FRIEND TIMES

FRIEND TIMES 2019

ANNUAL REPORT

FRIENDTIMES INC.

Incorporated in the Cayman Islands
with limited liability

Stock Code:06820.HK

Contents

Definitions

"AGM"	the forthcoming annual general meeting of the Company to be held on 22 May 2020
"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"	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
"Board" or "Board of Directors"	board of directors of the Company
"Central Propaganda Department"	the Chinese Communist Party Central Committee Propaganda Department (中國共產黨中央委員會宣傳部)
"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 of China herein
"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)
"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 and Purple Crystal (as defined respectively in the Prospectus)
"Director(s)"	director(s) of the Company

Definitions

"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 BVI with limited liability on 26 November 2018 and is a wholly-owned subsidiary by our Company
"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)
"GameFriend"	Suzhou GameFriend Network Technology Co., Ltd. (蘇州好玩友網絡科技有限公司), a company established under the laws of the PRC with limited liability on 9 April 2014 and wholly-owned by FriendTimes Technology, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
"Global Offering"	the public offering of 33,000,000 Shares for subscription by the public in Hong Kong and the international offering (as defined respectively in the Prospectus) of 297,000,000 Shares for subscription by the institutional, professional, corporate and other investors
"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
"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
"MOCT"	Ministry of Culture and Tourism 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
"MOF"	Ministry of Finance of the PRC
"MOFCOM"	Ministry of Commerce of the PRC
"Operating Entity(ies)"	FriendTimes Technology, GameFriend, Purple Blaze, Cheeryoo and Purple Wing, 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, 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)

Definitions

"Reporting Period"	from 1 January 2019 to 31 December 2019
"RMB"	Renminbi, the lawful currency of the PRC
"SAPPRFT"	State Administration of Press, Publication, Radio, Film and Television of the PRC
"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$0.00001 each
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	the company(ies) which are for the time being and from time to time the subsidiary(ies) (within the meaning of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Listing Rules) of the Company, whether incorporated in Hong Kong, the British Virgin Islands, the PRC or elsewhere
"Suzhou Bojoy"	Suzhou Bojoy Information Technology Co., Ltd. (蘇州寶將信息科技有限公司), the predecessor of FriendTimes Technology
"Suzhou Eagle"	Suzhou Eagle Network Technology Co., Ltd. (蘇州億歌網絡科技有限公司), a WFOE established under the laws of the PRC with limited liability on 24 January 2019 which is wholly-owned by Friend Century and is our subsidiary
"U.S. dollars" or "US$"	U.S. dollars, the lawful currency of the United States
"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
"%"	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

Building 18, Scientific Park of Suhua
No. 208 Tongyuan 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:
William Ji & Co. LLP
in Association with
Tian Yuan Law Firm Hong Kong Office
Suite 702, 7/F
Two Chinachem Central
26 Des Voeux Road Central
Central
Hong Kong

COMPLIANCE ADVISER

Guotai Junan Capital Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road 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 four financial years:

RESULTS

	Year ended 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Revenue	568,802	700,247	1,464,290	**1,689,051**
Gross profit	358,262	432,274	918,290	**1,102,077**
Profit before taxation	89,490	143,229	361,284	**438,204**
Profit for the year	80,688	117,903	336,703	**415,527**
EBITDA	96,158	150,660	371,536	**451,665**
Adjusted EBITDA*	96,158	150,660	378,716	**478,683**

ASSETS, LIABILITIES AND EQUITY

	As at 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Total assets	349,810	475,123	735,948	**1,511,219**
Total liabilities	91,005	119,364	162,466	**204,382**
Total equity	258,805	355,759	573,482	**1,306,837**

* Adjusted EBITDA represents EBITDA excluding listing-related expenses. HKFRS does not define adjusted EBITDA and therefore may not be comparable to similar measures presented by other listed companies. Please refer to the reconciliation of adjusted EBITDA on page 16 for further information.

Chairman's Statement

2019 marked a milestone for the Company. Our shares were listed on the Main Board of the Stock Exchange on 8 October 2019. Therefore, I am pleased to present to our Shareholders our first Annual Report for the year ended 31 December 2019.

OVERVIEW

Market Overview

According to the "2019 Report on the Game Industry of China" jointly published by the Game Publishers Association Publications Committee of the China Audio-video and Digital Publishing Association and Gamma Information, the actual sales income of the PRC game market was RMB230.88 billion for 2019, representing a year-on-year increase of 7.7%. In terms of market segments, mobile game market income was RMB158.11 billion, representing a year-on-year increase of 18.0% and accounting for nearly 70% of the overall game market income. Mobile game was in a dominant position and became the major factor driving the overall growth of the game market, with 620 million users. In terms of product type, role-playing games in 2019 performed well. Role-playing games accounted for 54% of the top 100 mobile games in terms of market income. In addition, the report stated that the number of female users in 2019 was 300 million, accounting for 46.2% of the total domestic game users.

The Game Publishers Association Publications Committee of the China Audio-video and Digital Publishing Association stated that with the establishment of strict and standardized regulatory mechanism with clear orientation and definite standard as well as the improvement of the protection system for minors, the domestic game market will become more stable and mature. In view of the practical application of 5G technology in the game field, all parties in the industry chain will work together to jointly promote the research, application and pilot demonstration of cloud games, which will definitely have a profound impact on the future direction of the game industry. In addition, the strengthened supervision in the field of online copyright, advancement of intellectual property rights protection and the improvement of the intellectual property rights protection system will provide a better environment for the sustainable, healthy and stable development of the PRC game industry.

Group Overview

The Group is a leading integrated and well-established mobile game developer, publisher and operator with particular success in female-oriented games. Since our inception in 2010, we have been strategically focusing on mobile games targeting female players in the PRC to capture the significant growth potential in both the mobile game industry and the female-oriented game market. Leveraging on our success in the PRC market, we expanded into overseas market in 2011 and won the title of the National Key Cultural Export Enterprise for two consecutive years in 2018 and 2019. As a pioneer in the segment of ancient Chinese style female-oriented games, we are committed to spreading excellent traditional Chinese culture to a wider group and region. Adhering to the corporate cultural mission of "Let Culture Create Values", we 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.

BUSINESS REVIEW

2019 was a challenging year for the gaming industry. National supervision continued to strengthen, and the fact that it became more difficult to obtain national publication numbers, together with the complicated and changing competitive environment in both domestic and overseas markets, make the game market volatile. However, benefiting from the Company's strong research and development, publishing and operational capability, the inherent advantages of the long life cycle of games, expansion of the overseas market landscape as well as the extensive industry experience of the management team, the Company still achieved excellent results for the year ended 31 December 2019.

Chairman's Statement

Performance Review

For the year ended 31 December 2019, the Group's total revenue was approximately RMB1,689.1 million, increasing by 15.3% as compared to last year; the net profit for the year amounted to RMB415.5 million, increasing by 23.4% as compared to last year; the adjusted EBITDA was RMB478.7 million, increasing by 26.4% as compared to last year. The growth of revenue and net profit in 2019 was mainly due to the increase in revenue generated by our signature games, Royal Chaos (熹妃Q傳) and Rise of Queendom (宮廷計手遊).

In addition, revenue from operations in overseas market amounted to RMB568.8 million, accounting for 33.7% of our total revenue for the year ended 31 December 2019 and representing a year-on-year increase of 105.8%. The increase was mainly due to our strong localization capabilities in overseas markets. Through local languages and other game features that have been redesigned to meet the different game needs and preferences of players in different geographic markets, we optimized our game products structurally and artistically.

In terms of game monetization performance, for the year ended 31 December 2019, we continued to show our strengths and keen market insight. Monthly average revenue per paying user increased by 34.4% from the corresponding period in 2018 to RMB531.5 in 2019, and the accumulated total number of registered users reached 107.9 million by 31 December 2019. The large user base helped us better understand player preferences and market changes through powerful data analysis capabilities, so as to launch new games that are more popular in the market and carry out targeted marketing activities with more cost-effective strategies.

Business Review

— **Signature games continued to achieve strong operating results and newly launched games recorded outstanding performance**

As of 31 December 2019, we have released and are operating 10 mobile games (34 different languages in total) and seven H5 games worldwide.

Our signature games are enduring and have generated strong cash flow and stable revenue. For example, Legend of Empress (熹妃傳) has been in operation for more than 55 months, with the highest monthly turnover in 2019 exceeding RMB41.0 million; and Royal Chaos (熹妃Q傳) has been in operation for more than 30 months, with the highest monthly turnover in 2019 reaching RMB67.6 million.

We have been developing and launching new games while showing the strong and sustainable profitability of our existing main products. At the end of December 2019, we officially launched a major product in the field of ancient Chinese style female-oriented games, Fate of the Empress (浮生為卿歌). Soon after the game was launched, it won the first place in China's iOS role-playing games and strategy games. As to date, Fate of the Empress (浮生為卿歌) achieved a highest rankings of no.1 in free game board and no. 9 in the best-selling game board for iPad, and a highest rankings of no.2 in free game board and no. 9 in the best-selling game board for iPhone.

In addition, apart from the field of ancient Chinese style female-oriented games that we specialized in, we have started to step in other market segments. In 2019, we first entered the field of two-dimensional mobile games with our flagship product, Yokai Kitchen (精靈食肆), and quickly accumulated a large number of high-quality users in a short period of time, laying the foundation for the development of new categories in the future.

Chairman's Statement

— **Further expansion in overseas markets with good performance of many products**

Deepening the expansion in overseas markets was one of our development strategies. For the year ended 31 December 2019, our products have been distributed to Hong Kong, Macau and Taiwan regions of the PRC and overseas markets such as Korea, Japan, Southeast Asia and North America. Some games performed remarkably overseas. For example, Fate of the Empress (浮生為卿歌) and Yokai Kitchen (精靈食肆) achieved a highest ranking of no.2 in the free game board for App Store in Taiwan; Rise of Queendom (宮廷計手遊) achieved a highest ranking of no.9 in the free game board for Google Play in South Korea; and Royal Chaos (熹妃Q傳) achieved a highest ranking of no.13 in the free game board for App Store in Japan.

In recognition of our achievements in the overseas mobile game markets, we have been awarded the title of National Key Cultural Export Enterprise for 2019-2020 by the MOFCOM, the Central Propaganda Department, the MOF, the MOCT and the SAPPRFT. Meanwhile, Legend of Empress (熹妃傳), Royal Chaos (熹妃Q傳) and Fate: Royal Revenge (京門風月) were elected as key international cooperation projects of cultural industry and tourism industry of "the Belt and Road Initiative" in 2019 by the MOCT.

— **Important honors and awards received in 2019**

For the year ended 31 December 2019, we were determined to strive for excellence. The Company has been highly recognized by the country, market and industry, and has won the following awards:

- 2019 Outstanding Award of China Games Capital Summit granted by China Games Capital Summit;
- Top 50 Internet Enterprises in Jiangsu Province granted by Jiangsu Internet Association;
- Top 100 Service Providers of China Digital Service and Leading Service Providers 2019 by China Council for International Investment Promotion;
- Key Enterprise of Internet Platform Economy with Project Value of "Millions" granted by the Development and Reform Commission of Jiangsu Province;
- Unicorn Enterprise of Suzhou Industrial Park;
- The 4th Golden Gyro Award — Outstanding Mobile Game Publisher of the Year "FriendTimes";
- The 4th Golden Gyro Award — Annual Mobile Game and Online Game Award "Yokai Kitchen (精靈食肆)";
- 2019 Golden Plume Award — Best ACG Mobile Game "Yokai Kitchen (精靈食肆)";
- The 7th Gold Tea Award — 2019 Most Influential Game Enterprise Award "FriendTimes";
- The 7th Gold Tea Award — 2020 Most Anticipated Mobile Game Award "Fate of the Empress (浮生為卿歌)";
- 2019 OPPO Developers' Conference — Favorite Game "Legend of Empress (熹妃傳)"; and
- SAMSUNG Galaxy Store — 2019 Best Popular Games "Rise of Queendom (宮廷計手遊)".

Chairman's Statement

OUTLOOK

In 2020, we will continue to enhance our strengths in product research and development and operation, brand promotion and dissemination. While continuing to develop overseas markets, we will further expand the game category portfolio, extend the product profit cycle, and strive to explore the commercial value of original IP, and gradually build the entire industry chain development system, with a view to achieving our goal of "strengthening the leading position in the PRC and global online game industry" soon.

Our development initiatives include:

— **Consolidate our leading position in female-oriented games and further expand the game category portfolio**

We plan to continue to focus on our research and development, publication and operation of female-oriented games in which we have accumulated extensive experience and high market share. We plan to continue to optimize our existing female-oriented games by releasing upgrade versions. We also plan to expand our game portfolio to make it more diverse. In 2020, in addition to continuing to develop and publish new language versions of existing games, we plan to launch 4 new self-developed games, including modern women, female Xianxia and casual elimination games.

— **Deepen the expansion in overseas markets**

In order to implement the global development strategy, we will continue to develop new language versions of existing games in localized styles and languages, while developing overseas language versions of new games. We also plan to devote more resources to expand important overseas markets. We will actively gather markets intelligence and explore market opportunities in order to steadily expand into countries and regions with greater market potential.

— **Refine publication and operation, improve monetization capability**

We will continue to analyze player behavior and adopt different operation and promotion strategies based on the analysis report, in order to launch new content and version that reflect the latest market trends and player needs, and provide diversified virtual items. At the same time, we will enhance social and game functions, distribute game strategies and carry out more activities to stimulate player interest, boost in-game purchases and attract dormant users in order to bring the ultimate gaming experience to players, thereby improving their monetization ability and continuing to generate stable revenue for the Company.

— **Continue to improve brand and game reputation**

We will continue to implement our global expansion strategy under the "FriendTimes" brand. We will promote our "FriendTimes" brand through a series of online and offline marketing campaigns that increase our game and brand exposure. Meanwhile, we plan to increase online marketing and advertising expenses and create more channels to publish information about our games to attract more public and industry attention for our brand and new games.

— **Dedicate our efforts to explore the commercial value of original IP and gradually build the entire industry chain development system**

We will seek the commercialization of gaming IP and particularly explore the commercial value of original IP to expand income source and create a gaming IP ecosystem. We plan to make strategic acquisitions of upstream and downstream gaming-related businesses so that we can build a complete product chain that covers IP creation, game development, and traffic channels, thereby enhancing our market position. Meanwhile, we will extend our IP to other areas, such as comics, movies and television, and derivatives, and gradually build the entire industry chain development system.

Chairman's Statement

APPRECIATION

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 their continuous support in the future.

Jiang Xiaohuang
Chairman

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded revenue of approximately RMB1,689.1 million, representing an increase of RMB224.8 million or approximately 15.3% from approximately RMB1,464.3 million for the year ended 31 December 2018. The increase in revenue was mainly due to the increase in revenue from our games, Royal Chaos (熹妃Q傳) and Rise of Queendom (宮廷計手遊).

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				
	2019		2018		year-on-year
	RMB'000	**%**	RMB'000	%	% change
Revenue from games	**1,689,051**	**100.0%**	1,464,161	100.0%	15.4%
Others	**–**	**0.0%**	129	0.0%	–100.0%
Revenue	**1,689,051**	**100.0%**	1,464,290	100.0%	15.3%

Revenue from games by geographic markets, development models and publishing models

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				
	2019		2018		year-on-year
	RMB'000	**%**	RMB'000	%	% change
Domestic market	**1,120,229**	**66.3%**	1,187,818	81.1%	–5.7%
Overseas market	**568,822**	**33.7%**	276,343	18.9%	105.8%
Revenue from games	**1,689,051**	**100.0%**	1,464,161	100.0%	15.4%

Management Discussion and Analysis

Income by game products

The table below sets forth a breakdown of revenue from our major games in actual amounts and as percentage to total revenue for the periods indicated:

	Year ended 31 December				
	2019		2018		year-on-year
	RMB'000	**%**	RMB'000	%	% change
Legend of Empress (熹妃傳)	**383,824**	**22.7%**	443,482	30.3%	–13.5%
Royal Chaos (熹妃Q傳)	**771,297**	**45.7%**	691,790	47.2%	11.5%
Rise of Queendom (宮廷計手遊)	**443,765**	**26.3%**	275,226	18.8%	61.2%
Others	**90,165**	**5.3%**	53,663	3.7%	68.0%
Revenue from games	**1,689,051**	**100.0%**	1,464,161	100.0%	15.4%

Cost of sales

The Group's cost of sales increased by 7.5% from approximately RMB546.0 million for the year ended 31 December 2018 to approximately RMB587.0 million for the year ended 31 December 2019, mainly due to the increase in distribution costs charged by distribution platforms resulting from the increase in revenue from games, and the increases in server-related expenses and remuneration and benefits of operation personnel.

Gross profit and gross profit margin

As a result of the above, gross profit increased by 20.0% from approximately RMB918.3 million for the year ended 31 December 2018 to approximately RMB1,102.1 million for the year ended 31 December 2019. Gross profit margin increased from approximately 62.7% for the year ended 31 December 2018 to approximately 65.2% for the year ended 31 December 2019.

Sales and marketing expenses

For the year ended 31 December 2019, the Group's sales and marketing expenses amounted to approximately RMB393.3 million, representing a decrease of RMB28.8 million or approximately 6.8% from approximately RMB422.1 million for the year ended 31 December 2018, mainly due to the decrease in promotion spending.

Research and development expenses

For the year ended 31 December 2019, the Group's research and development expenses amounted to approximately RMB223.6 million, representing an increase of RMB87.2 million or approximately 63.9% from approximately RMB136.4 million for the year ended 31 December 2018, mainly due to (i) the increase in employee expenses in 2019 resulting from the launch of new games and continually upgrade of existing games, and (ii) the increase in art and music production cost.

General and administrative expenses

For the year ended 31 December 2019, the Group's administrative expenses amounted to approximately RMB62.1 million, representing an increase of RMB29.6 million or approximately 91.1% from approximately RMB32.5 million for the year ended 31 December 2018, mainly due to the increase in listing expenses and the increase in employee salaries and welfare expenses.

Finance costs

For the year ended 31 December 2019, the Group's finance costs amounted to approximately RMB0.3 million, representing a decrease of RMB0.9 million from approximately RMB1.2 million for the year ended 31 December 2018, mainly due to the decrease in interest expenses resulting from reduced loans.

Income tax expense

For the year ended 31 December 2019, the Group's income tax expense amounted to approximately RMB22.7 million, representing a decrease of RMB1.9 million from approximately RMB24.6 million for the year ended 31 December 2018.

Profit for the year

In 2019, our profit for the year amounted to approximately RMB415.5 million, representing an increase of approximately RMB78.8 million or 23.4% from approximately RMB336.7 million in 2018.

EBITDA and adjusted EBITDA

EBITDA represents net profit during the year (excluding interest expenses, tax expenses, depreciation of property, plant and equipment,depreciation of right-of-use assets and amortization of intangible assets). Adjusted EBITDA is calculated by adding back listing expenses.

The table below sets forth the reconciliation between the Group's profit for the year and EBITDA and adjusted EBITDA for the year ended 31 December 2019 and 2018:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit for the year	**415,527**	336,703
Add: Depreciation of property, plant and equipment	**7,570**	4,823
Add: Amortization of intangible assets	**1,392**	367
Add: Depreciation of right-of-use assets	**4,210**	3,820
Add: Income tax expenses	**22,677**	24,581
Add: Interest expenses	**289**	1,242
EBITDA	**451,665**	371,536
Add: Listing expenses	**27,018**	7,180
Adjusted EBITDA	**478,683**	378,716

Liquidity and capital resources

As of 31 December 2019, the Group's current liabilities/net assets amounted to approximately 0.15 (31 December 2018: 0.26).

As of 31 December 2019, the Group's cash and cash equivalents amounted to approximately RMB893.4 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	
	2019	2018
	RMB'000	RMB'000
Net cash generated from operating activities	**341,581**	344,046
Net cash used in investing activities	**(235,819)**	(54,978)
Net cash generated from/(used in) financing activities	**319,124**	(123,577)
Net change in cash and cash equivalents	**424,886**	165,491
Cash and cash equivalents as at the beginning of the year	**472,605**	305,316
Effect of foreign exchange rate changes	**(4,091)**	1,798
Cash and cash equivalents as at 31 December	**893,400**	472,605

Operating activities

For the year ended 31 December 2019, net cash generated from operating activities was RMB341.6 million, compared to RMB344.0 million for the year ended 31 December 2018.

Investing activities

For the year ended 31 December 2019, net cash used in investing activities was RMB235.8 million, which primarily included (i) our payment for purchase of property, plant and equipment, intangible assets and other non-current assets of RMB95.1 million mainly as a result of the construction of our new office building and purchase of servers, computers, testing equipment and softwares, (ii) the payment for investments measured at fair value through profit or loss of RMB411.9 million, and (iii)the proceeds from redemption of wealth management products of RMB265.0 million, partially offset by our interest income of RMB5.9 million. For the year ended 31 December 2018, net cash used in investing activities was RMB55.0 million.

Financing activities

For the year ended 31 December 2019, net cash generated from financing activities was RMB319.1 million, mainly due to the combined effect of payment of dividends by RMB102.3 million and the net proceeds raised from offer shares of the Company in the Global Offering amounted to RMB434.0 million. For the year ended 31 December 2018, net cash used in financing activities was RMB123.6 million.

Management Discussion and Analysis

Capital expenditures

The Group's capital expenditures mainly included (i) construction of our new office building in Suzhou, purchase of property, plant and equipment such as servers and computer equipment; and (ii) 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. Capital expenditures for the year ended 31 December 2019 and 2018 are set out below:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Property, plant and equipment	**131,367**	72,657
Intangible assets	**7,989**	196
Right-of-use assets	**–**	2,840

Capital commitments

The Group's capital commitments regarding our office building (under construction), servers and computer equipment were approximately RMB114.0 million (31 December 2018: RMB215.1 million). The Group plans to finance its capital commitments with its own funds.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Contracted for but not provided for	**103,124**	115,256
Authorized but not contracted for	**10,845**	99,800
	113,969	215,056

Gearing ratio

As at 31 December 2019, gearing ratio was 0.2% (31 December 2018: 1.2%). The decrease in gearing ratio for the year ended 31 December 2019 was mainly due to the increase in total equity. As at 31 December 2019, the Group did not have bank borrowings (31 December 2018: nil).

Capital structure

As at the Listing Date, the Company allotted and issued 330,000,000 new Shares of the Company. The Company's capital structure has not changed since then. The Company's capital includes ordinary shares and other reserves.

Contingent liabilities

As of 31 December 2019, the Group did not have any unrecorded significant contingent liabilities or any guarantees (2018: Nil).

Employees and remuneration policies

As of 31 December 2019, the Group had a total of 1,298 employees (31 December 2018: 1,127 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 2019.

Restructuring and significant investments

During the year ended 31 December 2019, the Group did not have any restructuring and significant investments.

Financial assets

1. As of 31 December 2019, the wealth management products were issued by listed commercial banks in China, all of which were floating rate principal protected deposits. 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.

   Details of the acquisition are as follows:

   The total principal amount of the wealth management products issued by China CITIC Bank Corporation Limited purchased by the Group is RMB10 million, with a term of 109 days and a yield rate ranging from 3.6% to 4%.

   The total principal amount of the wealth management products issued by Bank of Suzhou Co., Ltd purchased by the Group is RMB50 million, with a term of 152 days and a yield rate ranging from 3.1% to 4.7%.

   The total principal amount of the wealth management products issued by Shanghai Pudong Development Bank Co., Ltd. purchased by the Group is RMB10 million, with a term of 90 days and a yield rate ranging from 3.75% to 5%.

   As of the date of this annual report, the Company has fully redeemed the wealth management products with a principal of RMB 70 million and obtained returns within the agreed yield range.

   As of 31 December 2019, none of the wealth management products had a fair value of 5% or more of the Group's total assets.

2. As of 31 December 2019, stock investment represented the fair value of equity shares listed on an active stock market. The Directors of the Company believed that the closing price of the securities was the fair value of the investment. As of 31 December 2019, the fair value of stock investments did not exceed 5% or above of the Group's total assets.

3. As of 31 December 2019, the TV-series-based financial instrument represented the Group's investment in TV-series production, and the principal was protected. As of the date of this annual report, the TV series has obtained a domestic TV series distribution license. As of 31 December 2019, the fair value of the TV-series-based financial instrument did not exceed 5% or above of the Group's total assets.

4. 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 2019 and up to date of this annual report, 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 2019, the Group did not pledge any assets as collateral for bank borrowings or any other financing activities (31 December 2018: RMB7,530,000).

Foreign currency exchange risks

For the year ended 31 December 2019, 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 will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

Use of Proceeds from the Listing

The Shares of the Company were listed on the Main Board of the Stock Exchange on 8 October 2019 by way of global offering, raising total net proceeds of approximately RMB434.0 million after deducting professional fees, underwriting commissions and other related listing expenses (the "IPO Proceeds"). As stated in the Prospectus, the intended uses of the IPO Proceeds are set out as follows:

- approximately RMB130.2 million (equivalent to 30% of the net proceeds) are expected to be used for further expanding and enhancing our game portfolio and for the research and development of our core proprietary technologies;
- approximately RMB151.9 million (equivalent to 35% of the net proceeds) are expected to be used for funding our advertising, marketing and promotion campaigns so as to strengthen our competitive position in the PRC as well as various important overseas markets;
- approximately RMB65.1 million (equivalent to 15% of the net proceeds) are expected to be used for strengthening our IP portfolio and enriching IP related contents offerings;
- approximately RMB43.4 million (equivalent to 10% of the net proceeds) are expected to be used for funding our strategic acquisition of both upstream and downstream game-related businesses so as to strengthen our IP creation capability and enlarge our IP portfolio as well as to expand our game offerings and enhance our research performance and efficiency; and
- approximately RMB43.4 million (equivalent to 10% of the net proceeds) are expected to be used as working capital and for general corporate purposes.

Since the Listing Date and up to 31 December 2019, the Group has not utilized any IPO Proceeds. In 2020, the Group will gradually utilize the IPO Proceeds in accordance with the intended purposes stated in the Prospectus.

Management Discussion and Analysis

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2019

1. On 17 January 2020, FriendTimes Technology, an Operating Entity of the Group, completed the registration of change in business scope at the Jiangsu Market Supervision and Administration Bureau to include the business of "production and publication of radio and television; movies and television planning; organization of cultural and art exchange activities and conference services" and obtained the Radio and Television Program Production and Operation License from Jiangsu Broadcasting Bureau on 17 February 2020.

2. The Group issued the announcement of "Proposed Adoption of Chinese Name" on 6 March 2020, stating that the Board proposed to adopt the Chinese name of "友誼時光股份有限公司" as the dual foreign name of the Company (the "Proposed Adoption of Chinese Name"). The Proposed Adoption of Chinese Name shall be subject to the following conditions: (i) approved by the Shareholders of the Company by means of a special resolution at an extraordinary general meeting of the Company to be held at Conference Room, 4th Floor, Building 18, Scientific Park of Suhua, No. 208 Tongyuan Road, Suzhou Industrial Park, Jiangsu Province, the PRC on Thursday, 26 March 2020 at 10:00 a.m. (the "EGM"); and (ii) approved by the Registrar of Companies in the Cayman Islands for the proposed adoption.

   The Group has considered and passed the special resolution at the extraordinary general meeting held on 26 March 2020.

3. In late 2019 and early 2020, it was reported an outbreak of infectious respiratory disease "COVID-19" (named by the World Health Organization) caused by the new coronavirus. The Chinese government has adopted various emergency measures and actions to prevent the proliferation of COVID-19, such as extending the Spring Festival holiday, imposing travel restrictions to certain provinces and cities, and minimizing the number of residents leaving home. The COVID-19 outbreak is expected to have significant impact on China's economic and business environment. As a result, residents' forms of outdoor entertainment, as well as offline entertainment during the Spring Festival, have been limited. Nonetheless, the short-term performance of the companies in related sectors, such as home entertainment, games, live broadcasts, long videos, and short videos increased significantly. For the year ended 31 December 2019 and up to the date of this annual report, the Group's operations and financial performance have not been adversely affected.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Jiang Xiaohuang (蔣孝黃), aged 37, is an executive Director, the Chairman and the CEO of our Company. Mr. Jiang is responsible for the overall management, decision-making and strategy planning of our Group.

Mr. Jiang is the founder of our Group and he has over 15 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, GameFriend 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 39, 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 14 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 33, 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 seven 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.

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 35, 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 15 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. (杭州易特旺旺網絡技術有限公司), 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 48, 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 16 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 49, 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 26 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. Since February 2015, Ms. Tang has been serving 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. (中核蘇閥科技實業股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 000777.SZ). Since August 2016, Ms. Tang has been serving 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). 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 50, 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 12 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 (李婭), aged 38, 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 13 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. (蘇州新銳美文計算機工程有限公司). 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 38, 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 nine 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.

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, Mr. Sun Bo (who form part of our Senior Management), see the section headed "Executive Directors" above.

JOINT COMPANY SECRETARIES

Mr. Liu Gongyou (劉功友), see "Senior Management" above for details.

Ms. Fung Wai Sum (馮慧森), aged 37, 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 ten 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, Wise Talent Information Technology Co., Ltd (stock code: 6100.HK) and Greenland Hong Kong Holdings Limited (stock code: 0337.HK).

Ms. Fung is a Chartered Secretary, a Chartered Governance Professional and an Associate of both 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

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in the CG Code as its own corporate governance framework. The Company complied with the code provisions as set out in the CG Code from the Listing Date to 31 December 2019, save for the deviations from code provision A.2.1 as disclosed below.

COMPLIANCE WITH THE MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. The Company was listed on the Stock Exchange on 8 October 2019. Therefore, the relevant standards set out in the Model Code were not applicable to the Company during the period from 1 January 2019 to 7 October 2019. The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have complied with the required standards as set out in the Model Code for the period from the Listing Date to 31 December 2019.

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

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.

BOARD AND COMMITTEE MEETINGS

The Company will adopt 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.

The Company was listed on the Stock Exchange on 8 October 2019. From the Listing Date to 31 December 2019, the Company held one Board meeting but did not hold any general meeting. The Company will fully comply with code provision A.1.1 of the CG Code to hold Board meetings at least four times a year, and at approximately quarterly intervals. The attendance record of the Board 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

Chairman and CEO

Under code provision A.2.1 of the CG Code, the roles of chairman of the board and the chief executive officer should be separated and should not be performed by the same individual.

Mr. Jiang Xiaohuang is the Chairman and CEO of the Company. 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 Shareholders.

Besides, all major decisions of the Company have been made in 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 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 Company.

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 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.

Appointment and Re-Election of Directors

All Directors (including 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 (including those appointed for a specific term) 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 of the Board (the "Nomination Committee") and then submitted to the Board, subject to approval by election at the general meeting.

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.

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.

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.

All Directors have participated appropriate training before the listing of the Company's Shares on the Stock Exchange to deepen their understanding of the Listing Rules and other relevant laws and regulations.

Independence of the Independent Non-Executive Directors

From the Listing Date to 31 December 2019, 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.

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 have recourse to 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 management.

BOARD COMMITTEES

The Board has established three committees, namely the audit committee (the "Audit Committee"), the remuneration 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.

During the year ended 31 December 2019, the Audit Committee held one meeting. The attendance of each member is set out below:

Name of members	Attendance/ Number of meetings eligible to attend
Mr. Zhu Wei	1/1
Mr. Zhang Jinsong	1/1
Ms. Tang Haiyan	1/1

The Audit Committee has reviewed the Company's audited consolidated results for the year ended 31 December 2019 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.

As the Company's Shares have been listed on the Stock Exchange since 8 October 2019, the Remuneration Committee did not have any matters that need to be discussed from the Listing Date to 31 December 2019 (the "Relevant Period") and, therefore, the Remuneration Committee did not hold any meeting during the Relevant Period. The Remuneration Committee will fully comply with its terms of reference.

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.

As the Company's shares have been listed on the Stock Exchange since 8 October 2019, the Nomination Committee did not have any matters that need to be discussed during the Relevant Period and, therefore, it did not hold any meeting during the Relevant Period. The Nomination Committee will fully comply with its terms of reference.

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.

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 2019. The statement by the Auditor regarding their reporting responsibilities on the financial statements is set out on pages 74 to 78 of this annual report. During the preparation of the financial statements for the year ended 31 December 2019, 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 14 to 21 of this annual report.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

From the Listing Date to 31 December 2019, 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.

DIRECTORS' RESPONSIBILITIES IN RESPECT TO CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for year ended 31 December 2019 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 Relevant 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 74 to 78 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 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.

Auditor's Remuneration

Remuneration payable to KPMG, the external auditor of the Company, for the year ended 31 December 2019 is as follows:

Service nature	Amount RMB'000
Audit services	2,200
— audit service on 2019 annual financial statements	1,500
— related to the Listing	700
Non-audit services	650
Total	2,850

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 misstatement or loss.

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.

The Company has formulated risk management and internal control management policies to construct a fundamental environment for risk management and internal control. In addition, 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 2019, 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 accounting, internal audit and financial reporting functions are performed by staff of appropriate qualifications and experience, training programs and budgets on such functions are 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, the joint company secretary of the Company.

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 2019. Their trainings satisfied the requirements under Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and 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 meeting of the Company 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 Auditor 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.

The Company encourages the Shareholders attend to annual general meetings and other general meeting, 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 joint company secretaries of the Company whose contact details are as follows:

Building 18, Scientific Park of Suhua, No. 208 Tongyuan 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.

The Company's shares were listed on the Stock Exchange on 8 October 2019. From the Listing Date to 31 December 2019, the Company did not convene any general meeting.

Memorandum and Articles of Association

Since the Listing Date and up to 31 December 2019, the Company has not made any changes to the Memorandum and Articles of Association, and its current version is posted on the websites of the Stock Exchange and the Company.

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 onetenth 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 requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than onetenth 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 requisitionist(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 requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

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 14 to the financial statements. An analysis of the Group's revenue and operating profit for the year ended 31 December 2019 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 sections headed "Chairman's Statement" and "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 2019 and the financial position of the Group as at 31 December 2019 are set out in the financial statements on pages 79 to 82.

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 HK10 cents per ordinary share for the year ended 31 December 2019. 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 on or around 22 June 2020.

Annual General Meeting

The AGM will be held on Friday, 22 May 2020. A notice convening the AGM will be published and dispatched to Shareholders of the Company in due course in the manner prescribed by the Listing Rules.

Report of the Directors

Closure of Register of Members

1. Entitlement to attend and vote at the 2020 AGM

For determination of the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 19 May 2020 to Friday, 22 May 2020 (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 Monday, 18 May 2020.

2. Entitlement to the final dividend for 2019

For determination of the entitlement of Shareholders to the final dividend for 2019, the register of members of the Company will be closed from Thursday, 28 May 2020 to Monday, 1 June 2020 (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 2019 is Monday, 1 June 2020. 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 Wednesday, 27 May 2020. The payment date for the final dividend for 2019 is expected to be on or around Monday, 22 June 2020.

Share Capital

Details of the movements in share capital of the Company during the year ended 31 December 2019 are set out in note 23 to the financial statements.

Distributable Reserves

The Company's distributable reserves as at 31 December 2019 amounted to approximately RMB421.9 million, of which approximately RMB196.3 million is proposed to be used as the annual final dividend.

Donations

During the year ended 31 December 2019, the Company made no charitable and other donations.

Summary of Financial Information for the past Four Years

A summary of results, assets and liabilities for the past four 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 2019, there were no serious disputes between the Group and its customers and/or suppliers.

Report of the Directors

Property, plant and equipment

Details of the changes in property, plant and equipment of the Group for the year ended 31 December 2019 are set out in note 10 to the financial statements.

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.

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

From the Listing Date to 31 December 2019, 8,488,000 ordinary Shares were repurchased on the Stock Exchange. The repurchased ordinary Shares were cancelled on 10, 20 and 31 December 2019 respectively. After the year ended 31 December 2019, 3,762,000 ordinary Shares were repurchased, and the repurchased ordinary Shares were cancelled on 23 January 2020 and 14 February 2020 respectively.

The Share repurchases were approved by the Board to enhance the long-term value of the Shareholders. Details of the Share repurchases in 2019 are as follows:

Month of repurchase in 2019	Number of repurchased Shares	Purchase price per Share Highest (HK$)	Purchase price per Share Lowest (HK$)	Aggregate consideration paid (HK$)
November 2019	4,014,000	1.09	0.98	4,137,000
December 2019	4,474,000	1.02	0.98	4,520,000
Total	8,488,000			8,657,000

The Directors believe that the repurchase of Shares are in the best interests of the Company and Shareholders as a whole as such repurchase of Shares and subsequent cancellation of the repurchased Shares could enhance the value of the Shares thereby improving the return to Shareholders.

Save as disclosed above, for the year ended 31 December 2019, 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 2019.

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 2019, 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 2019.

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

As at 31 December 2019, 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 2019		
Name	Capacity/ Nature of interest	Number of shares held/ interested	Approximate percentage of Interest[(2)]
Mr. Jiang Xiaohuang[(3)(4)(5)(6)(7)]	Interest of a controlled corporation/ Founder of a discretionary trust	1,550,362,500 (L)[(1)]	70.74%
Mr. Xu Lin[(8)]	Interest of a controlled corporation	7,141,974 (L)[(1)]	0.33%
Mr. Sun Bo[(9)]	Interest of a controlled corporation	3,570,987 (L)[(1)]	0.16%
Mr. Wu Jie[(10)]	Interest of a controlled corporation	3,570,987 (L)[(1)]	0.16%

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 2,191,512,000 Shares in issue as at 31 December 2019.

(3) 937,688,116 Shares are registered under the name of Eternal Heart Holdings Limited, the issued share capital of which is owned as to 100% by Gorgeous Sunshine Holdings Limited, which is in turn the holding vehicle wholly-owned by TMF (Cayman) Ltd., the trustee of a discretionary trust established by Mr. Jiang as the settlor and protector ("Jiang Family Trust"). Accordingly, Mr. Jiang is deemed to be interested in the Shares held by Eternal 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 Holdings 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 Holdings 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.

(6) 187,600,000 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 71.35% by Agile Eagle Holdings Limited, which is in turn wholly-owned by Mr. Jiang. 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) 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.

(9) 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.

(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.

Save as disclosed above, as at 31 December 2019, 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.

Arrangement for directors to acquire shares or debentures

At no time during the year ended 31 December 2019 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 2019, 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 2019	
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	1,550,362,500 (L)[(1)]	70.74%
Ms. Mao Yuyan[(6)]	Interest of spouse	1,550,362,500 (L)[(1)]	70.74%
TMF (Cayman) Ltd.[(3)]	Trustee of a trust	1,218,188,116 (L)[(1)]	55.59%
Gorgeous Sunshine Holdings Limited[(3)]	Interest of a controlled corporation	1,218,188,116 (L)[(1)]	55.59%
Eternal Heart Holdings Limited	Beneficial owner	937,688,116 (L)[(1)]	42.79%
Ling Long Holdings Limited	Beneficial owner	187,000,000 (L)[(1)]	8.53%
Lucky Fish Holdings Limited	Beneficial owner	93,500,000 (L)[(1)]	4.27%
Future Wisdom Holdings Limited[(4)]	Interest of a controlled corporation	187,600,000 (L)[(1)]	8.56%
Warm Sunshine Holdings Limited	Beneficial owner	187,600,000 (L)[(1)]	8.56%
Agile Eagle Holdings Limited[(5)]	Interest of a controlled corporation	144,574,384 (L)[(1)]	6.60%
Purple Dream Holdings Limited[(5)]	Interest of a controlled corporation	144,574,384 (L)[(1)]	6.60%
Purple Crystal Holdings Limited	Beneficial owner	144,574,384 (L)[(1)]	6.60%

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 2,191,512,000 Shares in issue as at 31 December 2019.

(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 71.35% by Agile Eagle Holdings Limited which is in turn wholly-owned by Mr. Jiang. Accordingly, each of Mr. Jiang, Agile Eagle Holdings Limited and Purple Dream Holdings Limited is deemed to be interested in the Shares held by Purple Crystal Holdings Limited.

(6) By virtue of the SFO, 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.

Save as disclosed above, as at 31 December 2019, 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.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2019 are set out in note 26 to the financial statements. Such transactions were either (i) fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules; or (ii) 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 value-added telecommunication 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 IFRSs 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.

Contractual Arrangements overview

1. *Details of operating company and Registered Shareholders*

   Operating company: FriendTimes Technology Inc. ("FriendTimes Technology")

   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 2019 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 Shareholder 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.

For the year ended 31 December 2019, FriendTimes Technology paid the service fee of approximately RMB14.5 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 RMB1,290.8 million and RMB360.2 million for the year ended 31 December 2019, respectively. The total assets and total liabilities of the Operating Entities subject to the Contractual Arrangements amounted to approximately RMB1,029.6 million and RMB174.9 million as at 31 December 2019, respectively.

Risks associated with the Contractual Arrangements

For risks associated with the Contractual Arrangements, please see the section headed "Risk Factors — Risks Relating to our Corporate Structure" in the Prospectus for details.

Material change in relation to the Contractual Arrangements

During the year ended 31 December 2019, 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 allows the business of the Operating Entities to be operated without the Contractual Arrangements.

However, for the year ended 31 December 2019, 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 2019 (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 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "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 2019:

(a) 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;

(b) 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

(c) nothing has come to their attention that causes the Auditor to believe that any dividends or other distributions have been made by FriendTimes Technology to its registered equity shareholders which are not otherwise subsequently assigned or transferred to the Group.

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 2019.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the aggregate sales attributable to the Group's five largest customers accounted for approximately 9.4% and the largest customer accounted for approximately 5.4% of the Group's total revenue for the year.

During the year ended 31 December 2019, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 52.4% and the largest supplier accounted for approximately 24.2% of the Group's total purchases for the year.

For the year ended 31 December 2019, 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 within the knowledge of the Directors as at the date of this annual report, at least 25% of the Company's total number of issued Shares were held by the public at all time since the Listing Date.

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 2019 or subsisted at the end of the year ended 31 December 2019.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS AND SIMILAR RIGHTS

As at 31 December 2019, 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 2019.

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.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as a code for Directors to conduct securities transactions. The Company was listed on the Stock Exchange on 8 October 2019. Therefore, from 1 January 2019 to 7 October 2019, the relevant standards contained in the Model Code were not applicable to the Company. The Company has made specified enquiry with all the Directors, who have confirmed that from the Listing Date to 31 December 2019, they have complied with the required standards contained in the Model Code.

Compliance with the CG Code

The Company's corporate governance practices are based on the principles and the code provisions as set out in the CG Code. From the Listing Date to 31 December 2019, the Company has complied with all applicable code provisions set out in the CG Code except for the deviation from code provision A.2.1.

Code provision A.2.1 stipulates that the roles of Chairman and CEO should be separated and should not be performed by the same individual. The role of chairman of the board and the chief executive officer are both performed by Mr. Jiang Xiaohuang. 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.

In addition, the operation of the Senior Management and the Board, which are comprised of experienced individuals, effectively checks and balances the power and authority of Mr. Jiang, as both the Chairman and CEO.

The Board shall review the structure from time to time to ensure that the structure facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation.

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

The Shares were only listed on 8 October 2019, and there has been no change in auditors since the Listing Date and up to 31 December 2019. The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance , who are proposed for appointment for 2020 at the forthcoming AGM.

Environmental, Social and Governance Report

CHAIRMAN'S STATEMENT

Dear Shareholders,

We are pleased to issue our 2019 Environmental, Social and Governance Report (the "report"). The report is the first social responsibility related report issued by FriendTimes Inc. (the "Company") and its subsidiaries (the "Group", "FriendTimes" or "we"). 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 has always required all its products and platforms to actively 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. We wish to promote ESG awareness through our commitment to sustainable business and best practices in daily operations, and by working with the Group's stakeholders and other industry participants, so as to minimize the potential negative environmental and social impacts of our operations and increase our competitiveness.

As an outstanding mobile game developer, publisher, and operator, we are committed to continuous improvement in product quality, to provide our honourable customers with more diversified choices, and ultimately to give back to society and benefit the wider community for the long term. With our years of hard work and continuous innovation and development, we have earned a number of awards, and the relevant details are as follows:

- "National Key Cultural Export Enterprise for the year 2019-2020" awarded by MOFCOM, CCPPD, MOF, MCT and SAPPRFT;
- "The Chinese Games Capital Summit 2019 Dark Horse Award" awarded by the Chinese Games Capital Summit;
- "Top 50 Internet Enterprise in Jiangsu Province" awarded by Jiangsu Internet Association;
- "Top 100 Services Providers of China Digital Service and Leading Service Providers 2019" awarded by China Council for International Investment Promotion;
- Legend of Empress (熹妃傳), Royal Chaos (熹妃Q傳) and Fate: Royal Revenge (京門風月) selected as Key Projects in Culture and Tourism Industry Cooperations of the Belt and Road Init in 2019 by MCT;
- Jiangsu Province Internet Platform Economy "Millions" Project Key Enterprise awarded by Jiangsu Development and Reform Commission;
- "2019 Unicorn Enterprise of Suzhou Industrial Park";
- The 4th Golden Gyro Award — Outstanding Mobile Game Publisher of the Year "FriendTimes";
- The 4th Golden Gyro Award — Annual Mobile Game and Online Game Award "Yokai Kitchen" (精靈食肆);
- 2019 Golden Plume Award — Best ACG Mobile Game "Yokai Kitchen" (精靈食肆);
- The 7th Golden Tea Awards — 2019 Most Influential Game Enterprise Award "FriendTimes";
- The 7th Golden Tea Awards — 2019 Most Expecting Mobile Game Award "Fate of the Empress' (浮生為卿歌);
- OPPO Developer Conference 2019 — The Most Popular Game for Users "Legend of Empress" (熹妃傳); and
- SAMSUNG Galaxy Store — 2019 The Most Popular Game "Rise of Queendom" (宮廷計手遊).

These 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. I would like to take this opportunity to thank all departments and our important teams 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. We 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

INTRODUCTION AND ESG STRATEGIES

About the Group

The Group is a leading integrated and outstanding mobile game developer, publisher and operator. Since its establishment in 2010, we have 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 Legend of Empress (熹妃傳), Royal Chaos (熹妃Q傳), Rise of Queendom (宮廷計手游) and Fate: Royal Revenge (京門風月), each of which has achieved a high ranking in the best-selling games board for iPhone on Apple's App Store. Relying on the success of the Chinese mainland market, we expanded to overseas markets in 2011. Through strong localization capabilities and outstanding distribution capabilities, we have further established our overseas market position and brand recognition.

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

ESG Structure

The Group has established an ESG working group (the "working group"). The working group is composed of core members of different departments of the Group and is responsible for collecting our relevant information on ESG aspects to prepare the report. The working group will regularly report to the Board of Directors (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 our performance in different aspects of the ESG such as environment, labour standards, product responsibility. The Board will set the general direction of the Group's ESG strategy and be responsible for ensuring the effectiveness of ESG risk control and internal control mechanisms.

SCOPE OF THE REPORT

The report will cover the Group's efforts and contributions to the environment and society. The scope of business covered is the Group's offices in Suzhou and Shanghai, the principal places of business of the Group in the PRC. Unless specified otherwise, we obtain ESG key performance indicators ("KPIs") information through the Group's operational control mechanisms. After the data collection system of the Group becomes more mature and the sustainable development work is deepened, we will continue to expand the scope of disclosure in the future.

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 The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

For the Group's corporate governance practices, please refer to the section headed "Corporate Governance Report" on pages 27 to 36 of the annual report.

REPORTING PERIOD

The report details the Group's ESG activities, challenges and measures taken from 1 January 2019 to 31 December 2019 (the "Reporting Period", "2019").

STAKEHOLDER ENGAGEMENT

The Group and its stakeholders communicate and support each other in a dual-track communication model to achieve common growth. Therefore, the Group values the opinions of different stakeholders on our business and ESG issues. In order to fully understand, respond to and deal with the core concerns of different stakeholders, we have been in close communication with different stakeholders (including 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, we will bring their expectations into our operating and ESG strategies. The stakeholder engagement, communication channels and their expectations and concerns for the Group are as follows:

Type of stakeholder	Communication channels	Expectations and concerns
Senior management and the Board	• Training and seminars • Regular meeting • Intranet • Industry seminars	• Compliance operation • Economic performance
Employees	• Performance evaluation • Employee communication and broadcasting • Employee seminars and meetings • Employee events and competitions • Employee training courses	• Working environment • Employee welfare • Work performance • Company event update
Investors and shareholders	• Annual general meeting and other shareholders' meetings • Financial reports • Investor relations specialist • Announcement and circular • Official website	• Performance • Development strategy • Game development capabilities • Operational prospects
Customers	• User experience research • Online customer service • Offline communication for players • Game show • Social media platform support and interaction	• Product quality • Software platform stability • Network security management • Processing of customer opinions • Privacy protection
Suppliers	• Regular consultation and exchange meetings • Supplier evaluation • Online communication • On-site investigation	• Long-term partnership • Fair and open procurement
Government and regulatory authority	• Working meeting • Reporting performance • Policy consultation and seminar	• Compliance operation • Paying taxes
Communities, NGOs and the media	• Company website • ESG report • Social media platform • Press release	• Game health and safety • Privacy protection • Corporate social responsibility

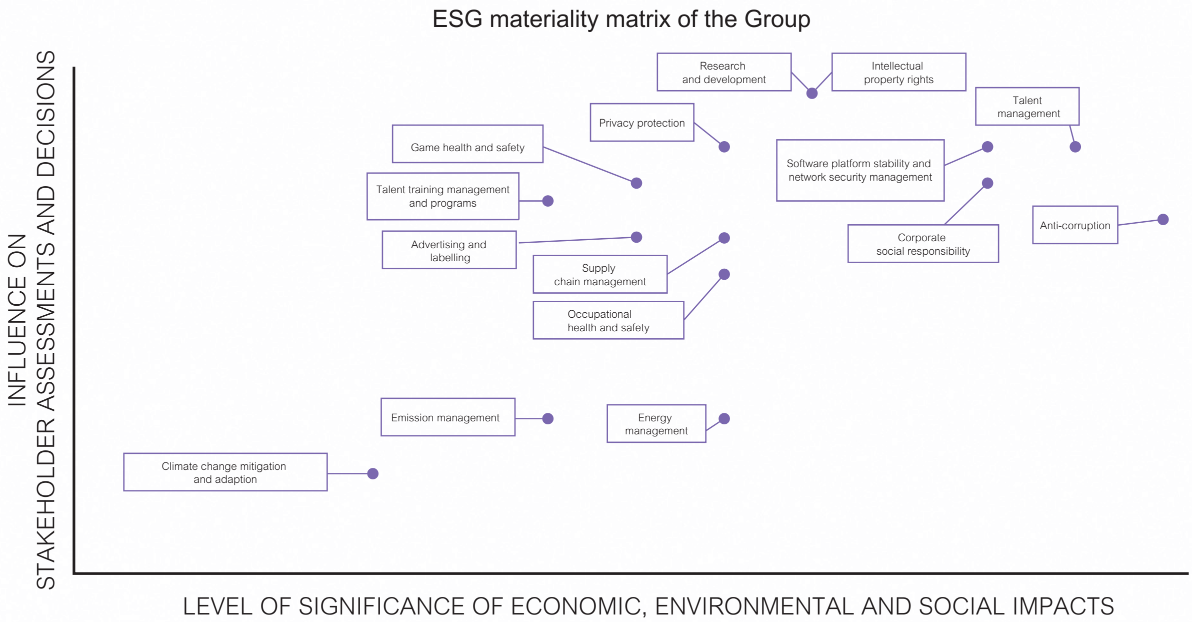
The Group is committed to working with our stakeholders to improve the Group's ESG performance and continue to create greater value for our country and society.

Environmental, Social and Governance Report

MATERIALITY ASSESSMENT

The Group inquired the management of each major function through questionnaires, etc., in order to assist the Group in reviewing its operation and identifying related ESG issues in order to prepare the report and assess the importance of related matters to the Group's business and various stakeholders. Based on the assessed material ESG issues, the Group prepared a questionnaire to collect information from relevant departments and business units.

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 US

The Group welcomes advices 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

A. ENVIRONMENTAL

A1. Emissions

The Group attaches great importance to good environmental management and strives to protect the environment in order to fulfill the Group's social responsibilities. We are committed to meeting or exceeding national environmental protection standards. The Group has formulated relevant environmental management systems and procedures for daily operations to regulate greenhouse gases ("GHG") and non-hazardous waste generated during operations, so as to contribute to environmental protection and pursue the goal of achieving 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. During the year ended 31 December 2019, the Group did not have any violations of local relevant environmental laws and regulations regarding air and GHG, emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that have a significant impact on the Group.

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 emissions are generated. We also carry out regular maintenance on our vehicles to effectively reduce fuel consumption, thereby reducing carbon emissions and exhaust emissions.

During the year ended 31 December 2019, the exhaust gas emissions performance of the Group are as follows:

Types of emissions	Unit	2019
Nitrogen oxides (NOx)	kg	3.89
Sulfur oxides (SOx)	kg	0.10
Particulate Matter (PM)	kg	0.29

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). In addition, the Group actively adopts power-saving and energy-saving measures to reduce GHG emissions, including strict control of air-conditioning usage, lighting facility usage requirements, and office appliance usage. Specific measures will be described in the "Energy Management" section in Aspect A2. In addition, the Group will also replace long-distance face-to-face meetings with electronic communication methods such as telephone or WeChat meetings to reduce carbon emissions from business travel. Under the influence of the above policies, employees' awareness on carbon reduction has been raised.

During the year ended 31 December 2019, the GHG emissions performance of the Group are as follows:

Indicator[1]	Unit	2019
Direct GHG emissions (Scope 1)	tCO_2e	18.02
Energy indirect GHG emissions (Scope 2)	tCO_2e	917.71
Total GHG emissions (Scopes 1 and 2)	tCO_2e	935.73
Intensity[2]	tCO_2e/employee	0.72

Notes:

1. 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 Hong Kong Stock Exchange, the newly released baseline emission factors for China's regional power grid and the global warming potential of the Fifth Assessment Report issued by the Intergovernmental Panel on Climate Change.

2. As of 31 December 2019, the total number of employees of the Group was 1,298. This data will also be used to calculate other density data.

Sewage Discharge

Since our business activities do not consume large quantities of water, our 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 Management" 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 our business activities. We 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 our waste management practices are in compliance with relevant environmental laws and regulations.

Hazardous Waste

Due to the nature of the business, the Group has not selected toxic or hazardous production materials, therefore no hazardous waste will be generated during the operation process. However, we have established guidelines for the management and disposal of hazardous waste. If any hazardous waste is generated, we must comply with relevant environmental laws and regulations and employ qualified chemical waste recyclers to dispose of the relevant waste.

Non-hazardous Waste

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 relevant 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, we advocate reducing the use of disposable paper cups. During internal meetings, participants will bring their own water cups, while receiving visitors, we will try to use sterilized glass or porcelain cups to make tea. During the year ended 31 December 2019, the non-hazardous waste generated by the Group was mainly office paper. In view of this, we also encourage the use of double-sided printing or photocopying and promote a paperless working environment, and encourage employees to work and communicate externally through internal email and electronic format documents, so as to encourage employees to take responsibility for waste management and minimizing waste generation. Through the above measures and policies, the awareness of waste reduction of our employees has been improved.

During the year ended 31 December 2019, the non-hazardous waste disposal of the Group and its intensity performance are as follows:

Type of non-hazardous waste	Unit	2019
Paper[3]	tonnes	0.38
Total non-hazardous waste	tonnes	0.38
Intensity	tonnes/employee	0.0003

Notes:

3. The number of paper recycling has been excluded.

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 promote the green office and operating environment to minimize the environmental impact caused by the Group's operations. The employees of the Group are in line with these policies to consciously cherish electricity, paper and water resources. In addition, we have 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. 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 Management

The Group actively implements the concept of energy saving and emission reduction. In addition to reducing the use of unnecessary power, the Group is also committed to fulfilling its corporate responsibility for energy saving and emission reduction and building 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 actively adopts advanced environmentally friendly lightings 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 people leave 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.

Through the above measures, employees' awareness of energy saving has been improved. During the year ended 31 December 2019, the energy usage of the Group and its intensity performance are as follows:

Type of energy	Unit	2019
Gasoline	MWh	65.64
Electricity	MWh	1,415.24
Total energy consumption	MWh	1,480.88
Intensity	MWh/employee	1.14

Water Management

The water consumption of the Group is mainly domestic water. The water supply managed by the Group includes toilet water, washing water and cleaning water. We encourage all employees and customers to develop the habit of conscientiously saving water. The Group has been strengthening its water-saving publicity 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, we use water-saving sanitary ware as much as possible, regularly inspect the water supply and drainage systems of the bathrooms and pantries in each building, and timely check and repair 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 year ended 31 December 2019, the water consumption of the Group and its intensity performance are as follows:

Water consumption	Unit	2019
Total water consumption	m^3	7,990
Intensity	m^3/employee	6.16

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.

A3. The Environment and Natural Resources

The Group pursues environmental best practices 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 has also adopted a number of measures to reduce its impact on the environment. 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.

Climate Change Mitigation and Adaptation

The Group is aware of the potential risks and opportunities that climate change poses to the Group's operations. We will actively consider incorporating climate change into risk management and development considerations, while strengthening our resilience and adaptability to potential future climate change impacts. In order to enhance the Group's ability to cope with climate change, we have been actively cooperating with the overall work of the government to continuously implement the goal of reducing carbon emissions. In addition, the chapter "Corporate Office Environment Management System" in the Group's "Administrative Management System" policy clearly explains how employees should better mitigate their impact and maintain the Group's office environment in weather conditions such as rain and snow. We believe that relevant measures will help address the potential impact of extreme climates brought about by climate change.

B. SOCIAL

B1. Employment

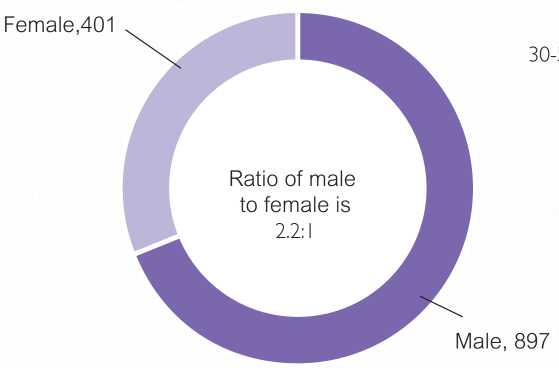
Talent Management

Staff is the largest and valuable assets and the core of competitive strength of the Group, as well as continuously provides exploration and innovative motivation to the Group. The Group believes that talents are key factors of the Group's sustainable development strategies, we respect and protect the lawful interests of each employee, we have stipulated the policies such as the "Human Resources Management Policy" and "Recruitment Management Policy" 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 labour relationship.

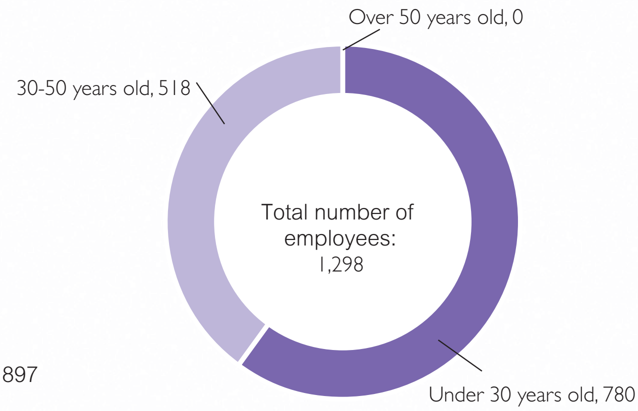
During the year ended 31 December 2019, the Group strictly complies with the employment-related laws and regulations, including but not limited to, "Labour Contract Law of the People's Republic of China" and "Labour Law of the People's Republic of China". We have not identified any material matters that violate human resources laws and regulations.

As of 31 December 2019, the total number of employees of the Group was 1,298, and all employees were full-time employees from China. The specific information about employees is as follows:

Number of employees by gender



Number of employees by age group



Employee Remuneration and Benefits

The remuneration and benefits of the Group usually have a fair, reasonable and competitive remuneration system with reference to market terms and individual circumstances. The remuneration of employees of the Group consists of basic salary, related subsidies and various special bonuses. The Group also has a salary adjustment mechanism that we will provide salary adjustment twice a year based on business development and individual performance.

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. The Group also makes contributions to employee benefit plans based on certain percentages of employees' salaries, bonuses and allowances. In addition, the Group also regularly organizes free medical examinations for employees to give them a comprehensive understanding of their health.

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, 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 "Suzhou FriendTimes Technology Inc. Union Committee" in March 2017 and elected members of the trade union committee, including Chairman, Audit Committee and Female Staff Committee.

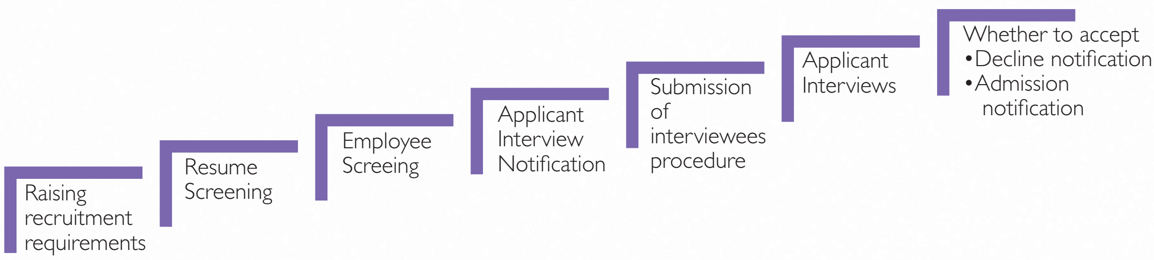
The Group also organizes a variety of activities from time to time, including festival care, paid annual leave and growth benefits, and annual party to promote employee interaction, social skills, life and work balance and happiness. We will give a gift on employees' birthdays, and optionally give gifts or cash on various national statutory holidays. During the year ended 31 December 2019, we have organized Women's day, Children's Day, photography competition, management training programs, knowledge sharing, and various group activities.

Recruitment, Promotion and Resignation

The Group actively implements talent-stregthens-corporate strategy, continues to attracts and recruits outstanding talents for the Group in accordance with the rules of "open recruitment", "equal competition", "job matching", "internal advance than external", "no overscheduled". During the recruitment process, we did not consider gender, religion, races or other discriminative factors, standardize recruitment procedures and core principles, to ensure equal opportunities and diversity. The Group has annual recruitment, quarterly recruitment, irregular recruitment and unplanned recruitment respectively to maximize our development needs.

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.

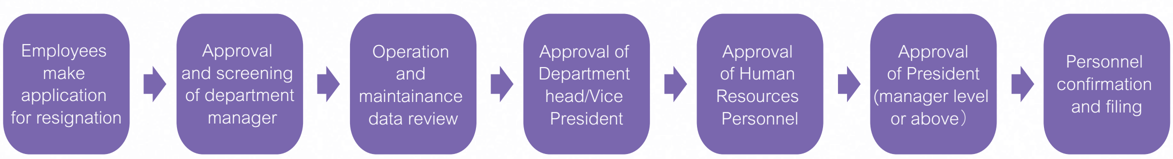
The Group will conduct multiple inspections based on the applicant's working experience, professional skills, ability, personality characteristics and occupation, to ensure that applicant is in line with the Group's development strategy and business plan. The specific recruitment process is as follows:



The Group also has 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, employment transfer management, to protect the interests of employees and the Company, 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 and improve the efficiency of office staff, the chapter "Human Resources Withdrawal" in the "Human Resources Management System" policy clearly stipulates the application procedures and approval process for resignation. The specific process is as follows:

Resignation Application Procedures



Approval Procedures

After approval of resignation application, submit a resignation application → Approved by the person in charge of the center → Approved by the head of the Human Resources Department → Personnel notification to employees to take out resignation slip → Employee resignation slip processing → Personnel confirmation resignation interview and filing

Communication and Exchange

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

Equal Opportunity

The Group strictly complies with each regulations of national and local government, using the recruitment procedures of the "open recruitment", "equal competition", "job matching", to establish relevant admission procedures and promotion systems to eliminate discrimination in the recruitment process, and not discriminate against any employee based on factors such as race, gender, color, age, family background, ethnic tradition, religion, physical fitness and nationality, allowing employees to enjoy fair treatment throughout all stages of recruitment, remuneration, training and promotion, and try our best to bring in professionals from different background to the Group, to ensure equal opportunity and diversity.

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, aiming at daily operation of the office, 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.

The Group has established "Electricity Safety Management Regulations" and included in the "Administrative Management System" policy, it specifies that the administrative management department centralized purchasing of all electrical equipment, power extension cable. Electrical equipment that has not been purchased by the administrative management department is forbidden to use, and it is strictly forbidden to modify any wires and sockets without permission, touch any equipment in the equipment room and power distribution room. In case of various emergencies, it may minimize the damage, avoid the continued development of the incident and generate other adverse events. The Group has '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. The Group strictly regulates the usage of electrical equipment in order to avoid hidden dangers in electricity and maintain normal working order. To avoid impact and loss caused by water and electricity outages, and to ensure the normal working order of the Group's office, we stipulate "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.

We strictly implement 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". During the year ended 31 December 2019, the Group has not recorded any accidents leading to death or serious injuries , and also has not paid claims or compensation to their employees and has not found any violations of employees' health and safety as a result of these events.

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.

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 levels. The Group's training adheres to "organizational learning" and "spontaneous learning", encourages employees' spontaneous learning and sharing. All new employees will receive pre-employment training to become familiar with and integrate into the corporate culture of the Group and at the same time, understand the Group's operating conditions, compete for job requirements, working well with the team, integrate personal careers with corporate development, and promote continuous growth of 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 trainings include but not limited to: work procedures, introduction of new business' knowledge, usage of office software, professional skills. The Group focuses on creating professional and compound talents required for organizational development, continuously promote the corporate spirit in the era of FriendTimes. Therefore, while inviting internal and external lecturers , the Group also organizes outward bound to help enhance employee cohesion and increase employee sense of belonging.

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 critical 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. The Group's managers who have participated in the plan have passed the exam and obtained project management licenses.

In order to standardize employees' training and management, establish a good personnel training mechanism, promote the smooth process of the Group's key tasks and the realization of strategic goals, the Group has "Training Management Measures" for training management. According to the current quality of employees in the core businesses and the needs for subsequent development, we organize, supervise, promote and summarize the work content of human resources development activities in a planned and organized manner, 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.

The Group attaches great importance to employee training and the proportion of employees trained is 95%.

Case Study - Progressive Growth - FriendTimes 2019 1st Project Management Talent Training

From June 22-23, 2019, the Group held a 2 days and 1 night project management training camp course at the Lefu Hotel in Suzhou Industrial Park. Through a series of talent training programs, such as new employee training programs, general skills programs, key talent programs, and employee personal development plans, providing diversified improvement paths for 45 participating middle managers, and creating a good learning organization atmosphere. On the first day of the course, all participants were divided into 9 groups. The course introduced actual cases in the form of scenario simulations, the training was mainly focusing on the five process management tools, skills, and document production of the project management which was comparable to a 45-person's line game. The continuous action learning plan effectively helps to consolidate and digest the knowledge after the lesson. Each group member is fully involved from the project establishment to the conclusion of the case, creating a rigorous and thoughtful learning atmosphere.

Group photo of the project management training camp participants

Group discussion section and presentation

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". During the year ended 31 December 2019, 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, requires new employees to provide true and accurate personal information upon employment. The recruiters strictly review the employment information, 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 or forced labour during operation.

B5. Supply Chain Management

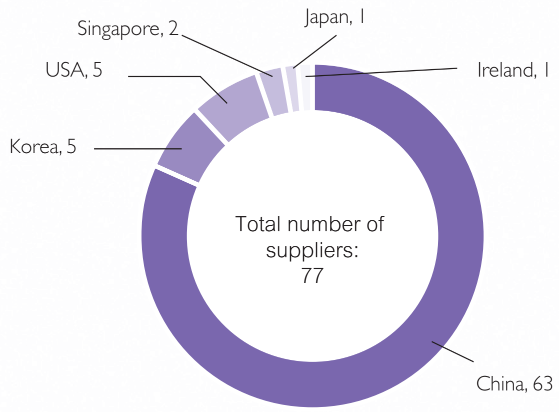
Supply Chain Management

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".

Furthermore, the Group also assesses whether the supplier has complied with relevant laws and regulations and other required standards in terms of health, safety, forced labour and child labour, and reviews the supplier's awareness in the above aspects, supplier's social and environmental impact will be added into consideration whether they meet the Group's standard. The Group maintains a list of suppliers that meet standards and under regular evaluation to ensure a consistent level of quality and identify any potential issues. After years of practice, the Group has now formulated a more comprehensive supplier team.

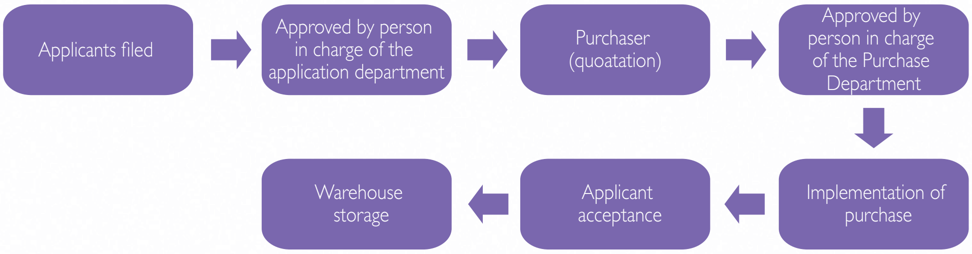
The Group has a total 77 suppliers from different places, the related information is as follows:

Number of suppliers by geographical regions



Fair and Open Procurement

The Group's procurement process is strictly based on relevant regulations of "The Tendering and Bidding Law of the People's Republic of China"and is conducted under open, fair and justice conditions without discriminatory treatment to any supplier, employees and other individuals who have an interest in related suppliers will not be allowed to participate in related procurement activities. The Group is also concerned about the integrity of suppliers and partners and has no tolerance for bribery and corruption, strictly forbids suppliers and partners from obtaining procurement contracts or cooperative relationship through any form of benefit transmission. In order to ensure the quality of the Group's procurement and regulate the procurement process, the Group has established the "Procurement Management System" policy, which clarifies the procurement and review process. The specific process is as follows:



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.

B6. Product Responsibility

Providing users with a good gaming experience is the Group's most important product responsibility and also the key to our ability to attract and retain game users. We are committed to providing the best user experience and paying close attention to the quality of our products and services. When launching a new game, we must anticipate and cater changes in player interests and preferences, as well as the ever-evolving competitive environment of the mobile gaming industry. We must also try to effectively promote new games and game upgrades to strengthen regional penetration. Finally, we continue to upgrade our technology and infrastructure to minimize downtime and maintain system stability in our games. During the year ended 31 December 2019, our corporates and products have won many awards and witnessed our efforts for many years. The relevant details are as follows:

- "National Key Cultural Export Enterprise for the year 2019-2020" awarded by MOFCOM, CCPPD, MOF, MCT and SAPPRFT;
- "The Chinese Games Capital Summit 2019 Dark Horse Award" awarded by the Chinese Games Capital Summit;
- "Top 50 Internet Enterprise in Jiangsu Province" awarded by Jiangsu Internet Association;
- "Top 100 Services providers of China Digital Service and Lending Service Providers 2019" awarded by China Council for International Investment Promotion;
- Legend of Empress (熹妃傳), Royal Chaos (熹妃Q傳) and Fate: Royal Revenge (京門風月) selected as Key Projects in Culture and Tourism Industry Cooperations of the Belt and Road Init in 2019 by MCT;
- Jiangsu Province Internet Platform Economy "Millions" Project Key Enterprise awarded by Jiangsu Development and Reform Commission;
- "2019 Unicorn Enterprise of Suzhou Industrial Park";
- The 4th Golden Gyro Award — Outstanding Mobile Game Publisher of the Year "FriendTimes";
- The 4th Golden Gyro Award — Annual Mobile Game and Online Game Award "Yokai Kitchen" (精靈食肆);
- 2019 Golden Plume Award — Best ACG Mobile Game "Yokai Kitchen" (精靈食肆);
- The 7th Golden Tea Awards — 2019 Most Influential Game Enterprise Award "FriendTimes";
- The 7th Golden Tea Awards — 2019 The Most Expecting Mobile Game Award "Fate of the Empress' (浮生為卿歌);
- OPPO Developer Conference 2019 — The Most Popular Game for Users "Legend of Empress" (熹妃傳); and
- SAMSUNG Galaxy Store — 2019 The Most Popular Game "Rise of Queendom" (宮廷計手遊).

The Group actively compiles with the laws and regulations including but not limited to 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 year ended 31 December 2019, 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.

Research and Development

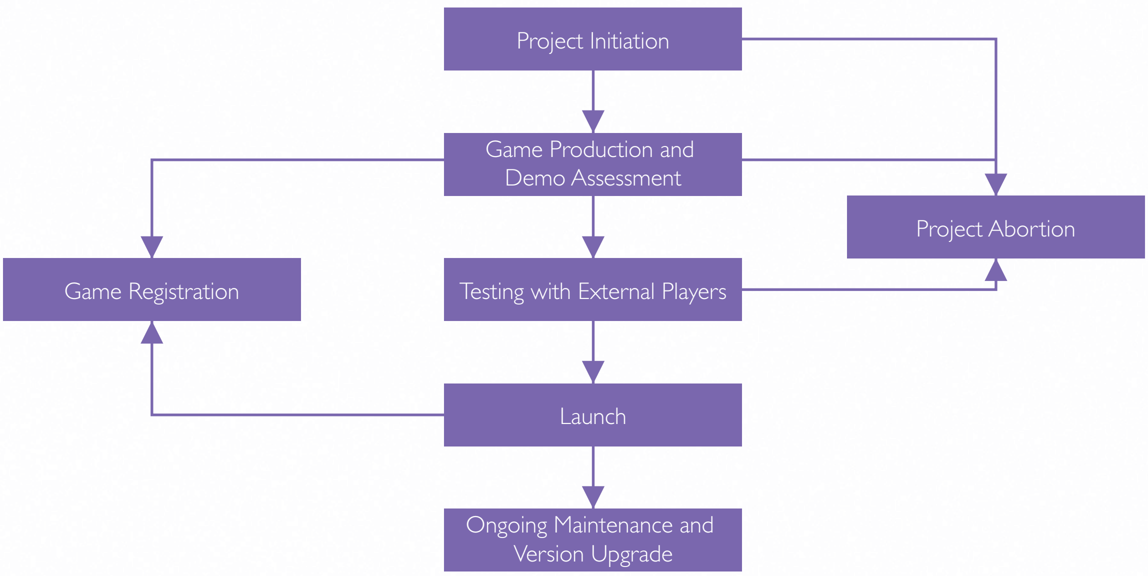
Mobile game's research and development is particularly important to the Group's long-term development, so we invest a lot of research and development resources to build related capabilities. We have a strong research and development team, which consists of skilled gamer designers, graphic designers, 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 game characters, scenes, and special effects art design; (3) The social platform development center is responsible for developing and maintaining social platform applications "GameFriend"; (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.

In addition, we have established a data-driven operating model, which supports our own data collection and analysis system from game development, distribution, and operations. We 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 relevant departments analyze the data according to their needs and turn it into well-planned game upgrade features, promotions and targeted advertising.

The Group encourages employees to actively participate in our decision-making and daily operations, and strives to establish a highly engaged corporate culture. We have been organizing competitions among employees every year since 2016 to collect and select creative game ideas, concepts and designs, whose ideas are considered attractive and outstanding by the jury to receive cash rewards or other prizes. If the game idea is in line with our development strategy and has market potential, we also develop some outstanding ideas into the game, for example "Yokai Kitchen" is developed from the game idea selected by the participants in the 2017 competition.

Game Development Process

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



Project establishment is the pre-production design stage of a game project, covering the development of game ideas, concepts and core gameplay, as well as the production of preliminary design documents. We usually adopt 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. And, quality assurance plays an important role in the game production process, providing guarantees 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. We 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, we will conduct several rounds of game testing and invite external players to participate. Testing is generally divided into two phases: closed beta (that involves inviting external players and identifying external players through advertising and marketing agents, based on invitation standards) and public beta (that involves uploading our 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 our standards, and after our technical review has been approved, the management will then pass a resolution to release the game for commercial use. We usually launch games on different distribution platforms and distribute ads 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 our players. We have 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. We have 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 we provide during the complaint handling process, and ultimately improve corporate brand image. After receiving a customer inquiry, our customer service specialists will record the inquiry details on the internal information technology platform. If the inquiry is a common question that our 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. We generally require customer inquiries to be resolved or handled within one to three days. Our customer service team holds weekly internal department meetings and monthly customer service team meetings to discuss inquiries from our players and come up with standard action plans for frequently asked questions. We also provide our customer service professionals with regular training on game rules, latest promotions, service skills and standard service procedures and terminology.

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; make the platform more interactive to attract users; enhance the platform login experience so that users can log in faster and more conveniently; and with third parties cooperation, allowing third-party platforms to log in to our platform to further optimize our applications. We continue to update the game 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 same project development team will be responsible for continued game development, optimization and updating in daily operations until the game is eliminated. Our games are regularly upgraded and updated. We understand 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 we generally immediately address programming flaws notified by players.

Players can get a better gaming experience by purchasing virtual goods. We rely 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. We introduce 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, we have a game policy for unauthorized and inappropriate player behavior. We do not allow players (among others) to sell or transfer virtual goods. We have a game policy that 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

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 we collect is processed, transmitted, and stored by multiple encryption and firewall protection. To avoid any data loss and ensure data control, all data generated by our leased cloud server is backed up in real time on our own physical server and stored in accordance with local laws and regulations. To avoid any internal data leakage, we implement 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.

In addition, we also have 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 any three parties (including employees who do not have the right to know the secret) 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, we fully understand the penetration and impact of social media on society. We strictly compile 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 prevent dissemination of obscenity, violence , illegal and vulgar bad information.

Intellectual Property Rights

To maintain the efforts of the Group's development team, we actively apply for patents for suitable products and technologies. Our sole intellectual property rights, including trademarks, patents, copyrights, domain names and other intellectual property rights are critical to our business operations. As of 31 December 2019, we had registered 128 trademarks, 313 copyrights, 24 domain names, 20 patents in China, and registered 11 trademarks and 8 domain names overseas.

In addition to the intellectual property we have collected from existing games, we will collect creative literature by our in-house novel creation team and special novel writers to further expand our intellectual property resources. We also plan to acquire intellectual property and related assets in popular comics, animations, television series and shows, and movies.

Advertising and Labeling

As a leading mobile game developer, publisher and operator, the Group has been launching and distributing our games under the brand "FriendTimes". We 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 our 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 our game and brand exposure. We have established a team of 155 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. We strictly review the products and services we provide, as well as related sales, marketing and advertising strategies and materials, to ensure that they comply with applicable laws and regulations. We strictly comply with the "Notice on Strengthening the Supervision of the Promotion and Promotion Activities of Online Games" issued by the Ministry of Culture, and conduct legal marketing and consciously resist illegal acts and vulgar marketing.

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". During the year ended 31 December 2019, the Group has not found any significant matters in violation 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 our 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. As one of the core values, the Group expects every employee to adhere to the principles of honesty and integrity 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, commercial bribery and unfair competition punishment, 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 and will also give corresponding rewards to reporters based on the Group's system and the specific circumstances of the reported incident.

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. The Group thus has always adhered to the philosophy of public welfare, taking public welfare as its corporate responsibility and mission, actively cooperating with public welfare and charitable organizations, organizing social activities for the purpose of public welfare and charity, and establishing a good public image while fulfilling its social responsibility.

Environmental, Social and Governance Report

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

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 — Emission Management
KPI A1.1 ("comply or explain")	The types of emissions and respective emissions data.	Emissions — Exhaust Gas Emissions
KPI A1.2 ("comply or explain")	GHG emissions in total (in tonnes) and intensity.	Emissions — GHG Emissions
KPI A1.3 ("comply or explain")	Total hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management (Not applicable — explained)
KPI A1.4 ("comply or explain")	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management
KPI A1.5 ("comply or explain")	Description of reduction initiatives and results achieved.	Emissions — Emission Management
KPI A1.6 ("comply or explain")	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions — Waste Management
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 Management, Water Management
KPI A2.1 ("comply or explain")	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources — Energy Management
KPI A2.2 ("comply or explain")	Water consumption in total and intensity.	Use of Resources — Water Management
KPI A2.3 ("comply or explain")	Description of energy use efficiency initiatives and results achieved.	Use of Resources — Energy Management
KPI A2.4 ("comply or explain")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources — Water Management

Aspects, General Disclosures and KPIs	Description	Section/Declaration
KPI A2.5 ("comply or explain")	Total packaging material used for finished products (in tonnes) and 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 ("comply or explain")	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, Climate Change Mitigation and Adaptation
Aspect B1: Employment		
General Disclosure	Information on: 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, 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.	Health and Safety

Aspects, General Disclosures and KPIs	Description	Section/Declaration
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety
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
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
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

Aspects, General Disclosures and KPIs	Description	Section/Declaration
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
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

Independent Auditor's Report

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

(Incorporated in the 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 79 to 144, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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 ("HKSAs") 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.

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(u)

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 RMB 1,528 million, representing 90% of the Group's total revenue for the year ended 31 December 2019. 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;

KEY AUDIT MATTERS (continued)

Revenue recognition

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

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.

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 HKSAs 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 HKSAs, 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.

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, related safeguards.

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
26 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019 (Expressed in Renminbi)

	Notes	Years ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	3	**1,689,051**	1,464,290
Cost of sales		**(586,974)**	(546,000)
Gross profit		**1,102,077**	918,290
Other income	4	**23,686**	36,016
Sales and marketing expenses		**(393,284)**	(422,076)
Research and development expenses		**(223,602)**	(136,420)
General and administrative expenses		**(62,128)**	(32,481)
Profit from operations		**446,749**	363,329
Finance costs	5(a)	**(289)**	(1,242)
Share of loss of an associate		**(9)**	(803)
Changes in fair value of financial assets measured at fair value through profit or loss	5(c)	**(8,247)**	–
Profit before taxation	5	**438,204**	361,284
Income tax expense	6	**(22,677)**	(24,581)
Profit for the year		**415,527**	336,703
Attributable to:			
Equity shareholders of the Company		**415,527**	336,650
Non-controlling interests		**–**	53
Profit for the year		**415,527**	336,703
Earnings per share			
Basic and diluted (RMB)	9	**0.21**	0.18

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 2019 (Expressed in Renminbi)

	Years ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit for the year	**415,527**	336,703
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	**(6,120)**	(165)
Total comprehensive income for the year	**409,407**	336,538
Attributable to:		
Equity shareholders of the Company	**409,407**	336,485
Non-controlling interests	**–**	53
Total comprehensive income for the year	**409,407**	336,538

The accompanying notes form parts of the financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019 (Expressed in Renminbi)

	Notes	As at 31 December 2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	10	**201,640**	78,210
Intangible assets	11	**7,930**	1,333
Right-of-use assets	12	**8,957**	13,167
Interest in an associate	15	**3,218**	3,227
Deferred tax assets	22(b)	**21,623**	13,320
Other non-current assets		**2,835**	3,540
		246,203	112,797
Current assets			
Contract costs	16	**12,274**	15,758
Financial assets measured at fair value through profit or loss	13	**138,685**	–
Trade and other receivables	17	**218,847**	132,282
Pledged bank deposits	18	**1,810**	2,506
Cash and cash equivalents	19	**893,400**	472,605
		1,265,016	623,151
Current liabilities			
Trade and other payables	20	**135,075**	82,156
Contract liabilities	21	**44,164**	54,869
Current taxation	22(a)	**13,829**	6,936
Lease liabilities	12	**2,594**	4,580
		195,662	148,541
Net current assets		**1,069,354**	474,610
Total assets less current liabilities		**1,315,557**	587,407

The accompanying notes form parts of the financial statements.

Consolidated Statement of Financial Position (continued)

As at 31 December 2019 (Expressed in Renminbi)

		As at 31 December	
	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Contract liabilities	21	**8,720**	11,451
Lease liabilities	12	**–**	2,474
		8,720	13,925
NET ASSETS		**1,306,837**	573,482
CAPITAL AND RESERVES			
Share capital	23	**155**	51,663
Reserves	23	**1,306,682**	521,819
Total equity attributable to equity shareholders of the Company		**1,306,837**	573,482
Non-controlling interests		**–**	–
TOTAL EQUITY		**1,306,837**	573,482

Approved and authorised for issue by the Board of Directors on 26 March 2020.

Jiang Xiaohuang
Executive Director

Wu Jie
Executive Director

The accompanying notes form parts of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 Note 23(c)	Capital reserve RMB'000 Note 23(e)(i)	PRC Statutory reserve RMB'000 Note 23(e)(ii)	Exchange reserve RMB'000 Note 23(e)(iii)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018	51,660	107,501	16,345	(545)	180,851	355,812	(53)	355,759
Changes in equity for 2018								
Profit for the year	–	–	–	–	336,650	336,650	53	336,703
Other comprehensive income	–	–	–	(165)	–	(165)	–	(165)
Total comprehensive income	–	–	–	(165)	336,650	336,485	53	336,538
Shares issued to shareholders of the Company (Note 23(c))	3	–	–	–	–	3	–	3
Appropriation to PRC statutory reserve (Note 23(e)(ii))	–	–	9,485	–	(9,485)	–	–	–
Profit distribution (Note 23(b))	–	–	–	–	(118,818)	(118,818)	–	(118,818)
Disposal of controlling interest in a subsidiary	–	–	–	–	–	–	–*	–
Balance at 31 December 2018	51,663	107,501	25,830	(710)	389,198	573,482	–	573,482

* The balance represents an amount less than RMB1,000.

The accompanying notes form parts of the financial statements.

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2019 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 Note 23(c)	Share premium RMB'000 Note 23(d)	Capital reserve RMB'000 Note 23(e)(i)	PRC Statutory reserve RMB'000 Note 23(e)(ii)	Exchange reserve RMB'000 Note 23(e)(iii)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2019	51,663	–	107,501	25,830	(710)	389,198	573,482	–	573,482
Changes in equity for 2019									
Profit for the year	–	–	–	–	–	415,527	415,527	–	415,527
Other comprehensive income	–	–	–	–	(6,120)	–	(6,120)	–	(6,120)
Total comprehensive income	–	–	–	–	(6,120)	415,527	409,407	–	409,407
Shares issued to shareholders of the Company (Note 23(c))	1	–	–	–	–	–	1	–	1
Reorganization under common control (Note 23(c))	(51,660)	–	51,660	–	–	–	–	–	–
Profit distribution (Note 23(b))	–	–	–	–	–	(102,287)	(102,287)	–	(102,287)
Capitalization issue (Note 23(c))	129	(129)	–	–	–	–	–	–	–
Issue of ordinary shares by initial public offering, net of issuance costs (Note 23(c))	23	433,984	–	–	–	–	434,007	–	434,007
Repurchase and cancellation of ordinary shares (Note 23(c))	(1)	(7,772)	–	–	–	–	(7,773)	–	(7,773)
Balance at 31 December 2019	155	426,083	159,161	25,830	(6,830)	702,438	1,306,837	–	1,306,837

The accompanying notes form parts of the financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019 (Expressed in Renminbi)

	Notes	2019 RMB'000	2018 RMB'000
		Years ended 31 December	
Operating activities:			
Cash generated from operations	19(b)	**362,564**	389,168
Income tax paid	22(a)	**(20,983)**	(45,122)
Net cash generated from operating activities		**341,581**	344,046
Investing activities:			
Payment for purchase of property, plant and equipment, intangible assets and other non-current assets		**(95,111)**	(61,269)
Proceeds from disposal of property, plant and equipment		**294**	153
Payment for investments measured at fair value through profit or loss		**(411,932)**	(90,000)
Proceeds from redemption of investments measured at fair value through profit or loss		**265,000**	90,000
Proceeds from disposal of equity investment		**–**	500
Net of cash disposed on disposal of a subsidiary		**–**	(2)
Interest received		**5,930**	5,640
Net cash used in investing activities		**(235,819)**	(54,978)
Financing activities:			
Proceeds from capital injection		**4**	–
Proceeds from bank loans		**5,293**	43,381
Repayment of bank loans		**(5,293)**	(43,381)
Payment of pledged bank deposit		**–**	(14,860)
Release of pledged bank deposit		**–**	14,860
Payment of principal portion of lease liabilities		**(4,460)**	(3,912)
Proceeds from IPO, net of transaction costs	23(c)	**434,007**	–
Payment for repurchase of shares	23(c)	**(7,773)**	–
Interest paid		**(367)**	(847)
Profit distribution	23(b)	**(102,287)**	(118,818)
Net cash generated from/(used in) financing activities		**319,124**	(123,577)
Net increase in cash and cash equivalents		**424,886**	165,491
Cash and cash equivalents at the beginning of the year	19(a)	**472,605**	305,316
Effect of foreign exchange rate changes		**(4,091)**	1,798
Cash and cash equivalents at the end of the year	19(a)	**893,400**	472,605

The accompanying notes form part of these financial statements.

1 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.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. As disclosed in the Company's prospectus dated 24 September 2019 under the Listing, the Group has adopted all applicable new and revised HKFRSs, including HKFRS 16, which is effective for the accounting period beginning on 1 January 2019, consistently throughout the track record periods presented in the Group's historical financial information, including the financial statements for the year ended 31 December 2018.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Significant accounting policies adopted by the Group are disclosed below.

(c) Basis of presentation of the financial statements

Prior to the Listing, the Company had not carried on any business save for the Group's reorganization ("the Reorganization") to rationalize the Group's structure in preparation for the Listing. Prior to the Reorganisation, the Group's Core Business was conducted through FriendTimes Technology Inc. ("FriendTimes Technology") and its subsidiaries (the "Operating Entities"), which were ultimately owned and controlled by the same shareholder (hereinafter referred to as the "Controlling Shareholder") through direct or indirect equity holdings in the Operating Entities. As part of the Reorganisation, the Group obtained control of the Operating Entities and continued to obtain the economic benefits from the Core Business by executing certain structured contracts. 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 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. 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 the Operating Entities so as to obtain benefits from their business activities. Accordingly, the Operating Entities are included in the Group's consolidated financial information as controlled subsidiaries.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Upon the completion of the Reorganization on 20 February 2019, the Company became the holding company of the Group. The Reorganization principally involved inserting certain investment holding companies with no substantive operations as the new holding companies of the Operating Entities. There were no changes in the economic substance of the ownership and the business of the Group before and after the Reorganisation. Accordingly, the financial statements have been prepared and presented as a continuation of the financial information of the Core Business with the assets and liabilities recognised and measured at their historical carrying amounts prior to the Reorganisation. Intra-group balances, transactions and unrealised gain/loss on intra-group transactions are eliminated in full in preparing the financial statements.

The consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements of the Group include the financial performance and cash flows of the companies now comprising the Group as if the current group structure had been in existence and unchanged since the beginning of the earliest period presented (or where the companies were incorporated/established for the period from the date of incorporation/establishment to the respective accounting period ends). The consolidated statements of financial position of the Group as at 31 December 2018 have been prepared to present the financial position of the companies now comprising the Group as of 31 December 2018 as if the current group structure had been in existence as of 31 December 2018 taking into account the respective dates of incorporation/establishment, where applicable.

(d) Basis of preparation of the financial statements

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 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of preparation of the financial statements (continued)

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.

(e) Subsidiaries and non-controlling interests

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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company.

Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Subsidiaries and non-controlling interests (continued)

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 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(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

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.

An investment in an associate 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 1(k)(ii)). 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, 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.

Unrealised profits and losses resulting from transactions between the Group and its associates 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, 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 1(g)).

1 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 24(f). 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(u)(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(u)(iv).

1 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 1(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 1(w)).

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 recognized 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

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 1(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 recognized 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 1(k)(ii)).

1 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	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.

1 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 Notes 1(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.

(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);

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).

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;

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) Credit losses from financial instruments (continued)

Measurement of ECLs (continued)

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.

1 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).

1 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(u)(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.

1 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;

— other non-current assets;

— interest in an associate; and

— investments in subsidiaries 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) 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.

(m) Contract liabilities

In terms of the Group, contract liabilities primarily consists 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.

(n) 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 1(k)(i)).

(o) 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 1(k)(i).

(p) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 1(w)).

(q) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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) 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.

(s) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Income tax (continued)

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.

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.

(t) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue and other income (continued)

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

Revenue from self-developed games through intellectual property license arrangement

The Group licences 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 licence period. The upfront received lump sum licence 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 recognized when cash paid by game users is collected by the publishers related to the licensed games.

(ii) Revenue from sales of online game

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

(iii) Revenue from third-party developed games and advertising services

The Group also provides publishing services to third party game developers as well as advertising service on the Group's own websites. The revenue is recognized 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)).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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.

(v) 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.

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.

(w) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) 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.

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 recognizes 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 recognized 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.

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	
	2019 **RMB'000**	2018 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	**1,528,186**	1,409,501
— Revenue from self-developed games published through intellectual property license arrangement and others	**160,865**	54,789
	1,689,051	1,464,290

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

	Years ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Over-time	**1,597,440**	1,464,161
Point-in-time	**91,611**	129
	1,689,051	1,464,290

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 2019 and 2018.

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 2019, the aggregated amount of the transaction price allocated to the unsatisfied performance obligations under the Group's existing contract is RMB52,884,000 (2018: RMB66,320,000), among which RMB44,164,000 (2018: RMB54,869,000) is expected to be recognised within one year. This amount represents revenue expected to be recognized in the future from unamortized mobile game revenue and unamortized licensing fees. The Group will recognize as the control of services is transferred to the customer, which is expected to occur over the next 36 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	
	2019	2018
	RMB'000	RMB'000
Mainland of the PRC	**1,120,229**	1,187,947
Overseas	**568,822**	276,343
	1,689,051	1,464,290

4 OTHER INCOME

		Years ended 31 December	
		2019	2018
	Note	**RMB'000**	RMB'000
Government grants	(i)	**20,408**	22,804
Interest income from bank deposits		**6,261**	4,315
Income from wealth management products		**1,927**	944
Net exchange (loss)/gain		**(4,837)**	8,374
Others		**(73)**	(421)
		23,686	36,016

(i) In 2019, the Group received unconditional government subsidies mainly as recognition of their achievement in research and development, innovation and spreading Chinese culture.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Years ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest expenses on bank loans	**127**	847
Unwinding of finance costs on lease liabilities	**240**	395
Total interest expense	**367**	1,242
Less: interest expense capitalised into construction in progress	**(78)**	–
	289	1,242

(b) Staff costs

		Years ended 31 December	
		2019	2018
	Note	**RMB'000**	RMB'000
Salaries, wages and other benefits		**215,408**	142,208
Contributions to defined contribution plans	(i)	**32,113**	22,878
		247,521	165,086

(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.

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 2019 RMB'000	2018 RMB'000
Change in fair value of investment in TV-series-based financial instrument	**6,992**	–
Change in fair value of listed equity securities	**1,255**	–
	8,247	–

(d) Other items

	Years ended 31 December 2019 RMB'000	2018 RMB'000
Depreciation of property, plant and equipment	**7,570**	4,823
Amortisation of intangible assets	**1,392**	367
Depreciation of right-of-use assets	**4,210**	3,820
Impairment losses of trade and other receivables	**128**	358
Auditors' remuneration	**1,500**	42
Listing expenses	**27,018**	7,180

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Notes	Years ended 31 December 2019 RMB'000	2018 RMB'000
Current tax:			
Provision for current income tax for the year	22(a)	**30,980**	30,078
Deferred tax:			
Origination and reversal of temporary differences	22(b)	**(8,303)**	(5,497)
		22,677	24,581

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

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

	Notes	Years ended 31 December 2019 RMB'000	2018 RMB'000
Profit before taxation		**438,204**	361,284
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned	(i)	**102,347**	92,193
Tax effect of preferential tax rate	(ii)	**(65,437)**	(57,227)
Effect of deemed profit method		**–**	(16)
Super-deduction of research and development expense	(iii)	**(17,644)**	(13,292)
Effect on deferred tax balance resulting from a change in tax rate	(ii)	**5,369**	–
Tax effect of non-deductible expenses		**698**	190
Tax effect of tax losses not recognised		**7,019**	2,540
Tax effect of temporary differences not recognised	(iv)	**(9,675)**	193
Actual income tax		**22,677**	24,581

(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 subsidiaries incorporated in Hong Kong are liable to Hong Kong Profits tax at 16.5% in 2019, except for one subsidiary of the Group which 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%. 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%.

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

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

(ii) According to the PRC Corporate Income Tax Law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15%. The subsidiary of the Company, FriendTimes Technology obtained the approval of High and New Technology Enterprise in 2016 with an effective period of three years. Therefore, FriendTimes Technology was entitled to a preferential income tax rate of 15% for the year ended 31 December 2018.

FriendTimes Technology also obtained the approval of Technologically Advanced Service Enterprises and is entitled to a preferential income tax rate of 15% from 2018 to 2020.

According to the PRC Corporate Income Tax Law and its relevant regulations, entities that are qualified as software enterprise are entitled to a tax holiday after utilising all prior years' tax losses, comprising of a tax-free period for the first and second years and a 50% reduction in income tax rate for the third to fifth years. The subsidiary of the Company, Suzhou GameFriend Network Technology Co., Ltd. ("GameFriend"), obtained the certificate of Software Enterprise in 2015 and was entitled to the preferential income tax rate of 0% in 2015 and 2016, and 12.5% from 2017 to 2019. In addition, GameFriend also obtained the approval of Technologically Advanced Service Enterprises and is entitled to a preferential income tax rate of 15% from 2018 to 2020.

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

The subsidiaries of the Company, Suzhou Cheeryoo Network Technology Co., Ltd. ("Suzhou Cheeryoo"), and Shanghai Purple Wing Network Technology Co., Ltd. ("Purple Wing"), obtained the certificate of Software Enterprise in April 2019, and are exempt from income tax for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years.

(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 2019 and 2018.

(iv) This primarily represented the advertising expenses exceeding the income tax deductible limit for the respective tax year under the PRC Income Tax Law and deductible in future years when future advertising expenses falls below the tax deductible limit in the respective year of the future.

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 2019

	Year ended 31 December 2019					
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-base payment RMB'000	Total RMB'000
Executive directors						
Jiang Xiaohuang	–	961	621	36	–	1,618
Xu Lin	–	775	509	36	–	1,320
Sun Bo	–	686	498	36	–	1,220
Wu Jie	–	768	500	30	–	1,298
Independent non-executive directors						
Zhang Jinsong	90	–	–	–	–	90
Tang Haiyan	90	–	–	–	–	90
Zhu Wei	90	–	–	–	–	90
	270	3,190	2,128	138	–	5,726

Year ended 31 December 2018

	Year ended 31 December 2018					
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-base payment RMB'000	Total RMB'000
Executive directors						
Jiang Xiaohuang	–	893	420	34	–	1,347
Xu Lin	–	668	390	34	–	1,092
Sun Bo	–	584	360	34	–	978
Wu Jie	–	668	377	34	–	1,079
Independent non-executive directors						
Tang Haiyan	33	–	–	–	–	33
Zhu Wei	50	–	–	–	–	50
	83	2,813	1,547	136	–	4,579

7 DIRECTORS' EMOLUMENTS (continued)

Notes:

1. Mr. Jiang Xiaohuang, Mr. Xu Lin, Mr. Sun Bo and Mr. Wu Jie were appointed as executive directors of the Company on 21 February 2019. All the executive directors are key management personnel of the Group during the year, and their remuneration disclosed above include those for services rendered by them as key management personnel. Mr. Zhu Wei, Ms. Tang Hayan and Mr. Zhang Jinsong were appointed as independent executive directors of the Company on 4 October 2019 . Mr. Zhu and Ms. Tang has been independent directors of FriendTimes Technology since December 2015 and April 2018, respectively.

2. 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.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with the highest emoluments of the Group for the year include four (2018: three) directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining one (2018: two) highest paid individuals, are as follows:

	Years ended 31 December	
	2019 RMB'000	2018 RMB'000
Salaries, allowance and benefits in kind	**775**	1,297
Retirement scheme contributions	**36**	67
Discretionary bonuses	**420**	775
	1,231	2,139

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	
	2019 Number of individuals	2018 Number of individuals
HK$1,000,000–HK$1,500,000	**1**	2
	1	2

9 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share for the year 2019 and 2018 is calculated by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue after adjusting the capitalisation issue occurred immediately prior to the Listing of the Company's shares on 8 October 2019.

	Years ended 31 December	
	2019	2018
Profit attributable to the equity shareholders of the Company (RMB'000)	**415,527**	336,650
Weighted average number of ordinary shares in issue ('000)	**1,945,212**	1,870,000
Basic earnings per share	**0.21**	0.18

Weighted average number of ordinary shares in issue

	Years ended 31 December	
	2019 '000	2018 '000
Ordinary shares at 1 January	**51,660**	51,660
Effect of capitalization issue on 8 October 2019 (note)	**1,818,340**	1,818,340
Effect of shares issued by initial public offering on 8 October 2019	**75,946**	–
Effect of shares repurchased	**(734)**	–
Weighted average number of ordinary shares at 31 December	**1,945,212**	1,870,000

Note: The number of ordinary shares outstanding before the capitalization issue is completed on 8 October 2019 (note 23(c)) was adjusted for the proportionate increase in the number of ordinary shares outstanding without a corresponding change in resources, as if the capitalization issue had occurred at the beginning of the earliest period presented.

(b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2019 and 2018 is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

10 PROPERTY, PLANT AND EQUIPMENT

	Construction in process RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost:					
At 1 January 2018	1,477	8,180	5,038	3,954	18,649
Additions	63,914	6,387	1,192	1,164	72,657
Disposals	–	(828)	–	–	(828)
At 31 December 2018	65,391	13,739	6,230	5,118	90,478
Additions	122,758	6,980	1,347	204	131,289
Interests capitalised	78	–	–	–	78
Disposals	–	(1,172)	(111)	–	(1,283)
At 31 December 2019	**188,227**	**19,547**	**7,466**	**5,322**	**220,562**
Accumulated depreciation:					
At 1 January 2018	–	(3,937)	(2,604)	(1,510)	(8,051)
Charge for the year	–	(2,844)	(953)	(1,026)	(4,823)
Disposals	–	606	–	–	606
At 31 December 2018	–	(6,175)	(3,557)	(2,536)	(12,268)
Charge for the year	–	(4,905)	(1,145)	(1,520)	(7,570)
Disposals	–	810	106	–	916
At 31 December 2019	**–**	**(10,270)**	**(4,596)**	**(4,056)**	**(18,922)**
Net book value:					
At 31 December 2019	**188,227**	**9,277**	**2,870**	**1,266**	**201,640**
At 31 December 2018	65,391	7,564	2,673	2,582	78,210

11 INTANGIBLE ASSETS

	Software RMB'000	IP license RMB'000	Game license RMB'000	Total RMB'000
Cost:				
At 1 January 2018	1,397	1,976	–	3,373
Additions	196	–	–	196
At 31 December 2018	1,593	1,976	–	3,569
Additions	2,301	2,858	2,830	7,989
At 31 December 2019	**3,894**	**4,834**	**2,830**	**11,558**
Accumulated amortization:				
At 1 January 2018	(241)	(1,628)	–	(1,869)
Charge for the year	(196)	(171)	–	(367)
At 31 December 2018	(437)	(1,799)	–	(2,236)
Charge for the year	(660)	(355)	(377)	(1,392)
At 31 December 2019	**(1,097)**	**(2,154)**	**(377)**	**(3,628)**
Net book value:				
At 31 December 2019	**2,797**	**2,680**	**2,453**	**7,930**
At 31 December 2018	1,156	177	–	1,333

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 2018	11,633	7,777	19,410
Additions	2,840	–	2,840
At 31 December 2018, 1 January 2019 and 31 December 2019	14,473	7,777	22,250
Accumulated depreciation:			
At 1 January 2018	(5,172)	(91)	(5,263)
Charge for the year	(3,664)	(156)	(3,820)
At 31 December 2018 and 1 January 2019	(8,836)	(247)	(9,083)
Charge for the year	(4,054)	(156)	(4,210)
At 31 December 2019	**(12,890)**	**(403)**	**(13,293)**
Net book value:			
At 31 December 2019	**1,583**	**7,374**	**8,957**
At 31 December 2018	5,637	7,530	13,167

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

As at 31 December 2019, the Group has released the pledge of the above land use rights, which has been pledged as at 31 December 2018 as collateral for bank loan facility amounting to RMB168,000,000 from China Construction Bank, Suzhou branch.

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

Lease liabilities

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Maturity analysis-contractual undiscounted cash flows		
Within 1 year or on demand	**2,631**	4,700
More than 1 years but less than 2 years	**–**	2,631
Total undiscounted lease liabilities	**2,631**	7,331
Less: total future interest expenses	**(37)**	(277)
Present value of lease liabilities	**2,594**	7,054
Lease liabilities included in the consolidated statement of financial position		
Current	**2,594**	4,580
Non-current	**–**	2,474
Total	**2,594**	7,054

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Amounts recognised in profit or loss		
Interest on lease liabilities	**240**	395
Expenses relating to short-term leases	**932**	413
Amounts recognised in the consolidated statement of cash flows		
Total cash flow for leases	**(5,632)**	(4,325)

13 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

		As at 31 December	
	Notes	**2019 RMB'000**	2018 RMB'000
Investment in wealth management products	(i)	**70,000**	–
Listed equity securities	(ii)	**55,677**	–
Investment in TV-series-based financial instrument	(iii)	**13,008**	–
Total		**138,685**	–

(i) The wealth management products as at 31 December 2019 are issued by three creditworthy major PRC commercial banks with variable interest rate and have matured as at the date of the report with the carrying amount of the wealth management products fully recovered.

(ii) Listed equity securities as at 31 December 2019 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.

(iii) The TV-series-based financial instrument as at 31 December 2019 represents the Group's investment in a produced TV series, whose principle is protected.

(Expressed in Renminbi unless otherwise indicated)

14 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 Direct	Indirect	Principal activities
Friend World Holdings Limited	The British Virgin Islands 26 November 2018	limited liability company	–/ USD 50,000	100%	–	Investment holding
Friend Century Limited	Hong Kong 7 December 2018	limited liability company	–/HKD 10,000	–	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), (b))	The PRC 11 May 2010	limited liability company	RMB51,660,000/ RMB51,660,000	–	100%	Mobile game development
Suzhou GameFriend Network Technology Co., Ltd.* 蘇州好玩友網絡科技有限公司 (Note (a))	The PRC 9 April 2015	limited liability company	RMB10,000,000/ RMB10,000,000	–	100%	Mobile game development, publishing and operation
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
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
Wish Interactive Technology Limited	Hong Kong 19 May 2015	limited liability company	HKD 15,000,000/ HKD 15,000,000	–	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.

Note:

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

(b) FriendTimes Technology Inc. is formerly known as Suzhou FriendTimes Technology Inc. (蘇州玩友時代科技股份有限公司).

15 INTEREST IN AN ASSOCIATE

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

Name of the associate	Form of business structure	Place of incorporation and operation	Portion of ownership interest — group's effective interest	Paid-in capital	Principal activity
Suzhou Jingxiang Times Network Technology Co., Ltd.	Incorporated	The PRC	30.16%	RMB5,181,347	Electronic sports

16 CONTRACT COSTS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Balance at 1 January	**15,758**	11,473
Addition	**527,230**	508,375
Charged to profit or loss	**(530,714)**	(504,090)
Balance as at 31 December	**12,274**	15,758

17 TRADE AND OTHER RECEIVABLES

		As at 31 December	
	Note	**2019 RMB'000**	2018 RMB'000
Trade receivables	(a)	**179,760**	109,240
Less: Loss allowance		**(549)**	(421)
Trade receivables, net		**179,211**	108,819
Deposits and prepayments		**19,843**	9,308
VAT deductible		**11,101**	4,997
Income tax recoverable		**3,359**	6,463
Amounts due from shareholders			
— non-trade		**–**	3
Other receivables		**5,333**	2,692
		218,847	132,282

All of the trade and other receivables are expected to be recovered or recognized as expense within one year.

17 TRADE AND OTHER RECEIVABLES (continued)

(a) Ageing analysis

As at the end of each of the years ended 31 December 2018 and 2019, the ageing analysis of trade receivables, based on the invoice date and net of allowance, is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 3 months	**178,876**	108,758
After 3 months but within 1 year	**421**	85
After 1 year but within 2 years	**463**	397
Less: Loss allowance	**(549)**	(421)
Trade receivables, net	**179,211**	108,819

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 24(a).

18 PLEDGED BANK DEPOSITS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Deposits pledged for credit cards	**1,810**	2,506

19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash at banks	**892,192**	472,605
Cash at other financial institutions	**1,208**	–
	893,400	472,605

19 CASH AND CASH EQUIVALENTS (continued)

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

	Notes	As at 31 December 2019 RMB'000	2018 RMB'000
Profit before taxation		**438,204**	361,284
Adjustments for:			
Depreciation of property, plant and equipment	5(d)	**7,570**	4,823
Amortisation of intangible assets	5(d)	**1,392**	367
Depreciation of right-of-use assets	5(d)	**4,210**	3,820
Loss allowance on trade and other receivables	5(d)	**128**	358
Interest income	4	**(8,188)**	(5,259)
Finance costs	5(a)	**289**	1,242
Share of loss of an associate		**9**	803
Changes in fair value of financial assets measured at fair value through profit or loss	5(c)	**8,247**	–
Other net losses		**73**	336
Foreign exchange loss/(gain)		**4,091**	(1,798)
Operating profit before changes in working capital		**456,025**	365,976
Decrease/(increase) in contract costs		**3,484**	(4,285)
Increase in trade and other receivables		**(93,662)**	(15,331)
Increase in pledge deposit		**696**	(1,670)
Decrease/(increase) in other non-current asset		**431**	(324)
Increase in trade and other payables		**9,026**	18,697
(Decrease)/increase in contract liabilities		**(13,436)**	26,105
Cash generated from operations		**362,564**	389,168

19 CASH AND CASH EQUIVALENTS (continued)

(c) Reconciliation of liabilities arising from financing activities

	Bank loans RMB'000	Interests payable RMB'000	Pledged bank deposits RMB'000 (Note 18)	Lease Liabilities RMB'000 (Note 12)	Dividends payable RMB'000 (Note 23(b))	Total RMB'000
At 1 January 2019	–	–	(2,506)	7,054	–	4,548
Changes from financing cash flows:						
Proceeds of bank loans	5,293	–	–	–	–	5,293
Repayment of bank loans	(5,293)	–	–	–	–	(5,293)
Payment of principal portion of lease liabilities	–	–	–	(4,460)	–	(4,460)
Interest paid	–	(127)	–	(240)	–	(367)
Profit distribution	–	–	–	–	(102,287)	(102,287)
Total changes from financing cash flows	–	(127)	–	(4,700)	(102,287)	(107,114)
Other changes:						
Changes in pledged bank deposit for operating cash flow	–	–	696	–	–	696
Interest expenses (Note 5(a))	–	49	–	240	–	289
Capitalised borrowing costs	–	78	–	–	–	78
Profit distribution approved (Note 23(b))	–	–	–	–	102,287	102,287
Total other changes	–	127	696	240	102,287	103,350
At 31 December 2019	–	–	(1,810)	2,594	–	784

19 CASH AND CASH EQUIVALENTS (continued)

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

	Bank loans RMB'000	Interests payable RMB'000	Pledged bank deposits RMB'000 (Note 18)	Lease Liabilities RMB'000 (Note 12)	Dividends payable RMB'000 (Note 23(b))	Total RMB'000
At 1 January 2018	–	–	(836)	7,731	–	6,895
Changes from financing cash flows:						
Proceeds of bank loans	43,381	–	–	–	–	43,381
Repayment of bank loans	(43,381)	–	–	–	–	(43,381)
Payment of pledged bank deposit	–	–	(14,860)	–	–	(14,860)
Release of pledged bank deposit	–	–	14,860	–	–	14,860
Payment of lease liabilities	–	–	–	(3,912)	–	(3,912)
Interest paid	–	(847)	–	–	–	(847)
Profit distribution	–	–	–	–	(118,818)	(118,818)
Total changes from financing cash flows	–	(847)	–	(3,912)	(118,818)	(123,577)
Other changes:						
Changes in pledged bank deposit for operating cash flow	–	–	(1,670)	–	–	(1,670)
Interest expenses (Note 5(a))	–	847	–	395	–	1,242
Increase of lease liabilities	–	–	–	2,840	–	2,840
Profit distribution approved (Note 23(b))	–	–	–	–	118,818	118,818
Total other changes	–	847	(1,670)	3,235	118,818	121,230
At 31 December 2018	–	–	(2,506)	7,054	–	4,548

20 TRADE AND OTHER PAYABLES

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Trade payables	(a)	**14,293**	14,165
Accrued payroll		**62,814**	54,210
Payables related to property, plant and equipment		**55,477**	11,584
Other payables and accruals		**2,491**	2,197
Trade and other payables		**135,075**	82,156

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 2019 RMB'000	2018 RMB'000
Within 3 months	**13,993**	14,155
Over 3 months but within 6 months	**252**	10
Over 1 year	**48**	–
	14,293	14,165

21 CONTRACT LIABILITIES

	As at 31 December 2019 RMB'000	2018 RMB'000
Non-current		
Deferred licensing income amortized over one year	**8,720**	11,451
Sub-total	**8,720**	11,451
Current		
Deferred game revenue published by the Group	**36,185**	46,386
Deferred licensing income amortized within one year	**7,979**	8,483
Sub-total	**44,164**	54,869
Total	**52,884**	66,320

21 CONTRACT LIABILITIES (continued)

(a) Deferred game revenue published by the Group primarily consists of the unamortized revenue from sales of virtual items for mobile games, where there is still an implied obligation to be provided by the Group over time.

(b) Deferred licensing income primarily comprised the unamortized licensing fees received from third-party publishing partners, where there is still an implied obligation to be provided by the Group over time.

Movements in contract liabilities is as below:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Balance at 1 January	**66,320**	40,215
Additions	**1,524,569**	1,442,027
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	**(54,869)**	(38,140)
Decrease in contract liabilities as a result of recognising revenue during the same year	**(1,483,136)**	(1,377,782)
Balance at 31 December	**52,884**	66,320

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

		Year ended 31 December	
	Note	**2019**	2018
		RMB'000	RMB'000
Balance at 1 January		**473**	15,517
Provision for current income tax for the year	6(a)	**30,980**	30,078
Payment during the year		**(20,983)**	(45,122)
Balance at 31 December		**10,470**	473
Reconciliation to the consolidated statement of financial position:			
Income tax payable		**13,829**	6,936
Income tax recoverable (Note 17)		**(3,359)**	(6,463)
Balance at 31 December		**10,470**	473

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

(b) Deferred tax assets recognised:

(i) The components of deferred tax assets recognized in the consolidated statement of financial position and the movements during the Relevant Periods 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	Deductable advertising expenses RMB'000	Total RMB'000
Balance at 1 January 2018	1,235	645	5,943	–	7,823
Credited to profit or loss (Note 6(a))	(1,235)	9,997	(3,265)	–	5,497
Balance at 31 December 2018	–	10,642	2,678	–	13,320
Credited to profit or loss (Note 6(a))	1,256	2,069	(272)	5,250	8,303
Balance at 31 December 2019	**1,256**	**12,711**	**2,406**	**5,250**	**21,623**

(ii) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB38,238,000 (2018: RMB10,160,000) and in respect of deductible temporary differences of RMB90,640,000 (2018: RMB178,082,000) as at 31 December 2019, 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 2019 in respect of undistributed earnings of RMB739,498,000 (2018: RMB414,140,000) 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.

23 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 RMB'000	Total RMB'000
Balance at 1 January 2018		–	–	–	–	–
Changes in equity for 2018:						
Shares issued to shareholders of the Company	23(c)	3	–	–	–	3
Balance at 31 December 2018 and 1 January 2019		**3**	**–**	**–**	**–**	**3**
Changes in equity for 2019:						
Loss for the year		**–**	**–**	**–**	**(4,155)**	**(4,155)**
Other comprehensive income		**–**	**–**	**(2,908)**	**–**	**(2,908)**
Total comprehensive income		**–**	**–**	**(2,908)**	**(4,155)**	**(7,063)**
Shares issued to shareholders of the Company	23(c)	**1**	**–**	**–**	**–**	**1**
Capitalization issue	23(c)	**129**	**(129)**	**–**	**–**	**–**
Issue of ordinary shares by initial public offering, net of issuance costs	23(c)	**23**	**433,984**	**–**	**–**	**434,007**
Repurchase and cancellation of ordinary shares	23(c)	**(1)**	**(7,772)**	**–**	**–**	**(7,773)**
Balance at 31 December 2019		**155**	**426,083**	**(2,908)**	**(4,155)**	**419,175**

23 CAPITAL AND RESERVES (continued)

(b) Profit distribution

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

	2019 RMB'000	2018 RMB'000
Final dividend proposed after the end of the year ended 31 December 2019 of HK$0.1 per ordinary share (2018: nil)	**196,316**	–

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

On 12 February 2019, dividends of RMB102,287,000 (2018: RMB118,818,000) were declared and approved by FriendTimes Technology in respect of the year ended 31 December 2018 to its then equity shareholders.

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

No final dividend in respect of the previous financial year has been approved during the year (2018: nil).

(c) Share capital

(i) Authorized and issued share capital

	Par Value US$	No. of shares '000	US$ '000
Authorized shares as at 31 December 2019 and 2018:	0.00001	5,000,000	50
Ordinary shares, issued and fully paid			
At 1 January 2018	–	–	–
Shares issued to shareholders of the Company	0.00001	49,594	–*
At 31 December 2018	0.00001	49,594	–*
RMB equivalent ('000)			3
At 1 January 2019			
Shares issued to shareholders of the Company	**0.00001**	**2,066**	**–***
Capitalization issue (note (ii))	**0.00001**	**1,818,340**	**18**
Initial public offering (note (iii))	**0.00001**	**330,000**	**3**
Repurchase and cancellation of ordinary shares (note (iv))	**0.00001**	**(8,488)**	**–***
Balance at 31 December 2019	**0.00001**	**2,191,512**	**21**
RMB equivalent ('000)			**155**

* The balance represented number less than 1,000.

23 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 as part of the Reorganization 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 November 16, 2018 and 13 February 2019.

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

For the purpose of the consolidated financial statements, the share capital of the Group as at 1 January 2018 and 31 December 2018 represents the aggregate amount of the paid-in capital of all the entities comprising the Group as at that date, after elimination of investments in subsidiaries. The share capital of the Group as at 31 December 2019 represents the share capital of the Company.

(ii) Capitalization issue

Pursuant to the written resolution dated 11 September 2019, the Company allotted and issued 1,818,340, 000 shares of US$0.00001 each to the then existing shareholders. This resolution was conditional upon the share premium account being credited as a result of the Company's initial public offering and pursuant to this resolution, a sum of US$18,000 (equivalent to RMB129,000) standing to the credit of the share premium account as of 8 October 2019 was subsequently applied in paying up this capitalization issue in full.

(iii) Issue of ordinary shares by initial public offering

On 8 October 2019, the Company issued 330,000,000 ordinary shares with a par value of USD 0.00001, at a price of HK$1.52 per share by way of public offering to Hong Kong and overseas investors. Net proceeds from these issues amounted to RMB434,007,000 (after offsetting expenses directly attributable to the issue of shares of RMB18,341,000), out of which RMB23,000 and RMB433,984,000 were recorded in share capital and share premium accounts, respectively.

(iv) Repurchase and cancellation of ordinary shares

The Company repurchased an aggregate of 8,488,000 shares of its own shares through the Stock Exchange, at a total consideration of HK$8,657,000 (equivalent to approximately RMB7,773,000)(2018: Nil) during the year ended 31 December 2019. The aforesaid repurchased shares were cancelled as at 31 December 2019.

(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.

23 CAPITAL AND RESERVES (continued)

(e) Reserves

(i) Capital reserve

Capital reserve as at 2019 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 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.

(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.

In accordance with the PRC Company Law, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserves until the reserves reach 50% of their respective registered capital. 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 Group company 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).

23 CAPITAL AND RESERVES (continued)

(f) Capital risk 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 2019 and 2018 were as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total liabilities	**204,382**	162,466
Total assets	**1,511,219**	735,948
Debt-to-asset ratios	**13.5%**	22.1%

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

24 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.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

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 2019, 40% (2018: 47%) of the total trade receivables was due from the Group's largest debtor and 80% (2018: 71%) of the total trade receivables was due from the Group's five largest debtors.

Trade receivables at the end of each reporting period are 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.

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

	As at 31 December 2019		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	–	165,661	–
Overdue within 3 months	0.6%	13,295	77
Overdue after 3 months but within 1 year	2.6%	341	9
Overdue after 1 year but within 2 years	100.0%	463	463
	0.3%	179,760	549

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Trade receivables (continued)

	As at 31 December 2018		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	–	104,292	–
Overdue within 3 months	0.5%	4,489	22
Overdue after 3 months but within 1 year	20.0%	75	15
Overdue after 1 year but within 2 years	100.0%	384	384
	0.4%	109,240	421

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.

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Balance at the beginning of the year	**421**	63
Impairment losses recognized	**128**	358
Balance at the end of the year	**549**	421

(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.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

The following table shows the 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.

	As at 31 December 2019 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	Carrying amount RMB'000
Trade and other payables	**135,075**	**–**	**–**	**135,075**	**135,075**
Lease liabilities	**2,631**	**–**	**–**	**2,631**	**2,594**
Total	**137,706**	**–**	**–**	**137,706**	**137,669**

	As at 31 December 2018 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	Carrying amount RMB'000
Trade and other payables	82,156	–	–	82,156	82,156
Lease liabilities	4,700	2,631	–	7,331	7,054
Total	86,856	2,631	–	89,487	89,210

(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.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(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 2019 and 2018 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 2019	
	United States Dollars RMB'000	Hong Kong Dollars RMB'000
Cash and cash equivalents	**82,351**	**3,620**
Pledged bank deposits	**–**	**899**
Trade and other receivables	**48,840**	**6,778**
Trade and other payables	**–**	**–**
Overall exposure	**131,191**	**11,297**

	Exposure to foreign currencies (expressed in Renminbi) As at 31 December 2018	
	United States Dollars RMB'000	Hong Kong Dollars RMB'000
Cash and cash equivalents	150,114	19,494
Pledged bank deposits	–	877
Trade and other receivables	58,098	–
Trade and other payables	(81)	–
Overall exposure	208,131	20,371

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

(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	
	2019	2018
	RMB'000	RMB'000
United States Dollars	**(5,829)**	(9,412)
Hong Kong Dollars	**(472)**	(1,019)

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.

(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 are 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.

24 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	
	2019	2018
	RMB'000	RMB'000
Recurring fair value measurement		
Level 1 Assets		
Listed equity securities	**55,677**	–
Level 3 Assets		
Investment in wealth management products	**70,000**	–
Investment in TV-series-based financial instrument	**13,008**	–
	138,685	–

During the years ended 31 December 2018 and 2019, 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.

Information about Level 3 fair value measurements

The fair values of the investment in TV-series-based financial instrument and wealth management product have 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 fair value of the TV-series-based financial instrument is determined by discounting a cash flow forecast using risk-adjusted discount rate, among which the 76% success rate of broadcasting the TV series is the significant unobservable input underlying the cash flow forecast. It is estimated that with all other variables held constant, an increase/decrease in the success rate of broadcasting the TV series by 5% would have increased/decreased the Group's net profits by RMB730,000 for the years ended 31 December 2019. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit and loss, are reasonable, and that they were the most appropriate values as at the reporting period end.

24 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 period in the balance of these Level 3 fair value measurements are as follows:

	2019 RMB'000	2018 RMB'000
Investment in wealth management products		
At 1 January	**–**	–
Payment for purchases	**335,000**	90,000
Realised gain from investment recognised in "other income" in the consolidated statement of profit or loss	**1,927**	–
Proceeds upon maturity	**(266,927)**	(90,000)
At 31 December	**70,000**	–
Investment in TV-series-based financial instrument		
At 1 January	**–**	–
Payment for purchases	**20,000**	–
Changes in fair value of financial assets measured at fair value through profit or loss	**(6,992)**	–
At 31 December	**13,008**	–
Total losses for the period included in profit or loss for assets held at the end of the reporting period	**(6,992)**	–

(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 amortized cost are not materially different from their fair values as at the reporting period end due to short-term maturity of these instruments.

25 COMMITMENTS

Capital commitments of the Group in respect of construction-in-process outstanding at 31 December 2019 not provided for in the financial statement were as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Contracted for but not provided for	**103,124**	115,256
Authorised but not contracted for	**10,845**	99,800
	113,969	215,056

26 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the 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	
	2019	2018
	RMB'000	RMB'000
Short-term employee benefits	**7,053**	5,522
Post-employee benefits	**203**	197
	7,256	5,719

Total remuneration is included in "staff costs" (see Note 5(b)).

(b) Guarantee provided by the Controlling Shareholder

The Controlling Shareholder has provided guarantee with the amount of RMB198,000,000 to the Group on the bank loan facility agreement amounting to RMB168,000,000 since 1 April 2018 (see Note 12), and the guarantee was released on 1 February 2019.

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Non-current asset		
Investment in a subsidiary	**347**	347
	347	347
Current asset		
Cash and cash equivalents	**345,302**	–
Amounts from subsidiaries	**91,472**	–
Amounts due from shareholders	**–**	3
	436,774	3
Current liabilities		
Amounts due to a subsidiary	**347**	347
Other payables	**17,599**	–
	17,946	347
Net current assets/(liabilities)	**418,828**	(344)
Total assets less current liabilities	**419,175**	3
NET ASSETS	**419,175**	3
CAPITAL AND RESERVES		
Share capital	**155**	3
Reserves	**419,020**	–
TOTAL EQUITY	**419,175**	3

Approved and authorised for issue by the board of directors on 26 March 2020.

Jiang Xiaohuang
Directors

Wu Jie
Directors

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

	Effective for accounting periods beginning on or after
Revised Conceptual Framework for Financial Reporting 2018	1 January 2020
Amendments to HKFRS 3, Definition of a business	1 January 2020
Amendments to HKAS 1 and HKAS 8, Definition of material	1 January 2020
HKFRS 8, Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020

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.