, such as Promise of Lingyun (凌雲諾), the Fate of the Empress (浮生為卿歌), the Royal Chaos (熹妃Q傳) and the Legend of Empress (熹妃傳), each of which has achieved a high ranking in the best-selling games board for iOS in the PRC. Relying on the success of the Chinese mainland market, the Group expanded to overseas markets in 2011. Through strong localization capabilities and outstanding distribution capabilities, the Group has further established our overseas market position and brand recognition.

The Group firmly believes that sustainable development is the key to the Group's continued success. The Group recognizes the importance of integrating ESG concepts into its risk management system, and have adopted corresponding measures in daily operations and governance. This report demonstrates the Group's commitment to sustainable development and describes its ESG initiatives, plans and performance.

ESG Governance Structure

To demonstrate our commitment to transparency and accountability on ESG issues, the Group has established the Working Group with clear terms of reference, setting out the rights delegated by the Board. The Working Group is composed of core members of different departments of the Group and is responsible for collecting the Group's relevant information on ESG aspects to prepare the Report.

The Board has provided overall direction and strategy on sustainability management issues and will be responsible for assessing the ESG risks of the Group and ensuring that the Group has appropriate and effective ESG risk management systems and policies. In its day-to-day operations, the Working Group will assist the Board in fulfilling its ESG-related responsibilities by promoting, developing and implementing the Group's ESG-related initiatives, policies, plans and goals. The Working Group will regularly report to the Board to assist in identifying and assessing the ESG risks of the Group and assessing the effectiveness of the internal control mechanism. The Working Group will also examine and evaluate the Group's performance in different aspects of the ESG such as environment, labour standards, product responsibility and progress of implementation of relevant goals.



Environmental, Social and Governance Report

SCOPE OF THE REPORT

The Report will cover the Group's efforts and contributions to the environment and society, and the scope of the Report is the same as that of annual report 2021. The scope of business covered is the Group's offices in Suzhou, Shanghai, Wuxi and Chengdu, the places of business where the Group has operational control. During the Reporting Period, the Group established our Chengdu subsidiary and therefore the office in Chengdu was added in the scope of the Report as to the period from 1 January 2020 to 31 December 2020 ("FY2020"). In determining the components included in the Report, the Group's senior management has considered the extent to which different business activities have had impact on the Group's policy, financial and environmental social performance.

REPORTING FRAMEWORK

The Report has been prepared in accordance with the "Environmental, Social and Governance Reporting Guide" ("ESG Reporting Guide") in Appendix 27 of the Main Board Listing Rules of Hong Kong Stock Exchange.

For the Group's corporate governance practices, please refer to the section headed "Corporate Governance Report" on pages 29 to 40 of the annual report of the FY2021 of the Group.

REPORTING PRINCIPLES

The Group places a high priority on materiality, quantitative and consistency in the preparation of this Report and the Group has applied these reporting principles in accordance with the ESG Reporting Guide set out above, details of which are as follows:

Materiality: Material issues were analyzed through materiality assessment during the Reporting Period and the identified material issues were used as the focus for the preparation of this report. The materiality of the issues has been reviewed and confirmed by the Board and senior management. For further details, please refer to the sections headed "Stakeholder Engagement" and "Materiality Assessment".

Quantitative: This Report describes the criteria and methods for calculating the relevant data, as well as the associated assumptions. Key performance indicators are supplemented by explanatory notes to establish benchmarks where practicable.

Consistency: Unless otherwise specified, the Group will continue to use the same disclosure and statistical methodology in the last year for meaningful comparisons. If there are any changes that may affect comparisons with previous reports, the Group will add comments to the corresponding content of the Report describing the changes of data in the scope of reporting and calculation methods.

Environmental, Social and Governance Report

STAKEHOLDER ENGAGEMENT

The Group values the opinions of different stakeholders on our business and ESG issues, communicate and support its stakeholders in a dual track communication model to fully understand, respond to and deal with the core concerns of different stakeholders to achieve common growth. The Group's main stakeholders include but not limited to, senior management and the Board, employees, investors and shareholders, customers, suppliers, government and regulatory authority and the communities, non-governmental organizations ("NGOs") and the media.

Through different stakeholder engagement and communication channels, the Group will bring their expectations into the Group's operating and ESG strategies. The communication channels of the Group and its main stakeholders and their expectations and concerns for the Group are as follows:

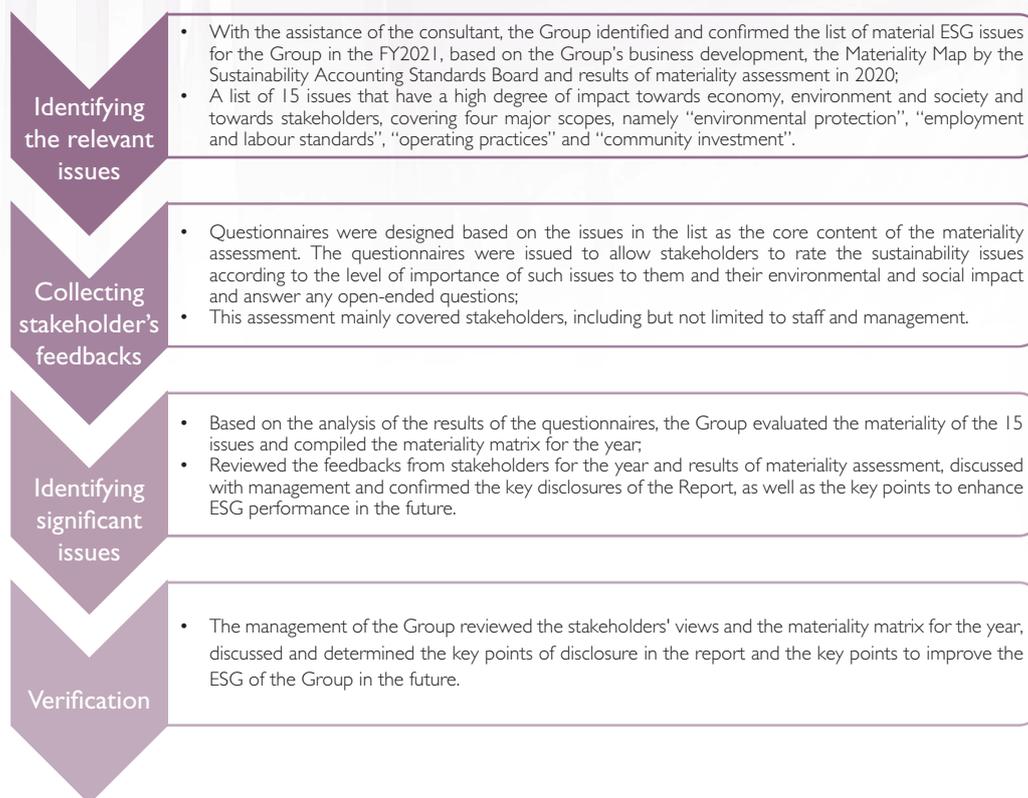
Stakeholder	Expectations and concerns	Communication channels
Senior management and the Board	<ul style="list-style-type: none"> Compliance operation Economic performance 	<ul style="list-style-type: none"> Training and seminars Regular meeting Intranet Industry seminars
Employees	<ul style="list-style-type: none"> Working environment Employee welfare Work performance 	<ul style="list-style-type: none"> Performance evaluation Employee communication and broadcasting Employee seminars and meetings Employee events and competitions Employee training courses
Investors and shareholders	<ul style="list-style-type: none"> Performance Development strategy Game development capabilities Operational prospects 	<ul style="list-style-type: none"> Annual general meeting and other shareholders' meetings Financial reports Investor relations specialist Announcement and circular Roadshow
Customers	<ul style="list-style-type: none"> Product quality Software platform stability Network security management Processing of customer opinions Privacy protection 	<ul style="list-style-type: none"> User experience research Online customer service Offline communication for players Game show Social media platform support and interaction
Suppliers	<ul style="list-style-type: none"> Long-term partnership 	<ul style="list-style-type: none"> Regular consultation and exchange meetings Online communication
Government and regulatory authority	<ul style="list-style-type: none"> Compliance operation Paying taxes Revenue and profit growth rate 	<ul style="list-style-type: none"> Working meeting Reporting performance Policy consultation and seminar
Communities, NGOs and the media	<ul style="list-style-type: none"> Privacy protection Corporate social responsibility Game safety 	<ul style="list-style-type: none"> Social media platform Website of the Group ESG report News

The Group is committed to working and communicating with our stakeholders to improve the Group's ESG performance and continuously create greater value for our country and society.

Environmental, Social and Governance Report

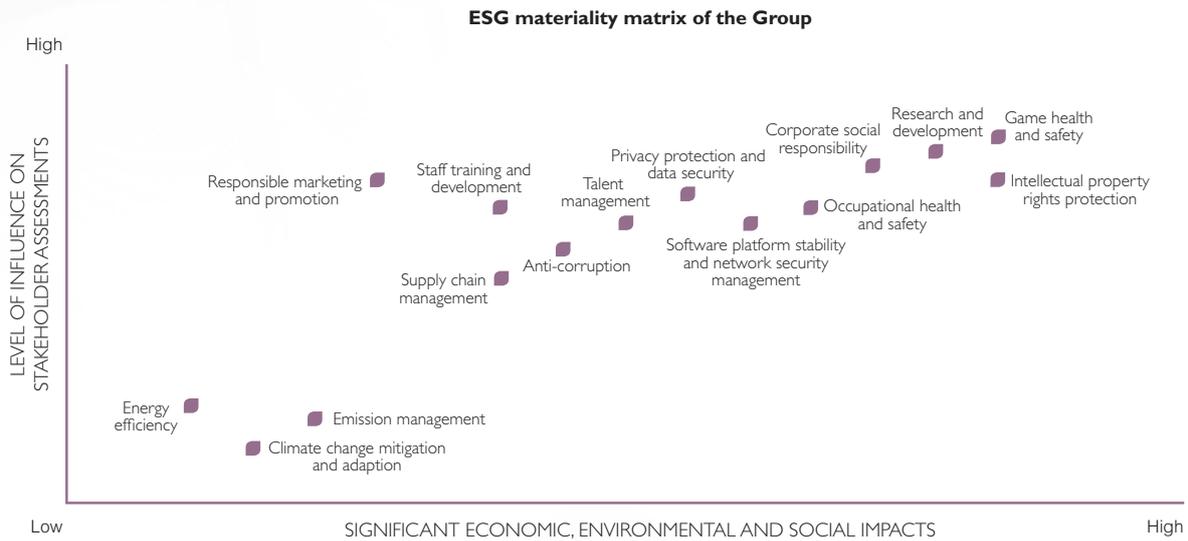
MATERIALITY ASSESSMENT

In order to formulate sustainable development strategies and approaches by understanding the areas of stakeholder's concerns and identifying the ESG issues, which are or will be critical to its business, FriendTimes re-engaged the independent sustainability consultant to conduct stakeholder communication and the annual materiality assessment, involving the following steps:



Environmental, Social and Governance Report

There have been no significant changes in the Group's business during the Reporting Period and therefore the results of the previous materiality analysis are continued to be used in the Report. The following is a matrix of the Group's material ESG issues contained in the Report:



The Group confirms that it has established appropriate and effective management policies and monitoring systems on ESG issues, and confirms that the disclosures meet the requirements of the ESG Reporting Guide.

CONTACT THE GROUP

The Group welcomes advice and suggestions from stakeholders. You can provide your valuable advices on the Report or its performance on sustainable development, and contact the Group through:

Tel: +86 512 62860060
 Email: ir@friendtimes.net

Environmental, Social and Governance Report

A. ENVIRONMENTAL

Environmental Goal Setting

To better manage the Group's material issues and the Group's performance in these areas, the Group set quantifiable five-year long-term goals (as of 31 December 2026, or "2026") for the first time this year in four areas, namely greenhouse gas ("GHG") emissions, waste management, energy consumption and water management. The Group will continue to work towards the set goals, and the progress of achieving the goals and the management measures taken by the Group will be reviewed and examined by the Working Group annually. The progress of achieving the set goals will be reported to the Board at least once a year, and recommendations on related matters will be made to the Board when appropriate. For each goal set, the corresponding achievement measures will be disclosed in detail in the sections of "Emissions Management", "Waste Management", "Energy Efficiency" and "Water Consumption".

The following table summarizes the goals set by the Group:

Aspect	FY2026 Goal
GHG emissions	<ul style="list-style-type: none">• Reduce total GHG emissions intensity by 5% in 2026 as compared to the 2021 level.• All major offices included in the scope of the report to obtain environmental management system certification such as ISO 14001 by 2026.
Hazardous/non-hazardous waste	<ul style="list-style-type: none">• Reduce hazardous waste generation intensity by 5% in 2026 as compared to the 2021 level.• Reduce office paper use per capita by 5% in 2026 as compared to the 2021 level.• All office paper will be sourced from suppliers certified by the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC) by 2026.
Energy use efficiency	<ul style="list-style-type: none">• Reduce the intensity of purchased energy consumption by 5% in 2026 as compared to the 2021 level.• Replace all old light tubes with LED lights by 2026.• Replace 80% of the Group's motor vehicles with electric or new-energy driven vehicles by 2026.
Water use efficiency	<ul style="list-style-type: none">• Reduce the water consumption intensity by 5% in 2026 as compared to the 2021 level.

Environmental, Social and Governance Report

AI. Emissions

The Group attaches great importance to good environmental management in order to fulfill the Group's social responsibilities. The Group is committed to meeting or exceeding national environmental protection standards, has formulated relevant environmental management systems and procedures for daily operations to regulate GHG and non-hazardous waste generated during operations, so as to contribute to environmental protection and achieve the goal of environmental sustainable development.

The Group strictly complies with the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes", the "Environmental Protection Law of the People's Republic of China", the "Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution", the "Water Pollution Prevention and Control Law of the People's Republic of China", and other laws and regulations related to environmental protection. In the FY2021, the Group has not identified any violations of local relevant environmental laws and regulations regarding air and GHG emissions, wastewater and generation of hazardous and non-hazardous waste.

Emission Management

Exhaust Gas Emissions

Due to the Group's business nature, its major exhaust gas emissions are from vehicles. In order to fulfil corporate responsibility in energy saving and emission reduction, the Group has formulated the "Administrative Management System" policy, in which there is a chapter on "Company Vehicles Management System" specifying the regulations on the use of the Company's vehicles, promoting the use of green transportation methods such as taking public transport or cycling. As vehicles are only used for general transfers, only a small amount of exhaust gas emissions are generated. The Group also carries out regular maintenance on our vehicles to effectively reduce fuel consumption, thereby reducing carbon emissions and exhaust gas emissions. As the COVID-19 pandemic ("COVID-19 pandemic") was under control in the PRC during the Reporting Period, the Group basically implemented remote working, resulting in an increase in the use of vehicles for business travel, and therefore the Group's exhaust gas emission increased in the FY2021 as compared to FY2020.

The exhaust gas emissions performance of the Group are as follows:

Types of emissions	Unit	FY2021	FY2020
Nitrogen oxides (NO _x)	kg	4.11	2.67
Sulfur oxides (SO _x)	kg	0.09	0.07
Particulate Matter (PM)	kg	0.30	0.20

GHG Emissions

The major GHG emissions of the Group are from direct GHG emissions (Scope 1) caused by gasoline consumed by vehicles and energy indirect GHG emissions from purchased electricity (Scope 2). The Group actively adopts power-saving and energy-saving measures to reduce GHG emissions, including strict control of usage of air-conditioning, lighting facility and office appliance. Specific measures will be described in the "Energy Efficiency" section in Aspect A2. In addition, the Group actively uses electronic communication methods such as telephone or online meetings to replace long-distance face-to-face meetings to reduce carbon emissions from business travel.

Environmental, Social and Governance Report

During the Reporting Period, the Group's GHG emission intensity increased by approximately 239% from approximately 0.61 tCO₂e per employee in FY2020 to approximately 2.07 tCO₂e per employee in FY2021. This was mainly due to the Group's relocation from leased offices to a new headquarters building during the Reporting Period, with the addition of self-owned facilities such as cafeterias, gym rooms, and lighting in common areas, all of which required significant electricity consumption, and the increased use of vehicles after the mitigation of COVID-19 pandemic, hence the Group's GHG emission increased more significantly during the Reporting Period.

During the Reporting Period, the GHG emissions performance of the Group is as follows:

Indicator ¹	Unit	FY2021	FY2020
Direct GHG emissions (Scope 1)	tCO ₂ e	17.06	12.37
Energy indirect GHG emissions (Scope 2)	tCO ₂ e	2,798.57	870.41
Total GHG emissions (Scopes 1 and 2)	tCO ₂ e	2,815.63	882.78
GHG emission intensity ²	tCO ₂ e/employee	2.07	0.61

Notes:

- GHG emissions data is presented in terms of carbon dioxide equivalent and are based on, but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, "Appendix II: Reporting Guidance on Environmental KPIs of How to prepare an ESG Report" issued by the Stock Exchange, the newly released baseline emission factors for China's regional power grid and the "Global Warming Potential" of the Fifth Assessment Report, 2014 (AR5) issued by the Intergovernmental Panel on Climate Change.
- As of 31 December 2021, the total number of employees of the Group was 1,362 (as of 31 December 2020: 1,456). This data will also be used to calculate other density data.

Sewage Discharge

The Group's business activities do not consume large quantities of water, therefore the Group's business activities do not generate a large amount of sewage discharge. Since the wastewater discharged by the Group will be sent to the regional water purification plant for treatment through the municipal sewage pipe network, the Group's water consumption is considered as the amount of wastewater discharged. The Group's water consumption data will be explained in the section headed "Water Consumption" in Aspect A2.

Waste Management

The Group adheres to the principles of waste management and is committed to the proper treatment and disposal of all waste generated from the Group's business activities, such as to identify, classify, centrally store and uniformly treat waste. The Group sets up a unified sorting collection box, assigns management responsible persons to handle waste in a timely manner, and maintains the environmental sanitation around the collection box. All of the Group's waste management practices are in compliance with relevant environmental laws and regulations.

Environmental, Social and Governance Report

In order to build a green and environmentally friendly office environment, the chapter “Corporate Office Environment Management System” in the “Administrative Management System” policy of the Group mentioned the promotion of office energy saving and emission reduction measures, responded to the government’s call, and promoted the concept of waste classification in operations, and encouraged employees to participate. The system clearly lists the definitions of recyclables, other garbage, kitchen waste, and hazardous waste for employees’ reference. In addition, the Group advocates reducing the use of disposable paper cups. During internal meetings, participants are encouraged to bring their own water cups, while receiving visitors, we will try to use sterilized glass or porcelain cups to make tea.

Hazardous Waste

Due to the nature of the business, no hazardous waste will be generated during the Group’s operational process; however, the management has established guidelines for the management and disposal of hazardous waste. If any hazardous waste is generated, the Group must comply with relevant environmental laws and regulations and employ qualified chemical waste recyclers to dispose of the relevant waste. During the Reporting Period, the Group generated only a limited amount of hazardous waste, namely office generated waste toner cartridges of 159 units in total, with an average of 0.12 units of waste toner cartridges generated per employee.

Non-hazardous Waste

In the FY2021, the non-hazardous waste generated by the Group was mainly office paper and general domestic waste. We also promote a paperless working environment, and encourage the use of double-sided printing or photocopying and communicate externally through internal email and electronic format documents. Through the above measures and policies, the awareness of waste reduction and responsibility of our employees in waste management and minimizing waste generation has been improved.

During the Reporting Period, the Group’s non-hazardous waste generation intensity significantly increased from approximately 0.0003 tonnes per employee in FY2020 to approximately 0.0184 tonnes per employee in FY2021. This was mainly due to the addition of the Group’s operation site in Chengdu during the Reporting Period and the further improvement of the data collection system, including general domestic waste into the data statistics after the relocation to a new headquarters building.

During the Reporting Period, the non-hazardous waste disposal performance of the Group is as follows:

Type of non-hazardous waste	Unit	FY2021	FY2020
Paper ³	tonnes	1.09	0.41
General domestic waste	tonnes	24.00	No relevant information available
Total non-hazardous waste	tonnes	25.09	0.41
Non-hazardous waste intensity	tonnes/employee	0.0184	0.0003

Notes:

- The number of paper recycling has been excluded.

Environmental, Social and Governance Report

A2. Use of Resources

The Group's mission is to actively promote the efficient use of resources and to monitor the potential environmental impact of business operations in real time. Through the four basic principles of reduce, reuse, recycle and replace, we create the green office and operating environment to minimize the environmental impact caused by the Group's operations. In addition, the Group has related policies and systems, including but not limited to the "Corporate Office Environment Management System" and "Mechanical and Electrical Maintenance Management System" in the "Administrative Management System" to more effectively manage the use of resources during operations. All employees are required to implement these policies and practices and value them in their daily operations. In order to achieve sustainable development, the Group will provide employees with environmental education and trainings from time to time and publicize practical suggestions on environmentally friendly lifestyles to enhance employees' environmental protection awareness. We will also promote green travel and increase employees' awareness of emission reduction and carbon reduction.

Energy Efficiency

The Group's energy consumption is mainly electricity consumption for daily operations and gasoline consumption for vehicle use. The Group actively implements the concept of energy saving and emission reduction and is committed to fulfilling its corporate responsibility for energy saving and emission reduction. It reduces the use of unnecessary power and builds a green and environmentally friendly office environment. The Group actively reduces electricity consumption by managing air-conditioning use, lighting facilities and office computers to achieve energy-saving effects. In order to reduce electricity consumption, the Group has used LED light tubes in all self-owned office buildings and requires to turn off or reduce the use of lightings under good sight conditions. In addition, in order to reduce energy wastage, the Group has formulated clear management measures for air conditioners and office appliances. These include, but are not limited to:

- The air-conditioning cooling temperature is set to not lower than 26°C in summer and the heating temperature is not set to higher than 18°C in winter;
- Turn off the office air conditioner 30 minutes before off work;
- When using office computers, adjust the screen to an appropriate brightness to avoid the brightness being too bright;
- The screen power should be turned off when leaving the seat for more than 5 minutes;
- Be sure to turn off the office computer and unplug all power plugs in the office space after work; and
- Keep ventilation around the case of the office computer to avoid the accumulation of debris affecting the heat dissipation of the equipment.

During the Reporting Period, the Group's energy consumption intensity increased from approximately 1.04 MWh per employee in FY2020 to approximately 2.64 MWh per employee in FY2021, representing an increase of approximately 154%. This was mainly due to the Group's relocation from leased offices to a new headquarters building during the Reporting Period, with the addition of self-owned facilities such as cafeterias, gym rooms and lighting in common areas, all of which required significant electricity consumption. In addition, the increased usage of vehicles after the mitigation of COVID-19 pandemic has caused the increase in direct energy consumption generated from gasoline.

Environmental, Social and Governance Report

During the Reporting Period, the energy consumption performance of the Group is as follows:

Type of energy	Unit	FY2021	FY2020
Direct energy consumption-Gasoline	MWh	62.17	44.93
Indirect energy consumption-Electricity	MWh	3,532.13	1,476.40
Total energy consumption	MWh	3,594.30	1,521.33
Energy consumption intensity	MWh/employee	2.64	1.04

Water Consumption

The water consumption of the Group is mainly domestic water and its managed water supply includes toilet water, washing water and cleaning water. To encourage all employees and customers to develop the habit of conscientiously saving water, the Group has been strengthening its water-saving publicity in the office area and posting water-saving slogans to ensure that “turn off the tap when not in use” and guiding employees to use water reasonably. In addition, the Group uses water-saving sanitary ware as much as possible, regularly inspects the water supply and drainage systems of the bathrooms and pantries in each building, and timely checks and repairs leaks. Through the above measures, the awareness of water saving of our employees has been improved. Due to the geographical location of the Group’s operating points, the Group did not have any major issues in sourcing water that is fit for purpose.

During the Reporting Period, the Group’s water consumption intensity increased from approximately 6.07 m³ per employee in FY2020 to approximately 10.60 m³ per employee in FY2021, representing an increase of approximately 75%. This was mainly due to the Group’s relocation from leased offices to a new headquarter building during the Reporting Period, with the addition of self-owned facilities such as cafeterias and green spaces, all of which required significant water consumption.

During the Reporting Period, the water consumption performance of the Group is as follows:

Water consumption	Unit	FY2021	FY2020
Total water consumption	m ³	14,440.93	8,841.70
Water consumption intensity	m ³ /employee	10.60	6.07

Use of Packaging Materials

Given the nature of the Group’s business, the Group has no industrial production and no factory facilities. Therefore, no significant amount of packaging materials is used for packaging products.

Environmental, Social and Governance Report

A3. The Environment and Natural Resources

The Group continues to pursue environmental protection and focuses on the impact of the Group's business on the environment and natural resources. In addition to complying with environmental regulations and international standards, and properly protecting the natural environment, the Group also strives to integrate the concept of environmental and natural resources protection into its internal management and daily operation activities to achieve the goal of sustainable development. On the other hand, the Group also provides environmental protection education to all employees, so as to improve the environmental awareness of employees.

Indoor Air Quality Management

The main business of the Group is mobile game development, which does not have a serious impact on the air quality of the office. In order to maintain the office environment and improve the efficiency of office staff, the Group clearly stipulates the duties, standards and methods of work of cleaning staff in the "Corporate Office Environment Management System" chapter of the "Administrative Management System" policy. In addition, the system also provides daily maintenance methods for landscape affairs and standards for purchasing office furniture to ensure good air quality in the office.

Paperless Office

In order to reduce the amount of paper used in the office, the Group vigorously promotes a paperless office. We also continue to optimize our office systems so that all office processes are operated in electronic systems as much as possible, reducing the use of office paper and thus conserving forest resources. We also encourage employees to use electronic means as much as possible in the office and when communicating with customers, suppliers, etc. For necessary office paper, we also propose to source all office paper from certified suppliers such as the Forest Stewardship Council or the Programme for the Endorsement of Forest Certification by 2026 to ensure that the paper we purchase is environmentally responsible and friendly.

A4. Climate Change Mitigation and Adaptation

How to deal with climate change has become a global issue faced by mankind. China also made a solemn pledge at the UN Conference to adopt more aggressive policies and measures to strive to peak CO₂ emissions by 2030 and achieve carbon neutrality by 2060. In response to national policies and the general trend of sustainable development in the industry, the Group is also fully aware of the potential risks and opportunities that climate change poses to the Group's operations. The Group actively incorporates climate change into risk management and development considerations and has formulated "Climate Change Policy" to strengthen the Group's mitigation and adaptability to potential climate change impacts.

In order to better cope with the potential risks and opportunities of climate change, during the Reporting Period, the Group carried out for the first time the identification, assessment and analysis of climate related risks, identified the climate related risks that have a material impact on the Group's business and operations, and assessed the impact of each risk on its own finances, the results of the relevant work are as follows:

Environmental, Social and Governance Report

Type of risk	Description of risk and potential financial impacts	Mitigation measures
Acute physical risk	Climate change brings more frequent and intense extreme weather events, such as typhoons, floods and rainstorms. When water supply, electricity supply and transportation are seriously affected by extreme weather, the continuity and stability of the Group's operations may be affected. In severe cases, the health and lives of employees may even be threatened and the reputation of the Company may be adversely affected.	<p>The Group has clearly explained in the chapter "Corporate Office Environment Management System" in the "Administrative Management System" policy how employees should better mitigate the impact on themselves during weather conditions such as storms and snowfall while maintaining a good office environment for the Group.</p> <p>In the event of extreme weather, the Group will make proper arrangements for the Group's operations in accordance with government guidelines and the actual situation, while safeguarding the lives and safety of its employees. In the event of force majeure, the Group will arrange for its employees to work remotely from home if it is unable to conduct its daily business at the office. Due to the nature of internet business, remote working would not have a material impact on the Group's business.</p>
Chronic physical risk	Global warming and persistent high temperatures have led to increase in electricity consumption in office buildings and data storage centers, which in turn has affected operating costs.	The Group promotes low carbon and environmental friendly operation and work practices, such as strengthening energy saving and emission reduction promotion and management to reduce unnecessary electricity consumption, as detailed in the section headed "A2. Management of Resources — Energy Use".
Policy and regulatory risk	As the government strengthens environmental regulation and implements national policies such as carbon neutrality, the Group will face more stringent regulatory compliance requirements in terms of energy consumption and carbon emissions, resulting in increased compliance costs. Failure to effectively control or reduce carbon emissions from corporate operations may result in damage to the Group's image.	The management of the Group will continue to pay attention to relevant governmental requirements, consult opinions from third party professionals on compliance operations, and reduce carbon emissions and energy consumption through various measures.

Environmental, Social and Governance Report

Type of risk	Description of risk and potential financial impacts	Mitigation measures
Market risk	In the process of transformation, consumers are more likely to turn to products that actively incorporate environmentally friendly concepts into games or to game companies that develop and produce in a low-carbon and environmentally friendly manner. If the Group fails to respond to the choices of consumers and business customers, it may lose some of its market share.	The Group will insert soft promotions about environmental protection into suitable types of games (e.g. games with modern themes). In addition, the Group will also continue to try to develop games with the theme of environmental protection in order to raise the awareness of environmental protection among consumers.

B. SOCIAL

BI. Employment

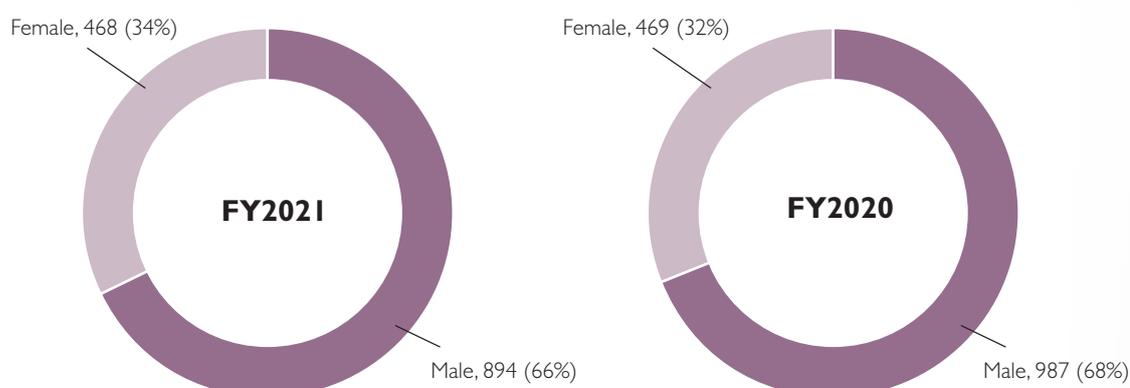
Talent Management

The Group believes that staff is the most important and the most valuable assets and the core of competitive strength that brings unlimited creativity and uniqueness to the Group. In order to retain talents and protect the lawful interest of employees, we have stipulated the policies such as the "Human Resources Management Policy", "Recruitment Management Policy" and "Administrative Management System" to specify the labour employment management, protect employees' occupational health and safety, maintain employees' interests, fully respect and emphasized the stimulation of the employees' initiative, mobility and creativity, and strive to build a harmonious and proactive working culture.

In the FY2021, the Group strictly complies with the employment-related laws and regulations, including but not limited to, "Labour Contract Law of the People's Republic of China" and "Labour Law of the People's Republic of China". The Group has not identified any material matters that violate human resources laws and regulations.

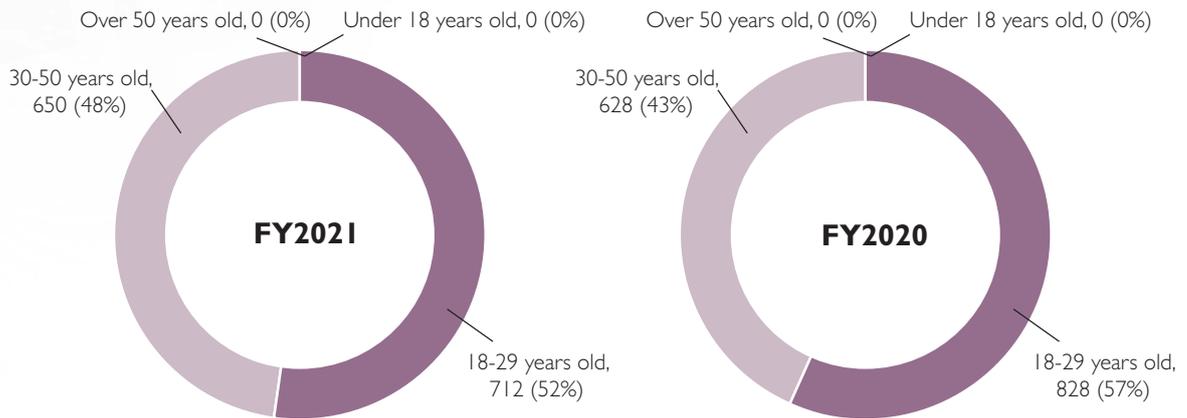
As of 31 December 2021, the total number of employees of the Group was 1,362, and all employees were full-time employees located in China. The specific information about employees is as follows:

Distribution of total number employees by gender

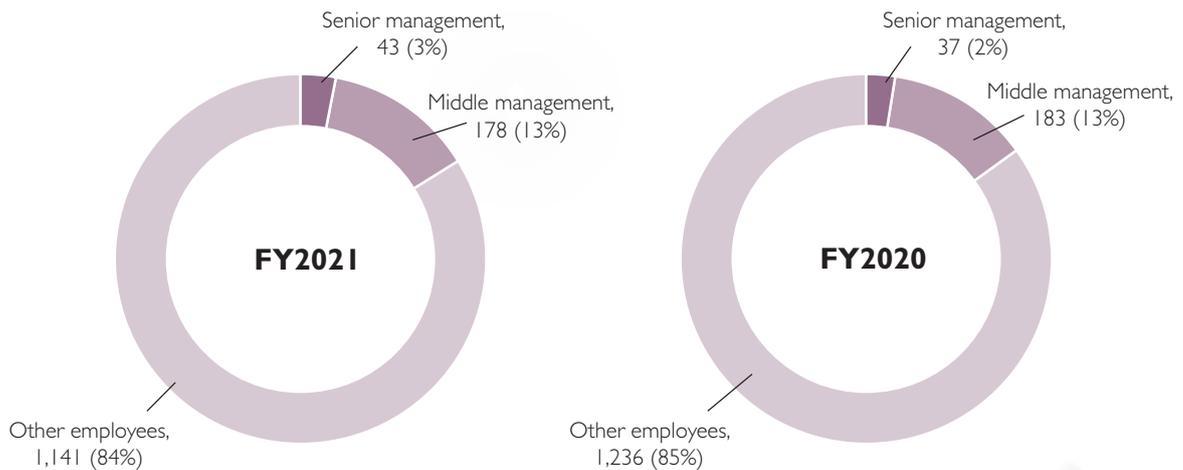


Environmental, Social and Governance Report

Distribution of total number of employees by age group



Distribution of total number of employees by employment type



Employee Remuneration and Benefits

The Group set up a fair, reasonable and competitive remuneration and benefits system with reference to market terms and individual merits. The Group calculated the remuneration of each employee by combining multi-dimensional data, including basic salary, attendance and performance, and paid on time to ensure employees receive deserved returns. The Group has also set up a salary adjustment mechanism to provide two salary adjustment opportunities within one year based on business development status and individual performance of employees. Performance is evaluated based on employees' work behaviors and results achieved through certain standards. Based on the evaluation results, outstanding employees are commended and encouraged while employees whose are unsatisfied are assisted, so as to provide positive guidance to employees in each position. In view of this, The Group set up special bonuses and conducted selection of "Quarterly Star", "Annual Star" and "Star Employee" in order to award and encourage employees. The Group also has a Share Award Scheme and issued a certain amount of shares to qualified participants, which aligned the interest of participants with the interest of the Group and encourage them to create long-term value for the Group.

Environmental, Social and Governance Report

In accordance with “Labour Contract Law of the People’s Republic of China”, the Group has signed and performed labour contracts with the employees, the signing rate of the labour contract is 100%. The Group pays “Five Insurances and One Fund” in accordance with the law, that is, endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing provident fund, to ensure that the employees enjoy social insurance benefits. In addition, the Group also makes contributions to employee benefit plans based on certain percentages of employees’ salaries, bonuses and allowances and regularly organizes free medical examinations for employees to ensure they remain in good health and can bring sustainable development and success to its employees and the Group.

The Group also complies with the requirements of the national and local laws and regulations of “Labour Law of the People’s Republic of China” to effectively protect the legitimate rights and interest of workers, respect the rights of employees to rest and take vacations, and standardize employees’ working hours and their rights to various types of rest and vacation. The Group has causal leave, sick leave, marriage leave, maternity leave, funeral leave, annual leave, employment injury leave, traditional festivals, and the anniversary of the Group. We may arrange vacation or early leave as appropriate. In addition, in order to attract valuable talents and empower employees, the Group established “Trade Union Committee” in March 2017 and elected members of the trade union committee, including Chairman, Audit Committee and Female Staff Committee.

The Group attaches great importance to the well-being of its employees to express its care to them. In appreciation of the efforts and contributions of our staff, the Group has put in place a number of staff benefits. In FY2021, the Group distributed Chinese New Year gift boxes to all staff members, including a letter of blessing, a red pocket, an office set and medical surgical masks to welcome the new year with staff. The Group also prepared Mid-Autumn Festival gift boxes for all employees before the Mid-Autumn Festival and the National Day holiday to convey warm blessings. In addition, the Group also organizes a number of diversified activities from time to time, including but not limited to team building activities, birthday parties, festive care, paid annual leave, growth benefits and year-end parties to enhance employees’ friendship, master interpersonal skills, and maintain balance between employees’ lives and work, and at the same time enhance team spirit and cohesion.



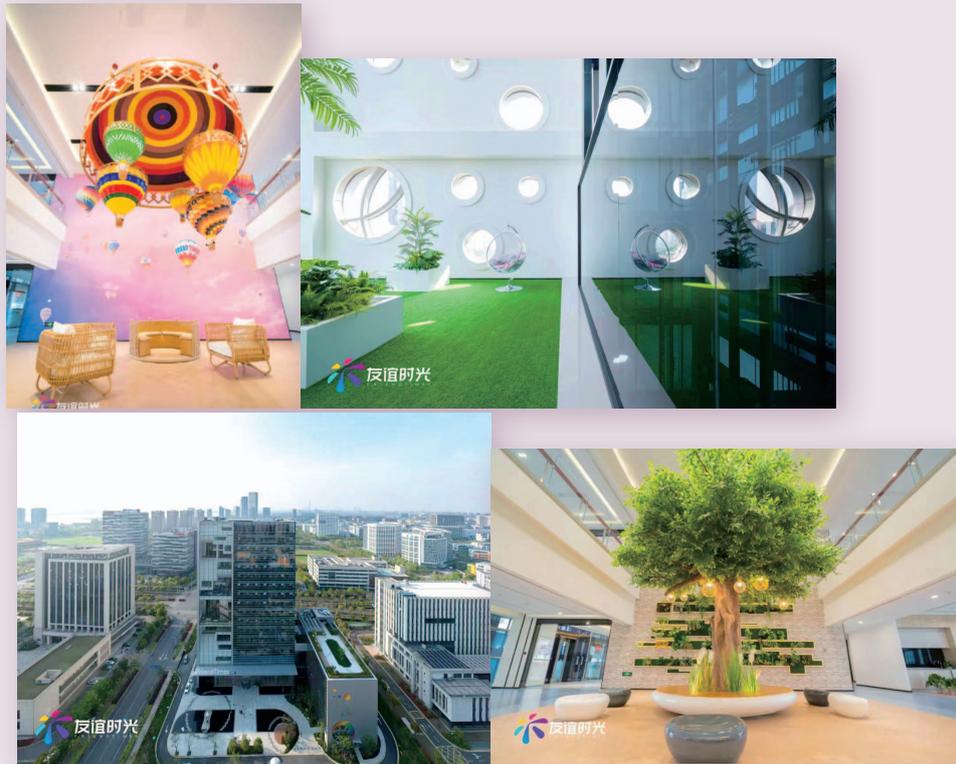
On the occasion of the eleventh anniversary of FriendTimes, the Group held an eleventh anniversary celebration in FY2021 for all staff to gather and send their sincere blessings to the Company. A special thanksgiving session was held to award special titles — Lanze, Zhuyin and Songqing — to employees who have worked together for the fifth, eighth and tenth anniversaries, and to present them with elaborate gifts in recognition of their unswerving dedication to the Company’s prosperity over the years.

Environmental, Social and Governance Report

Case study

New Headquarters Building

In May 2021, FriendTimes's new headquarters building, located on the shore of Dushu Lake in Suzhou Industrial Park, was officially opened. With a total gross floor area of over 50,000 square meters, the building is one of the 48 major cultural and tourism projects of the Suzhou City Cultural Industry High Quality Development Conference (蘇州市文化產業高質量發展大會). The building has 20 floors, with each floor decorated in a different theme. The building is equipped with supporting facilities such as tea break lounges, gym room, sightseeing elevators and nursery rooms to cater to the needs of different employees, so as to create a pleasant and comfortable working environment for employees, keep them physically and mentally healthy, and increase their sense of belonging and motivation to work for the Company.



Case study

Goddess Day

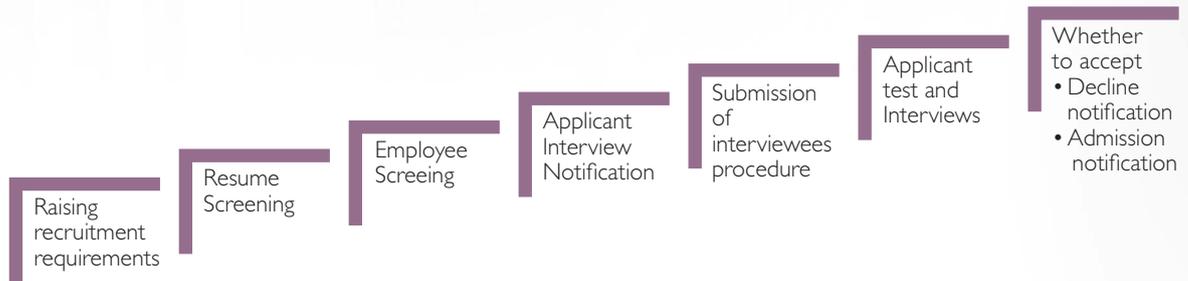
On 8 March, 2021, the Group held the "Goddess Day" as it has done for many years to demonstrate the Group's concern and care about women. On Goddess Day, female employees can enjoy a half-day privileged holiday, an exclusive gift box and a free health seminar on "Women's Guide to Internal and External Health Care".

Environmental, Social and Governance Report

Recruitment, Promotion and Resignation

The human resources department of the Group is responsible for the review of annual appointments and schedules conditions, according to the Group's operating condition, development strategy and the needs of various departments for the change of the appointment system and schedule to summarize and perform an overall assessment, pay attention to whether the content of the "Annual Job Matching Handbook" is complete, whether the related duties and post changes are reasonable, and whether the newly established posts are appropriate, and submit to general manager for approval.

The Group will conduct multiple evaluation based on the applicant's working experience, professional skills, ability, personality characteristics and occupation, to seek for the most suitable candidate, and to ensure the experience of the applicant and their values are in line with the Group's development strategy and business plan. The specific recruitment process is as follows:



The Group has also established the "Human Resource Management System" policy, in which the two chapters of "Human Resources Organization Planning" and "Personnel Recruitment and Employment" clearly stipulate job assignments and various recruitment requirements. The Group also clarifies the basis and procedures for personnel promotion and employment transfer management, to enhance transparency and hence protect the interests of employees and the Group, and reduce unnecessary disputes. The Group has implemented a comprehensive set of internal recruitment procedures, to promote employees in strict accordance with various criteria such as job performance, qualifications and departmental recommendations, providing employees with opportunities for promotion and development in order to explore their potential.

In order to clearly simplify the turnover process, ensure transparency and reduce the impact of departures on overall productivity, the Group has clearly stipulated in the chapter "Human Resources Withdrawal" in the "Human Resources Management System" policy the application procedures and approval process for resignation. The specific process is as follows:

Resignation Application Procedures



Environmental, Social and Governance Report

Approval Procedures



During the Reporting Period, the Group's employee turnover rate, i.e. employee turnover rate in the PRC, was 14%.

Employee turnover rate by gender

Gender	FY2021
Male	14%
Female	15%

Employee turnover rate by age group

Age group	FY2021
Under 18 years old	0%
18–29 years old	15%
30–50 years old	13%
Over 50 years old	0%

Communication and Exchange

The Group has always emphasized resource sharing, concerned information communication, promoted communication and negotiation, harmonious relationship and improved understanding. The Group encourages active and open communication between employees and opposes any irresponsible private rumors and speak ill of others behind their backs. Communication platforms includes but not limited to office automatic system, office telephone and regular communication meetings.

B2. Health an Safety

Occupational Health and Safety

The Group attached great importance to the employees' health and safety, and strived to provide a healthy, safe and comfortable working environment for the employees. In addition to organizing regular free body check for the employees, the Group also established related safety management system and procedures, regulating the potential health and safety risk in the workplace to protect the employees' personal safety and health during worktime.

Environmental, Social and Governance Report

In order to prevent electrical hazards and accidents and to maintain normal working order, the Group has especially established “Electricity Safety Management Regulations” and included in the “Administrative Management System” policy, which requires the Group’s administrative management department to be responsible for centralizing purchasing of all electrical equipment, power extension cables. Electrical equipment that has not been purchased by the administrative management department is forbidden to use, and any personnel is strictly forbidden to modify any wires and sockets without permission, touch any equipment in the equipment room and power distribution room. In order to minimize damage and prevent the continual malignant development of the incident and other adverse events, the Group has formulated the ‘Contingency Plan for Emergencies’ in the “Administrative Management System”. It specifies the duties and job responsibilities of each person in charge of the emergency response team, as well as emergency measures for fire accidents, emergency medical treatment and criminal case response systems. To avoid impact and loss caused by water and electricity outages, and to ensure the maintenance of normal working order of the Group’s office, the Group stipulates “Emergency Plans for Power Outages and Water Outages”, which include emergency arrangements for planned power outages and water outages, and also emergency power outages and water outages.

The Group strictly implements the related laws and regulations of the “Labour Law of the People’s Republic of China”, “Production Safety Law of the People’s Republic of China”, “Law of the People’s Republic of China on the Prevention and Treatment of Occupational Diseases” and “Fire Control Law of People’s Republic of China”. In each of the last three years including FY2021, the Group has not recorded any accidents leading to death or serious injuries and has not paid claims or compensation to its employees as a result of these events. During the Reporting Period, the Group recorded 8 work days lost due to work-related injuries and has not identified any violations of laws and regulations relating to employees’ health and safety that would have a significant impact on the Group..

Fire Safety Management

The Group attaches great importance to the fire safety. For the usage and using method of fire caution equipment, the job duties of various departments, emergency rescue procedures, and preventive measures, the “Fire Safety Management System” was formulated in the “Administrative Management System”, which aims to prevent fires and reduce hazards, protect employees’ personal and property safety, maintain public safety, and ensure the smooth progress of various tasks. The Group also conducts fire training and emergency drills for employees regularly, reminding employees at all times to be alert to the potential fire risk in order to reduce fire hazards and raise fire awareness among all employees. In order to prevent employees’ hidden dangers caused by smoking, the Group has “Smoking Area Safety Management System” which prohibits smoking in other places except smoking areas to avoid fire hazards and fire accidents.

Preventive Measures of COVID-19

In response to the outbreak of COVID-19, the Group established an epidemic prevention and control team to strictly abide by and implement the guidelines and announcements regarding epidemic prevention from the Chinese Center for Disease Control and Prevention and adopted remote office to reduce outings and mobility to protect employees’ health and minimize operational risks. The Group specially arranged manpower to strengthen the health and safety precautions of the office, including stocking anti-epidemic materials, disinfecting office buildings, preparing anti-epidemic manuals, making anti-epidemic posters, and preparing resources for remote office, and were committed to provide employees with a safe and sound office environment.

Environmental, Social and Governance Report

The Group also strictly requires employees to receive temperature checks every morning and afternoon, wear medical surgical masks during travel and work, and remind employees to maintain personal hygiene and wash their hands frequently, maintain social distancing and reduce unnecessary outings. The Group also requires employees to upload their health codes and travel codes at the beginning of each week and to provide nucleic acid test reports if risk areas are involved. Also, the routine agenda of the Group is also based on online communication, to minimize the frequency of meetings and the number of participants, and to keep the offices and meeting rooms well-ventilated at all times.

B3. Development and Training

Talent Training Management and Programs

The Group attaches great importance to the professional development of its employees, thereby providing extensive trainings and sustainable professional development plans for employees of all level. The on-going training projects of the Group include but not limited to new recruits training, general skill set and professional skills training, internal and external training, system development and maintenance online training, programme development, internal lecturers cultivation, online and offline reading club, sharing and key talents cultivation programme. In the FY2021, the total number of employees trained of the Group were 1,222. The percentage of employees trained was 89.72%. The average training hours of each employee was 31.27 hours. Details of trainings of relevant employees are as follows:

	Percentage of employees trained	Average training hours
By Type of Employees		
Senior management	100.00%	40.00
Mid-level management	95.51%	74.00
Other employees	88.43%	23.70
By Gender		
Male	88.03%	31.80
Female	92.94%	30.30

Note:

- The percentage of the Group's employees trained is the number of employees trained in that category during the Reporting Period/total number of employees in that category as at 31 December 2021, and the number of employees trained only includes those who are still in employment as at 31 December 2021.
- The average number of training hours of the Group is the total number of training hours of employees in that category during the Reporting Period/ the total number of employees trained in that category during the Reporting Period.

Environmental, Social and Governance Report

The Group's training adheres to "organizational learning" and "spontaneous learning", encourages employees' spontaneous learning and sharing. The Group ensures that all new employees will receive pre-employment training to familiar with and integrate into the corporate culture of the Group as well as to understand the Group's operation, job requirements, work closely with the team, integrate personal careers with corporate development, and promote continuous growth of employees. The Group also has flexible training arrangement for its employees. In daily work, each department can initiate internal training according to the needs of employee, submit training schemes, and the human resources department monitors and tracks the entire training process. Internal training includes but not limited to work procedures, introduction of new business' knowledge, usage of office software, professional skills. While inviting internal and external lecturers to broaden employees' horizon, the Group also organizes outward bound to help enhance employees' cohesion and increase employees' sense of belonging, continuously promoting the corporate spirit in the era of FriendTimes.

The Group's talent training adheres to the principle of "internal training and supplementing external recruitment", we believe that the management ability of employees is one of the keys to the success of the Group. In addition to general talent training, the Group also invests a lot of resources to fund our key employees to participate the project management program organized by the Project Management Institute in order to improve their project management skills in leadership and providing guidance to cross-functional team, managing project timetable, budget and resources, and applying appropriate project method in order to accomplish the project requirements and leading to success. As of 31 December 2021, the Group's managers who have participated in the plan have passed the exam and obtained project management licenses.

In order to ensure every employee receives equal opportunities in training, the Group has established a good personnel training mechanism, promoted the smooth process of the Group's key tasks and the realization of strategic goals. The Group has "Training Management Measures" for training management that requires the human resources department to develop activities according to the current quality of employees in the core businesses and the needs for subsequent development, and organize, supervise, promote and summarize training content, and also require that the talent training projects comply with the four management principles of autonomy, quality, diversification and sharing. Furthermore, the Group also has "Human Resources Management System", the human resources department is required to formulate and coordinate an effective training scheme in accordance with the Group's business development strategy and the personal development needs of employees. The human resources department conducts monthly feedback on the implementation of training, and at the end of each year, re-formulates the next year's employee training scheme to confirm the direction of training in the future.

Environmental, Social and Governance Report

Case study

Key Talent Management Enhancement Schemes

From 2019 onwards, the Group has confirmed the vision of establishing a learning organization in the next three years under the elite key talent strategy. The Group strives to build replicable leadership through key talent management enhancement schemes (i.e. the Flying Eagle Scheme, the Elite Eagle Scheme and the Young Eagle Scheme), as a succession of the existing strategy and preparation for a talent reserve for future business development.

In the FY2021, the Group implemented the Elite Eagle Scheme, a training program for outstanding middle-level management talents with outstanding performance, a sense of mission and meeting the requirements of the Company's corporate culture after preparatory work. Over the course of 5 months, this programme aims to train selected talents from self-exploration to influencing others, from management to leadership, and from an awareness to issues to an awareness to people and issues. Participating employees are expected to apply what they have learned and achieve excellent management method. The Elite Eagle Scheme teaches self-exploration, efficient management, relationship with the team, cross-departmental collaborative management, and practical learning in the form of workshops, scenario planning, case studies and post-lesson practice reviews. Three phases of the program has been conducted, with 120 participants.



Photos of the Elite Eagle Scheme

Environmental, Social and Governance Report

Case study

Reading Club

In addition to the key talent management enhancement schemes, the Group also organized the Reading Club to encourage life-long learning and self-improvement, and to create an intellectual work atmosphere among employees. The Reading Club is conducted via a combination of online and offline methods, so that participants can freely express their feelings about a book, and the audience can express their views freely as well.



Photos of Reading Club

Case study

U Talent Program

The Group provides induction training for new employees — “U Talent Program”, which adopts a two-day off-duty training mode. The course content covers team integration, corporate introduction, introduction to the gaming industry, corporate culture tour and self-exploration workshop, DISC and introduction to various centers, etc. It aims to help new employees quickly adapt to the corporate environment, find a good fit with the Company, establish good interpersonal relationships and enhance employees’ team awareness and cooperation spirit.



Photos of U Talent Program

Environmental, Social and Governance Report

Case study

Butterfly Program

In June 2021, the Group launched the Butterfly Program, a comprehensive training camp for assistants and clerks with 34 trainees. The assistants and clerks are the internal coordinators who help to push forward the implementation of various tasks and the external communicators who reflect the brand image of the center and the Company. The training content focuses on four modules: role awareness, basic competency improvement, workplace skills improvement and basic business awareness. The program adopts a model that combines centralized learning with personal growth, course learning with book reading, and knowledge input with value output to help the trainees stimulate their enthusiasm for learning and develop learning habits.



Photos of Butterfly Program

B4. Labour Standards

The Group has complied with all laws and regulations to the prevention of child labour or forced labour, including but not limited to the “Labour Law of the People’s Republic of China”, “Special Protection for Juvenile Workers” and “Provisions on the Prohibition of Using Child Labour”. In the FY2021, the Group was not aware of any material issue related to the prevention of child labour or forced labour.

Prevention of Child Labour and Forced Labour

The Group strictly prohibits the employment of any child labour. The Group’s “Recruitment Policy” requires new employees to provide true and accurate personal information upon employment which would be strictly reviewed by the recruiters, including body check qualification certificate, academic certificates, identity card, household registration. The Group has established a comprehensive recruitment process that requires study of the candidate’s background and a formal reporting process that handles any exceptions. It also conducts regular reviews and inspections to prevent any child labour during operation. In the case of discovering unintentional employment of child labour, the Group will immediately cease the work of the child labour and contact the parent or legal guardian to arrange for the return of the child labour to the original residence as soon as possible and bear all related expenses. The human resources management department also checks working hour records regularly, and if overwork is found, it will immediately conduct investigations to avoid forced labour in our operations.

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B5. Supply Chain Management

Supply Chain Management

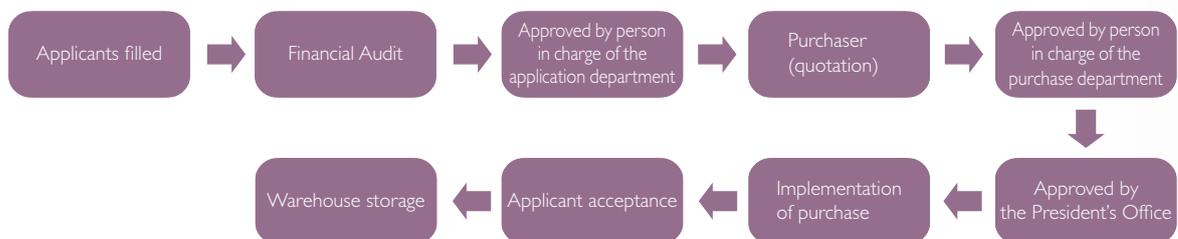
The Group has formulated the “Supply Chain Management System” to optimize and develop supplier resources, established a supplier market access and performance evaluation system, and maintained a stable and reliable supplier team, providing reliable material supply protection for enterprise construction and development. It clearly lists out the requirements for consideration of suppliers’ cooperative performance review, supplier maintenance inventory, and evaluation of new suppliers. At the same time, the Group will focus on evaluating supplier cooperation performance based on the three aspects of supplier product quality, technical support and after-sales service. Suppliers with excellent product quality, reasonable prices, long cooperation periods, good reputation, and good discipline will be directly included in the “Supplier Maintenance Inventory”. The Group carries out regular evaluation on suppliers to ensure a consistent level of quality and to resolve any potential issues. After years of operation, the Group has now formulated a more comprehensive supplier team.

Environmental and Social Risk Review for Suppliers

In addition, the Group focuses on the sustainable development of the supply chain and pays great attention to the environmental and social performance of our suppliers. Under the Group’s supplier monitoring mechanism, while ensuring compliance in terms of quality, operations, products and quality assurance, we also understand the environmental, social and ethical issues related to our suppliers’ business and have set minimum standards for relevant issues to examine whether our suppliers have complied with relevant laws and regulations and other required standards in terms of environmental pollution, health and safety, forced labour and child labour, etc.. For major suppliers and higher-risk suppliers, we require such suppliers to have sound environmental and social risk management systems. Furthermore, the Group gives priority to suppliers who source locally and use environmentally friendly products and services in the selection process. Through the above review process and regular inspections of the environmental and social performance of the supplier list, the Group will minimize the potential environmental and social risks in the supply chain.

Fair and Open Procurement

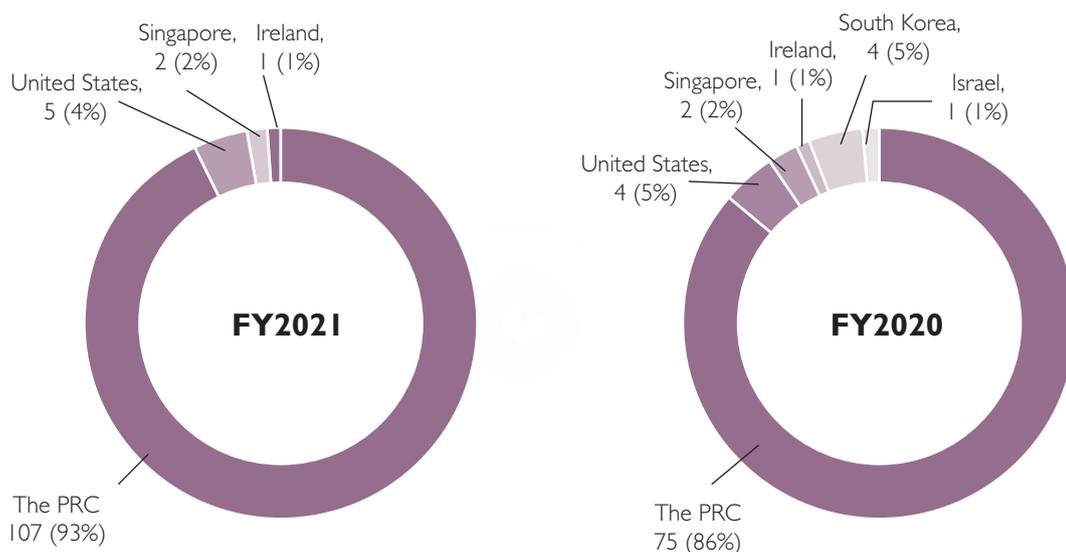
The procurement process of the Group strictly adheres to the “The Bidding Law of the People’s Republic of China”, “The Government Procurement Law of the People’s Republic of China” and other relevant regulations, and is carried out under open, fair and just conditions, and will not treat any suppliers with discrimination or preferential treatment. If an employee or other individual is found to have a relationship of interest with relevant suppliers, the Group will prevent them from participating in the relevant procurement activities. The integrity of suppliers and partners is also one of the factors considered by the Group. The Group will not tolerate any acts of bribery and corruption, and it is strictly forbidden for suppliers and partners to obtain procurement contracts or establish cooperative relationships through any form of transfer of benefits. The Group has set up a designated “Procurement Management System” policy to ensure the quality of the Group’s procurement and to review and standardise the procurement process. The specific process is as follows:



Environmental, Social and Governance Report

To ensure proper management of purchased materials and prevent repeated purchases of assets, the Group's "Administrative Management System" policy, in which the chapter of the "Fixed Asset Management Regulations" specifies the requirements for purchase application requirements, purchase price ratios, and fixed asset acceptance standards. Among them, the applicant must fill in and indicate the required asset details, and the person in charge of the department must review its rationality and necessity. The purchasing assets approved requires the purchaser to select the best supplier in the form of "shop around", record the procurement process in detail, and regularly review the supplier's cooperation performance. For asset acceptance, purchasers and asset users must jointly accept on site to ensure consistency with procurement requirements.

During the Reporting Period, the Group had 115 major suppliers from different countries or regions, all of which have passed the relevant audit and management practices mentioned above. Details of the geographical distribution of these suppliers are as follows:



B6. Product Responsibility

In order to continue to attract and retain game users, the Group must continue to fulfil its product responsibility to provide a good gaming experience. The Group is committed to providing the best user experience and is highly focused on the quality of the Group's products and services. In order to accommodate our players' interest and preferences as well as to respond to the everchanging competitive environment of the mobile game industry, the Group evaluates these aspects when launching new games in order to provide the best user experience. The Group also regularly promotes new games and game upgrades to enhance geographical penetration. The Group will continue to upgrade the technology and infrastructure to minimize downtime and maintain the system stability of the Group's games. In the FY2021, the Group's businesses and products received a number of awards, testifying to the Group's efforts over the years, and relevant details of which are as follows:

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Corporate Awards

FriendTimes

- Rated as “Key National Cultural Export Enterprise for 2021-2022” and selected for three consecutive years;
- Selected in the list of “China’s Top 100 Internet Enterprises in Comprehensive Strength in 2021” issued by the Internet Society of China;
- Selected in the list of “Top 30 Private Cultural Enterprises in Jiangsu for 2020-2021” issued by the Publicity Department of Jiangsu Provincial Committee of the CPC;
- Selected in the list of “Top 100 Suzhou Private Enterprises in 2021” issued by Suzhou Federation of Industry and Commerce;
- Selected in the list of “Top 100 Enterprises in Comprehensive Strength of Software and Information Technology Service Industry in Jiangsu Province in 2021” issued by Jiangsu Software Industry Association;
- Rated as “Key Enterprise of Service Trade in Jiangsu Province” by the Department of Commerce of Jiangsu Province;
- Rated as one of the “Top 15 Competitive Listed Game Enterprises” in the “2021 China Listed/Non-listed Game Enterprise Competitiveness Report” issued by Gamma Data;
- Rated as one of the “Top 15 Enterprises of R&D Competitiveness” in the “2021-2021 China Game Enterprises R&D Competitiveness Report” issued by Gamma Data;
- Rated as “Outstanding ‘Go-global’ Game Enterprise” in the Top 10 Chinese Games issued by the GPC;
- Rated as “Best Overseas Game Enterprise of 2021” at the 9th Golden Tea Award granted by Game Tea House; and
- Rated as “Outstanding Game Company of 2021” at the 8th Golden Mouth Award in Game Industry granted by YXRB.

The Group actively complies with the laws and regulations such as the “Advertising Law of the People’s Republic of China”, “Law of the People’s Republic of China on the Protection of Consumer Rights and Interests”, “Product Quality Law of the People’s Republic of China”, “Trademark Law of the People’s Republic of China”, “Patent Law of the People’s Republic of China”, “Copyright Law of the People’s Republic of China”. During the FY2021, the Group was not aware of any material issues that violate laws and regulations related to product and service quality. In addition, the Group has not received any major complaints about products and services, and there are no products sold subject to recalls for safety and health reasons during the Reporting Period.

Research and Development

The Group’s long-term development depends on the research and development and innovation of mobile games. Therefore, the Group invests a lot of research and development resources to build related capabilities. The Group has an experienced research and development team, which consists of skilled gamer designers, graphic designers, programmers, numerical designers, level designers, sound engineers and test engineer. The research and development team is further divided into four departments: (1) the game development center is responsible for project management of game design and planning, program development, and game development processes; (2) the art design center is responsible for the art design of game characters, scenes, and special effects; (3) the social platform development center is responsible for developing and maintaining social platform applications “GameFriend”; and (4) the technical support center is responsible for building the basic game structure with the game engine, designing general development tools and special development tools, and providing other technical support for game development.

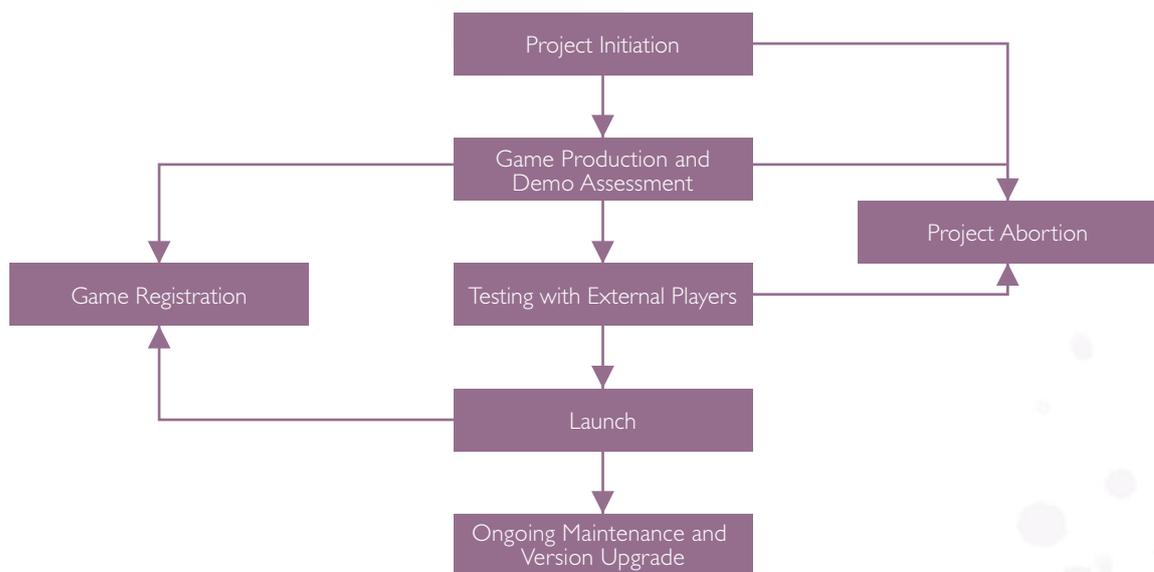
Environmental, Social and Governance Report

The Group's operating model is data-driven, which supports the Group's own data collection and analysis system from game development, distribution, and operations. The Group will continue to collect and analyze a variety of game and player data, mainly including login frequency, duration, game participation, skill level growth, preferences for using specific game features, and player retention rates. The Group's relevant departments analyze the data according to the needs of each game to plan game upgrade features, promotions and targeted advertising.

The Group encourages employees to actively participate in the decision-making and daily operations of the Group, and is committed to fostering a highly engaged corporate culture. In order to pursue innovative game ideas, concepts and designs, the Group has held a creative game design competition for all employees every year since 2016 to collect and select the most attractive and creative designs of original games. The winning employees will receive cash prizes or other prizes. If the winning game design is in line with the Group's development strategy and has market potential, the Group will also consider passing the design to game development. For example, "Yokai Kitchen (精靈食肆)" is a game developed from a selected game proposal from participants of the 2017 competition. In addition, the Group has held the 3rd art design competition and the 6th creative game design competition in the FY2021 to stimulate the creativity of all employees, allowing them to demonstrate their strength through the competition and contribute to the development of the Group's games.

Game Development Process

The Group has established a scalable game development process that allows the Group to streamline collaboration between game development, distribution, marketing, and operations departments, and minimize the games with similar technical functions or features. The game development process is as follows:



Environmental, Social and Governance Report

Project establishment is the first step of a game project, covering the development of game ideas, concepts and core gameplay, as well as the production of preliminary design documents. The Group usually adopts a top-down development structure, and senior management decides the concept of new game projects based on the latest market intelligence analysis and review and development strategy planning. In addition, quality assurance plays an important role in the game production process, providing quality assurance for game functions and in-game experience. The test engineer team will begin testing when any level or subset of the game program reaches the playable stage. The Group will hold a series of demonstration and evaluation meetings for the internal test team to try out the game demo version, evaluate whether the core gameplay, basic functions and design can achieve the effect of the original game plan, and provide feedback so that the development team can fine-tune the design, solve technical problems, and fix program errors. If the product development committee is satisfied with the full product demonstration, the game development process will enter the stage of preparing a specific game version and processing the relevant documents for game registration.

When game development is about to complete, the Group will and invite external players to conduct several rounds of game testing. Testing is generally divided into two phases: closed beta (that is to identify and to invite external players through advertising and marketing agents, based on standards) and public beta (that is to upload the Group's games to third-party distribution platforms for public download and demo). After the game has been fully tested with external players, plus the test data has reached the Group's standards, and after the Group's technical review has been approved, the management will then pass a resolution to officially release the game for commercial use. The Group usually launches games on different distribution platforms and distributes advertisements on various advertising platforms to increase game exposure and attract more players.

Customer Service

The Group provides customer service for games and social platform applications to meet the needs of the Group's players. The Group has dedicated customer service specialists who provide all-rounded online customer service in multiple languages. Players can contact our customer service specialists through a variety of channels, including live chat, email, phone and the in-game consultation system. The Group has set up the "Customer Complaint Handling and Procedures of the User Operation Department of GameFriend" to ensure that user complaints can be resolved quickly and effectively through standard procedures and norms, so that users can build confidence in the products and services the Group provides during the complaint handling process, and ultimately improve corporate brand image. After receiving a customer inquiry, the Group's customer service specialists will record the inquiry details on the internal information technology platform. If the inquiry is a common question that the Group's customer service specialists know well, they generally reply to players immediately when they receive the inquiry. Otherwise, they will communicate with the relevant operating department or team to provide players with appropriate solutions or solve system problems. The Group generally requires customer inquiries to be resolved or handled within one to three days. The Group's customer service team holds weekly internal department meetings and monthly customer service team meetings to discuss inquiries from the Group's players and formulate standard action plans for frequently asked questions. The Group also provides our customer service professionals with regular training on game rules, latest promotions, service skills and standard service procedures and terminology.

Environmental, Social and Governance Report

Software Platform Stability and Network Security Management

The Group will ensure a positive user experience by maintaining the quality of the platform, continue to communicate with users and respond immediately to their feedback, and make the platform more interactive to attract users. The Group also cooperates with third parties to allow users to log in to the Group's platform through third-party platforms, which enhances the platform login experience and further optimizes our applications, allowing users to log in faster and more conveniently. The Group also continues to update the games on a regular basis based on analysis of collected player behaviors and virtual goods consumption patterns.

Software platform stability and network security management are especially important to maintain product quality and a good user experience. After the game launched, the project development team will be responsible for continued game development, optimization and updating in daily operations until the game is eliminated. The Group understands that the release of new games and the rapid introduction of new features under the tight time constraints may affect the player's gaming experience, so the Group generally immediately address programming flaws notified by players to ensure the quality of the games.

Players can also get a better gaming experience by purchasing virtual goods. The Group relies on major third-party payment channels, such as Alipay and WeChat Pay to assist in collecting money for players to purchase virtual goods in the game. The Group introduced other payment methods for virtual goods in a manner consistent with local laws and practices, and protect the Group and players from fraud. In addition, the Group has a game policy to prohibit players to sell or transfer virtual goods. The Group reserves the right to impose sanctions on accounts that we have found to be performing unusual transactions or activities, including suspension, termination, or cancellation of player accounts.

Privacy Protection and Data Security

With the support of a proprietary data collection and analysis system, the Group has developed a set of fast and efficient data feedback loop functions that are built into the software development kit as part of the game program. The data feedback loop function includes three parts, namely data collection, data analysis, and game improvement. To ensure network security, all game data the Group collects is processed, transmitted, and stored by multiple encryption and firewall protection. To avoid any data loss and ensure data control, all data generated by the Group's leased cloud server is backed up in real time on the Group's own physical server and stored in accordance with local laws and regulations. To avoid any internal data leakage, the Group implements security measures and implement multi-layer access monitoring based on employee levels and functions to restrict data access. Any changes to the system and database must be specifically authorized by the system administrator and be justified. All access activities, as well as changes to data systems and databases, are automatically retained and subject to routine checks. Our IT team monitors the operational status of our network equipment, servers, operating systems and databases, and responds and handles any issues that may arise in a timely manner.

Environmental, Social and Governance Report

In addition, the Group has also established the “Employee Confidentiality Agreement” to ensure that, except for the performance of their duties, relevant personnel must not disclose, disseminate, announce, publish, impart, transfer, exchange or otherwise make third parties (including employees of the employer who do not have the right to know the confidential information) disclosed any technical secrets and business secrets. The technical secrets include, but are not limited to, product source code, design documents, art design, server permissions, technical solutions, recipes, technological processes, technical indicators, databases, research and development records, technical reports, test reports, experimental data, test results, drawings , samples, technical documents, related correspondence, etc.; business secrets include, but are not limited to, customer lists, marketing plans, market plans, procurement information, pricing policies, financial information, purchase channels, legal affairs information, human resources information, etc.

Game Health and Safety

Paying attention to the health of players' games is a social responsibility that mobile game companies need to fulfill, and it is also part of providing profound gaming experience for players. The Group understands that players in different regions have different cultural differences, so operating teams in each region will strictly compile with the laws and regulations on healthy games in the place of operation and in the app store according to the legal requirements of different countries.

As a leading company in the industry, the Group fully understands the penetration and impact of social media on society. The Group strictly complies with the “Provisions on the Administration of Mobile Internet Applicants Information Services”, “Provisions on the Administration of Cyber Performance Business Operations” and “Provisions on the Administration of Internet Live-Streaming Services”, and we have established a sound monitoring system to monitor our game products, organize technical and evaluation staff for trial play, and to prevent dissemination of obscenity, violence , illegal and vulgar bad information.

In order to comply with relevant national regulations and to protect the personal safety of users, the Group requires users to use valid identity cards for real-name registration and use the information of the real-name registration in the anti-addiction system, and do not provide game services in any form (including visitor experience mode) to users who have not registered and logged in with their real names. Accounts under the age of 18 will be included in the online game anti-addiction system to prevent minors from accessing inappropriate games or game functions, and limit their game time to prevent minors from game addiction. At the same time, the Group has also implemented the “‘Parents’ Guardian Project for Minors” to strengthen parents’ monitoring over minors’ participation in online gaming, so as to prevent minors from being addicted to games and create a good environment for their healthy growth. In addition, the Group has also strengthened the promotion of healthy gaming and anti-addiction information through various channels, such as publishing game user guidelines and displaying warning messages on games and official websites, including reminders for players to resist inappropriate games, pay attention to self-protection, and beware of scams and game addiction that is harmful to our body.

Environmental, Social and Governance Report

Intellectual Property Rights

The Group's proprietary intellectual property rights, including proprietary domain names, copyrights, trademarks, patents, trade secrets and other intellectual property rights are critical to our business operations. The Group relies on trademark and copyright laws, trade secret protection, restrictions on disclosure, and other agreements that restrict the use of the intellectual property rights of the Group to protect its intellectual property rights. For our proprietary games, the Group registers software in China for copyright protection and takes various measures to protect our source codes, including confidentiality agreements. As of 31 December 2021, the Group has registered 189 trademarks, 1,371 copyrights and 60 patents in China, and has registered 42 trademarks overseas.

In addition to the intellectual property rights, collected from the Group's existing games, it will collect creative literature by our in-house novel creation team and special novel writers to further expand the Group's intellectual property resources. The Group also plans to acquire intellectual property and related assets in popular comics, animations, television series and shows, and movies.

Responsible Marketing and Promotion

As a leading mobile game developer, publisher and operator, the Group has been launching and distributing the Group's games under the brand "FriendTimes". The Group will use online and offline marketing activities, such as cooperation with Apple App Store and Google Play, to develop distribution platforms, set Facebook as our advertising and marketing platform, invite celebrities to speak for the Group's ace games, and publish advertisements on TV channels and public places, participate in more diversified industry events (such as exhibitions and industry conferences) and other ways to increase the Group's game and brand exposure. The Group has established a team of 156 members who are dedicated to conceiving advertising ideas and designing advertising content around the basic game and character information provided by the game development team.

The Group has guidelines related to advertising and labelling to regulate product advertising and labelling issues. The Group strictly reviews the products and services it provides, as well as related sales, marketing and advertising strategies and materials, to ensure that it complies with applicable laws and regulations. The Group strictly complies with the "Notice on Strengthening the Supervision of the Promotion and Promotion Activities of Online Games" issued by the Ministry of Culture, to conduct legal marketing and consciously resist illegal acts and vulgar marketing.

Environmental, Social and Governance Report

B7. Anti-corruption

The Group has complied with all laws and regulations related to the prevention of bribery, extortion, fraud and money laundering, including but not limited to the “Criminal Law of the People’s Republic of China”, “Company Law of the People’s Republic of China”, “Law of the People’s Republic of China on Bidding and Tendering”, “Anti-Unfair Competition Law of the People’s Republic of China”, and the “Interim Provisions on Prohibition of Commercial Bribery”. In the FY2021, the Group has not identified any violations of laws and regulations related to the prevention of bribery, extortion, fraud and money laundering, and has not filed and concluded corruption lawsuits against the Group or its employees.

Anti-corruption

The Group believes that an incorruptible corporate culture is the key to the Group’s continued success. Therefore, it attaches great importance to the work and building system of anti-corruption and is committed to building an incorruptible and open corporate culture. The Group requires all employees to abide by the code of business ethics, and promises that there will be no corruption and bribery, nor will they engage in any fraud, extortion and money laundering activities. The Group expects every employee to adhere to the principles of honesty, integrity and core values in all aspects of work. The Group has set up an anti-corruption policy, which clearly specifies the Group’s expectations on matters related to anti-corruption of employees, and hopes that employees will consciously follow the regulations, otherwise they will be severely punished.

The Group also has an “Anti-commercial Bribery Agreement” to ensure the legitimate rights and interests of both parties, in which the Group clearly explains the definition of commercial bribery, and sets out the prohibition of commercial bribery or private fraud, the punishment of commercial bribery and unfair competition, and assistance obligation. The Group has also established a reporting system to establish and maintain a clean and transparent culture of the Group. The Group also provides employees with a strict and safe reporting mechanism to report any suspected corruption cases. The Group will investigate the case to determine its authenticity. Once determined, the Group will take necessary disciplinary and legal actions. The Group will also give corresponding rewards to reporters based on the Group’s system and the specific circumstances of the reported incident.

During the Reporting Period, our directors and employees received at least 44 hours of anti-corruption training courses, which included but was not limited to how directors assume and practice anti-corruption responsibilities, disclosure requirements in relation to anti-corruption in the ESG reports, anti-corruption requirements and regulations under Mainland China law, and examples of corruption by public officials of listed companies. Through the relevant training, directors and staff at different levels have gained a clearer understanding of their respective roles and responsibilities in anti-corruption and business ethics, as well as the precautions to be taken for compliance operations.

Environmental, Social and Governance Report

B8. Community Investment

Corporate Social Responsibility

The Group believes that rewards to society through participating in social activities and contributing to society is a form of corporate citizenship. Therefore, the Group has set up “Community Investment Policy”, which aims to understand the needs of the communities in which it operates through community engagement and to ensure that its business activities have taken into account the interests of the community. The Group has always adhered to the philosophy of public welfare, taking public welfare as its focus area of contribution of community investment, cooperating with public welfare and charitable organizations from time to time to organize social activities for the purpose of public welfare and charity, hoping to help more people and organizations in need through its corporate strength, and establishing a good public image while fulfilling its social responsibility.

Case study

Help the Disaster-stricken areas in Henan Province

In July 2021, due to the extreme weather, many parts of Henan Province were affected by extremely heavy rainfall. People all over the country were deeply concerned about the flooding situation, making it imminent to conduct rescue operations. The Group donated RMB1 million to the disaster-stricken areas in Henan Province through the Henan Charity General Federation to support the emergency relief and post-disaster reconstruction work in the disaster-stricken areas. In the future, the Group will continue to practice its charity culture and assume more social responsibility.



Environmental, Social and Governance Report

Case study

Aid to Yan'an Zaoyuan Primary School (延安棗園小學)

In May 2021, the Group responded to the call of the GPC and went to Yan'an to donate thousands of sets of books and school supplies to Yan'an Zaoyuan Primary School. Through this charity donation activity, the Group hopes to enhance the children's reading ability and further broaden their knowledge and horizons through donated books and school supplies, and to contribute to the children in the revolutionary areas who love learning and reading. At the same time, the donation is the enterprise's physical efforts to walk into the old revolutionary areas, to take practical action to promote the spirit of the revolution, to carry out the original aspiration, to call on more groups in the society to care about the children of the red revolutionary areas and pass on more upward kindness spirit.



Environmental, Social and Governance Report

CONTENT INDEX OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Mandatory Disclosure Requirements		Section/Declaration
Governance Structure		ESG Governance Structure
Reporting Principles		Reporting Principles
Scope of the Report		Scope of the Report

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions — Exhaust Gas Emissions, GHG Emissions, Sewage Discharge, Waste Management
KPI A1.1	The types of emissions and respective emissions data.	Emissions — Exhaust Gas Emissions
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions — GHG Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions — Waste Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions — Waste Management
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	Emissions — Environmental Goal Setting, Exhaust Gas Emissions, GHG Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Emissions — Environmental Goal Setting, Waste Management

Environmental, Social and Governance Report

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources — Energy Efficiency, Water Consumption
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Use of Resources — Energy Efficiency
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Use of Resources — Water Consumption
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Use of Resources — Environmental Goal Setting, Energy Efficiency
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Use of Resources — Environmental Goal Setting, Water Consumption
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Use of Resources — Use of Packaging Materials (Not applicable — explained)
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources — Indoor Air Quality Management, Paperless Office
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change Mitigation and Adaption
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Climate Change Mitigation and Adaption

Environmental, Social and Governance Report

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	Employment
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Employment
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Health and Safety
KPI B2.2	Lost days due to work injury.	Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety

Environmental, Social and Governance Report

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management

Environmental, Social and Governance Report

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-corruption

Environmental, Social and Governance Report

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Investment
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Investment

Independent Auditor's Report



Independent auditor's report to the shareholders of FriendTimes Inc.

(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of FriendTimes Inc. ("the Company") and its subsidiaries ("the Group") set out on pages 105 to 180, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policies in note 1(v)

The Key Audit Matter

How the matter was addressed in our audit

The Group's revenue from self-developed games published by the Group amounted to RMB1,555 million, representing 96% of the Group's total revenue for the year ended 31 December 2021. Such revenue was mainly derived from the sales of in-game virtual items to players who generally pay the gross sales proceeds through distributors such as Apple App Store and/or paying channels.

Upon the sales of virtual items, the Group typically has an implied obligation to provide the enhanced game experience service which enable the virtual items to be consumed and displayed in the respective games. As a result, the proceeds from sales of virtual items are initially recognised as contract liabilities in the consolidated statement of financial position and are then recognised over the related service period estimated to be the Player Relationship Period. The Group estimates the Player Relationship Period and re-assesses such periods quarterly.

Our audit procedures to assess the recognition of revenue included the following:

- assessing the design, implementation and operating effectiveness of key internal controls over the completeness, existence and accuracy of revenue recognition with our internal information technology risk management specialists involved to assess the relevant general and automated information technology controls;
- inspecting, on a sample basis, contracts with players, distributors and paying channels to understand the terms of arrangement entered with respective parties in respect of the services rendered by the Group;
- assessing the methodology, judgements and estimations made in the estimated Player Relationship Period for each game by comparing it with historical data and industry practice;

Independent Auditor's Report

KEY AUDIT MATTERS (continued)

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policies in note 1(v)

The Key Audit Matter

How the matter was addressed in our audit

We identified revenue recognition as a key audit matter because i) revenue is one of the key performance indicators of the Group and there is an inherent risk of manipulation of the timing and amount of revenue recognised by management to meet specific targets or expectations and ii) there is significant judgements involved in the assessment of Player Relationship Period which has to be determined based on combination of factors including the players' behaviour, log-in records and churn rates.

- testing, with the involvement of our information technology risk management specialist, the completeness and accuracy of key inputs such as users' log-in data for the calculation of Player Relationship Period;
- comparing, on a sample basis, the key input in the revenue calculation sheet such as gross proceeds from sales of virtual items, month of gross proceeds generated and Player Relationship Period to contracts with distributors, monthly statements from distributors or payment channels, and system-generated Player Relationship Period report; and
- reconciling the annual gross proceeds in the monthly statements from distributors by game to the annual gross player payment records recorded in the Group's database, the completeness and accuracy of which has been tested by our internal information technology risk management specialists.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Fong Kwin.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
22 March 2022

Consolidated Statement of Profit or Loss

for the year ended 31 December 2021 (Expressed in Renminbi)

	Note	Years ended 31 December	
		2021 RMB'000	2020 RMB'000
Revenue	3	1,616,137	2,182,257
Cost of sales		(526,709)	(713,912)
Gross profit		1,089,428	1,468,345
Other net income	4	39,968	82
Sales and marketing expenses		(455,784)	(612,386)
Research and development expenses		(364,901)	(264,692)
General and administrative expenses		(66,890)	(46,326)
Other expenses — donations		(1,070)	(2,000)
Profit from operations		240,751	543,023
Finance costs	5(a)	(49)	(110)
Share of loss of associates and joint venture		(3,434)	(1,638)
Changes in fair value of financial assets measured at fair value through profit or loss	5(c)	(3,399)	(14,668)
Profit before taxation	5	233,869	526,607
Income tax	6	41,614	(23,088)
Profit for the year		275,483	503,519
Earnings per share			
Basic and diluted (RMB)	9	0.13	0.23

The accompanying notes form parts of the financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2021 (Expressed in Renminbi)

	Years ended 31 December	
	2021 RMB'000	2020 RMB'000
Profit for the period	275,483	503,519
Other comprehensive income for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	(14,272)	(26,147)
Profit and total comprehensive income for the period	261,211	477,372

The accompanying notes form parts of the financial statements.

Consolidated Statement of Financial Position

as at 31 December 2021 (Expressed in Renminbi)

	Note	As at 31 December	
		2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	10	278,542	263,730
Intangible assets	11	3,395	3,856
Right-of-use assets	12	8,740	7,855
Financial assets measured at fair value through profit or loss	13	35,913	15,000
Financial assets measured at fair value through other comprehensive income	14	8,825	4,925
Film right	15	13,208	6,547
Interest in associates and joint venture	17	4,908	9,580
Time deposits	18	110,000	–
Deferred tax assets	26(b)	72,000	48,589
Other non-current assets	19	29,751	28,350
		565,282	388,432
Current assets			
Inventory		747	–
Contract costs	20	7,135	7,922
Financial assets measured at fair value through profit or loss	13	297,062	120,144
Trade and other receivables	21	182,575	180,659
Pledged bank deposits	22	1,658	1,698
Cash and cash equivalents	23	752,264	1,093,324
		1,241,441	1,403,747
Current liabilities			
Trade and other payables	24	117,088	142,951
Contract liabilities	25	33,137	28,919
Current taxation	26(a)	20	48,191
Lease liabilities	12	1,117	1,171
		151,362	221,232
Net current assets		1,090,079	1,182,515
Total assets less current liabilities		1,655,361	1,570,947

The accompanying notes form parts of the financial statements.

Consolidated Statement of Financial Position (continued)

as at 31 December 2021 (Expressed in Renminbi)

	Note	As at 31 December	
		2021 RMB'000	2020 RMB'000
Non-current liability			
Contract liabilities	25	8,956	4,526
NET ASSETS		1,646,405	1,566,421
CAPITAL AND RESERVES	27		
Share capital		154	154
Reserves		1,646,251	1,566,267
TOTAL EQUITY		1,646,405	1,566,421

Approved and authorised for issue by the Board of Directors on 22 March 2022.

Jiang Xiaohuang
Executive Directors

Wu Jie
Executive Directors

The accompanying notes form parts of the financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2021 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company						Total equity RMB'000
	Share capital RMB'000 Note 27(c)	Share premium RMB'000 Note 27(d)	Capital reserve RMB'000 Note 27(e)(i)	PRC		Retained earnings RMB'000	
				statutory reserve RMB'000 Note 27(e)(ii)	Exchange reserve RMB'000 Note 27(e)(iii)		
Balance at 1 January 2020	155	426,083	159,161	25,830	(6,830)	702,438	1,306,837
Changes in equity for 2020							
Profit for the year	–	–	–	–	–	503,519	503,519
Other comprehensive income	–	–	–	–	(26,147)	–	(26,147)
Total comprehensive income	–	–	–	–	(26,147)	503,519	477,372
Dividends (Note 27(b))	–	(199,829)	–	–	–	–	(199,829)
Repurchase and cancellation of ordinary shares (Note 27(c))	(1)	(17,958)	–	–	–	–	(17,959)
Balance at 31 December 2020	154	208,296	159,161	25,830	(32,977)	1,205,957	1,566,421

The accompanying notes form parts of the financial statements.

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2021 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 Note 27(c)	Share premium RMB'000 Note 27(d)	Capital reserve RMB'000 Note 27(e)(i)	PRC		Exchange reserve RMB'000 Note 27(e)(iii)	Retained earnings RMB'000	Total equity RMB'000
				statutory reserve RMB'000 Note 27(e)(ii)				
Balance at 1 January 2021	154	208,296	159,161	25,830	(32,977)	1,205,957	1,566,421	
Changes in equity for 2021								
Profit for the year	-	-	-	-	-	275,483	275,483	
Other comprehensive income	-	-	-	-	(14,272)	-	(14,272)	
Total comprehensive income	-	-	-	-	(14,272)	275,483	261,211	
Dividends (Note 27(b))	-	(116,102)	-	-	-	(98,598)	(214,700)	
Equity settled share-based payments (Note 27(f))	-	-	33,473	-	-	-	33,473	
Balance at 31 December 2021	154	92,194	192,634	25,830	(47,249)	1,382,842	1,646,405	

The accompanying notes form parts of the financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2021 (Expressed in Renminbi)

	Note	Years ended 31 December	
		2021 RMB'000	2020 RMB'000
Operating activities:			
Cash generated from operations	23(b)	288,547	596,040
Income tax paid	26(a)	(25,891)	(21,025)
Net cash generated from operating activities		262,656	575,015
Investing activities:			
Payment for purchase of property, plant and equipment, intangible assets and other non-current assets		(56,512)	(84,150)
Proceeds from disposal of property, plant and equipment		338	635
Payment for investments measured at fair value through profit or loss		(818,423)	(409,210)
Proceeds from investments measured at FVTPL		629,123	394,705
Payment for purchase of time deposits with maturity over 3 months		(178,761)	–
Proceeds from maturity of time deposits with maturity over 3 months		68,761	–
Payment for equity investments		(9,900)	(38,440)
Payment for film rights		(6,661)	(6,547)
Net cash outflow on disposal of a subsidiary	29	(19,841)	–
Interest received		6,334	15,006
Net cash used in investing activities		(385,542)	(128,001)
Financing activities:			
Capital element of lease rentals paid		(2,289)	(3,755)
Payment for repurchase of shares	27(c)	–	(17,959)
Interest element of lease rentals paid	5(a)	(49)	(110)
Payment of dividends	27(b)	(214,700)	(199,829)
Net cash used in financing activities		(217,038)	(221,653)
Net (decrease)/increase in cash and cash equivalents		(339,924)	225,361
Cash and cash equivalents at the beginning of the year	23(a)	1,093,324	893,400
Effect of foreign exchange rate changes		(1,136)	(25,437)
Cash and cash equivalents at the end of the year	23(a)	752,264	1,093,324

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES

(a) General Information

FriendTimes Inc. (“the Company”) was incorporated in the Cayman Islands on 16 November 2018 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 8 October 2019 (the “Listing”). The Company and its subsidiaries (together, “the Group”) are a mobile game developer, publisher and operator in ancient Chinese style female-oriented games in the PRC and overseas market.

(b) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(c) Basis of presentation and preparation of the financial statements

On 20 February 2019, Suzhou Eagle Network Technology Co., Ltd. (“Suzhou Eagle”), an indirect wholly-owned subsidiary of the Company entered into contractual arrangement (the “Contractual Arrangements”) with FriendTimes Technology Inc. (“FriendTimes Technology”) and its respective shareholders. The Contractual Arrangements, taken as a whole, enable Suzhou Eagle to have effective control over the operating and financial policies of the operating entities controlled by FriendTimes Technology Inc.. The directors of the Group are of the view that, notwithstanding the lack of equity ownership, the Structured Contracts effectively provide Suzhou Eagle the power to govern and control these entities so as to obtain benefits from their business activities. Accordingly, these operating entities are included in the Group’s consolidated financial information as controlled subsidiaries.

The consolidated financial statements for the year ended 31 December 2021 comprise the Group and the Group’s interest in associates and a joint venture.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the “Functional Currency”). The financial statements are presented in RMB, rounded to the nearest thousands except for per share information, which is the presentation currency.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of presentation and preparation of the financial statements (continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain investments are stated at their fair value as described in the accounting policy set out in Note 1(g).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2.

(d) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- *Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform — phase 2*
- *Amendment to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note I(g)) or, when appropriate, the cost on initial recognition of an investment in associates or joint venture (see note I(f)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note I(k)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(f) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes I(k)(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note I(g)).

In the Company's statement of financial position, investments in associate and joint venture are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 28(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 1(v)(v)).
- fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(v)(iv).

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see Note I(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note I(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Office and other equipment	3–5 years
— Motor vehicles	3–5 years
— Leasehold improvement	2–5 years
— Buildings held for own use	20 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property under construction, and is stated at cost less impairment losses (see Note I(k)(ii)). Capitalization of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(i) Intangible assets

Research and development costs comprise all costs that are directly attributable to research and development activities. Because of the nature of the Group's research and development activities, the criteria for recognition of such costs as an asset are generally not met until in the later development stage of the project such that the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note I(k)(ii)).

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Intangible assets (continued)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Software	2–10 years
— IP license	2–10 years
— Game license	3–5 years

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset — this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leased assets (continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note I(k)(ii)):

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the statement of financial position. In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade and other receivables);

Other financial assets measured at fair value, including equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Measurement of ECLs (continued)

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 1(v)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets;
- intangible assets;
- film rights;
- other non-current assets;
- interest in associates and a joint venture; and
- investments in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Film rights

These represent legal rights of films invested by the Group. These rights are stated at cost less accumulated amortization and identified impairment loss (see Note I(k)(ii)). Costs of film rights comprise fees/investments paid and payable under agreements, direct costs/expenses incurred during the production of films, fees for the reproduction films.

(m) Inventories

Inventories, mainly consisting of merchandise for sale, are primarily accounted for using the weighted average method and are stated at the lower of cost and net realisable value.

(n) Contract costs

Contract costs are mainly related to contract acquisition costs, which primarily consists of unamortised distribution cost charged by the distribution platforms. Contract costs are amortised over average playing period of Paying Players ("Player Relationship Period") consistent with the recognition pattern of the related revenue and recorded as part of "cost of sales" in the consolidated statement of profit or loss.

(o) Contract liabilities

In terms of the Group, contract liabilities primarily consist of the unamortised revenue from sales of virtual items for mobile games and initial fixed lump-sum license fee, where there is still an implied obligation to be provided by the Group over time.

(p) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note I(k)(i)).

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note I(k)(i).

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payment transactions

The fair values of the selected current employee services received in exchange for the grant of the restricted share unit ("RSU") is recognised as an expense with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the market prices. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the restricted share, the total estimated fair value of the restricted share is spread over the vesting period, taking into account the probability that the restricted share will vest.

During the vesting period, the number of restricted share that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of restricted share that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's share. The equity amount is recognised in the capital reserve until either the restricted share is exercised or released (when it is included in the amount recognised in share capital for the share issued) or the restricted share expires or is forfeited or cancelled (when it is released directly to retained earnings) after the end of vesting period.

Share-based payment transactions in which the Company grants share to its subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's statement of financial position which is eliminated on consolidation.

As disclosed in note 27(f) to the financial statements, the Group has set up the Share Award Scheme Trust for the share award scheme.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue and other income

Income is classified by the Group as revenue when it arises from the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled. Revenue excludes value added tax and is after deduction of any chargebacks.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Revenue and other income (continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Revenue from self-developed game

The Group is a mobile online game developer and publisher. The Group's mobile games are operated under a free-to-play model whereby game players can choose to enhance their game experience by purchasing the Group's game virtual items ("Paying Player"). Revenue is recognised when control over the service is transferred to the customers.

Revenue from self-developed games published by the Group

Revenue from self-developed games published by the Group are derived principally from various arrangements, including games published through distribution platforms under various game distribution arrangements and through the Group's own platform. Where distribution platforms are involved, proceeds earned from selling virtual items, net of the payment channel fees, are collected by the distribution platforms and shared between our Group and them based on a pre-determined rate.

As the Group takes the primary responsibilities of game development and game publishing, including providing game product, technical support and upgrades, hosting and maintenance of game servers, selecting the distribution platforms, promotion activities, customer service and other daily game operation, as well as the right to determine the pricing of virtual items, it considers itself as a principal in such arrangements. Accordingly, the Group records its revenues on a gross basis, which is the amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring promised service to a customer. The relevant service fees charged by distribution platforms and payment channels are recorded in cost of sales.

Upon the sales of virtual items, the Group typically has an implied obligation to provide the enhanced game experience service which enable the virtual items to be consumed and displayed in the respective games. As a result, the proceeds received from sales of virtual items are initially recognised as contract liabilities on the consolidated statement of financial position and are then recognised over the related service period estimated to be the Player Relationship Period. The Group estimates the Player Relationship Period and re-assesses such periods quarterly. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games developed by the Group until the new game establishes its own patterns and history. The Group also considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Revenue and other income (continued)

(i) Revenue from self-developed game (continued)

Revenue from self-developed games through intellectual property license arrangement

The Group licenses its self-developed online games to the publishers and the publishers pay license fees for the exclusive right to operate the Group's games in specified geographic areas. The license fees normally comprise of a fixed lump sum received upfront and sales-based royalty calculated based on a predetermined rate on the cash paid by game users and collected by the publishers related to the licensed games.

The Group are responsible for providing game content, and when-and-if-available technical support and upgrades to the publishers during the contract terms for which such promises are not distinct from the license. Therefore, the Group identifies a single performance obligation which is provision of ongoing access to the Group's intellectual property related to the online game development during the license period. The upfront received lump sum license fees are initially recorded as contract liabilities in the consolidated statement of financial positions and then recognised as revenue ratably over the service period. The revenue for the sales-based royalty is recognised when cash paid by game users is collected by the publishers related to the licensed games.

(ii) Revenue from sales of online game and goods

Revenue from the sale of online game and goods is recognised at the point in time when control of the online game or goods is transferred to the customer on acceptance of the online game or goods.

(iii) Revenue from third-party developed games and service provision

The Group also provides publishing services to third party game developers as well as game developing and other services to third parties. The revenue is recognised when service is rendered and control over the service is transferred to the customers.

(iv) Dividends

Dividend income from equity investments is recognised when the shareholder's right to receive payment is established.

(v) Interest income

Interest income is recognised as it accrues under the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 1(k)(i)).

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Revenue and other income (continued)

(vi) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

I SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

(i) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(ii) Principal versus agent considerations-revenue from publishing games

In determining whether the Group is acting as a principal or as an agent in publishing games requires judgments and considerations of all relevant facts and circumstances. The Group is a principal in a transaction if the Group obtains control of services provided before they are transferred to customers. If the control is unclear, when the Group is primarily obligated in a transaction, and is subject to the inventory risk, has latitude in establishing prices, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from services provided.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(a) Critical accounting judgements in applying the Group's accounting policies (continued)

(iii) Contractual arrangement

As disclosed in note 1(c), the Group conducts its business through FriendTimes Technology established in the PRC and its subsidiaries. Due to the regulatory restrictions on the foreign ownership of the Publishing Business in the PRC, the Group does not have any equity interest in FriendTimes Technology. The Directors assessed whether or not the Group has control over FriendTimes Technology and its subsidiaries by assessing whether it has the rights to variable returns from its involvement with FriendTimes Technology and its subsidiaries and has the ability to affect those returns through its power over FriendTimes Technology and its subsidiaries. After assessment, the Directors concluded that the Group has control over FriendTimes Technology and its subsidiaries as a result of the Contractual Arrangements and accordingly the financial position and the operating results of FriendTimes Technology and its subsidiaries are included in the Group's consolidated financial information throughout the Relevant Period or since the respective dates of incorporation/establishment, whichever is the shorter period. Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over FriendTimes Technology and its subsidiaries and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of FriendTimes Technology and its subsidiaries. The Directors, based on the advice of its legal counsel, consider that the Contractual Arrangements with FriendTimes Technology and its shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Estimation of Player Relationship Period

The Group recognises revenue from the sales of virtual items ratably over the estimated average user life of the Paying Gamers for the applicable games. Future paying gamer usage patterns and behavior may differ from the historical usage patterns and therefore the estimated average user life of the Paying Gamers may change in the future. The Group will continue to monitor the average user life of the Paying Gamers, which may differ from the historical period, and any change in the estimate may result in the revenue being recognised on a different basis to that in prior periods.

(ii) Fair value measurement of financial assets measured at fair value through profit or loss

The fair value assessment of financial assets measured at fair value through profit or loss that are measured at level 3 fair value hierarchy requires significant estimates, which include estimating the future cash flows, determining appropriate discount rates and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. The Group monitors its investments for their fair value assessment by considering factors including, but not limited to, current economic and market conditions, recent fund raising transactions undertaken by the investees, the operating performance of the investees including current earnings trends and other company-specific information.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE

The Group is principally engaged in provision of mobile game development and publishing services.

For the purpose of resources allocation and performance assessment, the Group's management focuses on the operating results of the Group as a whole. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by business lines is as follows:

	Years ended 31 December	
	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by business lines		
— Revenue from self-developed games published by the Group	1,555,052	2,077,641
— Revenue from self-developed games published through intellectual property license arrangement and others	61,085	104,616
	1,616,137	2,182,257

Disaggregation of the Group's revenue from contracts with customers by the timing of revenue recognition is set out below:

	Years ended 31 December	
	2021 RMB'000	2020 RMB'000
Over-time	1,616,108	2,134,892
Point-in-time	29	47,365
	1,616,137	2,182,257

The Group's customer base is diversified and includes nil customer with whom transactions have exceeded 10% of the Group's revenues for the year ended 31 December 2021 and 2020.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE (continued)

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2021, the aggregated amount of the transaction price allocated to the unsatisfied performance obligations under the Group's existing contract is RMB42,093,000 (2020: RMB33,445,000), among which RMB33,137,000 (2020: RMB28,919,000) is expected to be recognised within one year. This amount represents revenue expected to be recognised in the future from unamortised mobile game revenue and unamortised licensing fees. The Group will recognise as the control of services is transferred to the customer, which is expected to occur over the next 27 months.

(iii) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the games were published, the intellectual property was licensed or the services were provided.

	Years ended 31 December	
	2021 RMB'000	2020 RMB'000
Mainland of the PRC	1,130,908	1,713,842
Overseas	485,229	468,415
	1,616,137	2,182,257

4 OTHER NET INCOME

	Note	Years ended 31 December	
		2021 RMB'000	2020 RMB'000
Government grants	(i)	26,001	15,919
Interest income from bank deposits		7,686	8,330
Income from wealth management products		4,317	4,383
Income from the sales of investment in listed securities		2,430	459
Net exchange loss		(658)	(28,741)
Gain on disposal of a subsidiary	29	378	–
Others		(186)	(268)
		39,968	82

(i) In 2021, the Group received unconditional government subsidies mainly as recognition of their achievement in research and development, innovation and spreading Chinese culture.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Years ended 31 December	
	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	49	110

(b) Staff costs

	Note	Years ended 31 December	
		2021 RMB'000	2020 RMB'000
Salaries, wages and other benefits		324,445	270,000
Equity settled share-based payments	27(f)	33,473	–
Contributions to defined contribution plans	(i)	28,000	18,210
		385,918	288,210

- (i) Employees of the Group's subsidiaries in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

Due to the impact of COVID-19 in year 2020, a number of policies including the relief of social insurance have been promulgated by the government since February 2020 to expedite resumption of economic activities, which resulted in the relief of certain contributions to defined contribution scheme during the year ended 31 December 2020.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION (continued)

(c) Changes in fair value of financial assets measured at fair value through profit or loss

	Years ended 31 December	
	2021 RMB'000	2020 RMB'000
Change in fair value of investment in a LLP	913	–
Change in fair value of investment in TV-series-based financial instrument	–	(13,008)
Change in fair value of listed equity securities	(4,312)	(1,660)
	(3,399)	(14,668)

(d) Other items

	Years ended 31 December	
	2021 RMB'000	2020 RMB'000
Depreciation of property, plant and equipment	20,064	8,611
Depreciation of right-of-use assets	1,350	3,434
Amortisation of intangible assets	1,282	4,238
Impairment losses of trade and other receivables	22	407
Auditors' remuneration	2,080	2,050

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Income tax in the consolidated statement of profit or loss represents:

	Note	Years ended 31 December	
		2021 RMB'000	2020 RMB'000
Current tax:			
Provision for current income tax for the year	26(a)	9,748	50,054
Over-provision in prior years	6(b)(ii)	(27,951)	–
		(18,203)	50,054
Deferred tax:			
Origination and reversal of temporary differences	26(b)	(23,411)	(26,966)
		(41,614)	23,088

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

(b) Reconciliation between actual income tax (credit)/expense and accounting profit at applicable tax rates:

	Note	Years ended 31 December	
		2021 RMB'000	2020 RMB'000
Profit before taxation		233,869	526,607
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned	(i)	46,855	121,327
Tax effect of preferential tax rate	(ii)	(57,478)	(68,273)
Super-deduction of research and development expense	(iii)	(23,530)	(29,459)
Effect on deferred tax balances at 1 January resulting from a change in tax rate		(1,890)	–
Tax effect of non-deductible expenses		6,697	267
Tax effect of tax losses not recognised		447	149
Tax effect of changes in tax losses recognised in prior years		1,989	(2,770)
Over-provision in prior years	(ii)	(27,951)	–
Tax effect of temporary differences not recognised		13,247	1,847
Actual income tax		(41,614)	23,088

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

The Company's subsidiary incorporated in Hong Kong is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2020. Payments of dividends by Hong Kong companies are not subject to any withholding tax.

The Company's subsidiary incorporated in South Korea is liable to South Korea Profits tax at progressive tax rates from 10% to 25% of annual taxable profits.

The Group's PRC subsidiaries are liable to the PRC corporate income tax rate of 25%.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

(b) Reconciliation between actual income tax (credit)/expense and accounting profit at applicable tax rates: (continued)

- (ii) Suzhou GameFriend Network Technology Co., Ltd. ("GameFriend"), which was disposed by the Group on 31 December 2021, is entitled to a preferential income tax rate of 15% until 2023 as Technologically Advanced Service Enterprise.

The subsidiary of the Company, Suzhou Purple Blaze Network Technology Co., Ltd. ("Purple Blaze") is entitled to a preferential income tax rate of 0% in 2018 and 2019, and 12.5% from 2020 to 2022 as Software Enterprise.

The subsidiary of the Company, Suzhou Cheeryoo Network Technology Co., Ltd. ("Suzhou Cheeryoo") is entitled to a preferential income tax rate of 0% in 2021 and 2022, and 12.5% from 2023 to 2025 as Software Enterprise.

According to tax regulation issued by the Inland Revenue Department (IRD), only profits which have a source in Hong Kong are taxable, while profits sourced offshore are not subject to Hong Kong Profits Tax. In 2021, IRD has reviewed and subsequently agreed the offshore claims lodged by the subsidiary of the Company, Wish Interactive Technology Limited ("Wish Interactive") that all of the income of Wish Interactive is treated as offshore sourced and non-taxable. Accordingly, Hong Kong Profits Tax provision made on prior years' profits of Wish Interactive was reversed in 2021.

- (iii) Under the PRC Income Tax Law and its relevant regulations, 75% additional tax deduction is allowed for qualified research and development costs for the years ended 31 December 2021 and 2020.

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7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2021

	Year ended 31 December 2021					
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled shared-based payments RMB'000	Total RMB'000
Executive directors						
Jiang Xiaohuang	-	1,073	420	37	-	1,530
Xu Lin	-	995	420	37	-	1,452
Sun Bo	-	906	229	41	1,466	2,642
Wu Jie	-	980	242	31	1,466	2,719
Independent non-executive directors						
Zhang Jinsong	120	-	-	-	-	120
Tang Haiyan	120	-	-	-	-	120
Zhu Wei	120	-	-	-	-	120
	360	3,954	1,311	146	2,932	8,703

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(Expressed in Renminbi unless otherwise indicated)

7 DIRECTORS' EMOLUMENTS (continued)

Year ended 31 December 2020

	Year ended 31 December 2020					
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled shared-based payments RMB'000	Total RMB'000
Executive directors						
Jiang Xiaohuang	–	960	420	3	–	1,383
Xu Lin	–	835	419	3	–	1,257
Sun Bo	–	781	405	31	–	1,217
Wu Jie	–	852	404	23	–	1,279
Independent non-executive directors						
Zhang Jinsong	107	–	–	–	–	107
Tang Haiyan	107	–	–	–	–	107
Zhu Wei	107	–	–	–	–	107
	321	3,428	1,648	60	–	5,457

During the year, no emoluments were paid by the Group to the director as an inducement to join or upon joining the Group or as compensation for loss of office. No director of the Group waived or agreed to waive any emoluments during the year.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with the highest emoluments of the Group for the year include two (2020: three) directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining three (2020: two) highest paid individuals, are as follows:

	Years ended 31 December	
	2021 RMB'000	2020 RMB'000
Salaries, allowance and benefits in kind	2,453	1,589
Discretionary bonuses	1,607	1,214
Retirement scheme contributions	99	31
Equity-settled shared-based payments	8,503	–
	12,662	2,834

The emoluments of the individuals who are not director and who are amongst the five highest paid individuals of the Group are within the following bands:

	Years ended 31 December	
	2021 Number of individuals	2020 Number of individuals
HK\$Nil–HK\$2,000,000	–	2
HK\$2,000,001–HK\$4,000,000	1	–
HK\$4,000,001–HK\$6,000,000	1	–
HK\$6,000,001–HK\$8,000,000	1	–
	3	2

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB275,483,000 (2020: RMB503,519,000) and the weighted average of 2,180,850,000 ordinary shares (2020: 2,186,170,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares in issue

	Years ended 31 December	
	2021 '000	2020 '000
Ordinary shares at 1 January	2,180,850	2,191,512
Effect of shares repurchased	–	(5,342)
Weighted average number of ordinary shares at 31 December	2,180,850	2,186,170

	Years ended 31 December	
	2021	2020
Profit attributable to the equity shareholders of the Company (RMB'000)	275,483	503,519
Weighted average number of ordinary shares in issue ('000)	2,180,850	2,186,170
Basic earnings per share	0.13	0.23

(b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2021 and 2020 is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

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(Expressed in Renminbi unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT

	Construction in process RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Buildings held for own use RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost:						
At 1 January 2020	188,227	19,547	7,466	–	5,322	220,562
Additions	64,104	5,660	1,597	–	279	71,640
Disposals	–	(3,367)	–	–	–	(3,367)
At 31 December 2020	252,331	21,840	9,063	–	5,601	288,835
Additions	20,508	8,876	3,943	2,086	–	35,413
Disposals	–	(2,118)	(443)	–	(5,322)	(7,883)
Transferred from CIP	(272,839)	49,789	–	223,050	–	–
Disposal of a subsidiary	–	(361)	–	–	–	(361)
At 31 December 2021	–	78,026	12,563	225,136	279	316,004
Accumulated depreciation:						
At 1 January 2020	–	(10,270)	(4,596)	–	(4,056)	(18,922)
Charge for the year	–	(6,402)	(1,051)	–	(1,158)	(8,611)
Disposals	–	2,428	–	–	–	2,428
At 31 December 2020	–	(14,244)	(5,647)	–	(5,214)	(25,105)
Charge for the year	–	(11,173)	(1,829)	(6,691)	(371)	(20,064)
Disposals	–	1,783	368	–	5,322	7,473
Disposal of a subsidiary	–	234	–	–	–	234
At 31 December 2021	–	(23,400)	(7,108)	(6,691)	(263)	(37,462)
Net book value:						
At 31 December 2021	–	54,626	5,455	218,445	16	278,542
At 31 December 2020	252,331	7,596	3,416	–	387	263,730

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(Expressed in Renminbi unless otherwise indicated)

II INTANGIBLE ASSETS

	Software RMB'000	IP license RMB'000	Game license RMB'000	Total RMB'000
Cost:				
At 1 January 2020	3,894	4,834	2,830	11,558
Additions	164	–	–	164
At 31 December 2020	4,058	4,834	2,830	11,722
Additions	821	–	–	821
At 31 December 2021	4,879	4,834	2,830	12,543
Accumulated amortization:				
At 1 January 2020	(1,097)	(2,154)	(377)	(3,628)
Charge for the year	(998)	(787)	(2,453)	(4,238)
At 31 December 2020	(2,095)	(2,941)	(2,830)	(7,866)
Charge for the year	(853)	(429)	–	(1,282)
At 31 December 2021	(2,948)	(3,370)	(2,830)	(9,148)
Net book value:				
At 31 December 2021	1,931	1,464	–	3,395
At 31 December 2020	1,963	1,893	–	3,856

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(Expressed in Renminbi unless otherwise indicated)

12 RIGHT-OF-USE ASSETS/LEASE LIABILITIES

Right-of-use assets

	Property RMB'000	Land use rights RMB'000	Total RMB'000
Cost:			
At 1 January 2020	14,473	7,777	22,250
Additions	2,332	–	2,332
At 31 December 2020	16,805	7,777	24,582
Additions	2,235	–	2,235
At 31 December 2021	19,040	7,777	26,817
Accumulated depreciation:			
At 1 January 2020	(12,890)	(403)	(13,293)
Charge for the year	(3,278)	(156)	(3,434)
At 31 December 2020	(16,168)	(559)	(16,727)
Charge for the year	(1,195)	(155)	(1,350)
At 31 December 2021	(17,363)	(714)	(18,077)
Net book value:			
At 31 December 2021	1,677	7,063	8,740
At 31 December 2020	637	7,218	7,855

The Group leased the above property in the PRC for office use. The Group is entitled to land use right for 50 years.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

12 RIGHT-OF-USE ASSETS/LEASE LIABILITIES (continued)

Lease liabilities

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Maturity analysis-contractual undiscounted cash flows		
Within 1 year or on demand	1,157	1,181
Total undiscounted lease liabilities	1,157	1,181
Less: total future interest expenses	(40)	(10)
Present value of lease liabilities	1,117	1,171
Lease liabilities included in the consolidated statement of financial position		
Current	1,117	1,171

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Amounts recognised in profit or loss		
Interest on lease liabilities (Note 5(a))	49	110
Expenses relating to short-term leases	23	1,136
Amounts recognised in the consolidated statement of cash flows		
Total cash flow for leases	(2,361)	(5,122)

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(Expressed in Renminbi unless otherwise indicated)

13 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	As at 31 December	
		2021 RMB'000	2020 RMB'000
Investment in Limited Liability Partnerships ("LLPs")	(i)	35,913	15,000
Investment in wealth management products	(ii)	278,000	70,000
Listed equity securities	(iii)	19,062	50,144
		332,975	135,144
Financial assets measured at fair value through profit or loss included in the consolidated financial statement:			
Current		297,062	120,144
Non-current		35,913	15,000

- (i) The investment in LLPs as at 31 December 2021 represent the Group's 11% and 29% shares in two venture capital partnerships as a limited partner.
- (ii) The wealth management products as at 31 December 2021 are issued by four creditworthy major PRC commercial banks with variable interest rate and have matured as at the date of the report and fully recovered.
- (iii) Listed equity securities as at 31 December 2021 represent the fair value of equity shares listed on an active stock market. The directors of the Company consider that the closing price of the securities is the fair value of the investment.

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14 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Equity investments in unlisted entities	8,825	4,925

The unlisted equity securities are shares in three companies, which are principally engaged in the mobile game development. As the investments were held for strategic purpose, the investments were designated as financial assets measured at fair value through other comprehensive income.

15 FILM RIGHT

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Film right — Under production	13,208	6,547

The film right represents a cartoon film invested by the Group. The film is produced together with a third-party film producer and the process is on schedule. As at 31 December 2021, the film was under production.

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16 INVESTMENT IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Nature of legal entity	Issued and fully paid up capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Friend World Holdings Limited	The British Virgin Islands 26 November 2018	limited liability company	–/ USD50,000	100%	–	Investment holding
Friend Century Limited	Hong Kong 7 December 2018	limited liability company	–/ HKD10,000	–	100%	Investment holding
Suzhou Eagle Network Technology Co., Ltd.* 蘇州億歌網絡科技有限公司	The PRC 24 January 2019	wholly foreign owned enterprise	–/ USD5,000,000	–	100%	Investment holding and game development
FriendTimes Technology Inc.* 友誼時光科技股份有限公司 (Note (a))	The PRC 11 May 2010	limited liability company	RMB51,660,000/ RMB51,660,000	–	100%	Mobile game development
Suzhou Purple Blaze Network Technology Co., Ltd.* 蘇州紫焰網絡科技有限公司 (Note (a))	The PRC 23 March 2017	limited liability company	RMB6,000,000/ RMB6,000,000	–	100%	Mobile game development, publishing and operation
Suzhou Cheeryoo Network Technology Co., Ltd.* 蘇州沁游網絡科技有限公司 (Note (a))	The PRC 11 January 2018	limited liability company	RMB5,000,000/ RMB5,000,000	–	100%	Mobile game development, publishing and operation
Shanghai Purple Wing Network Technology Co., Ltd.* 上海紫翊網絡科技有限公司 (Note (a))	The PRC 5 February 2018	limited liability company	RMB5,000,000/ RMB5,000,000	–	100%	Mobile game development
FriendTimes (Chengdu) Network Technology Co., Ltd.* 友誼時光(成都)網絡科技有限公司 (Note (a))	The PRC 9 June 2021	limited liability company	–/ RMB10,000,000	–	100%	Mobile game art designing
Jiangsu Wu Ling Long Culture Development Co., Ltd.* 江蘇吳玲瓏文化發展有限公司 (Note (a))	The PRC 13 May 2020	limited liability company	RMB10,000,000/ RMB10,000,000	–	100%	Investment in and production and distribution of film and TV copyrights
Wish Interactive Technology Limited	Hong Kong 19 May 2015	limited liability company	HKD15,000,000/ HKD15,000,000	–	100%	Mobile game publishing and operation
Friend Times Korea Co., Ltd.	South Korea 22 December 2015	limited liability company	US\$500,000/ US\$500,000	–	100%	Mobile game publishing and operation

* The English translation of these entities is for reference only. The official names of the entities established in the PRC are in Chinese.

(a) These are operating entities ultimately controlled by the Controlling Shareholder through Contractual Arrangements.

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17 INTEREST IN ASSOCIATES AND JOINT VENTURE

The following list contains only the particulars of the Group's associates and joint venture, which are immaterial and accounted for using the equity method in the consolidated financial information.

Name	Form of business structure	Place of incorporation and operation	Portion of ownership interest-group's effective interest	Investment Time	Paid-in capital	Principal activity
Interest in associates						
Suzhou Jingxiang Times Network Technology Co., Ltd. 蘇州競享時代網絡科技有限公司	Incorporated	The PRC	30.16%	29 March 2017	RMB5,181,347	Electronic sports
Chengdu Hardnut Technology Co., Ltd. 成都暮光星城科技有限公司	Incorporated	The PRC	25.00%	21 January 2021	RMB1,333,300	Mobile game development
Interest in a joint venture						
Beijing Aoshen Interactive Technology Co., Ltd. 北京澳深互動科技有限公司	Incorporated	The PRC	40.00%	25 May 2020	RMB3,333,333	Mobile game development

As at 31 December 2021, Suzhou Jingxiang Times Network Technology Co., Ltd. ("Suzhou Jingxiang") was at the position of net liabilities, and Beijing Aoshen Interactive Technology Co., Ltd. ("Beijing Aoshen") recorded an accumulated loss of RMB9,337,000. Having considered their operation and financial performance, the directors were of the view that the interest in Suzhou Jingxiang and Beijing Aoshen with carrying amount of RMB2,973,000 and RMB4,265,000 are fully impaired for the year ended 31 December 2021.

18 TIME DEPOSITS

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Time deposits with maturity over one year	110,000	—
Time deposits in the consolidated statement of financial position	110,000	—

Time deposits as at 31 December 2021 are issued by a creditworthy major PRC commercial bank with fixed interest rate and will mature within 2 to 3 years.

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19 OTHER NON-CURRENT ASSETS

The other non-current assets mainly represent the amounts already paid to acquire a non-controlling interest in a PRC-domiciled entity, which is engaged in development of film and television culture studios. As at 31 December 2021, the transfer of the equity interests had not been completed.

20 CONTRACT COSTS

	Note	As at 31 December	
		2021 RMB'000	2020 RMB'000
Balance at 1 January		7,922	12,274
Addition		468,401	645,026
Charged to profit or loss		(468,426)	(649,378)
Disposal of a subsidiary	29	(762)	–
Balance as at 31 December		7,135	7,922

21 TRADE AND OTHER RECEIVABLES

	Note	As at 31 December	
		2021 RMB'000	2020 RMB'000
Trade receivables		96,146	138,159
Less: Loss allowance		(137)	(494)
Trade receivables, net	(a)	96,009	137,665
Deposits and prepayments		25,441	12,464
VAT deductible		6,348	13,730
Income tax recoverable		14,089	10,354
Amounts due from GameFriend		32,523	–
Other receivables		8,165	6,446
		182,575	180,659

All the trade and other receivables are expected to be recovered or recognised as expenses within one year, of which the amounts due from GameFriend have been fully recovered as at the date of the report.

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21 TRADE AND OTHER RECEIVABLES (continued)

(a) Ageing analysis

As at the end of each of the years ended 31 December 2020 and 2021, the ageing analysis of trade receivables, based on the invoice date and net of allowance, is as follows:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Within 3 months	90,161	137,686
After 3 months but within 1 year	5,985	–
After 1 year but within 2 years	–	473
Less: Loss allowance	(137)	(494)
Trade receivables, net	96,009	137,665

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 28(a).

22 PLEDGED BANK DEPOSITS

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Deposits pledged for credit cards	1,658	1,698

23 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Cash at banks	744,272	1,085,116
Cash at other financial institutions	7,992	8,208
Cash and cash equivalents in the consolidated statement of financial position	752,264	1,093,324

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23 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	As at 31 December	
		2021 RMB'000	2020 RMB'000
Profit before taxation		233,869	526,607
Adjustments for:			
Depreciation of property, plant and equipment	5(d)	20,064	8,611
Amortisation of intangible assets	5(d)	1,282	4,238
Depreciation of right-of-use assets	5(d)	1,350	3,434
Impairment of the investment in an associate	17	7,238	–
Equity settled share-based payments	5(b)	33,473	–
Loss allowance on trade and other receivables	5(d)	22	407
Interest income from bank deposits	4	(7,686)	(8,330)
Income from wealth management products	4	(4,317)	(4,383)
Income from the sales of investment in listed securities	4	(2,430)	–
Finance costs	5(a)	49	110
Share of loss of associates and joint venture		3,434	1,638
Changes in fair value of financial assets measured at fair value through profit or loss	5(c)	3,399	14,668
Other net losses/(income)		73	(191)
Gain on disposal of a subsidiary	4	(378)	–
Foreign exchange loss		1,136	25,437
Operating profit before changes in working capital		290,578	572,246
(Increase)/decrease in inventories and contract costs		(722)	4,352
(Increase)/decrease in trade and other receivables		(33,406)	20,209
Decrease in pledge deposit		40	112
Increase in trade and other payables		21,933	18,560
Increase/(decrease) in contract liabilities		10,124	(19,439)
Cash generated from operations		288,547	596,040

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(Expressed in Renminbi unless otherwise indicated)

23 CASH AND CASH EQUIVALENTS (continued)

(c) Reconciliation of liabilities arising from financing activities

	Lease Liabilities RMB'000 (Note 12)	Dividends payable RMB'000 (Note 27(b))	Total RMB'000
At 1 January 2021	1,171	–	1,171
Changes from financing cash flows:			
Payment of principal portion of lease liabilities	(2,289)	–	(2,289)
Interest paid	(49)	–	(49)
Dividends	–	(214,700)	(214,700)
Total changes from financing cash flows	(2,338)	(214,700)	(217,038)
Other changes:			
Interest expenses (Note 5(a))	49	–	49
Increase of lease liability	2,235	–	2,235
Dividend (Note 27(b))	–	214,700	214,700
Total other changes	2,284	214,700	216,984
At 31 December 2021	1,117	–	1,117

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23 CASH AND CASH EQUIVALENTS (continued)

(c) Reconciliation of liabilities arising from financing activities (continued)

	Lease Liabilities RMB'000 (Note 12)	Dividends payable RMB'000 (Note 27(b))	Total RMB'000
At 1 January 2020	2,594	–	2,594
Changes from financing cash flows:			
Payment of principal portion of lease liabilities	(3,755)	–	(3,755)
Interest paid	(110)	–	(110)
Dividends	–	(199,829)	(199,829)
Total changes from financing cash flows	(3,865)	(199,829)	(203,694)
Other changes:			
Interest expenses (Note 5(a))	110	–	110
Increase of lease liability	2,332	–	2,332
Dividend (Note 27(b))	–	199,829	199,829
Total other changes	2,442	199,829	202,271
At 31 December 2020	1,171	–	1,171

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24 TRADE AND OTHER PAYABLES

	Note	As at 31 December	
		2021 RMB'000	2020 RMB'000
Trade payables	(a)	18,998	19,955
Accrued payroll		70,724	76,672
Payables related to property, plant and equipment		24,254	43,131
Other payables and accruals		3,112	3,193
Trade and other payables		117,088	142,951

All trade and other payables are expected to be settled within one year or are repayable on demand.

(a) An ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Within 3 months	18,574	19,840
Over 3 months but within 6 months	380	19
Over 6 months but within 12 months	35	5
Over 1 year	9	91
	18,998	19,955

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

25 CONTRACT LIABILITIES

	Note	As at 31 December	
		2021 RMB'000	2020 RMB'000
Non-current			
Deferred licensing income amortised over one year	(a)	8,956	4,526
Current			
Deferred game revenue published by the Group	(b)	24,208	22,173
Deferred licensing income amortised within one year	(a)	8,929	6,746
		33,137	28,919
Total		42,093	33,445

- (a) Deferred licensing income primarily comprised the unamortised licensing fees received from third-party publishing partners, where there is still an implied obligation to be provided by the Group over time.
- (b) Deferred game revenue published by the Group primarily consists of the unamortised revenue from sales of virtual items for mobile games, where there is still an implied obligation to be provided by the Group over time.

Movements in contract liabilities is as below:

	Note	As at 31 December	
		2021 RMB'000	2020 RMB'000
Balance at 1 January		33,445	52,884
Additions		1,579,076	2,066,583
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year		(28,733)	(44,164)
Decrease in contract liabilities as a result of recognising revenue during the same year		(1,540,219)	(2,041,858)
Disposal of a subsidiary	29	(1,476)	–
Balance at 31 December		42,093	33,445

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	Note	As at 31 December	
		2021 RMB'000	2020 RMB'000
Balance at 1 January		37,837	10,470
Provision for current income tax for the year	6(a)	9,748	50,054
Currency translation differences		(206)	(1,662)
Over-provision in prior years		(27,951)	–
Disposal of a subsidiary	29	(7,606)	–
Payment during the year		(25,891)	(21,025)
Balance at 31 December		(14,069)	37,837
Reconciliation to the consolidated statement of financial position:			
Income tax payable		20	48,191
Income tax recoverable	21	(14,089)	(10,354)
Balance at 31 December		(14,069)	37,837

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets recognised:

- (i) The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Change in fair value of financial assets measured at fair value through profit or loss RMB'000	Cumulative tax losses RMB'000	Accruals and others RMB'000	Deductible advertising expenses RMB'000	Unrealized profit RMB'000	Impairment losses of an associate and joint venture RMB'000	Total RMB'000
Balance at 1 January 2020	1,256	12,711	2,406	5,250	–	–	21,623
Credited/(charged) to profit or loss (Note 6(a))	2,196	24,527	(936)	–	1,179	–	26,966
Balance at 31 December 2020	3,452	37,238	1,470	5,250	1,179	–	48,589
Credited/(charged) to profit or loss (Note 6(a))	1,320	27,001	(1,470)	(5,250)	–	1,810	23,411
Balance at 31 December 2021	4,772	64,239	–	–	1,179	1,810	72,000

(ii) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB27,294,000 (2020: RMB27,755,000) and in respect of deductible temporary differences of RMB Nil (2020: RMB102,951,000) as at 31 December 2021, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction before they expire.

(iii) Deferred tax liabilities not recognised

The new CIT Law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises. The Group has not recognised deferred tax liabilities as at 31 December 2021 in respect of undistributed earnings of RMB1,314,611,000 (2020: RMB1,071,659,000) as the Company controls the dividend policy of the subsidiaries and it has been determined that these profits will not be distributed in the foreseeable future.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	(Accumulated losses)/ Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2020		155	426,083	(2,908)	(4,155)	419,175
Changes in equity for 2020:						
Profit for the year		–	–	–	102,753	102,753
Other comprehensive income		–	–	(14,445)	–	(14,445)
Total comprehensive income		–	–	(14,445)	102,753	88,308
Dividends	27(b)	–	(199,829)	–	–	(199,829)
Repurchase and cancellation of ordinary shares	27(c)	(1)	(17,958)	–	–	(17,959)
Balance at 31 December 2020 and 1 January 2021		154	208,296	(17,353)	98,598	289,695
Changes in equity for 2021:						
Profit for the year		–	–	–	181,154	181,154
Other comprehensive income		–	–	(7,030)	–	(7,030)
Total comprehensive income		–	–	(7,030)	181,154	174,124
Dividends	27(b)	–	(116,102)	–	(98,598)	(214,700)
Equity settled share-based payments	27(f)	–	33,473	–	–	33,473
Balance at 31 December 2021		154	125,667	(24,383)	181,154	282,592

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL AND RESERVES (continued)

(b) Dividends

- (i) Dividends payable to equity shareholders of the Company attributable to the year:

	2021 RMB'000	2020 RMB'000
Final dividend proposed after the end of the year ended 31 December 2021 of HK\$0.12 per ordinary share (2020: HK\$0.12 per ordinary share)	213,968	220,259

The final dividend proposed after the balance sheet date has not been recognised as a liability at the end of the reporting period.

- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.

Final dividend attributable to shareholders of the Company in respect of 2020 of HK12 cents per share amounting to a total of HK\$261,702,000 (equivalent to approximately RMB214,700,000) was approved by the shareholders in the Annual General Meeting on 27 May 2021 and has been fully paid during the year ended 31 December 2021.

(c) Share capital

- (i) Authorized and issued share capital

	Par Value US\$	No. of shares '000	US\$ '000
Authorized shares at 31 December 2020 and 2021:	0.00001	5,000,000	50
Ordinary shares, issued and fully paid:			
At 1 January 2020	0.00001	2,191,512	21
Repurchase and cancellation of ordinary shares (Note (ii))	0.00001	(10,662)	—*
Balance at 31 December 2020 and 2021	0.00001	2,180,850	20
RMB equivalent ('000)			154

* The balance represented number less than 1,000.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL AND RESERVES (continued)

(c) Share capital (continued)

(i) Authorized and issued share capital (continued)

The Company was incorporated in the Cayman Islands on 16 November 2018 with an authorized share capital of US\$50,000 divided into 5,000,000,000 shares with a par value of US\$0.00001 each, of which 49,593,600 and 2,066,400 fully paid shares were allotted and issued on 16 November 2018 and 13 February 2019.

Upon the completion of various steps of the Group reorganization, the Company became the holding company of the companies comprising the Group on 20 February 2019.

The share capital of the Group as at 31 December 2021 and 2020 represents the share capital of the Company.

(ii) Repurchase and cancellation of ordinary shares

None of the own shares of the Company was repurchased through the Stock Exchange during the year ended 31 December 2021 (2020: HK\$20,723,000 (equivalent to approximately RMB17,959,000)).

(d) Share premium

Under the Companies Law of the Cayman Islands, the share premium of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(e) Reserves

(i) Capital reserve

Capital reserve as at 31 December 2021 primarily represented:

- the difference between the par value of ordinary shares issued by FriendTimes Technology, the then holding company of the Group before completion of the Group reorganization, and the consideration received;
- the share-based payments reserve being the difference between the fair value of the equity interests in a Group transferred to an employee of the Group and the cash consideration made by this employee that has been recognised;
- the aggregate amount of the paid-in capital of the companies comprising the Group transferred into the capital reserve upon the completion of the reorganisation on 20 February 2019.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL AND RESERVES (continued)

(e) Reserves (continued)

(ii) PRC statutory reserve

Statutory reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the companies outside the mainland China with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

(f) Equity settled share-based transactions

The Company has adopted a share award scheme on 14 September 2020 (the "Share Award Scheme") for the purpose of incentivise directors, senior management and certain key employees for their contribution to the Group, and to attract and retain skilled and experienced personnel for the future growth of the Group by providing them with the opportunity to own equity interests in the Company. Mr. Jiang Xiaohuang, the controlling shareholder of the Company, decided to indirectly transfer an aggregate of 80,000,000 shares of the Company as a gift within three years, at nil consideration, as the pool of shares of the Share Award Scheme. A trust has been set up for the administration and vesting of RSUs granted pursuant to the Share Award Scheme.

On 1 January 2021, the first aggregate of 40,000,000 restricted shares were granted for nil consideration to 37 eligible employees of the Group under the Share Award Scheme with fair value of HKD1.99 per share determined by the latest closing market price of the shares to the vesting date. These restricted shares vest for a period from one month to 5 years. In addition to the service condition, there are other vesting conditions related to the employee's performance and the Group's performance for each of the vesting period.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL AND RESERVES (continued)

(f) Equity settled share-based transactions (continued)

The terms and conditions of the grants are as follows:

	Number of RSUs	Vesting Conditions	Contractual life of RSUs
RSUs granted to directors: — on 1 January 2021	4,000,000	25%, 25%, 20%, 20% and 10% of total shares separately vested in 1, 13, 25, 37 and 49 month of the grant date	1 month to 49 months
RSUs granted to employees: — on 1 January 2021	36,000,000	23%, 23%, 20%, 20% and 14% of total shares separately vested in 1, 13, 25, 37 and 49 month of the grant date	1 month to 49 months
Total RSUs granted	40,000,000		1 month to 49 months

Movements in the number of RSUs granted to the Group's directors, senior management, and employees and the respective weighted-average grant date fair value are as follows:

	Number of RSUs	Weighted average grant date fair value per RSU HKD
Outstanding as of 31 December 2020	—	—
Granted during the year	40,000,000	1.99
Forfeited during the year	(1,149,000)	1.99
Vested during the year	(9,111,000)	1.99
Outstanding as of 31 December 2021	29,740,000	1.99

During the year ended 31 December 2021, a total number of 9,111,000 shares had been vested. As at 31 December 2021, a total of 29,740,000 shares was outstanding for vesting.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL AND RESERVES (continued)

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-asset ratio. This ratio is calculated as total liabilities divided by total assets.

The debt-to-asset ratios at 31 December 2021 and 2020 were as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Total liabilities	160,318	225,758
Total assets	1,806,723	1,792,179
Debt-to-asset ratios	8.9%	12.6%

Neither the Company nor its subsidiaries are subject to internally or externally imposed capital requirements.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents and pledged bank deposits is limited because the counterparties are reputable banks and financial institutions with high credit rating, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor (mainly distribution platform and publishers) rather than the industry or country in which the debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual debtors. As at 31 December 2021, 58% (2020: 40%) of the total trade receivables was due from the Group's largest debtor and 89% (2020: 81%) of the total trade receivables was due from the Group's five largest debtors.

Trade receivables at the end of each reporting period are mainly due from the distribution platforms and publishers in cooperation with the Group. If the strategic relationship with them is terminated or scaled-back; or if the distribution platforms and publishers alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with the distribution platforms and publishers to ensure the effective credit control. In view of the history of cooperation with the distribution platforms and publishers and the sound collection history of receivables due from them, the directors of the Company believe that the credit risk inherent in the Group's outstanding trade receivable balances due from the distribution platforms and publishers is low.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(continued)

(a) Credit risk (continued)

Trade receivables (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	As at 31 December 2021		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	–	86,027	–
Overdue within 3 months	0.8%	4,134	32
Overdue after 3 months but within 1 year	1.8%	5,985	105
	0.1%	96,146	137

	As at 31 December 2020		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	–	131,873	–
Overdue within 3 months	0.4%	5,813	21
Overdue after 3 months but within 1 year	–	–	–
Overdue after 1 year but within 2 years	100.0%	473	473
	0.4%	138,159	494

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Notes to the Consolidated Financial Statements

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28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(continued)

(a) Credit risk (continued)

Trade receivables (continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Balance at the beginning of the year	494	549
Write off during the year	(372)	(462)
Impairment losses recognised	22	407
Disposal of a subsidiary	(7)	–
Balance at the end of the year	137	494

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of each reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

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28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(continued)

(b) Liquidity risk (continued)

	As at 31 December 2021				Carrying amount RMB'000
	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years RMB'000	Total RMB'000	
Trade and other payables	117,088	-	-	117,088	117,088
Lease liabilities	1,157	-	-	1,157	1,117
Total	118,245	-	-	118,245	118,205

	As at 31 December 2020				Carrying amount RMB'000
	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years RMB'000	Total RMB'000	
Trade and other payables	142,951	-	-	142,951	142,951
Lease liabilities	1,181	-	-	1,181	1,171
Total	144,132	-	-	144,132	144,122

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(continued)

(c) Interest rate risk

The Group's interest-bearing financial instruments at variable rates are the cash at bank and other financial instrument as at the end of the reporting period. The cash flow interest risk arising from the change of market interest rate on these balances is not considered significant. Overall speaking, the Group's exposure to interest rate risk is not significant.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables, pledged bank deposits and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD dollars and Hong Kong dollars.

(i) Exposure to currency risk

The following table details the Group's exposure as at 31 December 2021 and 2020 to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate of the end of each reporting date. Difference from translation of financial statements of the Group's subsidiaries with functional currency other than RMB into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in Renminbi) As at 31 December 2021	
	United States Dollars RMB'000	Hong Kong Dollars RMB'000
Cash and cash equivalents	104,230	145,329
Pledged bank deposits	–	824
Trade and other receivables	46,760	6,855
Overall exposure	150,990	153,008

Notes to the Consolidated Financial Statements

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28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(continued)

(d) Currency risk (continued)

(i) Exposure to currency risk (continued)

	Exposure to foreign currencies (expressed in Renminbi) As at 31 December 2020	
	United States Dollars RMB'000	Hong Kong Dollars RMB'000
Cash and cash equivalents	424,249	86,152
Pledged bank deposits	–	845
Trade and other receivables	60,146	10,968
Overall exposure	484,395	97,965

(ii) Sensitivity analysis

A 5% strengthening of RMB against the following currency as at the end of each reporting period would increase/(decrease) profit after taxation by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant.

	As at 31 December	
	2021 RMB'000	2020 RMB'000
United States Dollars	(6,355)	(20,948)
Hong Kong Dollars	(6,388)	(4,090)

A 5% weakening of the RMB against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(continued)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has a team headed by the finance manager performing valuations for the financial instruments, including investment in TV-series-based financial instrument and investment in wealth management product which is categorised into Level 3 of the fair value hierarchy. The team reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the directors is held once a year, to coincide with the reporting dates.

Notes to the Consolidated Financial Statements

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28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Level 1 Assets		
Listed equity securities	19,062	50,144
Level 2 Assets		
Unlisted equity securities	8,825	4,925
Investment in a LLP	35,913	15,000
Level 3 Assets		
Investment in wealth management products	278,000	70,000
Investment in TV-series-based financial instrument	–	–
	341,800	140,069

During the years ended 31 December 2020 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the investment in unlisted equity securities and LLP is determined with reference to the latest-round financing price of the securities, adjusted by unobservable inputs based on information such as its latest available financial information, where applicable as at 31 December 2021.

Information about Level 3 fair value measurements

The fair value of the investment in TV-series-based financial instrument and wealth management product has been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows. The directors believe that the estimated fair value resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair value, which are recorded in profit and loss, are reasonable, and that they were the most appropriate value as at the reporting period end.

Notes to the Consolidated Financial Statements

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28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Information about Level 3 fair value measurements (continued)

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2021 RMB'000	2020 RMB'000
Investment in wealth management products		
At 1 January	70,000	70,000
Payment for purchases	742,600	390,000
Realised gain from investment recognised in "other income" in the consolidated statement of profit or loss	4,317	4,383
Proceeds upon maturity	(538,917)	(394,383)
At 31 December	278,000	70,000
Investment in TV-series-based financial instrument		
At 1 January	-	13,008
Payment for purchases	-	-
Changes in fair value of financial assets measured at fair value through profit or loss	-	(13,008)
At 31 December	-	-
Total losses for the year included in profit or loss for assets held at the end of the year	-	(13,008)

Any gain or loss arising from the remeasurement of the Group's equity investments in unlisted entities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2021 and 2020 due to short-term maturity of these instruments.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

29 DISPOSAL OF A SUBSIDIARY

GameFriend was previously 100% held by FriendTimes Technology Inc., and were principally engaged in mobile game publishing business. In line with the Group's development strategy to further strengthen the leading position as a mobile game developer, publisher and operator particularly in female-oriented games, the Group intends to focus the resources on increase of the new game development and streamline the operation, and therefore the Group entered into a sale and purchase of equity interest agreement with an independent third party to dispose of its entire equity interests in GameFriend for an aggregate consideration of RMB12.8 million.

The net assets of the disposed subsidiary at the disposal date are set out as below:

	Note	As at 31 December 2021 RMB'000
Cash and cash equivalents		32,641
Trade and other receivables		31,372
Contract costs	20	762
Property, plant and equipment		127
Trade and other payables		(43,398)
Contract liabilities	25	(1,476)
Current taxation	26(a)	(7,606)
Net assets		12,422
Gain on disposal of the subsidiary:		
Total cash consideration		12,800
Less: net assets attributable to the Group disposal of		12,422
Gain on disposal of the subsidiary:	4	378
Net cash outflow arising on disposal:		
Consideration received, satisfied in cash		12,800
Less: cash and cash equivalents disposed of		(32,641)
Net cash outflow		(19,841)

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

30 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	Years ended 31 December	
	2021 RMB'000	2020 RMB'000
Short-term employee benefits	7,117	6,603
Post-employee benefits	216	65
Equity-settled share-based payments	5,719	–
	13,052	6,668

Total remuneration is included in "staff costs" (see Note 5(b)).

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Non-current asset		
Investment in a subsidiary	33,820	347
	33,820	347
Current asset		
Cash and cash equivalents	21,899	53,809
Amounts from subsidiaries	256,731	168,333
Dividends receivable	–	97,874
Other receivables	246	263
	278,876	320,279
Current liabilities		
Amounts due to a subsidiary	30,104	30,931
	30,104	30,931
Net current assets	248,772	289,348
Total assets less current liabilities	282,592	289,695
NET ASSETS	282,592	289,695
CAPITAL AND RESERVES		
Share capital	154	154
Reserves	282,438	289,541
TOTAL EQUITY	282,592	289,695

Approved and authorised for issue by the board of directors on 22 March 2022.

Jiang Xiaohuang
Directors

Wu Jie
Directors

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

32 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 4 January 2022, the Board, based on the recommendation of the remuneration committee of the Company, resolved to grant a total of 16,000,000 Awarded Shares, which have been held by the Trustee on behalf of the Selected Participants, at nil consideration to the Share Award Grantees. The grant of Awarded Shares has been effective from 5 January 2022. The Share Award Grantees are employees of the Company. No adjustment has been made in these financial statements in this regard.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37, Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1 January 2022
Amendments to HKAS 1, Classification of liabilities as current or non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of accounting policies	1 January 2023
Amendments to HKAS 8, Definition of accounting estimates	1 January 2023
Amendments to HKAS 12, Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.