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友誼時光
F R I E N D T I M E S

FriendTimes Inc.

友誼時光股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6820)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2022 (the “**Annual Results**”) together with comparative figures for the corresponding period in 2021, which have been prepared in accordance with HKFRS.

FINANCIAL PERFORMANCE SUMMARY

	Year ended 31 December		
	2022	2021	Changes
	<i>RMB'000</i>	<i>RMB'000</i>	%
Revenue	1,524,391	1,616,137	-5.7%
Gross profit	1,044,114	1,089,428	-4.2%
Profit before taxation	24,430	233,869	-89.6%
Profit for the year	25,111	275,483	-90.9%
Adjusted profit for the year*	41,429	308,956	-86.6%

* Adjusted profit for the year represents profit for the year excluding 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.

The Board proposed the payment of special dividend of HK6 cents per ordinary share for the year ended 31 December 2022. The payment of special dividend shall be subject to the approval by the Shareholders at the AGM. Upon the approval by the Shareholders, the special dividend is expected to be paid on Thursday, 8 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

As a leading mobile game developer, publisher and operator integrated with research and operation in the PRC, the Group has been focusing on content and quality of products, and is committed to creating timeless high-quality products for the world and becoming a global outstanding cultural and creative enterprise.

The Group is headquartered in Suzhou, China, with branches in regions including Shanghai, Wuxi, Chengdu and Hong Kong in China, and South Korea, 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), A Story of Lala's: Rising Star (杜拉拉升職記) and others, which are well received among users.

As a key national cultural export enterprise and a pioneer in the segment of female-oriented mobile 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 2022, the Group's total revenue was approximately RMB1,524.4 million, decreasing by approximately 5.7% as compared to the corresponding period of last year; the profit for the year was approximately RMB25.1 million, decreasing by approximately 90.9% as compared to the corresponding period of last year; the adjusted profit for the year was approximately RMB41.4 million, decreasing by approximately 86.6% 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 with the lifecycle extension of existing games, the relevant revenue has experienced a normal decline, while there was no significant fluctuation in the Group's overall revenue during the Reporting Period due to the good performance of the new games during the year; and that the marketing expenses increased by approximately RMB191.5 million during the Reporting Period, mainly due to the one-off significant marketing expenditure incurred in the first half of 2022 upon the launch of a new game, the Promise of Lingyun (凌雲諾).

In the second half of 2022, the Group adjusted its product distribution strategy to significantly reduce the marketing expenses of the Promise of Lingyun (凌雲諾), and promoted the stability of game revenue through more professional and refined operation strategies and upgrade of diverse content, which generated a substantial profit in the second half of the year. As a result, the Group recorded a profit of approximately RMB98.1 million in the second half of 2022, compared with a loss of approximately RMB73.0 million in the first half of the year.

The Group maintains long-term income from our games through frequent version updates and content optimization, supplemented by long-lifecycle operation strategies such as long-running media buying. For example, the performance of the Fate of the Empress (浮生為卿歌), the Promise of Lingyun (凌雲諾) and A Story of Lala's: Rising Star (杜拉拉升職記) has been maintained in the ranking of the Top 100 iOS Best-selling Games in Mainland China. At the same time, we leveraged the distribution advantages on overseas expansion and localization, and continued to optimize the inheritance and promotion of traditional culture, integrating Chinese cultural elements into our products and exploring overseas markets for our games in order to promote our traditional culture to the world.

The Group continues to increase its investment in research and development to accelerate breakthroughs in cutting-edge technologies such as AIGC, which can assist product development through technologies such as deep learning and natural language processing in the areas such as aesthetic production, plot planning and game interaction. With the adoption of AIGC technology, we developed smarter development tools, editors and data models to improve efficiency in research and development and reduce production costs, and to enable our team to better meet the needs of players with the help of artificial intelligence. On 27 February 2023, we announced that we are one of the first eco-partners of Baidu's "ERNIE Bot", which will help to improve the NPC interaction function in the game, and increase in-game flexibility and enhance the bonding between players.

Fate of the Empress (浮生為卿歌)

The Fate of the Empress (浮生為卿歌) was officially launched on 31 December 2019, being the flagship female-oriented product of the Group in relation to ancient Chinese culture. There was innovative interaction among users, scenes and objects in the game. The real-time weather algorithm system has enabled the light-and-shadow effect of the ever-changing weather such as rainy, snowy, sunny, cloudy, daytime and nighttime. The traditional Chinese architectural style has been integrated into the landscape, fully demonstrating the oriental aesthetics taste. The fashion designed for game characters draws on the typical apparel elements of all the dynasties and takes into account the age, identity, social status and personalities of the characters, aiming at integrating the traditional culture to restore the image of Chinese ancient characters which allows players to always experience the details of the Chinese culture.



We enhance players' freshness to the game through exclusive operation activities such as new exploration of game scene maps, update of game rules, and replacement and optimization of apparel tools. In 2022, the Fate of the Empress (浮生為卿歌) reached the highest ranking of 25th among the best-selling iOS games in Mainland China, with an average ranking of 46th and has been recommended domestically and internationally by Apple App Store and Google Play for many times.

We strive to blend traditional culture with game creativity, expanding our cultural value while making games a new medium for spreading traditional culture. For the Fate of the Empress (浮生為卿歌), we cooperated with Suzhou Taohuawu wood-block new year painting, to draw inspiration from the spring festival-based pet mounts in the game and create a new year painting with koi, dragon gates and the cultural buildings of Gusu as the core elements. Cooperating with Weifang kite, a national intangible cultural heritage project, we created a new hand-made kite based on the inspiration of the tool of “Kite Yinjin (箏吟錦鳶)” in the game. In close cooperation with the famous original Han-styled clothing brands of “Pulling a Sleeve” (風牽一袖) and “Rumeng Nichang” (如夢霓裳), we reproduced the in-game costume “Magpie Bridge Fairy (鵲橋仙)” and “Luochun Sihe (落春四和)”. We cooperated with “Cai Zhi Zhai (採芝齋)”, a century-old Chinese food store, “Kungfu (真功夫)”, a top Chinese fast food brand, and “Zhongjie 1946 (中街1946)”, a summer ice cream brand, to replicate classic cuisines in the game.

Promise of Lingyun (凌雲諾)

The Promise of Lingyun (凌雲諾) is a glamorous Chinese-style social mobile game with modern art. It blends classical aspects with modern art to demonstrate the fascinating ancient Chinese culture. With the traditional and innovative new style of Chinese drawing technique, we have created for the game a variety of Chinese-styled features such as glamorous costume, manor creation and social interaction by means of poetry and painting. Besides, through small fun games such as floral art, drinking games and mahjong-styled games, details of the game are much developed, thereby allowing the players to enjoy the remastered pictures of ancient Chinese lifestyles centuries ago.



The Promise of Lingyun (凌雲諾) was officially launched on 20 January 2022. It was highly recommended on Today, the homepage of Apple App Store, on its first day in the market, quickly climbing to the top of the free-to-play iOS game list in mainland China. Thereafter, it also had good performance such as gaining a place on the recommendation page for games in the Apple App Store and being credited by the editor as the best game in January. In 2022, the Promise of Lingyun (凌雲諾) reached the highest ranking of 34th on the best-selling iOS game list in mainland China with an average ranking of 65th, and was specifically recommended on Today, the homepage of Apple App Store for many times, and received various awards in the industry, such as The Golden Plume Award — Best Original Mobile Game and The Golden Tea Awards — Best Mobile Game for the Year.

We have innovatively introduced new features of interaction within the game and specific marketing activities, to enrich players' game experience. For the Promise of Lingyun (凌雲諾), we cooperated with master Zhou Jialan (周佳蘭), an inheritor of the new generation of Kunqu opera culture, to initiate an exclusive Kunqu opera activity of “Singing in the pleasant-sounding Wu dialect (吳儂古調唱盡千秋)”, enabling the players to feel the charm of Kunqu opera art of “elegant Kun opera aria with ancient rhyme (行腔婉轉，古韻悠長)”. We launched the collaboration event of the Promise of Lingyun (凌雲諾) and “Your Imperial Majesty (吾皇貓)”, a classic fun comic IP, with “Your Imperial Majesty (吾皇貓)”, a cool cat, and “Black Baza (巴扎黑)”, a cute pug, exclusive dedicated activities and exclusive costume could be unlocked. As a result, new interpretation of the original comic is achieved through various interactions. In addition to a fashion contest named “Glamorous Costume Ceremony (華服盛典)”, we held an ancient styling beauty contest named “Dream of Ancient Chinese Glamorous Costume and Beauty (華裳伊人山河尋夢)” on the TikTok platform, attracting active participation from lovers of Chinese style and players.

In addition, the Legend of Empress (熹妃傳) has been in operation for more than seven years and the Royal Chaos (熹妃Q傳) and the Rise of Queendom (宮廷計手遊) have also been in operation for more than five years, and we maintained stable performance in revenue through frequent game updates and content optimization.

Games Released Recently

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



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 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.



A Story of Lala's: Rising Star (杜拉拉升職記) was officially launched on 12 January 2023, and became a recommended game on the Apple App Store in a short time. As of the date of this announcement, *A Story of Lala's: Rising Star (杜拉拉升職記)* reached the highest ranking of 37th among the iOS Best-selling Games in Mainland China, and was awarded the Golden Plume Award — Players' Most Anticipated Mobile Game.

We enhanced the playability and immersive experience of A Story of Lala's: Rising Star (杜拉拉升職記) through new features and technologies such as fashion co-branding, market grabbing, AR photo-taking, Internet celebrities' favorite scenic spots, facial expression motion capture system and smart voice assistant. For example, with the facial expression motion capture system in the game, players can see their real-time facial motions mimic by their characters in the game in the feature of new expression challenge, so that together with glamorous clothes and hair accessories, a sense of immersive experience is created for players. The introduction of Xiaowu (小五), a game smart butler with AI voice assistant function as the underlying technology, enhances players' sense of interaction and immersion, and helps players to complete social activities and tasks.

Game Reserve

Twist of the Fate (浮生憶玲瓏)

As the Company's strategic flagship product, Twist of the Fate (浮生憶玲瓏), a new generation of female-oriented traditional Chinese-style mobile game, is inherited from the Fate of the Empress (浮生為卿歌), which creates a new theme adopts next-generation engine effects, artistic production techniques and innovative gameplay features, aiming to bring players a free, realistic and multifaceted gameplay experience. The game focuses on creating an "artistic conception (意境)" of Chinese aesthetics, which showcases a poetic landscape of "mountains shrouding in clouds and mist rising from water" and presents users with a Chinese-style visual experience of "full words and endless meanings".



Twist of the Fate (浮生憶玲瓏) focuses on the main story line of “Detective Investigation”, and advances the interlocking plot by having the protagonists realize their own value. In the game, players will play as the students who graduated from Linglong Academy and come to the capital city to fulfill their promises with the senior male apprentice. During the period, the players will make many friends and they solve a series of mysterious cases together. Although the society suffered from rampant turbulence, they will push aside all obstacles and difficulties and ultimately lead the world to peace. The gameplay is further enhanced with more freedom and openness as well as a higher level of scene interactivity to suit the theme of detective investigation. Through a series of gameplay modes such as deciphering clues, collecting adventures, and unlocking multiple identities, the game builds an open world with both “Love & Detective Investigation” to satisfy player’s need for light entertainment, brain teasers and immersive gaming experiences.



Twist of the Fate (浮生憶玲瓏) has obtained the game version number issued by the National Press and Publication Administration on 10 February 2023. Currently, the R&D progress of this game has exceeded expectations and the first internal test has been successfully completed. More open tests will be conducted this year.

Code: WX (代號 : WX)



Code: WX (代號 : WX) is a role-playing strategy game set in a fictional Chinese-style wuxia world, featuring the classic martial arts as its core. The game illustrates an unrestrained and pleasant world of wuxia, creating stereoscopic and realistic martial artists, and a multi-dimensional wuxia epic. Players can foster their own martial arts systems without restrictions, enjoy the fun of tactics and moves, and experience the love in the wuxia world.

Code: PE (代號 : PE)



Code: PE (代號 : PE) is a female-oriented role-playing game set in a fictional European royal world. The game portrays the Western royal family with immersive audio-visual experiences and a multi-dimensional storytelling approach, creating a dynasty of legendary queen. Players will enter the royal world, experience the struggle for power, enjoy emotional interactions, and cast a generation of queen legends.

OUTLOOK

In the future, facing the complex international political situation, changes in the domestic and overseas policy environment and the increasingly competitive industry environment, the Group will continue to increase our investment in research and development, distribution and operation talents of games, enhance industrialization, new technology research and improve efficiency of research and development tools, to strengthen our global competitiveness by building a diversified and innovative product portfolio and launching new games of different styles while ensuring the long-term operation of existing games. While adhering to self-development and innovation, we 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 spirit of the times to bring about new dynamics to the Group's long term development.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

(Expressed in Renminbi)

		Years ended 31 December	
		2022	2021
	Note	RMB'000	RMB'000
Revenue	2	1,524,391	1,616,137
Cost of sales		<u>(480,277)</u>	<u>(526,709)</u>
Gross profit		1,044,114	1,089,428
Other net income		48,178	39,968
Sales and marketing expenses		(647,268)	(455,784)
Research and development expenses		(357,496)	(364,901)
General and administrative expenses		(69,619)	(66,890)
Other expenses — donations		<u>(672)</u>	<u>(1,070)</u>
Profit from operations		17,237	240,751
Finance costs		(39)	(49)
Share of loss of associates and joint venture		(1,253)	(3,434)
Changes in fair value of financial assets measured at fair value through profit or loss		<u>8,485</u>	<u>(3,399)</u>
Profit before taxation	3	24,430	233,869
Income tax	4	<u>681</u>	<u>41,614</u>
Profit for the year		<u>25,111</u>	<u>275,483</u>
Earnings per share			
Basic and diluted (RMB)	5	<u>0.01</u>	<u>0.13</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2022

(Expressed in Renminbi)

	Years ended 31 December	
	2022	2021
	RMB'000	RMB'000
Profit for the year	25,111	275,483
Other comprehensive income for the year		
Item that will not be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of the Company	12,299	–
Equity investments at FVOCI — net movement in fair value reserves (non-recycling)	(5,900)	–
	<hr/>	<hr/>
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	26,524	(14,272)
	<hr/>	<hr/>
Profit and total comprehensive income for the period	58,034	261,211
	<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(Expressed in Renminbi)

		As at 31 December	
	Note	2022	2021
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		266,294	278,542
Intangible assets		3,790	3,395
Right-of-use assets		9,235	8,740
Financial assets measured at fair value through profit or loss	6	86,571	35,913
Financial assets measured at fair value through other comprehensive income		–	8,825
Film right		262	13,208
Interest in associates and joint venture		–	4,908
Time deposits		114,097	110,000
Deferred tax assets		72,681	72,000
Other receivables		2,508	–
Other non-current assets		486	29,751
		<u>555,924</u>	<u>565,282</u>
Current assets			
Inventory		–	747
Contract costs		5,243	7,135
Financial assets measured at fair value through profit or loss	6	404,744	297,062
Trade and other receivables	7	104,061	182,575
Pledged bank deposits		1,809	1,658
Time deposits		137,457	–
Cash and cash equivalents		403,942	752,264
		<u>1,057,256</u>	<u>1,241,441</u>
Current liabilities			
Trade and other payables	8	80,053	117,088
Contract liabilities		24,985	33,137
Current taxation		19	20
Lease liabilities		908	1,117
		<u>105,965</u>	<u>151,362</u>
Net current assets		<u>951,291</u>	<u>1,090,079</u>
Total assets less current liabilities		<u>1,507,215</u>	<u>1,655,361</u>

		As at 31 December	
	<i>Note</i>	2022	2021
		RMB'000	RMB'000
Non-current liability			
Contract liabilities		9,801	8,956
Lease liabilities		465	–
		<u>10,266</u>	<u>8,956</u>
NET ASSETS		<u>1,496,949</u>	<u>1,646,405</u>
CAPITAL AND RESERVES			
	9		
Share capital		154	154
Reserves		<u>1,496,795</u>	<u>1,646,251</u>
TOTAL EQUITY		<u>1,496,949</u>	<u>1,646,405</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the year ended 31 December 2022 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.

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.

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.

2 REVENUE

(a) Disaggregation of revenue

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

	Years ended 31 December	
	2022	2021
	RMB'000	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	1,470,470	1,555,052
— Revenue from self-developed games published through intellectual property license arrangement and others	53,921	61,085
	<u>1,524,391</u>	<u>1,616,137</u>

(b) 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland of the PRC	1,134,566	1,130,908
Overseas	389,825	485,229
	<u>1,524,391</u>	<u>1,616,137</u>

3 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Years ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	314,209	324,445
Equity settled share-based payments	16,318	33,473
Contributions to defined contribution plans	48,693	28,000
	<u>379,220</u>	<u>385,918</u>

(b) Other items

	Years ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation of property, plant and equipment	26,276	20,064
Depreciation of right-of-use assets	1,273	1,350
Amortisation of intangible assets	1,578	1,282
Impairment losses (reversed)/recognised in trade and other receivables	(133)	22
Impairment losses of interest in associates and joint venture	8,080	7,239
Impairment losses of inventories	597	–
Auditors' remuneration	2,080	2,080
	<u>2,080</u>	<u>2,080</u>

4 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Years ended 31 December	
	2022	2021
	RMB'000	RMB'000
Current tax:		
Provision for current income tax for the year	–	9,748
Over-provision in prior years	–	(27,951)
		–
		(18,203)
Deferred tax:		
Origination and reversal of temporary differences	(681)	(23,411)
	(681)	(41,614)
	(681)	(41,614)

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

	Note	Years ended 31 December	
		2022	2021
		RMB'000	RMB'000
Profit before taxation		24,430	233,869
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned	(i)	4,538	46,855
Tax effect of preferential tax rate	(ii)	(8,030)	(57,478)
Super-deduction of research and development expense	(iii)	(6,174)	(23,530)
Effect on deferred tax balances at 1 January resulting from a change in tax rate		–	(1,890)
Tax effect of non-deductible expenses		4,287	6,697
Tax effect of tax losses not recognised		4,698	447
Tax effect of changes in tax losses recognised in prior years		–	1,989
Over-provision in prior years	(ii)	–	(27,951)
Tax effect of temporary differences not recognised, net of utilisation of temporary differences not recognised in prior years		–	13,247
		–	13,247
Actual income tax		(681)	(41,614)

- (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 2021. 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%.

- (ii) 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 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, the Inland Revenue Department's (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 is treated as offshore sourced and non-taxable. Accordingly, Hong Kong Profits Tax provision made on prior years' profits of Wish Interactive was reversed for the year ended 31 December 2021. The income of Wish Interactive remains being treated as offshore sourced and non-taxable for the year ended 31 December 2022.

- (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 nine months ended 31 December 2022 and the year ended 31 December 2021, and 100% additional tax deduction is allowed for qualified research and development costs from 1 October 2022 to 31 December 2022.

5 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 RMB25,111,000 (2021: RMB275,483,000) and the weighted average of 2,180,850,000 ordinary shares (2021: 2,180,850,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares in issue

	Years ended 31 December	
	2022 '000	2021 '000
Ordinary shares at 1 January	2,180,850	2,180,850
Effect of shares repurchased	—	—
Weighted average number of ordinary shares at 31 December	<u>2,180,850</u>	<u>2,180,850</u>
	Years ended 31 December	
	2022	2021
Profit attributable to the equity shareholders of the Company (RMB'000)	25,111	275,483
Weighted average number of ordinary shares in issue ('000)	<u>2,180,850</u>	<u>2,180,850</u>
Basic earnings per share	<u>0.01</u>	<u>0.13</u>

(b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2022 and 2021 is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

6 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Investment in Limited Liability Partnerships (“LLPs”)	86,571	35,913
Investment in wealth management products	360,000	278,000
Listed equity securities	16,394	19,062
Unlisted equity securities	28,350	–
	<u>491,315</u>	<u>332,975</u>
Financial assets measured at fair value through profit or loss included in the consolidated financial statement:		
Current	404,744	297,062
Non-current	86,571	35,913

7 TRADE AND OTHER RECEIVABLES

	Note	As at 31 December	
		2022	2021
		RMB'000	RMB'000
Trade receivables		73,342	96,146
Less: Loss allowance		(1)	(137)
Trade receivables, net	(a)	73,341	96,009
Deposits and prepayments		11,855	25,441
VAT deductible		544	6,348
Income tax recoverable		11,854	14,089
Amounts due from Suzhou Gamefriend Network Technology Co., Ltd.		–	32,523
Other receivables		8,975	8,165
		<u>106,569</u>	<u>182,575</u>
Current		104,061	182,575
Non-current		2,508	–
		<u>106,569</u>	<u>182,575</u>

All the trade and other receivables are expected to be recovered or recognised as expenses within one year.

(a) Ageing analysis

As at the end of each of the years ended 31 December 2021 and 2022, the ageing analysis of trade receivables, based on the invoice date and net of allowance, is as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Within 3 months	73,341	90,161
After 3 months but within 1 year	1	5,985
After 1 year but within 2 years	–	–
Less: Loss allowance	(1)	(137)
	<u>73,341</u>	<u>96,009</u>
Trade receivables, net	<u>73,341</u>	<u>96,009</u>

8 TRADE AND OTHER PAYABLES

	Note	As at 31 December	
		2022	2021
		RMB'000	RMB'000
Trade payables	(a)	17,226	18,998
Accrued payroll		56,529	70,724
Payables related to property, plant and equipment		1,363	24,254
Other payables and accruals		4,935	3,112
		<u>80,053</u>	<u>117,088</u>
Trade and other payables		<u>80,053</u>	<u>117,088</u>

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	
	2022	2021
	RMB'000	RMB'000
Within 3 months	16,516	18,574
Over 3 months but within 6 months	66	380
Over 6 months but within 12 months	47	35
Over 1 year	597	9
	<u>17,226</u>	<u>18,998</u>
	<u>17,226</u>	<u>18,998</u>

9 CAPITAL AND RESERVES

(a) Dividends

Dividends payable to equity shareholders of the Company attributable to the year:

	2022	2021
	RMB'000	RMB'000
Special dividend proposed after the end of the year ended 31 December 2022 of HK\$0.06 per ordinary share (2021: Final dividend: HK\$0.12 per ordinary share)	116,885	213,968

(b) Share capital

(i) Authorized and issued share capital

	Par Value	No. of shares	US\$
	<i>US\$</i>	<i>'000</i>	<i>'000</i>
Authorized shares at 31 December 2021 and 2022	<u>0.00001</u>	<u>2,180,850</u>	<u>20</u>
RMB equivalent ('000)			<u>154</u>

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 2022 and 2021 represents the share capital of the Company.

(ii) Purchase of own shares

None of the own shares of the Company was repurchased through the Stock Exchange during the year ended 31 December 2022 (2021: Nil).

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2022, the Group recorded revenue of approximately RMB1,524.4 million, representing a decrease of RMB91.7 million or approximately 5.7% from approximately RMB1,616.1 million for the year ended 31 December 2021. The slight decrease in revenue in 2022 was mainly due to the normal decline in revenue related to old games with the growth of the life cycle. At the same time, the good performance of new games during the year brought incremental revenue.

Revenue by activity

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				Year-on-year % change
	2022		2021		
	RMB'000	%	RMB'000	%	
Revenue from games	1,523,559	99.9%	1,616,108	100.0%	-5.7%
Others	832	0.1%	29	0.0%	2,769.0%
Revenue	<u>1,524,391</u>	<u>100.0%</u>	<u>1,616,137</u>	<u>100.0%</u>	<u>-5.7%</u>

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				Year-on-year % change
	2022		2021		
	RMB'000	%	RMB'000	%	
Mainland of the PRC	1,133,734	74.4%	1,130,879	70.0%	0.3%
Overseas	389,825	25.6%	485,229	30.0%	-19.7%
Revenue from games	<u>1,523,559</u>	<u>100.0%</u>	<u>1,616,108</u>	<u>100.0%</u>	<u>-5.7%</u>

Cost of sales

The Group's cost of sales decreased by 8.8% from approximately RMB526.7 million for the year ended 31 December 2021 to approximately RMB480.3 million for the year ended 31 December 2022, mainly due to the decrease in distribution costs from games resulting from the increase in the proportion of revenue from self-owned channels and the decrease in the proportion of revenue from third-party intermodal channels.

Gross profit and gross profit margin

As a result of the above, gross profit decreased by 4.2% from approximately RMB1,089.4 million for the year ended 31 December 2021 to approximately RMB1,044.1 million for the year ended 31 December 2022. Gross profit margin increased from approximately 67.4% for the year ended 31 December 2021 to approximately 68.5% for the year ended 31 December 2022, mainly due to the higher gross profit margin from self-owned channels, the increase in the proportion of revenue from which pulled up the overall gross profit margin of the Group.

Sales and marketing expenses

For the year ended 31 December 2022, the Group's sales and marketing expenses amounted to approximately RMB647.3 million, representing an increase of RMB191.5 million or approximately 42.0% from approximately RMB455.8 million for the year ended 31 December 2021, mainly due to the significant marketing expenditure incurred in the early stages of new product launches in the first half of 2022. However, the marketing expenses for new products were significantly decreased in the second half of 2022 compared to the first half.

Research and development expenses

For the year ended 31 December 2022, the Group's research and development expenses amounted to approximately RMB357.5 million, representing a decrease of RMB7.4 million or approximately 2.0% from approximately RMB364.9 million for the year ended 31 December 2021, mainly due to (i) the decrease in art production costs invested in existing projects; and (ii) the increase in the employee expenses resulting from the research and development of new games and the continuous upgrading of existing games.

General and administrative expenses

For the year ended 31 December 2022, the Group's administrative expenses amounted to approximately RMB69.6 million, representing an increase of RMB2.7 million or approximately 4.1% from approximately RMB66.9 million for the year ended 31 December 2021.

Finance costs

For the year ended 31 December 2022, the Group's finance costs amounted to approximately RMB0.04 million, representing a decrease of RMB0.01 million from approximately RMB0.05 million for the year ended 31 December 2021.

Income tax

For the year ended 31 December 2022, the Group's income tax expense amounted to approximately RMB-0.7 million, representing an increase of RMB40.9 million from approximately RMB-41.6 million for the year ended 31 December 2021, mainly due to the effect from the entitlement to preferential income tax.

Profit for the year

In 2022, our profit for the year amounted to approximately RMB25.1 million, representing a decrease of approximately RMB250.4 million or approximately 90.9% from approximately RMB275.5 million in 2021.

Adjusted profit for the year

Adjusted profit for the year is calculated by adding back 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 2022 and 2021:

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	25,111	275,483
Add: Share-based remuneration	16,318	33,473
Adjusted profit for the year	41,429	308,956

Liquidity and capital resources

As of 31 December 2022, the Group's current liabilities/net assets amounted to approximately 0.07 (31 December 2021: 0.09).

As of 31 December 2022, the Group's cash and cash equivalents amounted to approximately RMB403.9 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	
	2022	2021
	RMB'000	RMB'000
Net cash generated from operating activities	155,214	262,656
Net cash used in investing activities	(278,039)	(385,542)
Net cash used in financing activities	(225,359)	(217,038)
Net decrease in cash and cash equivalents	(348,184)	(339,924)
Cash and cash equivalents as at the beginning of the year	752,264	1,093,324
Effect of foreign exchange rate changes	(138)	(1,136)
Cash and cash equivalents as at 31 December	403,942	752,264

Operating activities

For the year ended 31 December 2022, net cash generated from operating activities was RMB155.2 million, compared to RMB262.7 million for the year ended 31 December 2021.

Investing activities

For the year ended 31 December 2022, net cash used in investing activities was RMB278.0 million, which primarily included (1) payments for purchase of investments measured at fair value through profit or loss of RMB1,037.5 million; (2) the proceeds from redemption of investments measured at fair value through profit or loss amounted to RMB928.4 million; (3) our payment for purchase of investments of time deposits of RMB205.4 million; (4) the proceeds from redemption of time deposit investment amounted to RMB69.6 million; and (5) our payment for purchase of property, plant and equipment, intangible assets and other non-current assets of RMB38.0 million. For the year ended 31 December 2021, net cash used in investing activities was RMB385.5 million.

Financing activities

For the year ended 31 December 2022, net cash used in financing activities was RMB225.4 million, mainly include payment of dividends amounted to RMB223.8 million. For the year ended 31 December 2021, net cash used in financing activities was RMB217.0 million.

Capital expenditures

The Group's capital expenditures mainly included (1) construction of our 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 2022 and 2021 are set out below:

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	14,064	35,413
Right-of-use assets	1,768	2,235
Intangible assets	1,973	821

Gearing ratio

As at 31 December 2022, gearing ratio was 0.1% (31 December 2021: 0.1%). As at 31 December 2022, the Group did not have bank borrowings (31 December 2021: Nil).

Capital structure

For the year ended 31 December 2022, the Group's capital structure has not been changed.

Contingent liabilities

As of 31 December 2022, the Group did not have any unrecorded significant contingent liabilities or any guarantees (2021: Nil).

Employees and remuneration policies

As of 31 December 2022, the Group had a total of 1,201 employees (31 December 2021: 1,362 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 2022.

Restructuring and significant investments

During the year ended 31 December 2022, the Group did not have any restructuring and significant investments.

Financial assets

1. As of 31 December 2022, 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.
2. As of 31 December 2022, the wealth management products of the Group that have met the disclosable transaction requirements under the Listing Rules were disclosed in relevant announcements. None of the remaining wealth management products had a fair value accounting for 5% or more of the Group's total assets.
3. As of 31 December 2022, the Group's limited partnership investments were investments in three venture capital partnerships as a limited partner, and the fair value of the investments did not exceed 5% of the Group's total assets.
4. As of 31 December 2022, 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% or more of the Group's total assets.
5. As of 31 December 2022, the Group's financial assets measured at fair value through profit or loss were equity investments in unlisted companies. The fair value of such investments did not exceed 5% or more of the Group's total assets.

6. 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.

Material acquisitions and disposals of assets

For the year ended 31 December 2022 and up to date of this announcement, there were no material acquisitions and disposals of assets.

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.

Pledge of assets by the Group

As of 31 December 2022, the Group did not pledge any assets as collateral for bank borrowings or any other financing activities (31 December 2021: Nil).

Foreign currency exchange risks

For the year ended 31 December 2022, 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 2022, 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.

On 31 October 2022, the Board of the Company reallocated the unused net proceeds of approximately RMB19.1 million for the R&D of game products, R&D and upgrading of core technology platform, which was disclosed in the announcement dated 31 October 2022 and headed “CHANGE OF USE OF PROCEEDS FROM THE GLOBAL OFFERING” in the websites of the Stock Exchange and the Company (“**Net proceeds available after adjusting the use**”).

For the year ended 31 December 2022, the IPO proceeds were utilized in accordance with the intended purposes stated in the Prospectus and the abovementioned announcement published by the Company. The IPO proceeds were utilized fully without outstanding balance. For details, please refer to the following table:

	Net proceeds available from the Listing <i>RMB million</i>	Net proceeds available after adjusting the use <i>RMB million</i>	Actual net amount utilized as at 31 December 2022 <i>RMB million</i>	Unutilized net amount as at 31 December 2022 <i>RMB million</i>
R&D of game products, R&D and upgrading of core technology platform	130.2	149.3	149.3	0
Global market launch and operation	151.9	151.9	151.9	0
IP ecological construction	65.1	65.1	65.1	0
Acquisition of upstream and downstream industries	43.4	24.3	24.3	0
Working capital and general daily use	43.4	43.4	43.4	0
Total	<u>434.0</u>	<u>434.0</u>	<u>434.0</u>	<u>0</u>

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2022

On 2 and 5 January 2023, the Board, based on the recommendation of the remuneration committee of the Company, resolved to grant 2,152,000 and 6,461,600 Awarded Shares respectively, 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 2 and 5 January 2023 respectively. The Share Award Grantees are employees (excluding the Directors) of the Group. These Awarded Shares were granted as a gift at nil consideration with an exercise period ranging from 1 month to 37 months.

OTHER INFORMATION

Dividend

The Board proposed the payment of special dividend of HK6 cents per ordinary share for the year ended 31 December 2022 (final dividend for the year ended 31 December 2021: HK12 cents per ordinary share). The payment of special dividend shall be subject to the approval by the Shareholders at the AGM. Upon the approval by the Shareholders, the special dividend is expected to be paid on Thursday, 8 June 2023.

Annual General Meeting

The AGM will be held on Tuesday, 16 May 2023. 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 2023 AGM

For determination of the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 11 May 2023 to Tuesday, 16 May 2023 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 10 May 2023.

2. Entitlement to the special dividend for 2022

For determination of the entitlement of Shareholders to the special dividend for 2022 (special dividend is subject to approval by the Shareholders at the AGM), the register of members of the Company will be closed from Monday, 22 May 2023 to Wednesday, 24 May 2023 (both days inclusive), during which period no transfer of the Shares of the Company will be registered. The record date for entitlement to the special dividend for 2022 is Wednesday, 24 May 2023. 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Friday, 19 May 2023. The payment date for the special dividend for 2022 is expected to be on Thursday, 8 June 2023.

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

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed the listed securities of the Company.

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

1. 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
2. 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

1. The Share Award Scheme is subject to the Scheme Rules and the terms of the Trust Deed (as the case may be);
2. 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
3. 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.

Sources of Awarded Shares of the Share Award Scheme

1. Mr. Jiang Xiaohuang, the controlling shareholder of the Company, decided to indirectly transfer 80,000,000 Shares of the Company as a gift, at nil consideration, as the pool of shares; and
2. As at 31 December 2022, a total of 6,180,000 Shares of the Company are purchased as the pool of shares under 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 (i) the tenth anniversary from the Adoption Date; or (ii) 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.
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.

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.
5. 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.
6. On 22 July 2022, Mr. Jiang Xiaohuang completed the third annual share contribution plan and indirectly transferred an aggregate of 20,000,000 Shares of the Company at nil consideration as the pool of Shares. By that time, the three-year gift plan of Mr. Jiang Xiaohuang has been completed.
7. As at 31 December 2022, a total of 6,180,000 shares of the Company are purchased as the pool of Shares under the Share Award Scheme.
8. On 2 and 5 January 2023, the Board, based on the recommendation of the remuneration committee of the Company, resolved to grant 2,152,000 and 6,461,600 Awarded Shares respectively, 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 2 and 5 January 2023 respectively. The Share Award Grantees are employees (excluding the Directors) of the Group. These Awarded Shares were granted as a gift at nil consideration with an exercise period ranging from 1 month to 37 months.

As at 31 December 2022, the Company granted a total of 56,000,000 Awarded Shares to the Selected Participants at nil consideration, of which 8,405,000 Awarded Shares in aggregate were expired and withdrawn, and the remaining 38,585,000 Awarded Shares was available for granting.

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 2022, 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 2022.

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.

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.

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 date of this announcement, at least 25% of the Company's total number of issued Shares were held by the public at all time since Listing Date.

Audit Committee

The Company established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee comprises three members, namely, Mr. Zhu Wei, Ms. Tang Haiyan and Mr. Zhang Jinsong, all being independent non-executive Directors of the Company. Mr. Zhu Wei is the chairman of the Audit Committee, who possesses suitable professional qualifications.

The Audit Committee has reviewed the Company's audited consolidated results for the year ended 31 December 2022 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.

Scope of Work of the Company's Auditor

The financial figures in respect of the Group's consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary results announcement have been compared by the Group's Auditor, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2022 and the amounts were found to be in agreement. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor.

Publication of the Annual Results and Annual Report

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.friendtimes.net). The 2022 annual report of the Group will be despatched to the Shareholders and published on the aforementioned websites in due course in accordance with Rule 13.46 of the Listing Rules.

DEFINITIONS

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

“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 2023
“AI”	Artificial intelligence
“AIGC”	AI Generated Content, refers to the content generated by using artificial intelligence technology
“AR”	Augmented reality, AR technology is a technology that integrates virtual information with the real world
“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
“Authorised Representative(s)”	authorised representative(s) appointed by the Board by passing ordinary resolutions delegated with the power and authority by the Board to give 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

“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
“China” or “PRC”	the People’s Republic of China, unless otherwise stated, excludes Hong Kong, Macau and Taiwan
“Company” or “our Company” or “the Company”	FriendTimes Inc., an exempted company incorporated in the Cayman Islands on 16 November 2018 with limited liability and listed on the Stock Exchange on 8 October 2019 (Stock code: 6820)
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the context of this announcement, 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)
“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

“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
“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
“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
“NPC”	the abbreviation for “Non-Player Character,” which refers to the game characters in electronic games that are not controlled by players
“Reporting Period”	1 January 2022 to 31 December 2022
“RMB”	Renminbi, the lawful currency of the PRC
“Selected Participant”	Eligible Participant(s) selected by the Board pursuant to the Scheme Rules who holds a subsisting Award

“Scheme Rules”	the rules of the Share Award Scheme, as amended from time to time
“Senior Management”	senior management of the Company
“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
“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
“%”	per cent

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank the management members and staff of the Group for their hard work in the past year. I would also like to give my sincere gratitude to our Shareholders, partners and stakeholders for their continued support, and hope to receive their continued support in the future.

By Order of the Board
FriendTimes Inc.
Jiang Xiaohuang
Chairman and Executive Director

Hong Kong, 21 March 2023

As at the date of this announcement, the board of directors comprises Mr. Jiang Xiaohuang, Mr. Xu Lin, Mr. Wu Jie and Mr. Sun Bo as executive Directors; and Mr. Zhu Wei, Ms. Tang Haiyan and Mr. Zhang Jinsong as independent non-executive Directors.