花房集团
HUAFANG GROUP

2023

Huafang
Group Inc.
花 房 集 团 公 司

ANNUAL REPORT 2023

STOCK CODE **3611**

(Incorporated in the Cayman Islands with limited liability)

Contents

Corporate Information

BOARD OF DIRECTORS

Non-executive Director and Chairman of the Board
Mr. ZHOU Hongyi

Executive Director
Ms. YU Dan *(CEO)*

Other Non-executive Directors
Mr. CHEN Shengmin
Mr. ZHAO Dan

Independent Non-executive Directors
Mr. CHEN Weiguang
Mr. LI Bing
Ms. QIAN Aimin

COMPANY SECRETARY

Ms. LAI Janette Tin Yun

AUTHORISED REPRESENTATIVES UNDER THE LISTING RULES

Ms. YU Dan
Ms. LAI Janette Tin Yun

AUDIT COMMITTEE

Ms. QIAN Aimin *(Chairman)*
Mr. LI Bing
Mr. CHEN Shengmin

REMUNERATION COMMITTEE

Mr. CHEN Weiguang *(Chairman)*
Ms. QIAN Aimin
Ms. YU Dan

NOMINATION COMMITTEE

Mr. ZHOU Hongyi *(Chairman)*
Mr. CHEN Weiguang
Mr. LI Bing

AUDITOR

Mazars CPA Limited
Certified Public Accountants
42nd Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

REGISTERED OFFICE

Tricor Services (Cayman Islands) Limited
Third Floor, Century Yard
Cricket Square
P.O. Box 902, Grand Cayman
KY1-1103
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Building 5, Yard 6
Jiuxianqiao Road
Chaoyang District
Beijing, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place
348 Kwun Tong Road, Kowloon
Hong Kong

PRINCIPAL BANK

China Merchants Bank Co., Ltd.
Beijing Century City Sub branch
No. 1 Chuihong Garden, Indigo Factory
Haidian District
Beijing, PRC

HONG KONG LEGAL ADVISOR

Wilson Sonsini Goodrich & Rosati
Suite 1509, 15/F, Jardine House
1 Connaught Place, Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

COMPLIANCE ADVISOR

Goldlink Capital (Corporate Finance) Limited
28/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

STOCK CODE AND BOARD LOT

Stock code: 3611
Board lot: 1,000

WEBSITE

www.huafang.com

Financial Summary & Operation Highlights

FINANCIAL SUMMARY

Consolidated Statements of Comprehensive Income

	For the Year Ended 31 December		
	2021 *RMB'000*	2022 *RMB'000*	**2023** ***RMB'000***
Revenue	4,599,690	5,097,508	**2,570,085**
Cost of sales	(3,377,109)	(3,799,508)	**(1,932,369)**
Gross profit	1,222,581	1,298,000	**637,716**
Other income	68,852	78,060	**48,913**
Selling expenses	(544,839)	(537,216)	**(304,670)**
Administrative expenses	(146,011)	(152,525)	**(288,580)**
Research & Development expenses	(207,850)	(235,329)	**(200,835)**
Impairment of non-current assets	–	(790)	**(681,763)**
Profit/(loss) from operations	392,733	450,200	**(789,219)**
Profit/(loss) for the year	325,023	231,747	**(797,113)**
Profit/(loss) attributable to:			
Owners of the Company	325,023	231,788	**(796,880)**
Non-IFRS Measure Adjusted net profit	430,617	458,203	**3,532**

Consolidated Statements of Balance Sheet

Assets and Liabilities

	As at 31 December		
	2021 *RMB'000*	2022 *RMB'000*	**2023** ***RMB'000***
Total non-current assets	1,045,300	1,036,532	**210,249**
Total current assets	1,799,207	2,347,159	**2,255,799**
Total assets	2,844,507	3,383,691	**2,466,048**
Total non-current liabilities	65,564	51,267	**27,319**
Total current liabilities	330,888	514,074	**379,092**
Total liabilities	396,452	565,341	**406,411**
Net current assets	1,468,319	1,833,085	**1,876,707**
Net assets	2,448,055	2,818,350	**2,059,637**
Share capital	33	694	**694**
Reserves	2,448,022	2,817,697	**2,042,899**
Equity attributable to owners of the Company	2,448,055	2,818,391	**2,043,593**

Operation Highlights

Total Income

Total revenue

Approximately RMB **2.6** billion

Profit/Loss

Loss for the year

Approximately RMB **797.1** million

Adjusted net profit

Approximately RMB **3.5** million

Average MAUs

MAUs of the Group

Over **44.2** million

Growth of Overseas Social Networking Business

MAUs

Increased by around **53.7%** yoy

MPUs

Increased by around **75.8%** yoy

Chairman's Statement

Dear shareholders,

2023 is the first year after the listing of Huafang Group Inc. (hereinafter referred to as the "**Company**" or "**Huafang**"), and also a year fraught with challenges. Confronted with the impact and shock brought by the complex and changing external environment, we remained true to our founding principles and focused on the essence of business. Huafang's management team has actively responded to these challenges with a more robust operating strategy, maintaining a stable and positive development direction.

Huafang will consistently adhere to its mission of "connecting people with technology and spreading happiness through companionship", providing diversified and high-quality entertainment live-streaming content and social networking and companionship services for our domestic and overseas users.

The following summarizes the Company's results review for 2023 and its strategy and outlook for 2024.

MARKET AND BUSINESS REVIEW

In 2023, amidst the impact of multiple factors such as changes in the macroeconomic environment and industry conditions, the Group experienced a contraction in business revenue scale, and the overall performance did not meet expectations. The Group's total revenue for the year ended 31 December 2023 amounted to approximately RMB2,570 million, representing a year-on-year decrease of 49.6%. The share of revenue from overseas business has significantly increased, with an increase in revenue from overseas social business of approximately 36.9% as compared to the corresponding period in last year. The net loss for the year ended 31 December 2023 amounted to approximately RMB797.1 million. Apart from non-operational impact including 6.cn's impairment loss on goodwill of approximately RMB681.8 million and share-based compensation expenses of approximately RMB118.9 million, the business operations of the Company were profitable. The average MAUs (monthly active users) of the Group in 2023 were approximately 44.26 million and the average MPUs (monthly paying users) of the Group in 2023 were approximately 1.36 million.

As a pioneer in the entertainment live streaming industry, the Group has faced numerous challenges throughout years of development. The team has consistently remained true to its founding principles, actively embraced changes and challenges and made adjustments in a timely manner. In the second half of 2023, the Group had witnessed a return to a monthly compound growth in business revenue with an encouraging and stable growth rate.

In 2023, the Group further developed its businesses in the sphere of online social entertainment, constantly optimizing and adjusting the products and operational strategies of its core entertainment live streaming business, while amplifying the growth momentum of overseas social business, and continuing to explore innovative tracks and cutting-edge technology fields. The followings highlight the Group's performance in 2023:

I. Entertainment live streaming business maintained a stable foundation with significant improvements in quality and efficiency

Huajiao and 6.cn, the Group's two major flagship products in entertainment live streaming, explored new opportunities amidst challenges and focused on the essence of entertainment live streaming business. They served as the stable foundation of our operations, with a steadfast commitment to delivering premium content for users as the central goal accompanied by timely adjustments in business strategies. By introducing a diverse range of innovative live streaming categories, these products have not only met the needs of users from different regions, ages, and with varied content preferences, but also strengthened the bond between hosts and the platforms, fostering a virtuous cycle of content creation and consumption.

With the rapid changes in cutting-edge technologies, the Group has proactively explored the innovative combination of new technologies such as AIGC and traditional live streaming business, successfully introducing innovative features such as AI-powered gifts and AI-generated portraits, which have offered users brand-new experience in functions and interactive forms. Concurrently, we have taken various measures to enhance our business capabilities and efficiency, including refining our traffic strategies, reactivating historical accumulated user resources and upgrading our technical architectures.

II. Overseas social business achieved high-speed growth and continued to explore innovative tracks and new opportunities

In 2023, the Group strategically optimized the product matrix structure of its overseas business, focused on its advantageous product resources, promoted the refinement and localization of its operations, continued to magnify the influence of its brand and diversified its product revenue models, and succeeded in achieving large-scale and rapid growth in its overseas social networking and entertainment services business, with annual revenues amounting to approximately RMB252.3 million, representing a year-on-year increase of 36.9%, the average MAUs exceeding 9.6 million, representing a year-on-year increase of approximately 53.7%, and the average MPUs increasing by approximately 75.8% year-on-year.

The Group's strategic brand project "Huafang Lab" continued to explore innovation tracks and opportunities. In the second half of 2023, the Group started incubating a series of innovative projects such as AI-type social companion products, and has already conducted more exploration and practice around the existing entertainment live streaming and social business, integrating various fields such as AIGC and Large Language Model. We believe that the innovative application of AI and other cutting-edge technologies will be another growth curve after the overseas social business.

III. Environmental, Social, and Governance ("ESG")

In the face of a complex and volatile external environment, the Group has become more aware of the significance of sustainable development to both the enterprise and the society. In the process of corporate governance, the Company will maximize the pursuit of sustainability in the use of resources, which not only helps to reduce operating costs, but also helps to protect the environment and ensure the sustainability of the business.

The Group strongly believes that its employees are its most valuable asset. In 2023, the Company implemented multiple training programs to enhance employee skills and career development opportunities, while continuously focusing on employee welfare. The Group is also committed to being an active contributor to social responsibility. In 2023, the Group, in collaboration with the China Foundation for Rural Development, launched a series of public welfare projects to help revitalize villages, namely the "Spring Wild Project (春野計劃)", which aims to make full use of the influence of the live broadcasting platform to continuously promote the culture, heritage and cultural and tourism resources of the villages into the public's view, to empower local development and to boost revitalization of the villages.

In 2023, the management of the Group maintained efficient and close communication with the Board and its specialized committees, upheld high ethical standards, continuously improved corporate governance level, optimized the corporate governance structure and compliance internal control system, and endeavored to protect shareholders' interests, with the aim of providing stable and sustainable returns for the shareholders of the Group.

BUSINESS STRATEGIES AND FUTURE OUTLOOK

In 2024, we believe that opportunities outweigh challenges. The Company's years of industry experience accretion represent our most valuable resource advantage. The management team will maintain entrepreneurial passion at all times, dedicating efforts to the exploration of innovative products and the iterative upgrade of traditional business. We will also amplify the growth potential in overseas social markets, constructing a sustainable growth momentum for the Group through a diversified business portfolio.

I. Entertainment live streaming: carrying out iterative upgrades on flagship products as challenges are also opportunities

The Group will face the opportunities and transformations brought by external challenges head-on, fully activating the industry advantage resources that have been accumulated over the years with flagship products such as Huajiao and 6.cn. While maintaining a robust growth trajectory, we will explore how new technologies can empower and enhance traditional businesses. In 2024, the Group's entertainment live streaming business will focus on the iteration of existing products, diversify the types of content on the platform, upgrade the branding of existing flagship products, and continuously strengthen the deep integration of hosts, users, and the platform, to solidify a sustainable ecosystem where content creation and consumption promote each other.

II. Overseas social business: maintaining rapid business growth on the right path

The Group will continue to increase its resource investment in overseas social networking and entertainment service businesses, focusing on key advantageous regions, strengthening overseas brand building, and accelerating the transformation to localized operations. Efforts will be concentrated on developing flagship products for overseas social networks, further enhancing product features, diversifying commercialization models, and ensuring the sustained rapid growth of overseas social networking business.

III. Innovative business: maintaining the Group's innovative power and creating brand new product lines

"Maintaining innovative power" is one of the Group's core strategies. The Group's strategic brand project "Huafang Lab" has been continuously advancing in the exploration of innovative fields. In 2024, the Group will be committed to the rational use of industry resources, as well as leveraging multiple advantages in technology, team, and funding to continuously incubate innovative projects that have synergistic effects with the Company's main businesses, and actively engage in external investment cooperation. At the same time, we will proactively seek new growth opportunities and innovative potential for our traditional entertainment live streaming business, striving to create a brand new product line for the Group to adapt to the constantly changing market environment.

In addition, the Group will continue to implement the concept of sustainable development, actively fulfill its social responsibilities, consistently maintain high ethical standards, optimize the Group's compliance operation governance system, and continuously create long-term value for shareholders, employees, users, and society.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my gratitude to the management and employees of the Company for their dedication and contribution, the Board for its guidance and help, as well as the shareholders and users for their long-term trust and support. Huafang Group will continue to provide the global users with more quality contents, products and services, and create real long-term value for shareholders and investors.

Chairman of the Board
ZHOU Hongyi

26 March 2024

Profile of Directors and Senior Management

Below are the brief profiles of the current Directors and senior management of the Group.

DIRECTORS

The Board currently consists of seven Directors, comprised of one executive Director, three non-executive Directors and three independent non-executive Directors. The following table sets forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
Executive Director and Non-executive Directors			
Mr. ZHOU Hongyi (周鴻禕)	53	Chairman and non-executive Director	1 June 2021
Ms. YU Dan (于丹)	46	CEO and executive Director	29 July 2021
Mr. CHEN Shengmin (陳勝敏)	52	Non-executive Director	29 July 2021
Mr. ZHAO Dan (趙丹)	44	Non-executive Director	29 July 2021
Independent Non-executive Directors			
Mr. CHEN Weiguang (陳偉光)	59	Independent non-executive Director	21 November 2022
Mr. LI Bing (李冰)	53	Independent non-executive Director	21 November 2022
Ms. QIAN Aimin (錢愛民)	53	Independent non-executive Director	21 November 2022

EXECUTIVE DIRECTOR AND NON-EXECUTIVE DIRECTORS

Mr. ZHOU Hongyi (周鴻禕), aged 53, a non-executive Director and chairman of the Board, appointed on 1 June 2021. He is primarily responsible for the overall strategic planning, corporate governance and business guidance of Huafang Group. Mr. Zhou joined the Group in April 2019 and has served as the chairman of the board at Huafang Technology and Mijing Hefeng since April 2019 and September 2020, respectively. Mr. Zhou has over 20 years of managerial and operational experience in China's Internet industry. Mr. Zhou has been a director and the chairman of the board of directors of Qifu Technology, Inc., a company listed on NASDAQ (NASDAQ: QFIN) and listed on the Stock Exchange (stock code: 3660) since 25 July 2016 and since September 2018, respectively. Mr. Zhou founded the Qihoo 360 Technology Co. Ltd. (NYSE: QIHU) and has served as the chairman of the board and CEO of Qihoo 360 Technology Co. Ltd., one of the global leading Internet security companies, from its inception to September 2021, and the successor of its business, 360 Group. Since February 2018, Mr. Zhou has been serving as the chairman of the board of directors and CEO of 360 Security Technology Inc (SH: 601360) and led its comprehensive transformation into a digital security company. Prior to founding Qihoo 360 Technology Co. Ltd., Mr. Zhou was a partner at IDG Ventures Capital. Mr. Zhou received his bachelor's degree in computer software and his master's degree in system engineering from Xi'an Jiaotong University in 1992 and 1995, respectively.

Ms. YU Dan (于丹), aged 46, is the executive Director, appointed on 29 July 2021 and the chief executive officer, appointed in March 2017. Ms. Yu is primarily responsible for overall strategy planning, corporate governance, business direction, and business management of the Group. Ms. Yu joined the Group in March 2017 and has served several positions in the Group, including serving as the chief executive officer and co-founder at Mijing Hefeng since March 2017 and as the chief executive officer at Huafang Technology since October 2020. Prior to joining the Group, Ms. Yu worked in various well-known internet companies. Ms. Yu graduated from Xi'an Jiaotong University with a bachelor's degree in business administration in July 2000. She further obtained a master's degree in business administration from Xi'an Jiaotong University in April 2003.

Mr. CHEN Shengmin (陳勝敏), aged 52, is a non-executive Director, appointed on 29 July 2021, and is primarily responsible for providing guidance and advice on the business strategies of the Group. Mr. Chen joined the Group in September 2017 and has served as a director at Huafang Technology since September 2017 and as a director at Mijing Hefeng since September 2020. Prior to joining the Group, Mr. Chen has served as the chief financial officer at Songcheng Performance since July 2007. Mr. Chen also served as a financial manager at Hangzhou Songcheng Landscape Real Estate Co., Ltd. (杭州宋城景觀房地產有限公司) from March 2005 to July 2007. He worked as the senior accountant of finance department and the finance manager at Hangzhou Leyuan Co., Ltd. (杭州樂園有限公司) from March 2002 to March 2004 and from April 2004 to February 2005, respectively. Mr. Chen graduated from China University of Radio and Television (中央廣播電視大學) (currently known as The Open University of China (國家開放大學)) with an associate degree in accounting in July 2005. He obtained the professional qualification of accountant in May 2005 and obtained the certificate of board secretary granted by Shenzhen Stock Exchange in May 2017.

Mr. ZHAO Dan (趙丹), aged 44, is a non-executive Director, appointed on 29 July 2021, and is primarily responsible for providing guidance and advice on the business strategies of the Group. Mr. Zhao joined the Group in August 2020 and has served as a director at Huafang Technology since August 2020. Mr. Zhao has been a non-executive director at 360 Ludashi Holdings Limited (360魯大師控股有限公司), a company listed on the Stock Exchange (stock code: 3601), since June 2020 and a director at Qifu Technology, Inc., a company listed on NASDAQ (NASDAQ: QFIN) and listed on the Stock Exchange (stock code: 3660) since May 2020. Mr. Zhao has also been the vice president at 360 Technology Group Co., Ltd. (三六零科技集團有限公司) since January 2013. Prior to that, Mr. Zhao worked as a senior manager at Alibaba (China) Co., Ltd. (阿里巴巴(中國)有限公司) from November 2007 to January 2013. He also worked as an assistant manager at KPMG Huazhen LLP (畢馬威華振會計師事務所(特殊普通合夥)) from September 2006 to November 2007. Mr. Zhao has also served as a director of Kincheng Bank of Tianjin Co., Ltd. (天津金城銀行股份有限公司) since February 2022. Mr. Zhao graduated from University of Shanghai for Science and Technology (上海理工大學) with a bachelor's degree in international business management in July 2002. He further obtained a master's degree in international business and economics at University of Konstanz, Germany in December 2004. He obtained a professional qualification of Certified Internal Auditor in November 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEN Weiguang (陳偉光), aged 59, is an independent non-executive Director, appointed on 21 November 2022, and is primarily responsible for supervising and providing independent opinion to the Board. Mr. Chen served multiple positions at Zhejiang Branch of Industrial and Commercial Bank of China (中國工商銀行浙江省分行), including serving as the general manager of evaluation and analysis department from September 2017 to January 2021, as the general manager of credit approval department from September 2006 to September 2017 and serving as other positions, including the deputy director of credit division, the deputy director and the director of credit approval division of the company from March 1998 to September 2006. Mr. Chen obtained a bachelor's degree in finance from Hangzhou University (杭州大學) (currently known as Zhejiang University (浙江大學)) in June 1996.

Mr. LI Bing (李冰), aged 53, is an independent non-executive Director, appointed on 21 November 2022, and is primarily responsible for supervising and providing independent opinion to the Board. Mr. Li has served as the dean at New Silk Road School of Fashion Design and Physical Education of Haikou University of Economics (海口經濟學院新絲路時尚•體育學院) since April 2020, as a chairman of the board at New Silk (Beijing) Culture Promotion Co., Ltd. (新絲路(北京)文化傳播有限公司) since May 2016 and as the chairman of the board at Shenzhen Hongcheng Capital Holding Co., Ltd. (深圳宏成資本控股有限公司) since March 2016. Prior to that, Mr. Li served as the chairman of the board at Shenzhen Yan Tian Port Holdings Co., Ltd. (深圳市鹽田港股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000088) from June 2010 to April 2016. He also served several positions at Shenzhen Energy Group Co., Ltd. (深圳能源集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000027), including serving as the deputy secretary of party committee, the director and the general manager from November 2007 to May 2010. He worked as the chairman of the board at Shenzhen Energy Finance Co., Ltd. (深圳能源財務有限公司) from September 2007 to April 2011. Mr. Li graduated from Shenyang College of Technology (瀋陽工業學院) (currently known as Shenyang Ligong University (瀋陽理工大學)) with a bachelor's degree in mechanical design and manufacturing in July 1993. He further obtained an EMBA degree in advanced business administration from Peking University in January 2006.

Ms. QIAN Aimin (錢愛民), aged 53, is an independent non-executive Director, appointed on 21 November 2022, and is primarily responsible for supervising and providing independent opinion to the Board. Ms. Qian has been a professor of accounting at the University of International Business and Economics (對外經濟貿易大學) since September 1995. Ms. Qian was also appointed as an independent director of the following listed companies in China:

Company name	Place of listing and stock code	Period of time
Minsheng Holdings Co., Ltd. (民生控股股份有限公司)	Shenzhen Stock Exchange (stock code: 000416)	from May 2017 to April 2019 and from May 2011 to December 2015
TBEA Co., Ltd. (特變電工股份有限公司)	Shanghai Stock Exchange (stock code: 600089)	from June 2012 to August 2016
LandOcean Petroleum and Natural Gas Technology Service Co., Ltd. (恒泰艾普石油天然氣技術服務股份有限公司) (currently known as LandOcean Energy Services Co., Ltd. (恒泰艾普集團股份有限公司))	Shenzhen Stock Exchange (stock code: 300157)	from May 2011 to December 2015
Zhejiang Addison Fluid Control Co., Ltd. (浙江艾迪西流體控制股份有限公司) (currently known as STO Express Co., Ltd. (申通快遞股份有限公司))	Shenzhen Stock Exchange (stock code: 002468)	from August 2009 to September 2014
Qifeng New Material Co., Ltd. (齊峰新材料股份有限公司)	Shenzhen Stock Exchange (stock code: 002521)	from December 2008 to January 2011
Gree Electric Appliances Inc. of Zhuhai (珠海格力電器股份有限公司)	Shenzhen Stock Exchange (stock code: 000651)	from June 2008 to May 2014
Yihai Kerry Arawana Holdings Co., Ltd. (益海嘉里金龍魚糧油食品股份有限公司)	Shenzhen Stock Exchange (stock code: 300999)	from December 2022

Ms. Qian graduated from China Textile University (中國紡織大學) (currently known as Donghua University (東華大學)) with a bachelor's degree in engineering in July 1992. She obtained a master's degree in economics from Liaoning University (遼寧大學) in June 1995. She further obtained a doctorate degree in economics from the University of International Business and Economics in January 2010. Ms. Qian was accredited as a certified public accountant by the Chinese Institute of Certified Public Accountants in July 2011. She was selected as a member of Accounting Education Professional Committee of the Accounting Society of China (中國會計學會會計教育專業委員會) in 2015 and a member of Accountant Master Training Project (會計名家培養工程) by the Ministry of Finance of the People's Republic of China in 2019.

SENIOR MANAGEMENT

Ms. YU Dan (于丹), aged 46, is an executive Director and chief executive officer of the Company. Her biographical details are set out above under the section headed "Profile of Directors and Senior Management – Executive Director and Non-Executive Directors" in this annual report.

Mr. CHEN Rongguang (陳榮光), aged 46, is a chief financial officer of the Company, appointed in February 2024. Mr. Chen joined the Group in May 2023 and served as a special assistant to the chief executive officer of the Company from May 2023 to February 2024. Prior to joining the Group, he served as a senior vice president of Meicai.cn (美菜集團) from August 2021 to December 2022. Mr. Chen served as the executive director of Meridian Entertainment (亞太未來影視(北京)有限公司) from August 2020 to July 2021. He also served as the deputy general manager of Shanghai Gaoche Investment Management Co., Ltd. (上海高澈投資管理有限公司) from March 2019 to July 2020.

Mr. Chen graduated from Hebei University of Economics and Business (河北經貿大學) with a bachelor's degree in accounting in June 2000. He further obtained a master's degree in finance from Peking University (北京大學) in January 2008. Mr. Chen obtained the qualification of intermediate accountant in May 2006 and was selected as an alternate member of the National Accounting Leading Talent (全國會計領軍人才(後備)) by the Ministry of Finance of the People's Republic of China in 2009.

Ms. LIU Tao (劉濤), aged 42, is the vice president of the Group, appointed in December 2022. Ms. Liu is primarily responsible for the live streaming business in the PRC, and the overall strategic planning, business management and development of 6.cn. She joined the Group in June 2016, where she holds various positions. From December 2021 to December 2022, Ms. Liu served as the vice president of 6.cn. From December 2022, she has been serving as the president of 6.cn. Prior to joining the Group, Ms. Liu held management positions at multiple internet companies. She obtained a bachelor's degree in law from the University of International Relations (國際關係學院) in July 2012.

Management Discussion and Analysis

REVENUE

The Group generates revenue primarily from (1) live streaming and audio social networking services, (2) overseas social networking services operated under HOLLA Group and (3) other services. During the year ended 31 December 2023, the Group generated the vast majority of its revenue from operations in China.

The Group's total revenue decreased by 49.6% to approximately RMB2.57 billion for the year ended 31 December 2023 as compared to approximately RMB5.1 billion for the year ended 31 December 2022, mainly due to a decrease in the revenue generated from live streaming and audio social networking services.

The revenue generated from live streaming and audio social networking decreased by 53.6% to approximately RMB2.28 billion for the year ended 31 December 2023 as compared to approximately RMB4.91 billion for the year ended 31 December 2022. This was mainly due to the challenging external environment and the Group's implementation of more cautious operating strategies throughout the year.

The revenue generated from social networking increased by 36.9% to approximately RMB252.3 million for the year ended 31 December 2023 as compared to approximately RMB184.3 million for the year ended 31 December 2022 primarily due to the Group's expansion of its overseas markets.

During the year ended 31 December 2023, the Group generated revenue from other services, consisting of (1) advertisement services, which was offered to enterprise customers during live streaming sessions, and (2) website technical services offered to enterprise customers. The Group recognizes revenue when it has satisfied the performance of the Group's obligations under the service contracts. The Group's revenue from other services increased by 3,487.6% to approximately RMB39.4 million for the year ended 31 December 2023, compared with approximately RMB1.1 million for the year ended 31 December 2022, mainly due to the growth in other services provided by the Group.

COST OF SALES

The Group's cost of sales primarily consisted of (1) host costs, which are revenue shared with hosts or talent agencies, (2) employee expenses in connection with the Group's live streaming and other services, (3) bandwidth expenses and server custody costs, (4) payment processing costs, (5) share-based compensation expenses, (6) depreciation and amortization cost, (7) service fees, and (8) other cost of sales, including advertising costs, operation and production costs and other costs of revenues.

The Group's cost of sales decreased by 49.1% to approximately RMB1.93 billion for the year ended 31 December 2023, as compared to approximately RMB3.8 billion for the year ended 31 December 2022. This was mainly due to the decrease of host costs. Host costs, as a major component of cost of revenues, decreased by 51.6% to approximately RMB1.71 billion for the year ended 31 December 2023 as compared to approximately RMB3.53 billion for the year ended 31 December 2022, which is in line with the decrease of revenue.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, the Group's gross profit decreased by 50.9% to approximately RMB637.7 million for the year ended 31 December 2023 as compared to approximately RMB1.3 billion for the year ended 31 December 2022, and the Group's gross profit margin for the year ended 31 December 2023 was 24.8%, compared to 25.5% for the year ended 31 December 2022.

SELLING AND MARKETING EXPENSES

The Group's selling and marketing expenses primarily consisted of promotion and advertising expenses, operating expenses, employee expenses in connection with the Group's selling and marketing activities, share-based compensation, depreciation and amortization cost, agency services fees and others.

The Group's selling and marketing expenses decreased by 43.3% to approximately RMB304.7 million for the year ended 31 December 2023 as compared to approximately RMB537.2 million for the year ended 31 December 2022, mainly due to the decrease in the marketing and promotion fees.

GENERAL AND ADMINISTRATIVE EXPENSES

The Group's general and administrative expenses primarily consisted of employee expenses, professional service fees, share-based compensation, depreciation and amortization expenses, travel expenses and entertainment expenses and others.

The Group's general and administrative expenses increased by 89.2% to approximately RMB288.6 million for the year ended 31 December 2023 as compared to approximately RMB152.5 million for the year ended 31 December 2022, mainly due to the increase in the share-based compensation expenses.

RESEARCH AND DEVELOPMENT EXPENSES

The Group's research and development expenses primarily consisted of employee expenses, technical service fees, share-based compensation, depreciation and amortization expenses, travel expenses and others.

The Group's research and development expenses decreased by 14.7% to approximately RMB200.8 million for the year ended 31 December 2023 as compared to approximately RMB235.3 million for the year ended 31 December 2022, mainly due to reduced R&D expenses.

OTHER INCOME

Other income consists of (1) investment income from financial products issued by banks, (2) additional deduction of input value-added tax, (3) interest income from bank savings, (4) government grants, and (5) others.

Other income decreased by 37.3% to approximately RMB48.9 million for the year ended 31 December 2023 as compared to approximately RMB78.1 million for the year ended 31 December 2022 primarily due to (i) VAT (value-added tax) preference policies adjusted from 10% to 5% since January 2023, and (ii) changes in government subsidies.

IMPAIRMENT LOSS ON GOODWILL

Impairment loss on goodwill was approximately RMB681.8 million for the year ended 31 December 2023, mainly due to the decline in the revenue and earnings projection resulted from the combined effects of the overall reduced future growth expectations in the PRC market and the whole downturn of the industry, combined with the fact that the actual operating results falls short of expectation during the year ended 31 December 2023, the fair value less costs of disposal result of CGU of 6.cn was assessed to be below than its value-in-use ("**VIU**") result. Therefore, the recoverable amount of CGU of 6.cn at 31 December 2023 was determined based on the VIU by the management of the Group.

OPERATING LOSS

As a result of the foregoing, operating loss was approximately RMB789.2 million for the year ended 31 December 2023, compared with an operating profit of approximately RMB450.2 million for the year ended 31 December 2022.

FINANCE COSTS

Finance costs decreased by 27.7% to approximately RMB1.7 million for the year ended 31 December 2023 as compared to approximately RMB2.3 million for the year ended 31 December 2022.

INCOME TAX

Income tax expenses decreased by 89.9% to approximately RMB6.2 million for the year ended 31 December 2023 as compared to approximately RMB61.2 million for the year ended 31 December 2022, primarily due to decreased taxable income.

LOSS FOR THE YEAR

As a result of the foregoing, loss for the year was approximately RMB797.1 million for the year ended 31 December 2023, compared with a profit of approximately RMB231.7 million for the year ended 31 December 2022.

NON-IFRS MEASURE

In order to supplement the Group's financial information presented in accordance with the International Financial Reporting Standards (the "**IFRS**"), the Group uses adjusted net profit (non-IFRS measure) as an additional financial measure, which is not required by, or presented in accordance with IFRSs. The Group's adjusted net profit (non-IFRS measure) represents the Group's profit for the year, adjusted to add back share-based compensation expenses, listing expenses, Provision for loss on the incident and impairment loss on goodwill and intangible assets. Share-based compensation expenses are expenses arising from granting restricted shares and options. Listing expenses are expenses incurred in connection with the Global Offering (as defined in the Prospectus) recognized in consolidated statement of profit or loss during the two years ended 31 December 2022 and 2023. The Group believes that adjusted net profit (non-IFRS measure) provides investors and other persons with useful information to understand and evaluate the Group's consolidated results of operation in the same manner as it helps the Group's management. However, adjusted net profit (non-IFRS measure) presented by us may not be comparable to the similar financial measure presented by other companies. There are limitations to the non-IFRS measure used as an analytical tool, and you should not consider it in isolation or regard it as a substitute for the Group's results of operation or financial position analysis that is presented in accordance with IFRS.

	For the year ended 31 December	
	2022	**2023**
	RMB in thousands	
Profit/(Loss) for the year	231,747	**(797,113)**
Add:		
Share-based compensation expenses[1]	45,178	**118,882**
Listing expenses	25,593	**–**
Provision for loss on the Incident	154,895	**–**
Impairment loss on goodwill and intangible assets	790	**681,763**
Adjusted net profit (non-IFRS measure)	458,203	**3,532**

(1) Share-based compensation expenses mainly represent share-based compensation expenses incurred in connection with the grant of restricted share unit under the pre-IPO share option scheme adopted by the Company on 21 November 2022. Share-based compensation expenses are not expected to result in future cash payments.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a solid and healthy financial position. Other than the funds raised through the Global Offering in December 2022, the Group funded its own cash requirement from its operations. The Group intends to finance its expansion and business operations with internal resources and through sustainable growth.

The Group's total assets decreased from approximately RMB3.38 billion as of 31 December 2022 to approximately RMB2.5 billion as of 31 December 2023, while the Group's total liabilities decreased from approximately RMB565.3 million as of 31 December 2022 to approximately RMB406.4 million as of 31 December 2023. As of 31 December 2023, the current ratio (the current assets to current liabilities ratio) of the Group was 6.0 and the gearing ratio (total debt to total equity ratio) was 0.2, as compared with 4.6 and 0.2, respectively as of 31 December 2022.

As of 31 December 2023, the Group's cash and cash equivalents were approximately RMB1.82 billion, compared with approximately RMB1.63 billion as of 31 December 2022. Approximately RMB1.64 billion is denominated in Renminbi and approximately RMB0.18 billion is denominated in other currencies (primarily Hong Kong dollars). The Group currently does not hedge transactions in foreign currencies.

BORROWINGS

For the year ended 31 December 2023, the Group did not have any short-term or long-term bank borrowings.

OTHER FINANCIAL ASSETS

Other financial assets primarily consisted of financial products issued by banks and financial assets measured at fair value through other comprehensive income, including the Group's equity investment in certain technology companies during the year ended 31 December 2023. The Group has implemented a policy concerning purchases and management of financial assets, which sets out, among others, approval procedures, approval authority matrices, and accounting treatments for financial assets.

As of 31 December 2023, the Group had current and non-current financial assets at fair value through other comprehensive income of approximately RMB146.5 million (31 December 2022: approximately RMB556.0 million), mainly comprised (a) financial products issued by banks of approximately RMB100.8 million (31 December 2022: approximately RMB422.2 million); and (b) unlisted equity investments of approximately RMB45.7 million (31 December 2022: approximately RMB133.8 million).

CAPITAL EXPENDITURES

The Group's capital expenditures were approximately RMB4.6 million for the year ended 31 December 2023, compared with approximately RMB12.5 million for the year ended 31 December 2022. The Group funded its capital expenditure requirements during the year ended 31 December 2023 mainly from cash generated from the Group's operating activities.

CONTINGENT LIABILITIES

As of 31 December 2023, the Group did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of the Group.

RELATED PARTY TRANSACTIONS

We enter into transactions with the Group's related parties from time to time. During the Reporting Period, we entered into various related party transactions, primarily including transactions with companies controlled by the Shareholders or Directors. As of 31 December 2023, all outstanding amounts for the related party transactions were trade in nature. For details of the Group's related party transactions, see Note 29 to the Accountants' Report in Appendix I to this annual report.

The Directors believe that each of the related party transactions was conducted in the ordinary course of business on an arm's length basis. The Directors are of the view that the Group's related party transactions during the Reporting Period would not distort the Group's record results or make the Group's historical results not reflective of the Group's future performance.

Save as disclosed in the paragraph headed "Continuing Connected Transactions" in this annual report, the related party transactions disclosed in Note 29 were not regarded as connected transactions or were exempt from reporting, announcement and Shareholders' approval requirements under the Listing Rules.

CREDIT RISK

The Group is primarily exposed to credit risk in relation to the Group's trade and other receivables. However, the Directors expect that the occurrence of losses from non-performance by the counterparties of trade and other receivables was remote, and loss allowance provision for trade and other receivables was immaterial. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with a minimum credit rating assigned by the Group's management. The Group does not provide any guarantees that would expose us to credit risk.

LIQUIDITY RISK

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants. Further, the Group's management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expects to fund the future cash flow needs through internally generated cash flows from operations.

FOREIGN EXCHANGE RISK

For the year ended 31 December 2023, most transactions of the Group were settled in Renminbi and U.S. dollar. Thus, the Group's business is not exposed to any significant foreign exchange risk as the Group has no significant financial assets or liabilities denominated in the currencies other than the respective functional currencies of the entities within the Group.

The Group has not engaged in hedging activities designed or intended to manage foreign exchange rate risk during the year ended 31 December 2023. However, the Group will continue to monitor foreign exchange risk from time to time based on its business development requirements to best preserve the Group's cash value, and may enter into forward foreign exchange contracts or engage in other hedging activities when necessary.

CONTRACTUAL ARRANGEMENTS

Please refer to the section headed "Contractual Arrangements" in the Prospectus. For the year ended 31 December 2023, the Board has reviewed the overall performance of the contractual arrangements and confirmed that the Group has complied with the contractual arrangements in all material respects.

SIGNIFICANT INVESTMENTS HELD

As of 31 December 2023, the Group did not hold any significant investments in the equity interests of any other companies.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not have any investment, acquisition or disposal of subsidiaries, associates and joint ventures during the year ended 31 December 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as otherwise disclosed in this annual report, as of the date of this annual report, the Group have no specific plan for material investments or acquisition of capital assets. However, the Group will continue to identify new opportunities for business development and investments.

CHARGES ON THE GROUP'S ASSETS

As of 31 December 2023, the Group had no charges on the Group's assets.

Corporate Governance Report

The Board of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2023.

CORPORATE GOVERNANCE CULTURE

In order to achieve sustainable development of the Group, effective corporate governance practices are fundamental in which a set of procedures, policies and guidelines has been well-established. We strive to create values to the Group's stakeholders with emphasis on internal control, transparency and accountability.

The Board has set out the following values for maintaining a high standard of corporate governance:

Speak the truth: we value integrity and demand high standards of ethics; we aim to develop an honest, clear and efficient organization internally.

Respect the fact: we demand quick response, down-to-earth, and excellence in the Group's products and services; we encourage the Group's team to keep a sense of ownership and risk management, and we believe actions speak louder than words.

Break with Convention: we embrace change, think out of the box, seek sustainable development, and aim to create long-term value for all the stakeholders (include but not limited to Shareholders, employees, customers and business partners).

Connect people with technology, spread happiness through companionship: we are committed to continuing to explore the efficient connection among people, to explore the meaning of companionship, and to provide a stage for people to show their talents and realize their dreams. We aim to create an online social entertainment ecosystem with global influence.

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its Shareholders as a whole. The Company has adopted the code provisions as set out in the CG Code as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code throughout the year ended 31 December 2023.

The Board shall nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding dealings in the securities of the Company by each of the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2023. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group throughout the year ended 31 December 2023.

BOARD OF DIRECTORS

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsibility for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company.

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board responsibilities. The Board includes a balanced composition of executive Director and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

Board Composition

The Board currently comprises seven Directors, consisting of one executive Director, three non-executive Directors and three independent non-executive Directors.

The composition of the Board is as follows:

Executive Director
Ms. YU Dan *(CEO)*

Non-executive Directors
Mr. ZHOU Hongyi *(Chairman)*
Mr. CHEN Shengmin
Mr. ZHAO Dan

Independent Non-executive Directors
Mr. CHEN Weiguang
Mr. LI Bing
Ms. QIAN Aimin

The biographical information of the Directors is set out under "Profile of Directors and Senior Management" of this annual report. Save as disclosed above, there is no relationships (including financial, business, family or other material/relevant relationship(s)) between the Board members.

Directors' Attendance Records

The attendance record of each Director at the Board meetings, the Board committee meetings and the general meetings of the Company held during the year ended 31 December 2023 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Director					
Ms. YU Dan	4/4	–	1/1	–	1/1
Non-executive Directors					
Mr. ZHOU Hongyi	4/4	–	–	1/1	1/1
Mr. CHEN Shengmin	4/4	5/5	–	–	1/1
Mr. ZHAO Dan	4/4	–	–	–	1/1
Independent Non-executive Directors					
Mr. CHEN Weiguang	4/4	–	1/1	1/1	1/1
Mr. LI Bing	4/4	5/5	–	1/1	1/1
Ms. QIAN Aimin	4/4	5/5	1/1	–	1/1

Regular Board meetings have been held four times during the year involving active participation, either in person or through electronic means of communication, of all the Directors.

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of other Directors during the year.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. ZHOU Hongyi and Ms. YU Dan respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

During the year ended 31 December 2023, 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 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 in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Board Independence Evaluation

The Company has established a Board Independence Evaluation Mechanism which sets out the processes and procedures to ensure a strong independent element on the Board, which allows the Board effectively exercises independent judgment to better safeguard Shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its independence. The Board Independence Evaluation Report will be presented to the Board which will collectively discuss the results and the action plan for improvement, if appropriate.

During the year ended 31 December 2023, all Directors have completed the independence evaluation individually. The Board Independence Evaluation Report was presented to the Board and the evaluation results were satisfactory.

During the year ended 31 December 2023, the Board reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism and the results were satisfactory.

Appointment and Re-election of Directors

The executive Director has entered into a service contract with the Company, and each of the non-executive Directors and independent non-executive Directors has entered into letters of appointment with the Company on 21 November 2022, with an initial fixed term of three years commencing from the date of service contract/letter of appointment. The service contract and the letters of appointment are subject to termination in accordance with their respective terms or by either party giving to the other not less than three-month prior written notice.

All the Directors are subject to retirement by rotation and re-election at the annual general meetings. Under the Articles, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Articles also provides that all Directors appointed to fill a casual vacancy or as addition to the Board shall hold office until the first annual general meeting after appointment. The retiring Directors shall be eligible for re-election.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director should receive a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2023 and up to date of this annual report, the Company organized training sessions conducted by the legal advisors for all Directors. The training sessions covered a wide range of relevant topics including Directors' duties and responsibilities, corporate governance and regulatory updates. In addition, relevant reading materials including compliance manual/legal and regulatory updates/seminar handouts have been provided to the Directors for their reference and studying.

The training records of the Directors for the year ended 31 December 2023 and up to date of this annual report are summarized as follows:

Directors	Type of Training [Note]
Executive Director	
Ms. YU Dan	A & B
Non-Executive Directors	
Mr. ZHOU Hongyi	A & B
Mr. CHEN Shengmin	A & B
Mr. ZHAO Dan	A & B
Independent Non-Executive Directors	
Mr. CHEN Weiguang	A & B
Mr. LI Bing	A & B
Ms. QIAN Aimin	A & B

Note:

Types of Training

A: Attending training sessions, including but not limited to briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Audit Committee

The Audit Committee consists of two independent non-executive Directors and one non-executive Director, namely Ms. QIAN Aimin (chairman), Mr. LI Bing and Mr. CHEN Shengmin.

The primary duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company, and to perform other duties and responsibilities as assigned by the Board.

The Audit Committee held five meetings to review, in respect of the year ended 31 December 2023, the annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditor and engagement of non-audit services and relevant scope of works, key findings of independent investigation and, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also has met the external auditor twice without the presence of the executive Director.

Remuneration Committee

The Remuneration Committee comprises two independent non-executive Directors and one executive Director, namely Mr. CHEN Weiguang (chairman), Ms. QIAN Aimin and Ms. YU Dan.

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration; and make recommendations on employee benefit arrangement.

The Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the Directors and senior management.

The remuneration of the members of senior management (including executive Director) during the year ended 31 December 2023 falls within the following bands:

Remuneration (RMB'000)	Number of Individuals
0 to 13,999	4
14,000 to 27,999	0
28,000 to 42,000	2

The Company's remuneration policy is to ensure that the remuneration offered to employees, including Directors and senior management, is based on skill, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages of executive Director are also determined with reference to the Company's performance and profitability, the prevailing market conditions and the performance or contribution of executive Director. The remuneration for the Directors comprises fees, salaries, allowances and benefits in kind, discretionary bonuses, retirement scheme contributions and share-based payments. The remuneration policy for independent non-executive Directors is to ensure that independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs, including their participation in Board committees. The remuneration for the independent non-executive Directors mainly comprises Director's fee which is determined with reference to their duties and responsibilities by the Board. Individual Directors and senior management have not been involved in deciding their own remuneration.

Nomination Committee

The Nomination Committee consists of two independent non-executive Directors and one non-executive Director, namely Mr. ZHOU Hongyi (chairman), Mr. CHEN Weiguang and Mr. LI Bing.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, reviewing the Board Diversity Policy and the Director Nomination Policy and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee held one meeting to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to consider the qualifications of the retiring Directors standing for re-election at the annual general meeting and to review the Board Diversity Policy and Director Nomination Policy. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board Diversity Policy.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve and maintain diversity on the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Company should endeavor to ensure that the Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy, and when nominate and appoint a Director, with the assistance of the Nomination Committee, the Board will consider a number of factors to diversify the Board composition, including but not limited to professional experience, skills, knowledge, gender, age, cultural and educational background, ethnicity, length of service and the potential contributions that the candidate is expected to bring to the Board, in order to better serve the needs and development of the Company. All Board appointments will be based on merits and candidates will be considered against objective criteria, having due regard to the benefits of diversity to the Board.

The Directors have a balanced mix of knowledge, skills, gender, perspectives and experience, including computer software, business administration, accounting, finance, mechanical design and manufacturing, and engineering. They obtained professional and academic qualifications including certificate of board secretary, professional qualification of Certified Internal Auditor, certified public accountant. In addition, each of Ms. YU Dan, an executive Director and chief executive officer and Ms. QIAN Aimin, an independent non-executive Director is a female. Taking into account the Group's existing business model and specific needs as well as the different background of the Directors, the composition of the Board satisfies the Board Diversity Policy.

The Nomination Committee and the Board will review the Board Diversity Policy on an annual basis to ensure its effectiveness.

Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this annual report:

	Female	Male
Board	2 (29%)	5 (71%)
Senior Management	2 (67%)	1 (33%)
Other employees	196 (44%)	248 (56%)
Overall workforce	198 (44%)	249 (56%)

The Board had targeted to achieve and had achieved at least 1 female Director in the Board and considers that the above current gender diversity is satisfactory.

The Company will maintain a focus on gender diversity when recruiting staff at mid to senior level so as to develop a pipeline of potential female successors to the Board. The Company and its subsidiaries also plan to provide career opportunities and training programs to female employees whom they consider having the suitable experience, skills and knowledge of the Group's operation and business.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and nomination process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Nomination Committee and/or the Board may identify individuals who are suitably qualified to become Board members. The Nomination Committee and/or the Board should assess the qualifications of and conduct preliminary examination of qualifications of candidates for directorships as set out in the Terms of Reference of the Nomination Committee. The Nomination Committee should then make recommendations to the Board on the selection of individuals nominated for directorships.

Where the Board proposes a resolution to elect an individual as an independent non-executive Director at the general meeting, it should set out in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting (i) the process used for identifying the individual and why the Board believes the individual should be elected and the reasons why it considers the individual to be independent; (ii) if the proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, why the Board believes the individual would still be able to devote sufficient time to the board; (iii) the perspectives, skills and experience that the individual can bring to the Board; and (iv) how the individual contributes to diversity of the Board.

For the Shareholders who wish to propose a person for election as a Director of the Company, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director of the Company", which is available on the Company's website at www.huafang.com.

The Director Nomination Policy sets out the criteria for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and

- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board of the Company.

During the year ended 31 December 2023, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

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

During the year, 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 disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions so as to ensure that decision-making, execution and supervision are separated to form checks and balances.

The Company's risk management and internal control systems have been developed with the following principles, features and processes:

(1) Identify external and internal risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security;

(2) Evaluate the impacts of those risks on the business of the Group, determine the risk tolerance and the likelihood of risk occurrence;

(3) Formulate risk control measures for various risks and each of the material risks in accordance with the overall risk management objectives, and establish a sound internal control system;

(4) Determine the risk management strategies and internal control processes to prevent, avoid or mitigate the risks;

(5) Perform on-going monitoring and regular assessment on the effectiveness of risk management and internal control systems, revise and improve the strategies and processes in alignment with the business strategies and risk management objectives; and

(6) Ensure effective communication and regular reporting to the Audit Committee and the Board on the related information required for decision-making and all major findings and the effectiveness of the systems.

The Company has an Internal Audit Department (內審部), consisting of staff members with good work ethic and relevant expertise, which is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department also examined key issues in relation to accounting information, anti-corruption mechanisms and resource management. The Internal Audit Department works objectively and independently under the supervision of the Audit Committee and reports its findings and recommendations for improvement to the Audit Committee.

For the year ended 31 December 2023, all departments have conducted self-evaluation to confirm that control policies are properly complied with by each department and the management has reported to the Board and the Audit Committee that the effectiveness of the risk management and internal control systems.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, conducted regular review of the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2023, and considered that such systems are effective and adequate. The annual review also covered the resources, staff qualifications and experience in the Group's accounting, internal audit and financial reporting functions as well as their training programmes and budget.

The Company has in place the Whistleblowing Policy for employees of the Company and those who deal with the Company to raise concerns, in confidence and anonymity, with the Ethics Committee about possible improprieties in any matters related to the Company.

The Company has also in place the Anti-Corruption Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. Employees can also make anonymous reports to the Ethics Committee which is responsible for investigating the reported incidents and taking appropriate measures. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organizes anti-corruption training and inspections to ensure the effectiveness of anti-corruption and anti-bribery.

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.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements with the support of the accounting and finance team.

The Directors have prepared the financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. Appropriate accounting policies have also been used and applied consistently except the adoption of revised standards, amendments to standards and interpretation.

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

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report of this annual report.

AUDITOR'S REMUNERATION

The remuneration paid and payable to the external auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2023 is set out below:

Service Category	**Fees Paid/ Payable** ***RMB***
Annual audit services for the year	9,000,000
Agree-upon procedures on interim financial information for the six months ended 30 June 2023	380,000
Total	9,380,000

Note:

After the appointment of Mazars CPA Limited ("**Mazars**"), the existing auditor of the Group, on 17 August 2023, the remuneration payable to Mazars in respect of the audit of the consolidated financial statements of the Group for the year ended 31 December 2022 is RMB4,500,000 (the "**2022 Mazars Audit**") which was included in the auditors' remuneration for the year ended 31 December 2023. The 2022 Mazars Audit was negotiated, confirmed, commenced and substantially completed during the year ended 31 December 2023.

COMPANY SECRETARY

Ms. LAI Janette Tin Yun has been appointed as the Company's company secretary. Ms. Lai is currently a senior manager of corporate services in Vistra Group, a global professional services provider specializing in integrated business, corporate and investor services. Ms. Lai's primary contact person at the Company is Ms. Yu Dan.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

For the year ended 31 December 2023, Ms. Lai has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Convening of Extraordinary General Meeting by Shareholders

Pursuant to the Article 12.3 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the voting rights, on a one vote per share basis, of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be 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 of the Company, specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist(s). 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.

Putting Forward Proposals at General Meetings

There are no provisions under the Articles or the Companies Act of the Cayman Islands regarding procedures for Shareholders to put forward proposals at a general meeting. Shareholders who wish to submit a proposal may request the Company to convene a general meeting in accordance with the procedure set out in the preceding paragraph, to consider the matters specified in the request.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Building 5, Yard 6, Jiuxianqiao Road, Chaoyang District, Beijing, PRC (For the attention of the Board of Directors)
Email: ir@huafang.com

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) will be available to meet Shareholders and answer their enquiries.

To safeguard Shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Shareholders' Communication Policy

The Company has in place a Shareholders' Communication Policy. The policy aims at promoting effective communication with Shareholders and other stakeholders, encouraging Shareholders to engage actively with the Company and enabling Shareholders to exercise their rights as Shareholders effectively. The Board reviewed the implementation and effectiveness of the Shareholders' Communication Policy during the year ended 31 December 2023 and the results were satisfactory.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(a) Shareholders' Enquiries

Enquiries about Shareholdings

Shareholders shall direct their questions about their shareholdings to the Company's Hong Kong share registrar, Tricor Investor Services Limited ("**Tricor**").

Enquiries about Corporate Governance or Other Matters to be put to the Board and the Company

Shareholders and the investment community may at any time contact either the Company's investor relations department or the company secretary or joint company secretary of the Company to enquire about the information published by the Company.

(b) Corporate Communication

Corporate communication (as defined in the Listing Rules) shall be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding.

Shareholders have the right to choose the languages (either English and/or Chinese) or means of receipt of the corporate communication (in hard copy or through electronic means).

Shareholders are encouraged to provide, among other things, in particular, their email addresses to the Company through Tricor in order to ensure the receipt of the information published by the Company in a timely manner.

(c) Relevant Websites

Disclosures made by the Company pursuant to the Listing Rules are available on the Stock Exchange's website (www.hkexnews.hk).

A dedicated "**Investor Relations**" section is available on the Company's website (www.huafang.com). Information on the Company's website is updated on a regular basis.

Information uploaded by the Company to the Stock Exchange's website is also posted on the Company's website immediately thereafter. Such information includes announcements, circulars and notices of general meetings and other documents.

(d) Shareholders' General Meetings

Shareholders are encouraged to participate in general meetings (including annual general meetings) or to appoint proxies to attend and vote at such meetings for and on their behalf if they are unable to attend such meetings.

Appropriate arrangements for the annual general meetings will be in place to encourage Shareholders' participation.

The process of the Company's general meeting shall be monitored and reviewed on a regular basis, and, if necessary, changes be made to ensure that Shareholders' needs are best served.

Board members, in particular, the chairman of the Board, the chairmen of Board committees or their delegates, appropriate management executives and external auditors will attend annual general meetings to answer Shareholders' questions.

Shareholders are encouraged to attend Shareholders' activities organized by the Company, where information about the Company, including its latest strategic plan, products, services, will be communicated.

(e) Investment Market Communications

The Company, depending on its need, will arrange, without limitation, investor/analysts briefings and group/one-on-one meetings, roadshows (both domestic and international) and media interviews, and participate in marketing activities and forums for specialists and etc. on a regular basis in order to facilitate communication between the Company, Shareholders and the investment community.

Amendments to Constitutional Documents

During the year under review, the Company has not made any changes to its constitutional documents. An up-to-date version of the Company's memorandum and articles of association is available on the Company's website and the Stock Exchange's website.

Dividend Policy

The Company has adopted a Dividend Policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year or period and any final dividend for a financial year will be subject to the Shareholders' approval.

Environmental, Social and Governance Report

SCOPE AND REPORTING PERIOD

This is the Environmental, Social, and Governance ("**ESG**") report of Huafang Group Inc. (the "**Company**", and collectively with its subsidiaries referred as the "**Group**"), highlighting ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix C2 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and Guidance set out by The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are the provision of entertainment live streaming services and audio social networking services. This ESG report covers the Group's overall environmental and social performances of its major business operations in its offices in Beijing and Baoding of the People's Republic of China ("**PRC**" or "**Mainland China**") (with a total floor area of 4,843.26 m^2), from January 1, 2023 to December 31, 2023, unless otherwise stated. While the Group has office operations in Hong Kong, it is insignificant to the Group's revenue and thus is excluded from the Reporting Scope.

REPORTING PRINCIPLES

The Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" set out in Appendix C2 to the Listing Rules of the Stock Exchange (the "**Guide**"). The contents covered herein are in compliance with the provision of "Comply or Explain" as well as four reporting principles of materiality, quantitative, balance and consistency required in the Guide.

Materiality – Materiality assessments have been carried out to identify material environmental and social issues that have major impacts on investors and other stakeholders, the significant stakeholders, procedures, and results of the engagement of which are presented in the section "Stakeholder Engagement and Materiality" in the Report.

Quantitative – Key performance indicators ("**KPI**"s) have been established, and are measurable and applicable to make valid comparisons under appropriate conditions; information on the standards, methodologies, assumptions, and/or calculation tools used, and sources of conversion factors used, have been disclosed when applicable.

Balance – The Report presents the Group's performance during the Reporting Period in an impartial manner, avoiding choices, omissions or presentation formats that may unduly influence readers' decisions or judgements.

Consistency – The statistical methodologies and presentation of KPIs are consistent with prior years to ensure comparability of information. Explanation will be disclosed for stakeholders' reference in case of any changes in the reporting scope or statistical method.

THE GROUP'S FUTURE DEVELOPMENT AND COMMITMENTS

The Group will continue to implement the concept of sustainable development, there comes with opportunities and risks associated with the environmental and social discourse. To cope with such uncertainty, the Group will actively adjust its development plans according to the market trends. It hopes to better manage ESG-related risks in relation to future business development and operate with high ethical standards. As part of its mission to "connect people with technology; spread happiness through companionship", the Group will continue to innovate with the latest digital products and services and seek to avoid risky investments, so as to fulfil its corporate social responsibility and to achieve effective business growth.

SUSTAINABILITY GOVERNANCE

The Board is delegated the responsibility of setting the Group's strategic direction, thus they are also responsible for ensuring that the Group's ESG strategy reflects its values and core businesses. The Board take the ultimate responsibility for overseeing the progress made against ESG-related goals to guide the Group in monitoring its ESG performance, and holds regular meetings with development teams and administration to devise and implement management policies for identified ESG risks.

The sustainability plan of the Group is developed based on results of ESG Reports, which is reviewed annually and adjusted as needed to align with the long-term business strategy of the Group. Additionally, the Board has been evaluating the Group's progress in achieving the reduction targets against the baseline year on an annual basis, and will be adjusting said targets based on the situation.

THE CHAIRMAN'S STATEMENT

After the removal of all coronavirus disease 2019 ("**COVID-19**") restrictions in the year of 2023, sustainability is one of the key tone macroeconomic situations. As a responsible corporate citizen, the Group recognises this and strives to make sustainability its operational focus. We understand that sustainability governance and performance is the foundation to a successful operation, these include minimising the Group's pollution emissions, promoting equal rights, and offering more personal development opportunities for all employees.

At the same time, stakeholders are increasingly nudging corporations to take sustainability factors into consideration when doing businesses. To better understand the demands and expectations of our stakeholders, we invite employees, service providers, and clients to participate in a survey to maintain effective communication, allowing us to better address their concerns and accommodate their needs. Through embedding sustainability in our business concept, we create greater value for both our stakeholders and society. Without the contribution of our employees, customers, business partners, and communities, it would not be possible for us to have achieved so much.

We attach huge importance to the management of sustainability topics, especially regarding employee rights, employee health, and community investment. To address this, the Group regularly communicates with its employees to identify their concerns, and also organises charity events to pay back to community.

Looking ahead, to tackle future challenges, we will continue to drive our sustainability performance and further incorporate sustainability into our core strategy. We hope to continue facilitating material connections between people, and to explore the meaning of companionship through offering even more in-depth online services. We look forward to maintaining online platforms for people with talent to express themselves and fulfil their dreams, allowing us to further contribute value to society. In line with upholding the business sustainability of the Group, we will continue to maintain high ethical standards, and formulate environmental, economic, and social strategies to achieve stable and sustainable returns to our stakeholders.

This report sets out our sustainability practices and approaches throughout the past year. We hope this report will provide our stakeholders an overview of our sustainability performance.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

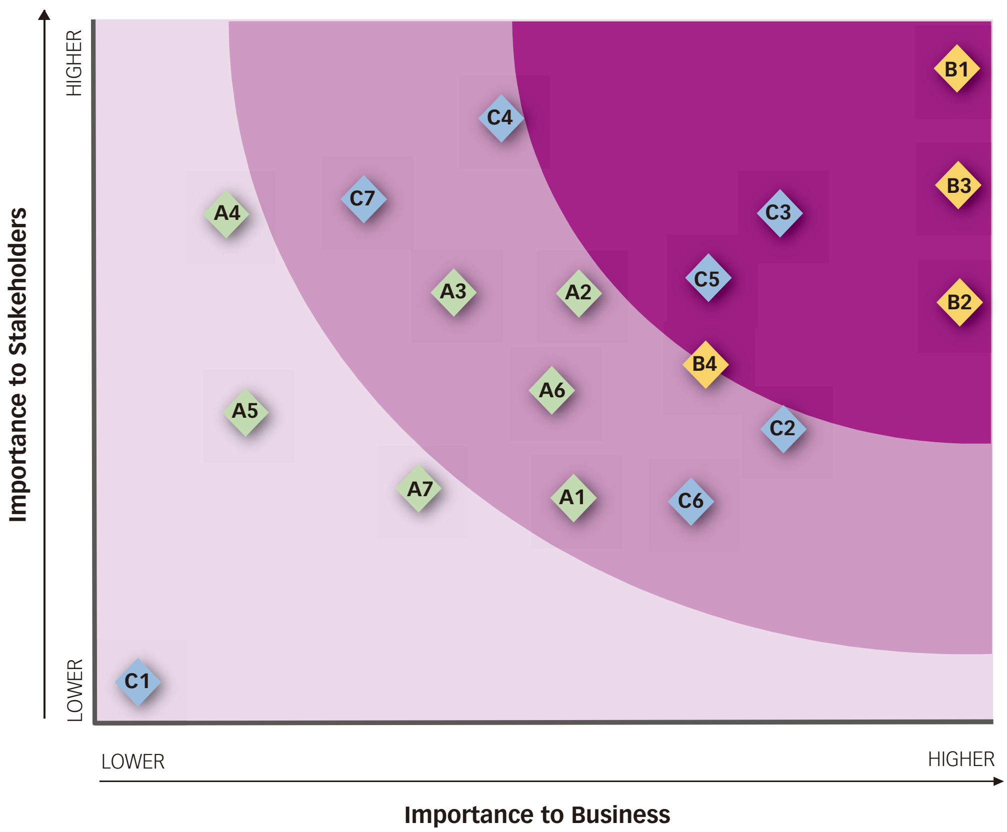
In order to identify the most significant aspects for the Group to report on for this ESG report, the Group regularly collects views and discusses ESG matters with stakeholders through a variety of channels. When issues have been identified, they are discussed as an issue of the corporate culture. The Group also emphasises on the importance of paying attention to issues and giving appropriate response to the arising problems. Solutions to relevant topics are regularly explored on such that relevant issues can be addressed and resolved.

The Group have identified the following key stakeholders and their major communication channels:

Stakeholders	Expectations and Concerns	Major Communication Channels
Employees	◆ Career development and training ◆ Occupational health and safety ◆ Remuneration and welfare ◆ Equal opportunities ◆ Corporate culture	◆ Collection of feedback through emails, hotline and meetings ◆ Training, seminars and workshops ◆ Regular performance reviews
Users/customers	◆ Product and service quality ◆ Protection and management of user/customer information ◆ Business integrity ◆ Intellectual property rights	◆ Collection of complaints and feedback ◆ Customer service hotline and email ◆ Business visits and meetings
Shareholders/investors	◆ Investment return ◆ Corporate governance ◆ Business compliance ◆ Sustainable development	◆ Shareholders' meetings ◆ Annual report, interim report, announcements and circulars ◆ Telephone/email/website ◆ Investor visits
Suppliers	◆ Selection of suppliers ◆ Sustainable supply chain ◆ Corporate reputation ◆ Fairness and ethics	◆ Regular communication via email or telephone ◆ Regular progress meetings ◆ On-site visits
Government and Regulatory Authorities	◆ Compliance with laws and regulations ◆ Corporate governance ◆ Support economic development	◆ Corporate reports and announcements ◆ Consultation ◆ Meetings ◆ Information disclosure
Communication and public	◆ Charity and donation ◆ Community participation ◆ Environmental responsibilities ◆ Employment opportunities	◆ Social media ◆ Non-profit welfare organization ◆ ESG reports ◆ Volunteering ◆ Company website

During the Reporting Period, the Group has managed to communicate with our stakeholders to gain further insights on ESG aspects they find material and relevant challenges that they may induce. A materiality assessment has then been produced according to the engagement as follows.

Materiality of Different Topics from Stakeholder Engagement



Environmental	Labour	Operational
A1 Energy	B1 Employment	C1 Supply Chain Management
A2 Water	B2 Occupational Health and Safety	C2 Intellectual Property
A3 Air Emissions	B3 Development and Training	C3 Data Protection
A4 Waste and Effluent	B4 Labour Standards	C4 Customer Service
A5 Other Raw Material Consumption		C5 Product/Service Quality
A6 Environmental Protection Measures		C6 Anti-Corruption
A7 Climate Change		C7 Community Investment

According to the assessment, the five most material topics to the Group are therefore,

1. B1 Employment
2. B3 Development and Training
3. B2 Occupational Health and Safety
4. C3 Data Protection
5. C5 Product/Service Quality

The Group aims to keep close communication with its stakeholders for the identified aspects and continue to improve its ESG performance. The Group also hopes to have better management on ESG-related risks for future business development. In alignment with the Group's vision on sustainability, the business will continue to operate with high ethical standards and provide sustainable returns to stakeholders.

STAKEHOLDERS' FEEDBACK

The Company welcomes your feedback on its environmental, social and governance approach and performance. Please contact us via email at ESG@huafang.com.

A. ENVIRONMENTAL

A1. Emissions

Due to the nature of the business, the Group is mainly involved in office operations and its business activities do not have significant impact to the environment or natural resources. During the Reporting Period, the Group has strictly followed all environmental-related rules and guidance from local and national authorities, which including but not limited to "Environmental Protection Law of the People's Republic of China《中華人民共和國環境保護法》", "Atmospheric Pollution Prevention Law of the People's Republic of China《中華人民共和國大氣污染防治法》", "Water Pollution Prevention Law of the People's Republic of China《中華人民共和國水法》", "Energy Conservation Law of the People's Republic of China《中華人民共和國節約能源法》", "Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste"《中華人民共和國固體廢物污染環境防治法》.

In addition, the Group was not aware of any cases of material non-compliance relating to air and greenhouse gas emissions, discharge into water and land, and the generation of hazardous and non-hazardous waste as required by the applicable laws and regulations during the Reporting Period.

A1.1 Air Emissions

During the Reporting Period, the business operations of the Group did not involve in the consumption of any natural gas, petrol, or diesel. Air emissions directly emitted were primarily attributed to the use of Group vehicles during the Reporting Period. The amounts of the different types of direct air emissions emitted during the Reporting Period by the Group were as follows:

Direct Air Emissions[2]	**Emission Sources**	**2023 Emission amounts *(in kg)***	**2023 Emission intensities[1] *(in kg/ million RMB revenue)***	2022 Emission amounts *(in kg)*	2022 Emission intensities *(in kg/ million RMB revenue)*
Nitrogen Oxides ("**NO_x**")	Company Vehicle	**0.41**	**<0.001**	–	–
Sulphur Oxides ("**So_x**")		**0.04**	**<0.001**	–	–
Particulate Matter ("**PM**")		**0.07**	**<0.001**	–	–

Note 1: Intensity is measured by dividing the relevant emissions by the total revenue of the Group.

Note 2: Direct air emissions are calculated with reference to "Technical Guidelines for the Compilation of Air Pollutant Emission of Motor Vehicles (Trial)" (道路機動車大氣污染物排放清單編製技術指南(試行)) issued by the Ministry of Ecology and Environment of the People's Republic of China (中華人民共和國生態環境部).

The air emissions and direct GHG emissions was attributed to a newly purchased company vehicle during the Reporting Period which the amount generated was immaterial.

A1.2 Greenhouse Gas Emissions

During the Reporting Period, 276.12 tonnes of carbon dioxide equivalent (tCO_2e) greenhouse gases ("**GHG**", mainly carbon dioxide, methane and nitrous oxide) were emitted from the Group's operations. This is a 16.10% decrease from last year, which is mainly due to less electricity consumption by the Group during the Reporting Period. However, emissions by business air travel increased substantially by 52.50 tonnes of carbon dioxide equivalent (tCO_2e) GHG since all travel restrictions arising from the COVID-19 pandemic were removed during the Reporting Period and resumption of normal business activities.

The intensity of GHG emissions by the Group was 107.44 $kgCO_2e$ per million RMB revenue. During the Reporting Period, the Group's GHG emissions were contributed by:

– Scope 1 – "Direct emissions" that resulting from the use of company vehicle by the consumption of petrol;

– Scope 2 – "Energy indirect" emissions resulting from the generation of purchased or acquired electricity, heating, cooling and steam consumed within the Group; and

– Scope 3 – All other indirect emissions that occur outside the Group, including both upstream and downstream emissions.

See below for the detail breakdown of 2023 GHG contributions, as well as comparisons with last year.

Scope of GHG	Emission Sources	2023 Emission *(in tCO_2e)*	2022 Emission *(in tCO_2e)*
Scope 1 Direct Emissions	Company vehicle[1]	**5.73**	–
Scope 2 Energy Indirect Emission	Purchased electricity[2]	**200.37**	311.54
Scope 3 Other Indirect Emissions	Electricity used for processing fresh water and sewage by third party handler	**0.54**	0.57
	Business air travels[3]	**69.48**	16.98
Total		**276.12**	329.09
Overall GHG Intensity *($kgCO_2eq.$/million RMB revenue)*		**107.44**	60.29

Note: Emission factors were made reference to Appendix C2 of the Listing Rules and their referred documentation as set out by The Stock Exchange of Hong Kong Limited, unless stated otherwise. Scope 3 emissions were only calculated based on the available emission factors from the referred documentation.

Note 1: Emission factors are used to calculate with reference to the "How to prepare an ESG Report? – Appendix II: Reporting Guidance on Environmental KPIs" issued by the HKEX.

Note 2: According to The Ministry of Ecology and Environment of People's Republic of China (2023): Emission factor of 0.5703 tCO_2e/MWh was used for purchased electricity from the National Grid of the PRC in 2023; emission factor of 0.5810 tCO_2e/MWh was used for purchased electricity from the National Grid of the PRC in 2022.

Note 3: CO_2 emissions from the Group's business air travels were reported in accordance with the International Civil Aviation Organisation (ICAO) Carbon Emission Calculator.

A1.3 Hazardous Waste

The Group recognises that its business operations had generated certain types of hazardous waste during the Reporting Period, such as printing cartridges, lightbulbs, and other miscellaneous electronic equipment waste. These wastes are either handed over to suppliers or collected separately by the Group for proper recycling. However, since the amount of hazardous waste generated was insignificant, the Group had not kept records of the disposal of such items during the Reporting Period.

A1.4 Non-hazardous Waste

The Group recognises that its business operations had generated non-hazardous waste during the Reporting Period, which mainly consisted of general office waste such as plastic bags for rubbish bins, paper cups, paper towels, etc. The Group has improved the efficiency of waste classification management by setting up classified garbage cans in the office, encouraging employees to implement waste classification and arranging special personnel to sort waste. However, since the amount of non-hazardous waste generated was insignificant, the Group had not kept records of the disposal of such items during the Reporting Period.

A1.5 Measures to Mitigate Emissions

The Group's operations resulted in insignificant emissions. The main source of emission was electricity consumption from daily office operations. Please refer to Section A2.3 for electricity – saving measures that shall mitigate emissions.

The Group had set the target of achieving a 5% reduction in emissions intensity by 2026, using 2021 as the baseline year. The Group's emissions intensity in 2021 was 54.41 $kgCO_2e$ per million RMB revenue, which means the Group has recorded a 97.46% increase in emissions intensity from the baseline year for this Reporting Period. As mentioned in Section A1.2, the Group has recorded a decrease in electricity consumption for the Reporting Period, however, due to a significant decrease in total revenue for the Reporting Period, this resulted in substantial increase in emissions intensity.

Based on these results, the Group may consider re-evaluating its 5-year target for emissions intensity reduction, if these increased emissions figures are sustained for the next Reporting Period.

A1.6 Waste Reduction and Initiatives

Since hazardous waste and non-hazardous waste generated from the Group's operations are insignificant, the Group had not set any reduction targets for these environmental aspects. Nevertheless, the Group has encouraged waste reduction measures among its offices.

The Group generated very minimal hazardous waste from its office operations. Waste printing cartridges and other hardware wastes were sent back to suppliers. Paper is used for daily office operations such as documents printing and deliverables packaging. Paper saving initiatives are encouraged among employees, such as adopting double-sided printing and printing with single – sided used paper. The Group tries to recycle paper used whenever possible in attempt to reduce waste disposed of at landfills.

A2. Use of Resources

The Group has not established policies on the efficient use of resources. Nevertheless, employees are reminded of and encouraged to observing good resource conservation practices in offices.

A2.1 Energy Consumption

A total of 351,335.40 kWh of energy was consumed by the Group for its operations during the Reporting Period, which represents a 34.48% decrease from last year. Electricity was the major source of energy consumption for the Group, which was used to power its offices' lighting, office equipment, and other miscellaneous items necessary for maintaining the offices' daily operations.

Overall, the Group's energy use intensity was 136.71 kWh per million RMB revenue.

See below for the detail breakdown of 2023 energy consumption, as well as comparisons with last year.

Type of Energy Source	2023 Direct Consumption *(kWh)*	2023 Intensity *(kWh/million RMB revenue)*	2022 Direct Consumption *(kWh)*	2022 Intensity *(kWh/million RMB revenue)*
Electricity	**351,335.40 kWh**	**136.71**	536,213.92 kWh	98.24

A2.2 Water Consumption

The Group consumed 849.00 m^3 of water during the Reporting Period, which represents a 5.14% decrease from last year. Overall, the Group's water use intensity was 0.33 m^3 per million RMB revenue.

See below for the detail breakdown of 2023 water consumption, as well as comparisons with last year.

Water Consumption *(m^3)*		Water Consumption Intensity *(m^3/million RMB revenue)*	
2023 Figures	2022 Figures	**2023 Figures**	2022 Figures
849.00	895.00	**0.33**	0.16

A2.3 Energy Use Efficiency Initiatives

To reduce electricity consumption, employees are reminded to turn off office lights, computers, printers, and air conditioners when leaving office. Energy efficient office equipment are also used when possible, and older electronic equipment are to be gradually replaced by more energy-saving models. Air conditioners are defaulted to follow temperatures as required by relevant regulations by authorities to reduce energy use.

During the Reporting Period, the Group has set annual targets to reduce its electricity consumption during operation and shall strive to keep on improving consumption efficiency. The Group aims to achieve a 5% reduction in overall energy use intensity in 5 years, or by 2027.

A2.4 Water Use Efficiency Initiatives

Water was supplied and managed by the building management of all offices and there was no issue in sourcing water that is fit for purpose during the Reporting Period.

Since water consumption from the Group's operations is insignificant, the Group had not set any reduction targets for water use efficiency.

A2.5 Packaging Materials

The Group's operations did not involve any regular use of packaging materials. And the Group use environmentally friendly woven bag for packing welfare gifts in order to reduce the environmental impact.

A3. The Environment and Natural Resources

The Group is committed to conducting its business responsibly, ensuring that its business does not contribute to significant adverse impact on the environment and society while bringing sustainable growth and profit.

A3.1 Significant Impacts of Activities on the Environment

Although the Group's business does not generate significant adverse environmental impact as compared with businesses in other sectors, the Group is committed to reducing GHG emissions and preserving natural resources. With electricity consumption as its main source of GHG emission, and printing practices as another source of emission and waste, the Group frequently reminds and encourages employees to practise energy and resources-saving habits in offices.

A4. Climate Change

Due to the nature of business as an office-based company, climate change has not posed significant impact on the Group's business operation. As such, the Group has not formulated any policy regarding climate change. However, the Group has identified relevant climate-related risks and assessed their potential financial impacts. The climate risks identified, their time horizon, trend, and the potential financial impacts affecting the Group are shown below.

	Climate Risks	Time Horizon	Trend	Potential Financial Impact
Physical Risks	Acute	Short term	Increase	Extreme weather events with increased severity during cyclones, hurricanes, storm surges and floods can cause supply chain interruption by bringing damage to local infrastructure, potential damage to offices and disruption to human resources.
	Chronic	Long term	Increase	Longer-term shifts in climate patterns can increase capital costs, operating costs, costs of human resources and increased insurance premium.
Transition Risks	Technology	Long term	Increase	During the transitional period, the Group expects increased procurement expenditures to introduce new and alternative technologies, and the additional cost of adopting/deploying new practices and processes.
	Policy and Legal term	Short to medium	Increase	Implementation of tightened environmental laws, stringent requirements on climate disclosures and carbon pricing system increases operating costs.
	Market	Short term	Increase	During the transitional period, the Group might face a decrease in revenue due to higher environmental requirements of clients, if no strategy has been set accordingly.
	Reputation	Short to medium term	Increase	Stakeholders' concerns on climate-related issues of the Group might dampen the investment sentiment of investors, impacting the stock price and market capitalisation of the Group, and hence increasing the liquidity risk.

A4.1 Significant Climate-Related Issues

The Group recognises that extreme weather events caused by climate change may negatively impact daily operations and has accordingly prepared contingency plans for these situations. These include, but not limited to, work-from-home plans for employees and insurance against damages from extreme weather events.

While analysing the climate risk that the Group is exposed to, opportunities related to climate change have also been identified. Since the Group's live streaming platform may be enjoyed wherever the audience is located, whether they are on a cruise or in a small hut of a snow mountain, extreme weather arising from climate change may create unexpected opportunities and extra revenue for the Group's business operation.

B. SOCIAL

1. Employment and Labour Practices

B1. Employment

B1.1 Employment Figures

The Group continues to invest in capacity building among local human resource, adopting best practices, and following local and national laws. These include, but not limited to:

- Labour Law of the PRC《中華人民共和國勞動法》;
- Labour Contract Law of the PRC《中華人民共和國勞動合同法》;
- Law of the PRC on the Protection of Rights and Interests of Women《中華人民共和國婦女權益保障法》;
- Law of the PRC on the Protection of Minors《中華人民共和國未成年人保護法》;
- Law of the PRC on the Protection of Disabled Persons《中華人民共和國殘疾人保障法》;
- Trade Union Law of the PRC《中華人民共和國工會法》;
- Social Insurance Law of the PRC《中華人民共和國社會保險法》;
- Special Rules on the Labour Protection of Female Employees《女職工勞動保護特別規定》;
- Regulation on Paid Annual Leave for Employees《職工帶薪年休假條例》; and
- Provisions on the Prohibition of Using Child Labour《禁止使用童工規定》.

The Group was not aware of any cases of material non-compliance in relation to employment during the Reporting Period.

As of December 31, 2023, the Group had a total of 447 employees in its Beijing and Baoding offices. See below for the detail breakdown of the workforce.

Total Workforce as of December 31	2023 Number	 Percentage
By Employment Type		
Full-time	410	91.72%
Part-time	37	8.28%
By Gender		
Male	249	55.70%
Female	198	44.30%
By Employee Category		
Senior Management	6	1.34%
Middle Management	56	12.53%
Frontline and Other Employees	385	86.13%
By Age Group		
18-25	29	6.49%
26-35	310	69.35%
36-45	102	22.82%
46-55	6	1.34%
56 or above	0	0.00%
By Geographical Location		
Mainland China	446	99.78%
United States of America	1	0.22%
Total	447	100.00%

B1.2 Turnover Figures

A total of 534 employees left the Group during the Reporting Period, which corresponds to a turnover rate of 54.43%. The Company has adopted a strategy of reducing costs and increasing efficiency, and refined its manpower.

The Group regularly reviews salary remuneration and benefits to retain talents and stay attractive and competitive in the market. See below for the breakdown of turnover rate by employee group.

Total Turnovers as of December 31	2023 Number	 Turnover Rate
By Employment Type		
Full-time	470	53.41%
Part-time	64	63.37%
By Gender		
Male	302	54.81%
Female	232	53.95%
By Employee Category		
Senior Management	4	40.00%
Middle Management	44	44.00%
Frontline and Other Employees	486	55.80%
By Age Group		
18-25	93	76.23%
26-35	360	53.73%
36-45	77	43.02%
46-55	4	40.00%
56 or above	0	N/A
By Geographical Location		
Mainland China	526	54.12%
Yemen	1	100%
Ukraine	1	100%
Egypt	6	100%
Total	534	54.43%

Note: Turnover figures exclude employees who left the Group before their probation period is over

B1.3 Competitive Compensation and Benefits

The Group abides by all applicable employment and labour related laws of Mainland China. Salary is reviewed on a periodic basis with considerations given to employees' performance during the year, market rate of the industry, financial performance, and the projected earning ability of the Group. Salary adjustments in respect of promotion, confirmation, transfer, re-classification etc. may also be recommended by management on an individual basis.

Employees of the Group enjoy a number of benefits, such as residence and work permits, insurance policies, and health check-ups. For outstanding-performing employees, the Group offers further benefits such as training opportunities and promotion opportunities. Various types of leave, including annual leaves, sick leaves, and maternity leaves, are provided. The Group has also established a trade union, which negotiates on behalf of employees for further compensation and benefits from the Group. For female employees who are mothers, the Group has provided nursing rooms in office to ease their transition back to office after maternity leave. For employees with disabilities, the Group has offered flexible working hours as well as work-from-home arrangements if needed.

There were no major changes in policies relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity and anti-discrimination during the Reporting Period.

B1.4 Promotion, Transfer and Dismissal

As per the "Employee Handbook", the Group aims to provide channels of promotion and promote employees based on their performance, qualification, integrity and ability. Promotion will be offered with considerations of the Group's operation, competence, potential and interpersonal skills of the employee and recommendations given by the employee's manager. The Group reserves the right to transfer any employee to other locations or opportunities to perform jobs of similar nature if necessary.

Employees who completed the probation period and wish to resign must notify in writing to their managers with at least one month's notice. Specific notification periods for different positions are stipulated in the appointment letters. For employees who fall under circumstances including redundancy, termination with or without prejudice, they shall be provided with one month's notice or one month's salary in lieu of notice if their employment is to be terminated.

B1.5 Equal Opportunity

The Group provides equal opportunities for employees in respect of recruitment, training and development, job advancement, and compensation and benefits. Employees are not discriminated against or deprived of such opportunities based on gender, ethnic, background, religion, colour, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws of Mainland China.

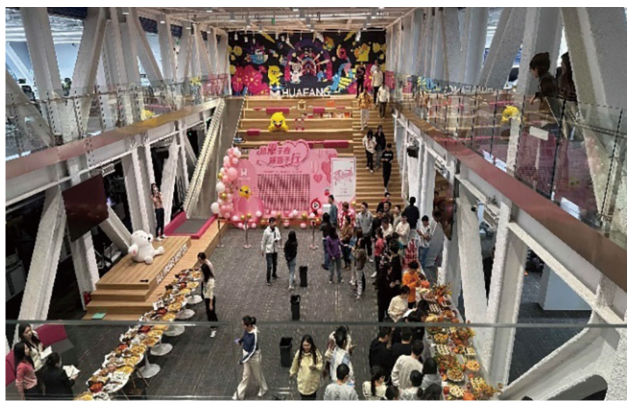
B1.6 Employee Communication

To enhance employees' sense of belonging, the Group regularly organises gatherings during holidays, such as Programmer's Day, Lantern Festival, Thanksgiving Day and Mid-Autumn Festival for its employees. Outside of holiday events, the Group also organises sports activities and competition for its employees, such as badminton, yoga and tug-of-war, to improve their health and wellbeing. In addition, the Group conducts annual employee satisfaction surveys and company work atmosphere surveys to understand the needs of its employees. The Group then holds meetings with its human resources department to address concerns that have been voiced, thus strengthening communication with employees and building trust.


Programmer's Day


Lantern Festival

Mid-Autumn Festival


Thanksgiving Day


Tug of War

B2. Employee Health and Safety

The Group has complied with relevant occupational health related laws and regulations. These include, but not limited to:

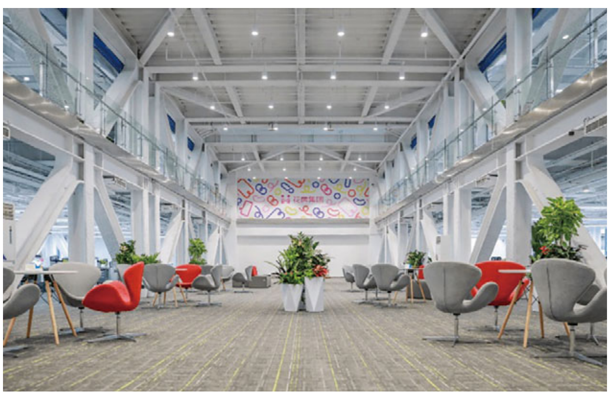
- Labour Law of the PRC《中華人民共和國勞動法》;
- Labour Contract Law of the PRC《中華人民共和國勞動合同法》;
- PRC Law on The Prevention and Control of Occupational Diseases《中華人民共和國職業病防治法》; and
- Fire Prevention Law of PRC《中華人民共和國消防法》.

As employees spend most of their time working in office, the Group has installed air purifiers to maintain air quality in its offices. The Group has also provided appropriate office chairs and working desks that encourage good posture and appropriate viewing distance between eyes and computer screens. Furthermore, the Group has solicited health check-up services for its employees. With these measures, the Group hopes that employees' health can be safeguarded in workplace.

The Group put the safety and health of employees as the first priority. With the experience of COVID-19 pandemic, the Group always pay attention to any highly contagious disease. In case of any outbreak, the Group will set up response team immediately to take lead in executing prevention measures including but not limited to the compliance of the government guidelines, adopt work rotation and home office, and carry out health surveillance measures.

With regards to precautious measures against fire hazards, the Group has arranged fire drills for employees to familiarise them with the office buildings' escape routes and location of fire extinguishing equipment.

There were no major changes in management practice in relation to occupational health and safety during the Reporting Period.



Comfortable Office Environment

B2.1 Work-related fatalities and injury

Occupational Health and Safety Data in 2023	
Work related fatality	**0**
Fatality Rate	**0.00%**
Work injury cases >3 days	**0**
Work injury cases ≤3 days	**0**
Lost days due to work injury	**0**

Occupational Health and Safety Data in 2022	
Work related fatality	0
Fatality Rate	0.00%

Occupational Health and Safety Data in 2021	
Work related fatality	0
Fatality Rate	0.00%

During the Reporting Period, the Company has not received any complaints or lawsuits regarding violations of health and safety-related laws, and there was no work-related death in the past three years.

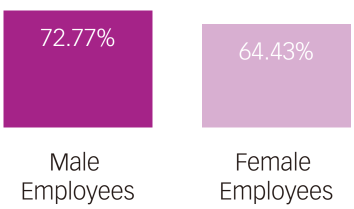
B3. Development and Training

The Group reviews its employees' job performance every six months to identify training needs. Employees are encouraged to participate in work-related and personal development trainings through on-the-job trainings and external trainings to increase their competence.

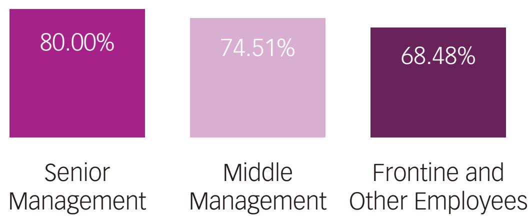
During the Reporting Period, 738 employees, or 69.17% of all employees, received training as arranged by the Group, and the average training hours that each employee received (inclusive of those who did not receive training) was 2.71 hours. The trainings covered topics such as higher management and decision making for senior management; group mentoring and project management for middle management; and objectives and key results goal-setting, recruitment training, and orientation training for frontline and other employees. The Group also conducted anti-corruption training for all employees, of which training hours are counted separately from all other training topics.

The percentage and average training hours per gender and employee category during the Reporting Period are as follows:

Percentage of Trained Employees by Gender (%)

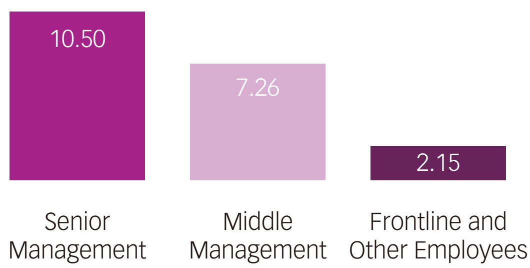


Percentage of Trained Employees by Employee Category (%)



Average Training Hours by Gender (Hours / employee)

Average Training Hours by Employee Category (Hours / employee)



B4. Labour Standards

Pursuant to the Labour Law of the PRC, there was no child nor forced labour in the Group's operation during the Reporting Period. All resumes, original identification cards and relevant certificates of job candidates have all been checked and verified by the Group during the hiring process. Candidates' preceded employers may be contacted for provision of references. If any case of non-compliance is discovered, the Group will immediately terminate employment and further investigate to avoid recurrence.

2. Operating Practices

B5. Supply Chain Management

The Group had only engaged with suppliers related to technology and financial tools or services during the Reporting Period. Despite the relatively low environmental and social risks involved in the Group's supply chain, the Group encourages best practices in supply chain management. The Group has set up and continuously maintains a Qualified Vendors List and a supplier rating system to ensure the quality of supplies. All suppliers are expected to comply with all relevant environmental and social laws in their own operations.

During the Reporting Period, the Group had engaged with 151 long-term key suppliers from the PRC for tools or services, of which details are as follows:

Supplier Region	Type of Supplier	Numbers
PRC	Technical Services	68
	Legal Services	10
	Human Resources	10
	Advertisements	7
	Fixed Capital Procurement and recycling	8
	Rental	6
	Copyright Advising	3
	Recruiting	2
	Insurance	3
	Market Activities	7
	Optic Fibres Services	5
	Software	2
	Training and Development	1
	Administration	4
	Auditing	2
	Professional and Consulting	6
	Customer Service System	1
	Designing Services	1
	Employee Health Inspection	2
	Taxation Services	1
	Construction	1
	IP Rights Advising	1

B6. Product Responsibility

The Group takes full responsibility for its products and services, and follows all regulatory requirements, industry guidelines and internal procedures on safeguarding customer health and safety, promoting responsible marketing and ensuring privacy of information related to the Group and its business partners. As such, the following laws and guidelines are therefore strictly followed by the Group:

- Criminal Law of the PRC《中華人民共和國刑法》;
- Advertising Law of the PRC《中華人民共和國廣告法》;

- Cyber Security Law of the PRC《中華人民共和國網絡安全法》;

- Trademark Law of the PRC《中華人民共和國商標法》; and

- Provisions on Protecting the Personal Information of Telecommunications and Internet Users《電信和互聯網用戶個人信息保護規定》.

B6.1 Quality Assurance

It is the Group's aim to provide services that are satisfactory and provide customer services that are professional. To ensure that employees are competent with handling customer complaints, the Group has established a customer service hotline and a professional customer services team, which includes official procedures for dealing with complaints from customers or users. The Group has also implemented company policies and platform user agreements to protect the customers' interests.

During the Reporting Period, the Group received 186 product or service-related complaints, with a response rate of 100%. In addition, since the Group does not offer any physical products, there had been no products sold or shipped subject to recalls for safety and health reasons during the Reporting Period.

During the year, the Company attached importance to the quality and development of their perfect services, and build up the brand reputation and recognition. The key awards received by the Group are listed as below:

Awarded by	Name of the Award
Daily Economic News, and China Enterprise Research Centre of School of Economics and Management from Tsinghua University	First time on the "Brand Value List of China Listed Companies – Emerging List" which ranked 7th among the Top 50
Metaverse Digital Entertainment Conference Organizing Committee	Top 10 of Metaverse Digital Entertainment Case Awards
Internet Society of China	China's Top 100 Internet Enterprises in Comprehensive Strength
CLS (財聯社)	"The Most Brand Value Award of the Year" at the 6th CLS Investment Summit of 2023

B6.2 Confidential Information

As stated in the employment contract, employees shall not at any time, during the course of their employment, and after the termination of the employment:

- use any confidential information for his/her own purpose or for any purpose other than that of the Group;

- divulge or communicate to any person any confidential information except to those of the employees or officials of the Group whose province it is to know the same; or

- cause any unauthorized disclosure of confidential information (including without limitation), relating to the dealings, organization, business, finance, transactions or any other affairs to the Group or its clients or customers, through failure of exercising due care and diligence.

All notes, memoranda, records and writings made by the employees in relation to the business or concerning any of its dealings or affairs or the dealings or affairs of any clients or customers of the Group shall be handed over by him/her to the Group from time to time on demand and in any event upon his leaving the service of the Group and the employees shall not retain any copy thereof. A breach of the above provisions can be subject to dismissal without notice and legal claim for damages.

As a provider of live entertainment and social networking services, the Group understands the importance of cybersecurity, and has put in place policies and measures for the protection of customer data and confidential information of the Group. The Group's technical department has prepared contingency plans in the event of cyberattacks, and has implemented monitoring mechanisms within the backend of its online platforms to identify any suspicious activities. As per the request of its technical department, the Group has conducted evaluation and testing of its cybersecurity system. In addition, an alarm shall be triggered if the Group's systems have been subjected to hacking.

The Group complies with all applicable laws regarding confidential information and data protection of the laws of Mainland China. No substantiated complaints concerning breaches of client privacy, identified leaks, thefts, or losses of customer information was received during the Reporting Period.

B6.3 Intellectual Property Rights

The Group attaches great importance to the protection of intellectual property rights, and complies with the relevant laws and regulations. The Group has implemented the "Management Regulations on Patent Incentives" as part of company policy and included specifications on intellectual property rights in its employment contracts, which provides guidance for employees to safeguard proprietary information including patents, trademarks, copyrights, trade secrets, and employee know-how.

As of December 31, 2023, the Group holds a total of 108 issued patents, including 21 invention patents and 87 design patents. During the Reporting Period, the Group did not grant any new invention patent and design patent.

During the Reporting Period, there had been no cases that involved the violation of intellectual property rights.

B7. Anti-corruption

The Group strictly abides by relevant applicable laws in Mainland China in relation to bribery, extortion, fraud and money laundering. These include, but not limited to:

- Criminal Law of the PRC《中華人民共和國刑法》;
- Anti-Unfair Competition Law of the PRC《中華人民共和國反不正當競爭法》; and
- Anti-Money Laundering Law of the PRC《中華人民共和國反洗錢法》.

All other guidelines outlined by the Independent Commission Against Corruption ("**ICAC**") and Securities and Futures Commission ("**SFC**") in Hong Kong are also strictly followed by the Group.

The Group has a whistle-blowing policy available for anyone to raise any concern worthy of the Group's awareness, protecting the anonymity of any whistle-blower. There was no concluded legal case regarding corrupt practices brought against the Group or its employees during the Reporting Period.

In order to enhance the anti-corruption awareness and level of the Group, employees of all levels received annual anti-corruption training during the Reporting Period, which covered topics such as whistle-blowing, business ethics, avoiding conflict-of-interest, and anti-bribery. In total, the Group conducted anti-corruption training to 624 employees, or 58.48% of all employees, during the Reporting Period, which took the form of a 1-hour training session.

B8. Community Investment

The Group understands that engagement with the community in which it operates is an essential corporate responsibility, and thus has focused its contributions on activities and organisations that are beneficial to the local community.

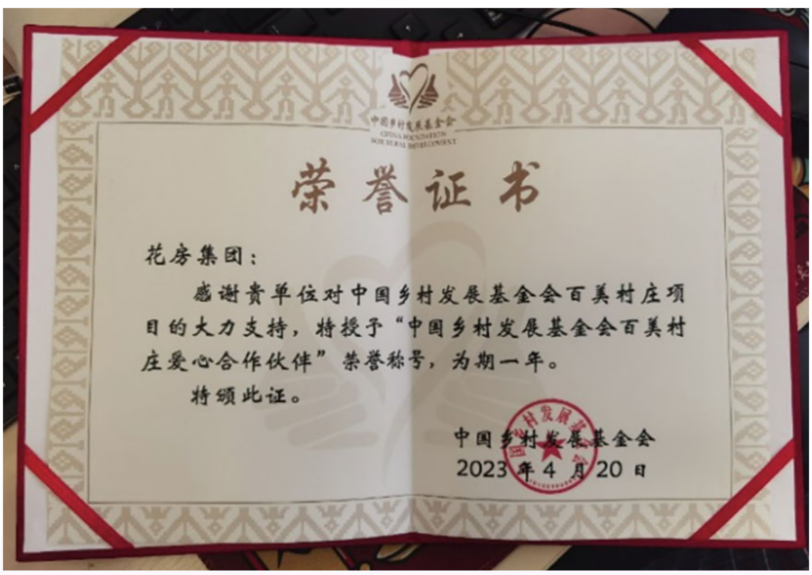
During the Reporting Period, the Group complied with the government's theme of "rural revitalization" and launched a series of public welfare to support rural areas – the Spring Wild Plan since April 2023. The "Spring Wild Project (春野計劃)" means hope and recovery, which symbolizes that culture and economy have ushered in a new stage of vigorous development after the epidemic. The Group shows its support to the rural revitalization and contributes to the development of China's rural areas.

The first phase project was launched in April 2023 in the northwest of Dongxiang Autonomous County, Linxia Hui Autonomous Prefecture, Gansu Province and the second phase project was launched in Gannian Village, Guang'an District, Guang'an City, Sichuan Province in May 2023. The projects were mainly carried out in the form of countryside concert, slow live broadcast and promotional video, which can convey their warm to impoverished areas, promote the local culture and tourism characteristics, and let more people to feel the passion.

"Spring Wild Project (春野計劃)"

The first phase project – launched in the northwest of Dongxiang Autonomous County, Linxia Hui Autonomous Prefecture, Gansu Province in April 2023

The second phase project – launched in Gannian Village, Guang'an District, Guang'an City, Sichuan Province in May 2023



荣誉证书

花房集团：

感谢贵单位对中国乡村发展基金会百美村庄项目的大力支持，特授予"中国乡村发展基金会百美村庄爱心合作伙伴"荣誉称号，为期一年。

特颁此证。

中国乡村发展基金会

2023年4月20日

The title of "2023 China Rural Development Foundation Caring Partner" was awarded by The China Rural Development Foundation

HKEX ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

General Disclosures and KPIs	Description	Section/Remark
A. Environmental		
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	A1. Emissions
KPI A1.1	The types of emissions and respective emissions data	A1.1 Air Emissions
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	A1.2 Greenhouse gas emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	A1.3 Hazardous waste; N/A, the amount of hazardous waste generated by the offices of the Group is of immaterial amount
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	A1.4 Non-hazardous waste; N/A, the amount of non-hazardous waste generated by the offices of the Group is of immaterial amount
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them	A1.5 Measures to mitigate emissions; A2.3 Energy use efficiency initiatives
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them	A1.6 Waste reduction and initiatives; N/A, hazardous and non-hazardous waste generated from office operations of the Group is very minimal

General Disclosures and KPIs	Description	Section/Remark
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	A2 Use of resources; A2.3 Energy use efficiency initiatives; A2.4 Water use efficiency initiatives; N/A, no policy has established but employees are reminded of resources conservation practices in offices
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility)	A2.1 Energy consumption
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	A2.2 Water Consumption
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them	A2.3 Energy use efficiency initiatives
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them	A2.4 Water use efficiency initiatives; N/A, water consumption from the Group's operations is insignificant
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	A2.5 Packaging materials
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources	A3 The environment and natural resources; A3.1 Significant impacts of activities on the environment
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	A3.1 Significant impact of activities on the environment

General Disclosures and KPIs	Description	Section/Remark
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer	A4 Climate change; N/A, impact on the Group's business operation is immaterial
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them	A4.1 Significant climate-related issues
B. Social		
Employment and Labour Practices		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	B1.1 Employment figures; B1.3 Competitive compensation and benefits; B1.4 Promotion, transfer and dismissal; B1.5 Equal Opportunity; B1.6 Employee communication
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region	B1.1 Employment figures
KPI B1.2	Employee turnover rate by gender, age group and geographical region	B1.2 Turnover figures
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	B2 Employee health and safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year	B2.1 Work-related fatalities and injury
KPI B2.2	Lost days due to work injury	B2.1 Work-related fatalities and injury
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored	B2 Employee health and safety

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

General Disclosures and KPIs	Description	Section/Remark
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	B6.1 Quality assurance; B6.2 Confidential information; B6.3 Intellectual property rights
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	B6.1 Quality assurance; N/A, no physical products is sold by the Group
KPI B6.2	Number of products and service related complaints received and how they are dealt with	B6.1 Quality assurance
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	B6.3 Intellectual property rights
KPI B6.4	Description of quality assurance process and recall procedures	B6.1 Quality assurance
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored	B6.2 Confidential information
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	B7 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	B7 Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored	B7 Anti-corruption
KPI B7.3	Description of anti-corruption training provided to directors and staff	B7 Anti-corruption

General Disclosures and KPIs	Description	Section/Remark
Community		
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	B8 Community investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	B8 Community investment
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	B8 Community investment

Directors' Report

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 1 June 2021 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Group is primarily engaged in offering video- and audio-based live entertainment and social networking services to its users.

The activities and particulars of the Company's subsidiaries are shown under Note 30 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year ended 31 December 2023 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and Note 4(b) to the consolidated financial statements.

BUSINESS REVIEW

Huafang Group is an internet company in China, offering video- and audio-based live entertainment and social networking services to its users. China's online video and audio social entertainment market consists of platforms offering video (i.e., short video and video-based live streaming) and audio (i.e., online music, audio and other innovative audio interactive services) social entertainment services.

A review of the Group's business during the year ended 31 December 2023, 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. A discussion on relationships with its key stakeholders is included in the sections headed "Management Discussion and Analysis", "Corporate Governance Report" in this annual report and the Environmental, Social and Governance Report. In addition, a description of the environmental policies and performance of the Company is set out in the Environmental, Social and Governance Report. These discussions form part of this directors' report.

RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended 31 December 2023 are set out on pages 97 to 189 of this annual report.

The Board has resolved not to recommend payment of any final dividend for the year ended 31 December 2023 (2022: Nil).

DIVIDEND POLICY

The Company has adopted a dividend policy (the "**Dividend Policy**"). The Dividend Policy aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the Shareholders.

The Board adopts the Dividend Policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. The Company does not have any pre-determined dividend payout ratio. The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the Articles and all applicable laws and regulations and the factors including without limitation to:

- financial results;
- cash flow situation;
- level of indebtedness;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of Shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

Depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year. The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate. Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles. The Board will review the Dividend Policy as appropriate from time to time.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last three financial years is set out on page 4 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2023 are set out in Note 11 to the consolidated financial statements on pages 144 to 145 of this annual report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2023 are set out in Note 25(b) to the consolidated financial statements on page 169 of this annual report.

EQUITY-LINKED AGREEMENTS

During the year ended 31 December 2023, other than the Pre-IPO Share Option Scheme as set out in the section under "Pre-IPO Share Option Scheme" and Note 23 to the consolidated financial statements, the Company has not entered into any equity-linked agreement.

RESERVES

As at 31 December 2023, the Company's reserves available for distribution amounted to approximately RMB289.4 million. Movements in the reserves of the Group and the Company during the year under review are set out in the consolidated statement of changes in equity on page 102 and in note 25 to the consolidated financial statements respectively.

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

Neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities during the year ended 31 December 2023.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the Reporting Period. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the Reporting Period and up to the date of this annual report.

USE OF PROCEEDS FROM GLOBAL OFFERING

The shares of the Company were listed on the Stock Exchange on 12 December 2022 and the Company obtained net proceeds of approximately HK$72.4 million (after deducting the underwriting commissions and other estimated expenses in connection with the exercise of the Global Offering).

During the year ended 31 December 2023, the Company has not utilized any of the net proceeds raised from the Global Offering. The Company intends to use the net proceeds in the same manner and proportion as set out in the Prospectus under the section headed "Future Plans and Use of Proceeds".

As disclosed on page 455 of the Prospectus, based on the current business plan, the Company intended to implement the use of proceeds from the Global Offering in the next three financial years. The Board currently expects full utilisation of the net proceeds by 31 December 2025, subject to changes in light of the Company's evolving business needs and changing market conditions.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Save as disclosed in the Corporate Governance Report, the Board is of the view that the Company has complied with the code provisions in the CG Code during the Reporting Period. No Director is aware of any information that reasonably reveals that there was any non-compliance with the code provisions of the CG Code by the Company at any time during the Reporting Period.

For details of the Corporate Governance Report, please refer to pages 20 to 34 of this annual report.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Board during the year ended 31 December 2023 and up to the date of this report consists of the following seven Directors:

Non-executive Director and Chairman of the Board
Mr. ZHOU Hongyi

Executive Director
Ms. YU Dan *(CEO)*

Other Non-executive Directors
Mr. CHEN Shengmin
Mr. ZHAO Dan

Independent Non-executive Directors
Mr. CHEN Weiguang
Mr. LI Bing
Ms. QIAN Aimin

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 10 to 13 in the section headed “Profile of Directors and Senior Management” of this annual report.

CHANGES IN INFORMATION OF DIRECTORS

Save as disclosed in this annual report, there has been no change in information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the year ended 31 December 2023.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors. The Company considers such Directors to be independent.

DIRECTORS' SERVICE CONTRACT AND LETTERS OF APPOINTMENT

On 21 November 2022, the executive Director has entered into a service contract with the Company, and each of the non-executive Directors and independent non-executive Directors have entered into letters of appointment with the Company. The service contract with the executive Director is for an initial fixed term of three years commencing from 21 November 2022. The letters of appointment with each of the non-executive Directors are for an initial fixed term of three years commencing from 21 November 2022. The letters of appointment with each of the independent non-executive Directors are for an initial fixed term of three years commencing from 21 November 2022. The service contract and the letters of appointment are subject to termination in accordance with their respective terms or by either party giving to the other not less than three-month prior written notice. The appointment of the Directors is subject to the provisions of retirement and rotation of Directors under the Articles. Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONTRACT WITH CONTROLLING SHAREHOLDER

No contract of significance has been entered into among the Company or any of its subsidiaries and the controlling Shareholder or any of its subsidiaries during the year ended 31 December 2023.

DIRECTOR'S INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT

Save as disclosed in the section headed "Continuing Connected Transactions" of this annual report, no transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party, and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2023.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The remuneration (including fees, salaries, allowances and benefits in kind, discretionary bonuses and retirement scheme contributions) paid to the Director in aggregate for the year ended 31 December 2023 was approximately RMB42,119,000.

The remuneration (including fees, salaries, allowances and benefits in kind, discretionary bonuses and retirement scheme contributions) paid to the Group's five highest paid individuals in aggregate for the year ended 31 December 2023 was approximately RMB66,439,000.

For the year ended 31 December 2023, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended 31 December 2023.

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Note 9 to the consolidated financial statements on pages 140 to 142 of this annual report.

The Company has also adopted the Pre-IPO Share Option Scheme as incentive for Directors and eligible employees. Details of the said schemes are set out under the section headed "Pre-IPO Share Option Scheme" in this annual report and in Note 23(b) to the consolidated financial statements on pages 164 to 165 of this annual report.

Save as disclosed above, no other payments have been made or are payable, for the year ended 31 December 2023, by the Group to or on behalf of any of the Directors.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors nor the controlling Shareholders or their respective associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group.

For further details, please refer to the section headed "Relationship with our Controlling Shareholders – Business Delineation and Competition" in the Prospectus.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) in the Articles for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2023.

MANAGEMENT CONTRACTS

Other than the Directors' service contract and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the year ended 31 December 2023.

LOAN AND GUARANTEE

During the year ended 31 December 2023, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the Directors, senior management, its ultimate controlling Shareholders or their respective connected persons.

DISCLOSURE REQUIRED UNDER RULE 13.18 OF THE LISTING RULES

As at 31 December 2023, there were no matters that gave rise to a disclosure required under Rule 13.18 of the Listing Rules.

PRE-IPO SHARE OPTION SCHEME

The Company conditionally approved and adopted the Pre-IPO Share Option Scheme pursuant to the resolutions of the Shareholders passed on 21 November 2022.

The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate employees and such other participant, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow such employees and other persons to participate in the growth and profitability of the Group.

On 22 November 2022, options (exercisable for 10 years subject to vesting schedule as set out in the grant letter) to subscribe for an aggregate of 89,502,000 Shares were conditionally granted by the Company under the Pre-IPO Share Option Scheme to a total of 9 grantees, including one executive Director, three members of the senior management (excluding Directors) of the Group, one joint company secretary of the Company, three vice presidents (excluding senior management and joint company secretary) and one operation head of the Company. Such options were granted based on the performance of the grantees that have made important contributions or are important to the long term growth and profitability of the Group. Apart from the above share options, no options were granted under the Pre-IPO Share Option Scheme. In addition, no further options can be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

Details of movement of the share options granted under the Pre-IPO Share Option Scheme for the year ended 31 December 2023 are set out below:

Name of the Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price	Outstanding as of 1 January 2023	Exercised during the year ended 31 December 2023	Lapsed during the year ended 31 December 2023	Cancelled during the year ended 31 December 2023	Outstanding as of 31 December 2023
Director of the Company									
Ms. YU Dan	22 November 2022	Four years from the date of grant	Ten years from the date of grant	0.0001	19,402,000	0	0	0	19,402,000
Senior management and other employees of the Group									
Mr. LIU Kaiyin	22 November 2022	Four years from the date of grant	Ten years from the date of grant	0.0001	15,580,000	0	0	0	15,580,000
Ms. LIU Tao	22 November 2022	Four years from the date of grant	Ten years from the date of grant	0.0001	11,670,000	0	0	0	11,670,000
Mr. ZHANG Zhen	22 November 2022	Four years from the date of grant	Ten years from the date of grant	0.0001	10,579,000	0	0	0	10,579,000
Mr. CHEN Xing	22 November 2022	Four years from the date of grant	Ten years from the date of grant	0.0001	8,374,000	0	0	0	8,374,000
Mr. TAO Sha	22 November 2022	Four years from the date of grant	Ten years from the date of grant	0.0001	1,961,000	0	0	0	1,961,000
Others									
Mr. JIAO Yang(1)	22 November 2022	Four years from the date of grant	Ten years from the date of grant	0.0001	9,928,000	0	7,942,400	0	1,985,600
Ms. CHEN Xiaohui(2)	22 November 2022	Four years from the date of grant	Ten years from the date of grant	0.0001	8,508,000	0	6,806,400	0	1,701,600
Mr. TANG Geng(3)	22 November 2022	Four years from the date of grant	Ten years from the date of grant	0.0001	3,500,000	0	2,800,000	0	700,000
Total					89,502,000	0	17,548,800	0	71,953,200

Notes:

(1) Mr. JIAO Yang resigned as the joint company secretary and vice president of the Company on 25 May 2023. From 26 May 2023 to 2 October 2023, Mr. JIAO Yang acted as a consultant rendering consultancy services in respect of the business development to the Group without receiving any compensation. The Board recognized Mr. JIAO Yang's services and retained the options granted to him until 2 October 2023.

(2) Ms. CHEN Xiaohui resigned as a vice president of the Company on 2 August 2023. From 3 August 2023 to 2 October 2023, Ms. CHEN Xiaohui acted as a consultant rendering consultancy services in respect of the business development to the Group without receiving any compensation. The Board recognized Ms. CHEN Xiaohui's services and retained the options granted to her until 2 October 2023.

(3) Mr. TANG Geng resigned as a vice president of the Company on 6 July 2023. From 7 July 2023 to 2 October 2023, Mr. TANG Geng acted as a consultant rendering consultancy services in respect of the business development to the Group without receiving any compensation. The Board recognized Mr. TANG Geng's services and retained the options granted to him until 2 October 2023.

The Directors and the director of the Company's subsidiary who have been granted options under the Pre-IPO Share Option Scheme, have undertaken to the Company that they will not exercise the options granted to them under the Pre-IPO Share Option Scheme if as a result of which the Company would not be able to comply with the public float requirements of the Listing Rules.

A detailed summary of the terms (including the terms of the Pre-IPO Share Option Scheme, the calculation method of the exercise price, exercise periods, and vesting periods and conditions) of the Pre-IPO Share Option Scheme has been set out in the section headed "D. Pre-IPO Share Option Scheme" in Appendix IV of the Prospectus.

The Pre-IPO Share Option Scheme does not fall within the ambit of, and are not subject to, the regulations under Chapter 17 of the Listing Rules. Details of the impact of options granted under the Pre-IPO Share Option Scheme on the financial statements since the date of grant and the subsequent financial periods are set out under Note 23(b) to the consolidated financial statements.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 31 December 2023, 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 therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(A) Interest in ordinary Shares of the Company – Long position

Name of Director	Capacity/Nature of interest	Number of ordinary Shares interested	Approximate percentage+ of the Company's issued share capital
Mr. Zhou Hongyi(1)	Interest in controlled corporation	364,554,724	36.46%
Ms. Yu Dan(2)	Beneficial interest and interest in controlled corporation	79,026,995	7.90%

Notes:

(1) Blossom Deluxe Holdings Limited has entered into a voting proxy with Blossom Glory Limited to entrust 42.69% voting rights held by Blossom Deluxe Holdings Limited in Pepper Blossom Limited to Blossom Glory Limited, which enables Blossom Glory Limited to exercise 90.26% of voting rights at the general meeting of Pepper Blossom Limited. Therefore, Blossom Glory Limited is deemed to be interested in the entire interests held by Pepper Blossom Limited. Blossom Glory Limited is held by Blossom Eternity Limited as to 71.94%, and Blossom Eternity Limited is wholly owned by Mr. Zhou Hongyi, therefore, Mr. Zhou Hongyi is deemed to be interested in the entire interests held by Pepper Blossom Limited.

(2) On 22 November 2022, Ms. Yu Dan was granted 19,402,000 options under the Pre-IPO Share Option Scheme. Ms. Yu Dan is also deemed to be interested in the Shares held by Blossom Bliss Limited under the SFO. Please refer to the section headed "Substantial Shareholders' Interests in Securities" in this annual report for details.

\+ The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 31 December 2023.

(B) Interest in associated corporations of the Company – Long position

Name	Nature of Interest	Name of Associated Corporation	Number of ordinary shares interested	Approximate percentage* of the associated corporation's issued share capital
Mr. Zhou Hongyi[(1)]	Interest in controlled corporation	Huafang Technology	20,380,418	38.21%
Ms. Yu Dan[(2)]	Interest in controlled corporation	Huafang Technology	3,333,333	6.25%

Notes:

(1) Huafang Technology is owned by Qihoo 360, Huajiao No. 1 and Huajiao No. 2 as to approximately 38.21% in aggregate, each of which is ultimately controlled by Mr. Zhou Hongyi since 1 January 2020.

(2) Huafang Technology is owned by Tianjin Huafang Feiteng Technology Center (L.P.) (天津花房飛騰科技中心(有限合夥)) ("**Huafang Feiteng**") as to approximately 6.25%. Tianjin Huafang Feiteng No. 2 Technology Center (L.P.) (天津花房飛騰貳號科技中心(有限合夥)) ("**Huafang Feiteng No. 2**"), as a limited partner, holds as to 51.8305% of the partnership interest in Huafang Feiteng. Ms. Yu Dan, an executive Director and CEO, is a limited partner of Huafang Feiteng No. 2 and holds 45.2191% of the partnership interest in Huafang Feiteng No. 2.

* The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the associated corporation's issued shares as at 31 December 2023.

Save as disclosed above and in the section headed "Pre-IPO Share Option Scheme" and to the best knowledge of the Directors, as at 31 December 2023, none of the Directors or the chief executive of the Company has any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which 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 which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2023, the following corporations/persons had interests of 5% or more in the issued shares or underlying shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Interest in ordinary Shares of the Company – Long position

Name	Note	Capacity/Nature of interest	Number of ordinary Shares interested	Approximate percentage+ of the Company's issued share capital
Pepper Blossom Limited	*(1)*	Beneficial interest	364,554,724	36.46%
Blossom Glory Limited	*(1)*	Interest in controlled corporation	364,554,724	36.46%
Blossom Eternity Limited	*(1)*	Interest in controlled corporation	364,554,724	36.46%
Mr. Zhou Hongyi	*(1)*	Interest in controlled corporation	364,554,724	36.46%
Global Bacchus Limited	*(2)*	Beneficial Interest	353,541,181	35.35%
Songcheng Performance	*(2)*	Interest in controlled corporation	353,541,181	35.35%
Ms. Yu Dan	*(3)*	Beneficial interest and interest in controlled corporation	79,026,995	7.90%
Blossom Bliss Limited	*(3)*	Beneficial Interest	59,624,995	5.96%
Huafang Feiteng	*(3)*	Interest in controlled corporation	59,624,995	5.96%
Huafang Feiteng No. 2	*(3)*	Interest in controlled corporation	59,624,995	5.96%
Tianjin Yongsheng Technology Co., Ltd. (天津咏升科技有限責任公司)	*(3)*	Interest in controlled corporation	59,624,995	5.96%
Ms. Li Rui	*(3)*	Interest in controlled corporation	59,624,995	5.96%

Notes:

(1) Blossom Deluxe Holdings Limited has entered into a voting proxy with Blossom Glory Limited to entrust 42.69% voting rights held by Blossom Deluxe Holdings Limited in Pepper Blossom Limited to Blossom Glory Limited, which enables Blossom Glory Limited to exercise 90.26% of voting rights at the general meeting of Pepper Blossom Limited. Therefore, Blossom Glory Limited is deemed to be interested in the entire interests held by Pepper Blossom Limited. Blossom Glory Limited is held by Blossom Eternity Limited as to 71.94%, and Blossom Eternity Limited is wholly owned by Mr. Zhou Hongyi, therefore, both Mr. Zhou Hongyi and Blossom Eternity Limited is deemed to be interested in the entire interests held by Pepper Blossom Limited.

(2) Global Bacchus Limited is wholly owned by Songcheng Performance, a company listed on the Shenzhen Stock Exchange (stock code: 300144) in the PRC. Therefore, Songcheng Performance is deemed to be interested in the entire interests held by Global Bacchus Limited.

(3) Blossom Bliss Limited is wholly owned by Huafang Feiteng. Huafang Feiteng No. 2, as a limited partner, holds as to 51.8305% of the partnership interest in Huafang Feiteng. The general partner of both of Huafang Feiteng and Huafang Feiteng No. 2 is Tianjin Yongsheng Technology Co., Ltd. (天津咏升科技有限責任公司), which is wholly owned by Ms. Li Rui (李蕊), an employee of the Company. Ms. Yu Dan, an executive Director and CEO, is a limited partner of Huafang Feiteng No. 2 and holds 45.2191% of the partnership interest in Huafang Feiteng No. 2. Therefore, each of Huafang Feiteng, Huafang Feiteng No. 2, Ms. Li Rui and Ms. Yu Dan, is deemed to be interested in the Shares held by Blossom Bliss Limited under the SFO. In addition, on 22 November 2023, Ms. Yu Dan was granted 19,402,000 options under the Pre-IPO Share Option Scheme.

\+ The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2023.

Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2023, no person had registered an interest or a short position in the Shares or underlying Shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Pre-IPO Share Option Scheme, at no time during the year under review was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the Group's largest customers accounted for approximately 0.3% of the Group's total revenue from continuing operations. The Group's five largest customers accounted for approximately 1.2% of the Group's total revenue from continuing operations.

In the year under review, the Group's largest suppliers accounted for approximately 3.4% of the Group's total cost of sales from continuing operations. The Group's five largest suppliers accounted for 10.4% of the Group's total cost of sales from continuing operations.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

EMPLOYEES

The Group had approximately 410 full-time employees as at 31 December 2023, as compared to approximately 864 full-time employees as at 31 December 2022. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

Remuneration of the Group's employees includes basic salaries, allowances, bonus and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence.

RETIREMENT BENEFITS SCHEME

The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries 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.

CONTINUING CONNECTED TRANSACTION

As disclosed in the Prospectus, the following transactions of the Group constitute the continuing connected transactions of the Company for the year ended 31 December 2023.

Master Technical Service Framework Agreement

On 22 November 2022, Huafang Technology and Qihoo Group entered into a master technical service framework agreement (the "**Master Technical Service Framework Agreement**"), pursuant to which, Qihoo Group agrees to provide us with server lease and custody services, cloud services and other technical services for the Group's video- and audio-based live streaming for a period starting from the date of the agreement and ending on 31 December 2024. Any member of the Group may enter into individual agreement for specific service required with any member of Qihoo Group under the Master Technical Service Framework Agreement.

Reason for the transactions

Qihoo Group is a leading provider of internet value added service in the PRC, and offers a wide range of high-quality products and services. We have migrated the majority of the Group's servers and computing infrastructure to *360 Cloud* operated by Qihoo Group. The Directors believe that the procurement of high-quality services from Qihoo Group, especially technological services, will provide us with the necessary technologies to further develop the Group's business, and we can leverage on the wide spectrum of services offered by Qihoo Group to reduce unnecessary costs in reconciling and integrating the differences between different systems.

Annual Cap

The Directors estimate that the service fees payable by the Group to Qihoo Group will not exceed RMB41.0 million, RMB43.0 million and RMB45.0 million for the year ended/ending 31 December 2022, 2023 and 2024, respectively. In determining such annual caps, the Directors have considered (i) historical transaction amount; (ii) prices offered from other service providers of comparable services; (iii) the potential fluctuations in the market price for comparable services in the future; and (iv) increase in the Group's demand for related technical services in line with the expansion of the Group's business operation. The annual cap for the year ending 31 December 2022 was determined with reference to the average historical amount for the three years ended 31 December 2021, i.e. RMB37.7 million, while the actual transaction amount for the year ending 31 December 2022 was RMB30.7 million. The annual caps for the year ended/ ending 31 December 2023 and 2024 were calculated based on approximately 5% year-over-year increase, considering the anticipated growth and development of the Group's business and operation.

Pricing policy

In respect of server lease and custody services, we shall pay Qihoo Group on the basis of the quality of servers, the number of servers leased or maintained and the service term. The service fees payable by us to Qihoo Group shall be based on arm's length commercial negotiations subject to the Group's internal control measures on connected transactions and be comparable to the service fees paid by us to Independent Third Party suppliers for similar services.

In respect of cloud services, we shall pay Qihoo Group on the basis of amount of services provided taking into account number of devices, traffic volume and storage space volume involved. The service fees payable by us to Qihoo Group shall be based on arm's length commercial negotiations subject to the Group's internal control measures on connected transactions and shall be comparable to the service fees paid by us to Independent Third Party suppliers for similar services.

In respect of the procedures for obtaining quotations, the management normally solicit at least two other contemporaneous transactions with unrelated third parties for comparable services to determine if the price and terms offered by Qihoo Group are fair and reasonable and comparable to those offered by unrelated third parties.

Listing Rules implications

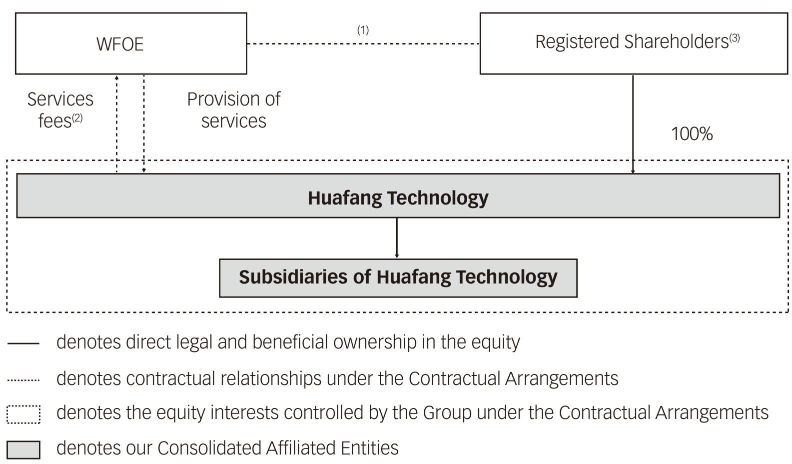
The Master Technical Service Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of the Group's business and on normal commercial terms or better and the Directors currently expect that one or more of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of such transactions will exceed 0.1% but will be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, the transactions will be exempt from circular and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

Contractual Arrangements

Background to the Contractual Arrangements

Due to regulatory restrictions on foreign ownership in the PRC, we conduct the Group's business through Huafang Technology and its subsidiaries, being the Consolidated Affiliated Entities. We do not hold any equity interests in Huafang Technology, which is held by the Registered Shareholders. Instead, we effectively control Huafang Technology and are able to derive substantially all of its economic benefits through the Contractual Arrangements and expect to continue to do so. The Contractual Arrangements among WFOE, Huafang Technology and the Registered Shareholders enable us to, (1) receive substantially all of the economic benefits from Huafang Technology in consideration for the services provided by WFOE; (2) exercise effective control over Huafang Technology; and (3) hold an exclusive option to purchase all or part of the equity interests in Huafang Technology when and to the extent permitted by PRC laws. The Contractual Arrangements consist of various types of documents. For detailed terms of these documents, please refer to the section headed "Contractual Arrangements" in the Prospectus.

The following simplified diagram illustrates the flow of the economic benefit from the Consolidated Affiliated Entities to the Group stipulated under the Contractual Arrangements:



Notes:

(1) Control of WFOE over Huafang Technology through the following agreements with the Registered Shareholders: (i) Exclusive option to acquire any or all of the equity interests and/or assets in the Consolidated Affiliated Entities, please see the paragraph headed "Summary of the material terms of the Contractual Arrangements – Exclusive Option Agreement" below for details; (ii) Equity pledge over the entire equity interests in the Consolidated Affiliated Entities, please see the paragraph headed "Summary of the material terms of the Contractual Arrangements – Equity Pledge Agreement" below for details; (iii) Shareholders' rights proxy agreements for appointment of WFOE to exercise all shareholder's rights in the Consolidated Affiliated Entities, please see the paragraph headed "Summary of the material terms of the Contractual Arrangements – Shareholders' Rights Proxy Agreement" below for details.

(2) Control of WFOE over the Consolidated Affiliated Entities through exclusive business co-operation agreements. Please see the paragraph headed "Summary of the material terms of the Contractual Arrangements – Exclusive Business Co-operation Agreement" below for details.

(3) The Registered Shareholders refer to the registered shareholders of Huafang Technology. Huafang Technology was owned as to 26.67% by Qihoo 360 Software (Beijing) Co., Ltd. (奇虎三六零軟件(北京)有限公司), 7.69% by Tianjin Huajiao No. 1 Technology Limited Partnership (天津花椒壹號科技合夥企業(有限合夥)), 3.85% by Tianjin Huajiao No. 2 Technology Limited Partnership (天津花椒貳號科技合夥企業(有限合夥)), 37.06% by Songcheng Performance Development Co., Ltd. (宋城演藝發展股份有限公司), 1.75% by Jinhua Xuance Investment Management Co., Ltd. (金華萱策投資管理有限公司), 0.69% by Jinhua Duanxuan Investment Management General Partnership (G.P.) (金華端萱投資管理合夥企業(普通合夥)), 3.85% by Beijing Siming Juncheng Technology Co., Ltd (北京思明駿程科技有限公司), 1.54% by Mango Culture Creativity (Shanghai) Equity Investment Limited Partnership (L.P.) (芒果文創(上海)股權投資基金合夥企業(有限合夥)), 1.31% by Shenzhen Zhirun No. 1 Investment Limited Partnership (L.P.) (深圳致潤一號投資合夥企業(有限合夥)), 3.07% by Shenzhen Zhirun No. 2 Investment Limited Partnership (L.P.) (深圳致潤二號投資合夥企業(有限合夥)), 2.63% by Shanghai Zuosan Digital Technology Co., Ltd. (上海佐三數字科技有限公司), 0.18% by Ningbo Meishan Free Trade Port Area Huajiao Equity Investment Limited Partnership (L.P.) (寧波梅山保稅港區花椒股權投資中心(有限合夥)), 0.38% by Shanghai Huawei Equity Investment Limited Partnership (L.P.) (上海驊偉股權投資基金合夥企業(有限合夥)), 0.19% by Great Chiliocosm (Kunshan) Cultural Industry Investment Partnership (L.P.) (三千世界(昆山)文化產業投資合夥企業(有限合夥)), 2.89% by Zhang Fa and 6.25% by Tianjin Huafang Feiteng Technology Center (L.P.) (天津花房飛騰科技中心(有限合夥)) as of 31 December 2023. Mr. Zhou Hongyi controlled 38.21% equity interest of Huafang Technology through Qihoo 360, Huajiao No. 1 and Huajiao No. 2.

Listing Rules Implications

Huafang Technology is an entity owned as to more than 30% by Mr. Zhou Hongyi and Songcheng Performance respectively, controlling shareholders of the Company, and thus is a connected person of the Group pursuant to Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of the Company under the Listing Rules upon the Listing. One or more of the applicable percentage ratios of transactions contemplated under the Contractual Arrangements are expected to be more than 5%. Therefore, the transactions will constitute non-exempt continuing connected transactions of the Group and will be subject to reporting, announcement, circular, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Risks relating to the Contractual Arrangements

We believe the following risks are associated with the Contractual Arrangements. Further details of these risks are set out on pages 83 to 89 of the Prospectus.

- If the PRC government finds that the agreements that establish the structure for operating the Group's businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of the Group's interest in the Consolidated Affiliated Entities.

- Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) and how it may impact the viability of the Group's current corporate structure, corporate governance and business operations.

- The Contractual Arrangements may not be as effective in providing operational control as direct ownership. Huafang Technology or its Registered Shareholders may fail to perform their obligations under the Contractual Arrangements.

- As some of the agreements under the Contractual Arrangements may not have fully detailed the parties' rights and obligations, the Group's remedies for a breach of these agreements may not be guaranteed.

- We may lose the ability to use and enjoy assets held by the Consolidated Affiliated Entities that are material to the Group's business operations if the Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.

- The Registered Shareholders of Huafang Technology may have conflicts of interest with us, which may materially and adversely affect the Group's business.

- The Contractual Arrangements between the WFOE and Huafang Technology may be subject to scrutiny by the PRC tax authorities and may subject the Group to increased income tax due to the different income tax rates applicable to WFOE and Huafang Technology. A finding that we owe additional taxes could negatively affect the Group's financial condition and the value of your investment.

- If we exercise the option to acquire equity ownership and assets of the Consolidated Affiliated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.

- A transfer of shares in some of the Consolidated Affiliated Entities may trigger tax liability.

The Group works closely with the Registered Shareholders and the Group's external legal counsels and advisors to monitor the regulatory environment and developments in PRC laws and regulations to mitigate the risks associated with the Contractual Arrangements.

Summary of the material terms of the Contractual Arrangements

Exclusive Business Co-operation Agreement

Huafang Technology and WFOE entered into an exclusive business co-operation agreement on 18 October 2021 (the "**Exclusive Business Co-operation Agreement**", which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated 8 September 2022 (the "**Exclusive Business Co-operation Supplemental Agreement**")), pursuant to which the Consolidated Affiliated Entities agreed to engage WFOE as its exclusive provider of technical support, consultation and other services, including:

(i) to provide technical support and professional training for the staff of the Consolidated Affiliated Entities;

(ii) to assist the Consolidated Affiliated Entities in providing consultation, collection and research on the techniques and market information in relation to the principal business of the Consolidated Affiliated Entities (except those market research that wholly foreign-owned enterprise is prohibited from engaging in by the PRC laws (including any laws, regulations, rules, notices, explanations or other binding documents issued by the central or local legislative, administrative or judicial authorities before or after the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement));

(iii) to provide the Consolidated Affiliated Entities with corporate management consultation;

(iv) to provide the Consolidated Affiliated Entities with marketing and promotion services;

(v) to provide the Consolidated Affiliated Entities with management services in relation to customer orders and customer related services, assist in formulating plan for maintaining the relationship with customers and assist in maintaining such relationship;

(vi) to provide the Consolidated Affiliated Entities with services in relation to the transfer, lease and disposal of facilities and assets;

(vii) to provide the Consolidated Affiliated Entities with services in relation to the design, installation and daily management, maintenance and update of computer network system, hardware and database;

(viii) to allow the use by the Consolidated Affiliated Entities of intellectual property rights legally owned by WFOE or persons designated by WFOE;

(ix) to provide the Consolidated Affiliated Entities with system integration, product development and system maintenance services; and

(x) to provide other services as required by the Consolidated Affiliated Entities from time to time if permitted by the laws of the PRC.

Pursuant to the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement, the service fee shall be equivalent to the total consolidated profit of the Consolidated Affiliated Entities, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, WFOE shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of the Consolidated Affiliated Entities, provided that the adjusted amount shall not exceed the limit as stated above. WFOE shall send the payment notification to Huafang Technology within 40 days after each fiscal year end for the services provided in the preceding fiscal year. The Consolidated Affiliated Entities have agreed to pay the service fee within 30 days after receiving the relevant notice.

In addition, pursuant to the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement, without the prior written approval from WFOE, the Consolidated Affiliated Entities shall not, and shall procure the other Consolidated Affiliated Entities not to, accept the same or any similar services provided by any third party and shall not, establish cooperation relationships similar to that formed by the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement with any third party.

The Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement also provide that, (1) all proprietary rights and other rights and interests of all intellectual property rights generated, developed or created during the performance of the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement are solely and exclusively owned by WFOE, and (2) WFOE is authorized to use all existing intellectual property rights owned by the Consolidated Affiliated Entities before execution of the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement for free.

The Directors are of the view that the above arrangement will ensure the economic benefits generated from the operations of the Consolidated Affiliated Entities will flow to WFOE and hence, the Group as a whole.

The Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement shall take effect upon their respective execution dates and shall remain valid unless (1) all the equity interests and/or assets of Huafang Technology have been legally transferred to WFOE or the nominee(s) designated by WFOE; or (2) it is terminated in accordance with the provisions of the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement. Nonetheless, WFOE shall always have the rights to terminate the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement by giving a prior written notice of termination.

Exclusive Option Agreement

WFOE, Huafang Technology and the Registered Shareholders entered into an exclusive option agreement on 18 October 2021 (the "**Exclusive Option Agreement**" which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated 8 September 2022 (the "**Exclusive Option Supplemental Agreement**")), pursuant to which the Registered Shareholders and the Consolidated Affiliated Entities jointly and severally granted irrevocably to WFOE the rights to require the Registered Shareholders to transfer any or all their equity interests and/or assets in the Consolidated Affiliated Entities to WFOE and/or its nominee(s), in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations. The Registered Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to WFOE and/or its nominee(s) any consideration paid by WFOE and/or its nominee(s) within 10 business days as requested by WFOE. The Registered Shareholders and the Consolidated Affiliated Entities shall not grant exclusive option to any third party.

Pursuant to the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement, the Registered Shareholders and the Consolidated Affiliated Entities have undertaken to perform certain acts or refrain from performing certain other acts unless they have obtained prior written approval from WFOE, including but not limited to the following matters:

(i) Huafang Technology shall not in any manner supplement, change or alter its business scope, constitutional documents, increase or decrease its registered capital or change the structure of its registered capital in other manner without the prior written consent of WFOE;

(ii) Huafang Technology shall prudently and effectively operate its business and transactions in accordance with the good financial and business standards and practices as a going concern;

(iii) the Consolidated Affiliated Entities shall not sell, transfer, gift, create encumbrances or otherwise dispose of any of its or its subsidiaries' assets, business, legal or beneficial interest of its income or allow any security interest to be created thereon without the prior written consent of WFOE;

(iv) Huafang Technology shall not terminate or procure its management team to terminate any of the Contractual Arrangements, or enter into any contracts or agreements that conflict with the Contractual Arrangements;

(v) Huafang Technology and its subsidiaries shall not incur any indebtedness other than those in the ordinary course of business, or having been disclosed to and consented by WFOE in writing;

(vi) except as demanded by PRC laws, Huafang Technology shall not dissolve or liquidate without the prior written consent of WFOE;

(vii) Huafang Technology and its subsidiaries shall maintain their normal operation within their principal business scope and shall not alter its principal business or allow any acts or transactions which adversely affects Huafang Technology's business or assets value;

(viii) Huafang Technology and its subsidiaries shall not enter into any material contracts with a value above RMB0.5 million without the prior written consent of WFOE, except the contracts executed in the ordinary course of business;

(ix) Huafang Technology and its subsidiaries shall not provide loan or guarantee to any person without the prior written consent of WFOE;

(x) Huafang Technology and its subsidiaries shall provide its labor, operational and financial information to WFOE or its nominee(s) upon WFOE's request;

(xi) Huafang Technology shall not spin-off, merge, enter into joint operation agreements with other entities, acquire or be acquired by other entities; or invest in any entities without the prior written consent of WFOE;

(xii) Huafang Technology shall immediately inform WFOE if its and its subsidiaries' assets, business or income may be subject to any litigations, arbitrations or administrative proceedings and shall take all necessary actions as reasonably requested by WFOE;

(xiii) Huafang Technology shall sign all necessary and appropriate documents, take all necessary and proper acts, bring up all necessary and proper requests, or take necessary and proper defenses against claims to maintain Huafang Technology and its subsidiaries' ownership of all their assets;

(xiv) if the Registered Shareholders or Huafang Technology fail(s) to perform the tax obligations under applicable laws and results in obstacles for WFOE to exercise its exclusive option right, WFOE may request Huafang Technology or the Registered Shareholders to perform the tax obligations or pay the amount equivalent thereto to WFOE;

(xv) Huafang Technology shall not distribute any bonus, dividend, distributable profits and/or assets and other income derived from the equity interests held by the Registered Shareholders to the Registered Shareholders without the prior written consent of WFOE;

(xvi) when necessary, Huafang Technology and its subsidiaries shall only purchase insurances from insurers that WFOE recognizes, and the amounts and categorizes of the insurances shall be the same with the companies having similar business and other income derived from the equity interests held by the Registered Shareholders or assets in the same area; and

(xvii) WFOE has the right to appoint the director(s) of Huafang Technology.

The Exclusive Option Agreement and/or the Exclusive Option Supplemental Agreement take effect upon their respective execution dates and shall remain valid until (1) it is terminated in writing by all parties, or (2) upon the transfer of the entire equity interests held by the Registered Shareholders and/or the transfer of all the assets of Huafang Technology to WFOE and/or its nominee(s). Nonetheless, WFOE shall always have the rights to terminate the Exclusive Option Agreement and/or the Exclusive Option Supplemental Agreement by giving a prior written notice of termination.

Equity Pledge Agreement

WFOE, Huafang Technology and the Registered Shareholders entered into an equity pledge agreement on 18 October 2021 (the "**Equity Pledge Agreement**") which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated 8 September 2022 (the "**Equity Pledge Supplemental Agreement**"), pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in the Consolidated Affiliated Entities to WFOE as a security interest to guarantee (1) the payment of service fee and interest under the Contractual Arrangements; (2) performance of all other obligations under the Contractual Arrangements; and (3) other payment obligations arising from or in connection with the Contractual Arrangements, including but not limited to liquidated damages, compensations and each expense for the realization of the pledge.

Under the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement, the Registered Shareholders represent and warrant to WFOE including but not limited to the following matters:

(i) the pledged equity interests can be pledged and transferred legally. Each of the Registered Shareholders is the only legal owner of their respective equity interests and have the authority to pledge all or any part of the equity interests. There is no existing dispute in relation to the ownership of the pledged equity interests;

(ii) except as agreed in the Contractual Arrangements, there is no other pledge, mortgages or encumbrances in any other forms on the pledged equity interests and WFOE shall enjoy the first priority of security interest in respect of the pledged equity interests;

(iii) each of the Registered Shareholders shall not transfer all or any part of his/her/its equity interests in Huafang Technology and shall not create or allow any guarantee or other liabilities thereon that may affect the rights and interest of WFOE without its prior written consent;

(iv) each of the Registered Shareholders shall not create or allow others to create any new encumbrances on the pledged equity interests without the prior written consent of WFOE. Any encumbrances created on all or any part of the pledged equity interests without the prior written consent of WFOE shall be invalid;

(v) each of the Registered Shareholders shall not perform any acts which may adversely reduce the value of the pledged equity interests or adversely affect the validity of the pledge under the Equity Pledge Agreement and/or the Equity Pledge Supplemental Agreement. The Registered Shareholders shall inform WFOE immediately if such event happens and shall use his/her/its other assets to provide guarantee as reasonably requested and satisfied by WFOE and to take all necessary actions to solve or minimize the adverse effect;

(vi) the Registered Shareholders shall comply with and perform the provisions under all laws and regulations in relation to pledge of the equity interests. Upon receiving the notices, orders or suggestions from the relevant authorities in relation to pledge, the Registered Shareholders shall present such notices, orders or suggestions within five working days to WFOE and comply with such notices, orders or suggestions or to raise opposition as reasonably requested or consented by WFOE; and

(vii) each of the Registered Shareholders has agreed to, and has procured its immediate shareholder(s) (or partner(s)), ultimate shareholder(s) (or de facto controller(s)), directors, successors, agents and property trustees to make all appropriate arrangements and sign all necessary documents to ensure that in case of (i) merge, spin-off, dissolution, liquidation, de-registration, revocation of business license or transfer of equity interests; (ii) change of controlling shareholders or general partner(s) or de facto controllers; (iii) death, incapacity, divorce and/or other circumstances that may affect the Registered Shareholders to exercise his/her/its rights; and/or (iv) the occurrence of any circumstances that may affect the Registered Shareholders to exercise his/her/its rights, the successors, liquidators, creditors, transferees, agents or property trustees of the Registered Shareholders shall continue to perform the obligations of the agreement.

The Equity Pledge Agreement and the Equity Pledge Supplemental Agreement take effect upon their respective execution dates and shall remain valid until (i) all the agreements underlying the Contractual Arrangements (other than the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement) have been terminated; (ii) all the obligations under the Contractual Arrangements have been fulfilled or all the secured debts have been repaid; or (iii) each of the Registered Shareholders has transferred his/her/its equity interests in Huafang Technology or Huafang Technology has transferred all of its assets in accordance with the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement. Nonetheless, WFOE shall always have the rights to terminate the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement by giving a prior written notice of termination.

Shareholders' Rights Proxy Agreement

Huafang Technology, the Registered Shareholders and WFOE entered into a shareholders' rights proxy agreement on 18 October 2021 (the "**Shareholders' Rights Proxy Agreement**" which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated 8 September 2022 (the "**Shareholders' Rights Proxy Supplemental Agreement**")), pursuant to which, each Registered Shareholders irrevocably appoints WFOE and/or its nominee(s) to exercise such shareholder's rights in the Consolidated Affiliated Entities, including without limitation to, the rights to:

(i) propose to convene, participate in and attend the general meetings of the Consolidated Affiliated Entities on behalf of the Registered Shareholders, receive any notices on the convening and proceedings of the general meetings and sign the minutes and resolutions of the meetings, exercise voting rights on all matters that require discussion and resolution of the general meetings (including but not limited to the designation, appointment or replacement of directors, legal representatives, supervisors and senior management of the Consolidated Affiliated Entities), and sign any documents that require signature from the Registered Shareholders and submit any documents for filing purposes to the company registration authority on behalf of the Registered Shareholders;

(ii) authorize or resolve on the disposal of assets of the Consolidated Affiliated Entities on behalf of the Registered Shareholders;

(iii) resolve on the dissolution and liquidation of the Consolidated Affiliated Entities on behalf of the Registered Shareholders, and form a liquidation group on behalf of the Registered Shareholders and exercise the authority of the liquidation group during the liquidation period according to law;

(iv) decide to transfer or otherwise dispose of the equity interests of the Consolidated Affiliated Entities held by the Registered Shareholders and, for the purposes of the foregoing, sign all required documents and perform all required procedures on behalf of the Registered Shareholders; and

(v) exercise other shareholder's rights as specified in other applicable PRC laws and regulations and the articles of association of the Consolidated Affiliated Entities (and its amendments from time to time).

Pursuant to the Shareholders' Rights Proxy Agreement and the Shareholders' Rights Proxy Supplemental Agreement, Huafang Technology, as the direct and indirect controlling shareholder of all operating subsidiaries, irrevocably appoints WFOE and/or its nominee(s) to exercise the voting right and all other shareholder's rights as specified by PRC laws and regulations and the articles of association in all operating subsidiaries.

The Shareholders' Rights Proxy Agreement and the Shareholders' Rights Proxy Supplemental Agreement have an indefinite term and will be terminated in the event that all the equity interests held by the Registered Shareholders or all assets of Huafang Technology have been legally and effectively transferred to WFOE and/or its nominee(s). Nonetheless, WFOE shall always have the rights to terminate the Shareholders' Rights Proxy Agreement and the Shareholders' Rights Proxy Supplemental Agreement by giving a prior written notice of termination.

Spousal undertakings

The spouse of each of the Registered Shareholders, where appropriate, has signed an undertaking to the effect that (1) he/she has unconditionally and irrevocably waived the rights to the respective Registered Shareholders' rights or interests in the equity interests in Huafang Technology and will not have any claim on such interests; (2) the respective Registered Shareholders has exclusive right to enjoy and perform the rights and obligations under the Contractual Arrangements and does not require the consent of the spouse; and (3) should the spouse acquire the respective Registered Shareholders' equity interests in Huafang Technology, he/she shall be bound by the Contractual Arrangements, and at the request of WFOE, he/she shall sign documents in the form and substance consistent with the Contractual Arrangements.

Reasons For Adoption of The Contractual Arrangements

The Company believes that to maintain the business operations and the effectiveness of license and permits held by the Consolidated Affiliated Entities, the Consolidated Affiliated Entities must be controlled by the Company through the Contractual Arrangements. Furthermore, since the businesses operated by Consolidated Affiliated Entities fall within both "foreign-prohibited" and "foreign-restricted" business categories under the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the "**2021 Negative List**"), we are unable to set up any alternative structure that allows us to partly hold equity interests in and partly control the economic benefits of this entity via the Contractual Arrangements. Therefore, we are of the view that the Contractual Arrangements are narrowly tailored, as they are used to merely enable the Group to conduct businesses in industries that are subject to foreign investment prohibitions in China.

Pursuant to the Contractual Arrangements, in the event that PRC laws and regulations allow Chengdu Huafang Online Technology Co., Ltd., the WFOE, or its shareholders to directly hold all or part of the equity interest in the Consolidated Affiliated Entities, and conduct the Company's businesses that are subject to foreign investment restriction or prohibition in accordance with the 2021 Negative List and other applicable PRC laws and regulations directly, the WFOE or its designated purchasers will exercise the call option as soon as possible under the exclusive option agreement entered into among the WFOE, Huafang Technology and the Registered Shareholders on 18 October 2021 and further amended on 8 September 2022. The percentage of equity interest of Huafang Technology to be purchased upon such exercise of the call option should not be lower than the maximum percentage then allowed to be held by the WFOE or its respective shareholders under PRC laws and regulations.

WAIVERS FROM THE STOCK EXCHANGE

In respect of the non-fully exempt continuing connected transactions set out above, we have applied for, and the Stock Exchange has granted us, waivers from strict compliance with the announcement requirements under the Listing Rules.

In respect of the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing agreements to be entered into between our Consolidated Affiliated Entities and any member of the Group, we have applied for, and the Stock Exchange has granted us, waivers from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the terms for the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange subject however to the following conditions:

(i) no change without independent non-executive Directors' approval;

(ii) no change without independent Shareholders' approval;

(iii) the Contractual Arrangements shall continue to enable the Group to receive the economic benefits derived by the Consolidated Affiliated Entities;

(iv) the Contractual Arrangements may be renewed and/or reproduced without an announcement, circular, or obtaining the approval of the Shareholders (i) upon the expiry of the existing arrangements, (ii) in connection with any changes to the shareholders or directors of, or of their shareholdings in, the Consolidated Affiliated Entities, or (iii) in relation to any existing, new or acquired wholly foreign-owned enterprise or operating company (including branch company) engaging in a business similar or relating to those of the Group, on substantially the same terms and conditions as the existing Contractual Arrangements; and

(v) the Group will disclose details relating to the Contractual Arrangements on an ongoing basis.

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

(i) major issues arising from the implementation of and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion as and when they arise;

(ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(iii) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and

(iv) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company's independent non-executive Directors have reviewed the Master Technical Service Framework Agreement and Contractual Arrangements and confirmed that:

(i) the transactions carried out during the Reporting Period have been entered into in accordance with the relevant provisions of the Master Technical Service Framework Agreement and Contractual Arrangements;

(ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the Reporting Period;

(iii) no new contracts were entered into, renewed or reproduced between the Group and the Consolidated Affiliated Entities during the period from the Listing Date to 31 March 2023;

(iv) the Master Technical Service Framework Agreement and Contractual Arrangements have been entered into in the ordinary and usual course of business of the Group;

(v) the Master Technical Service Framework Agreement and Contractual Arrangements have been entered into on normal commercial terms or better; and

(vi) the Master Technical Service Framework Agreement and Contractual Arrangements have been entered into in accordance with the relevant agreement governing the Contractual Arrangements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONCLUSIONS FROM THE COMPANY'S INDEPENDENT AUDITOR

The auditor of the Company was engaged to report on the Group's continuing connected transactions (including the transactions carried out pursuant to the Contractual Arrangements) in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, and provided a letter to the Board confirming that:

(i) nothing has come to the auditor's attention that causes it to believe that the disclosed continuing connected transactions have not been approved by the Board.

(ii) for transactions contemplated under the Master Technical Service Framework Agreement, nothing has come to the auditor's attention that causes it to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

(iii) nothing has come to the auditor's attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(iv) nothing has come to the auditor's attention that causes it to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

(v) with respect to the Contractual Arrangements entered by the Group, nothing has come to the auditor's attention that causes it to believe that dividends or other distributions have been made by the Consolidated Affiliated Entities to their registered equity holders which are not otherwise subsequently assigned or transferred to the Group.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2023 are set out in Note 29 to the consolidated financial statements contained herein.

Save as disclosed in the section headed "Continuing Connected Transactions" of this annual report, none of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

AUDIT COMMITTEE

The Audit Committee had, together with the management of the Company, reviewed the consolidated financial statements of the Group for the year ended 31 December 2023 and the accounting principles and policies adopted by the Group.

CHANGE OF AUDITOR

The Group's former auditor, KPMG, has resigned as the auditor of the Company and the Group with effect from 3 August 2023. Please refer to the Company's announcement dated 3 August 2023 in relation to the resignation of KPMG.

On 17 August 2023, the Company has appointed Mazars CPA Limited as the new auditor of the Company.

The consolidated financial statements of the Group for the year ended 31 December 2023 were audited by Mazars CPA Limited.

A resolution for the re-appointment of Mazars CPA Limited as auditor of the Company will be proposed at the forthcoming AGM.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended 31 December 2023, the Company is in compliance with the relevant laws and regulations that have a significant impact on the Company.

On behalf of the Board
ZHOU Hongyi
Chairman
Hong Kong, 26 March 2024

Independent Auditor's Report

mazars

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To the members of
HUAFANG GROUP INC.
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Huafang Group Inc. (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 97 to 189, which comprise the consolidated statement of financial position at 31 December 2023, 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 statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board (the "**IASB**") 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 Hong Kong Institute of Certified Public Accountants (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**"), and we have fulfilled our other ethical responsibilities in accordance with 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.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on property and equipment (including right-of-use assets), intangible assets and goodwill (together the "Non-current Assets") Refer to Notes 2, 11, 12 and 13 to the consolidated financial statements. At 31 December 2023, the carrying amounts of property and equipment (including right-of use assets) amounted to approximately RMB37,824,000, intangible assets of approximately RMB91,386,000 and goodwill of approximately RMB17,394,000, respectively, which represented about 70% of the total non-current assets of the Group. The management of the Group engaged an independent professional valuer to assess the recoverable amounts of the respective cash generating units ("**CGUs**") to which the Non-current Assets relate. The impairment assessment involves the management's estimates in certain areas including the discount rate and the underlying cash flow projection. Any changes in the management of the Group's estimates may result in significant financial impact to the Group. As set out in Note 13 to the consolidated financial statements, the management of the Group concluded that (i) the recoverable amount of the CGU of 6.cn at 30 June 2023 was lower than its carrying amount and impairment loss on goodwill of approximately RMB681,763,000 arising from 6.cn had been recognised for the current year and (ii) the recoverable amount for the CGU of HOLLA Group was higher than its carrying amount and no impairment loss was recognised for the current year. We have identified the impairment assessment of the Non-current Assets as a key audit matter due to the significance of their impacts to the consolidated financial statements combined with the judgements and estimates involved in the management of the Group's impairment assessment of the Non-current Assets.	Our key audit procedures, among others, included: – inquiring the management of the Group to understand and evaluate the internal control on their determination of impairment indications and their method used for the impairment assessment of the Non-current Assets; – evaluating the competence, capabilities and objectivity of the independent professional valuer; – assessing the reasonableness of the management of the Group's impairment assessment of the Non-current Assets in accordance with the requirements of the prevailing accounting standards; – understanding the independent professional valuer's methodology adopted in the valuation and assessing the suitability of the source data as the basis for the valuation by comparing key financial information in the source data with the financial statements and operational forecast prepared by the management of the Group; – evaluating the sensitivity of impairment assessment to changes in key assumptions; and – considering the adequacy of the Group's disclosure in respect of the impairment assessment.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of investments in equity instruments at fair value through other comprehensive income ("FVOCI") Refer to Notes 2, 14 and 26(d) to the consolidated financial statements. At 31 December 2023, the carrying amount of financial assets on equity instruments measured at FVOCI was approximately RMB45,671,000. The management of the Group engaged an independent professional valuer to estimate the fair values of the equity instruments measured at FVOCI. In determining the fair value of the unquoted investments in equity instruments measured at FVOCI, the management of the Group had adopted the income approach or cost approach, as appropriate. The valuation involves the management of the Group's estimates on cash flow forecast for the relevant business and requires the adoption of certain assumptions such as budgeted sales, gross margin, other related expenses, discount rate and terminal growth rate and fair value of relevant assets and liabilities. Where observable market data is not available, or where instruments are not liquid, estimates must be developed based on the most appropriate source data. During the year ended 31 December 2023, the Group recognised loss on fair value changes through other comprehensive income of approximately RMB82,040,000. We identified the valuation of investments in equity instruments at FVOCI as a key audit matter due to the significance of their impacts to the consolidated financial statements combined with the judgements and estimates involved in the valuation of the equity instruments at FVOCI.	Our key audit procedures, among others, included: – evaluating the competence, capabilities and objectivity of the independent professional valuer; – discussing with the management of the Group and the independent professional valuer how the Group estimated the fair values of investments in equity instruments at FVOCI including the valuation model adopted and key assumptions used; – evaluating the reasonableness of the valuation methodology and key assumptions used; – performing a sensitivity analysis for the key assumptions and evaluating the reasonableness of key inputs and assumptions used by the management of the Group (if applicable); and – considering the adequacy of the Group's disclosure in respect of the valuation and the related accounting treatment.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the 2023 annual report of the Company but does not include 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible 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, in accordance with our agreed terms of engagement 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 skepticism 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 of the Company.

- 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's audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, 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.

Mazars CPA Limited
Certified Public Accountants
Hong Kong
26 March 2024

The engagement director on the audit resulting in this independent auditor's report is:
She Shing Pang
Practising Certificate number: P05510

Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Revenue	4	**2,570,085**	5,097,508
Cost of sales		**(1,932,369)**	(3,799,508)
Gross profit		**637,716**	1,298,000
Other income, net	5	**48,913**	78,060
Selling and marketing expenses		**(304,670)**	(537,216)
General and administrative expenses		**(288,580)**	(152,525)
Research and development expenses		**(200,835)**	(235,329)
Impairment loss on goodwill and intangible assets	6	**(681,763)**	(790)
(Loss)/Profit from operations		**(789,219)**	450,200
Provision for loss on the Incident	22	**–**	(154,895)
Finance costs	6	**(1,665)**	(2,303)
(Loss)/Profit before taxation	6	**(790,884)**	293,002
Income tax expenses	7	**(6,229)**	(61,255)
(Loss)/Profit for the year		**(797,113)**	231,747
(Loss)/Profit for the year attributable to:			
Owners of the Company		**(796,880)**	231,788
Non-controlling interests		**(233)**	(41)
(Loss)/Profit for the year		**(797,113)**	231,747
(Loss)/Earnings per share	10		
– Basic (RMB)		**(0.80)**	0.24
– Diluted (RMB)		**(0.80)**	0.24

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

	2023 *RMB'000*	2022 *RMB'000*
(Loss)/Profit for the year	**(797,113)**	231,747
Other comprehensive income/(loss)		
Items that will not be reclassified to profit or loss:		
– Exchange differences on translation of the Company's financial statements to presentation currency	**1,840**	(270)
– Changes in the fair value of financial assets at fair value through other comprehensive income ("**FVOCI**")	**(82,040)**	(16,558)
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency	**(972)**	(1,972)
Total other comprehensive loss for the year, net of tax	**(81,172)**	(18,800)
Total comprehensive (loss)/income	**(878,285)**	212,947
Total comprehensive (loss)/income for the year attributable to:		
Owners of the Company	**(877,265)**	212,988
Non-controlling interests	**(1,020)**	(41)
	(878,285)	212,947

Consolidated Statement of Financial Position

At 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Non-current assets			
Property and equipment	11	**37,824**	72,442
Intangible assets	12	**91,386**	111,383
Goodwill	13	**17,394**	699,157
Other financial assets	14	**45,671**	133,777
Deferred tax assets	24(b)	**17,974**	19,773
		210,249	1,036,532
Current assets			
Trade receivables	15	**3,071**	786
Prepayments, deposits and other receivables	16	**325,617**	291,104
Other financial assets	14	**100,838**	422,238
Tax recoverable	24(a)	**1,709**	–
Cash at banks and on hand	17	**1,824,564**	1,633,031
		2,255,799	2,347,159
Current liabilities			
Trade payables	18	**64,010**	164,630
Contract liabilities	19	**82,356**	91,687
Accrued expenses and other payables	20	**69,830**	90,432
Lease liabilities	21	**8,001**	11,917
Provision for loss on the Incident	22	**154,895**	154,895
Current taxation	24(a)	**–**	513
		379,092	514,074
Net current assets		**1,876,707**	1,833,085
Total assets less current liabilities		**2,086,956**	2,869,617

Consolidated Statement of Financial Position

At 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Non-current liabilities			
Deferred tax liabilities	*24(b)*	**13,919**	16,840
Lease liabilities	*21*	**13,400**	34,427
		27,319	51,267
Net assets		**2,059,637**	2,818,350
Capital and reserves			
Share capital	*25(b)*	**694**	694
Reserves		**2,042,899**	2,817,697
Equity attributable to owners of the Company		**2,043,593**	2,818,391
Non-controlling interests	*27*	**16,044**	(41)
Total equity		**2,059,637**	2,818,350

The consolidated financial statements on pages 97 to 189 were approved and authorised for issue by the board of directors on 26 March 2024 and signed on its behalf by

Zhou Hongyi
Director

Yu Dan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Attributable to owners of the Company									
	Share capital RMB'000 (Note 25(b))	Share premium RMB'000 (Note 25(c)(i))	Fair value reserve (non-recycling) RMB'000 (Note 25(c)(ii))	Other reserve RMB'000 (Note 25(c)(iii))	Share-based payment reserve RMB'000 (Note 25(c)(iv))	Translation reserve RMB'000 (Note 25(c)(v))	Accumulated losses RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Year ended 31 December 2022										
At 1 January 2022	33	–	–	4,218,467	51,941	(46)	(1,822,340)	2,448,055	–	2,448,055
Profit for the year	–	–	–	–	–	–	231,788	231,788	(41)	231,747
Other comprehensive loss										
Items that will not be reclassified to profit or loss:										
Exchange differences on translation of the Company's financial statements to presentation currency	–	–	–	–	–	(270)	–	(270)	–	(270)
Changes in the fair value of financial assets at FVOCI	–	–	(16,558)	–	–	–	–	(16,558)	–	(16,558)
Item that may be reclassified subsequently to profit or loss:										
Exchange differences on translation into presentation currency	–	–	–	–	–	(1,972)	–	(1,972)	–	(1,972)
Total comprehensive income/(loss) for the year	–	–	(16,558)	–	–	(2,242)	231,788	212,988	(41)	212,947
Transactions with owners										
Contributions and distributions										
Issue of shares pursuant to the Capitalisation Issue *(as defined in Note 25(b)(i))*	629	(629)	–	–	–	–	–	–	–	–
Issue of shares pursuant to the Global Offering *(as defined in Note 25(b)(ii))*	32	110,889	–	–	–	–	–	110,921	–	110,921
Equity-settled share-based transaction *(Note 23)*	–	–	–	1,249	45,178	–	–	46,427	–	46,427
Vesting of restricted share units	–	–	–	49,483	(49,483)	–	–	–	–	–
Total transactions with owners	661	110,260	–	50,732	(4,305)	–	–	157,348	–	157,348
At 31 December 2022	694	110,260	(16,558)	4,269,199	47,636	(2,288)	(1,590,552)	2,818,391	(41)	2,818,350

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Attributable to owners of the Company								Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (Note 25(b))	Share premium RMB'000 (Note 25(c)(i))	Fair value reserve (non-recycling) RMB'000 (Note 25(c)(ii))	Other reserve RMB'000 (Note 25(c)(iii))	Share-based payment reserve RMB'000 (Note 25(c)(iv))	Translation reserve RMB'000 (Note 25(c)(v))	Accumulated losses RMB'000	Sub-total RMB'000		
Year ended 31 December 2023										
At 1 January 2023	694	110,260	(16,558)	4,269,199	47,636	(2,288)	(1,590,552)	2,818,391	(41)	2,818,350
Loss for the year	-	-	-	-	-	-	(796,880)	(796,880)	(233)	(797,113)
Other comprehensive loss										
Items that will not be reclassified to profit or loss:										
Exchange differences on translation of the Company's financial statements to presentation currency	-	-	-	-	-	1,840	-	1,840	-	1,840
Changes in the fair value of financial assets at FVOCI	-	-	(81,253)	-	-	-	-	(81,253)	(787)	(82,040)
Item that may be reclassified subsequently to profit or loss:										
Exchange differences on translation into presentation currency	-	-	-	-	-	(972)	-	(972)	-	(972)
Total comprehensive (loss)/income for the year	-	-	(81,253)	-	-	868	(796,880)	(877,265)	(1,020)	(878,285)
Transactions with owners										
Contributions and distributions										
Disposal of partial interest in subsidiaries without loss of control *(Note 28)*	-	-	-	(16,886)	-	-	-	(16,886)	17,105	219
Equity-settled share-based transaction *(Note 23)*	-	-	-	471	118,882	-	-	119,353	-	119,353
Vesting of restricted share units	-	-	-	13,321	(13,321)	-	-	-	-	-
Total transactions with owners	-	-	-	(3,094)	105,561	-	-	102,467	17,105	119,572
At 31 December 2023	694	110,260	(97,811)	4,266,105	153,197	(1,420)	(2,387,432)	2,042,593	16,044	2,059,637

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Operating activities			
(Loss)/Profit before taxation		**(790,884)**	293,002
Adjustments for:			
Finance costs	6(a)	**1,665**	2,303
Income from financial products issued by banks	5	**(741)**	(13,249)
Interest income	5	**(39,649)**	(22,763)
Depreciation	6(c)	**17,473**	21,353
Amortisation of intangible assets	6(c)	**21,264**	21,676
Share-based payment expenses	6(b)	**118,882**	45,178
Changes in fair value of financial products issued by banks	5	**770**	(763)
Loss on early termination of leases		**577**	–
Loss on disposal of long-term assets	5	**3,642**	574
Provision for loss on the Incident	22	**–**	154,895
Provision for/(Reversal of) loss allowance	6(c)	**20,062**	(180)
Impairment loss on goodwill and intangible assets	6(c)	**681,763**	790
Changes in working capital:			
Trade receivables		**(2,271)**	(160)
Prepayments, deposits and other receivables		**11,025**	(117,447)
Contract liabilities		**(9,331)**	5,906
Trade payables		**(101,542)**	22,781
Accrued expenses and other payables		**(20,131)**	25,493
Cash (used in)/generated from operations		**(87,426)**	439,389
Income tax paid		**(9,507)**	(28,574)
Net cash (used in)/generated from operating activities		**(96,933)**	410,815

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Investing activities			
Interest received		**39,649**	22,763
Income from financial products issued by banks		**741**	13,249
Purchase of financial products issued by banks		**(111,338)**	(6,452,739)
Proceeds from disposal of financial products issued by banks		**431,968**	6,076,610
Purchase of other financial assets		**(4,000)**	(98,652)
Proceed from disposal of other financial assets		**10,000**	–
Payments for deposit for acquisition of equity interests in a company		**(15,000)**	–
Loans to Battuta and its subsidiary		**(50,309)**	(24,632)
Loans to third parties		**(29,548)**	(10,693)
Repayment from Battuta and its subsidiary		**26,850**	–
Repayment from a third party		**2,393**	300
Payments for purchase of property and equipment		**(1,823)**	(12,077)
Proceeds on disposal of property and equipment		**1,189**	1,647
Payments for purchase of intangible assets		**(1,498)**	(472)
Proceeds from disposal of intangible assets		**186**	89
Proceed from disposal of subsidiaries without loss of control	*28*	**219**	–
Net cash generated from/(used in) investing activities		**299,679**	(484,607)
Financing activities			
Proceeds from issue of shares pursuant to the Global Offering	*25(b)(ii)*	**–**	110,921
Capital element of lease rentals paid	*17(b)*	**(10,043)**	(12,797)
Interest element of lease rentals paid	*17(b)*	**(1,665)**	(2,303)
Listing expenses paid	*17(b)*	**(341)**	(1,301)
Net cash (used in)/generated from financing activities		**(12,049)**	94,520
Net increase in cash and cash equivalents		**190,697**	20,728
Cash and cash equivalents at beginning of the reporting period		**1,633,031**	1,614,783
Effect on foreign exchange rate changes		**836**	(2,480)
Cash and cash equivalents at end of the reporting period, represented by cash at banks and on hand		**1,824,564**	1,633,031

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

1. GENERAL INFORMATION

Huafang Group Inc. (the "**Company**") was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on 1 June 2021 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the "**Group**") are principally engaged in operating online social entertainment live streaming platforms and social networking services (the "**Listing Business**") both in the People's Republic of China (the "**PRC**") and overseas. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 3611.HK) on 12 December 2022 (the "**Listing**").

The registered office of the Company is situated on the Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The Company's principal place of business is situated at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong and the Group's headquarters is situated at Building 5, Yard 6, Jiuxianqiao Road, Chaoyang District, Beijing, the PRC.

Pursuant to a group reorganisation (the "**Reorganisation**") carried out by the Group in preparation for the Listing, the Company became the holding company of the subsidiaries now comprising the Group on 8 September 2022. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" of the section headed "History, Reorganisation and Corporate Structure" to the prospectus issued by the Company dated 30 November 2022 (the "**Prospectus**").

The Reorganisation only involved inserting certain investment holding companies with no substantive operations as the new holding companies of the Listing Business. There were no changes in the economic substance of the ownership and the business of the Group before and after the Reorganisation. Accordingly, the consolidated financial statements for the year ended 31 December 2022 have been prepared and presented as a continuation of the financial information of the Listing 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 consolidated financial statements.

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 statement of cash flows of the Group for the years ended 31 December 2023 and 2022 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 remained unchanged throughout the relevant years, or since their respective dates of incorporation or establishment, where this is a shorter period. The consolidated statement of financial position of the Group at 31 December 2022 has been prepared to present the financial position of the companies now comprising the Group as if the current group structure had been in existence at that date.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board (the "**IASB**"), which collective term includes all applicable individual IFRS Accounting Standards, IAS Standards and IFRIC Interpretations by the IASB. The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosures provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The functional currency of the Company is United States dollars ("**USD**"). The consolidated financial statements are presented in Renminbi ("**RMB**") as the functional currency of the Group's major operating subsidiaries is RMB. All amounts have been rounded to the nearest thousand ("**RMB'000**"), unless otherwise stated.

A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of measurement

The measurement basis used in the preparation of the consolidated financial statements is historical cost basis except for the following assets are stated at their fair value as explained in the accounting policies set out below:

– other financial assets at fair value through profit or loss ("**FVPL**")

– other financial assets at FVOCI

The consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2022 consolidated financial statements except for the adoption of the new/revised IFRS Accounting Standards that are effective from the current financial reporting period.

Adoption of new/revised IFRS Accounting Standards

The Group has applied, for the first time, the following new/revised IFRS Accounting Standards:

Amendments to IAS 1	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules
IFRS 17	Insurance Contracts
Amendment to IFRS 17	Initial Application of IFRS 17 and IFRS 9 – Comparative Information

Amendments to IAS 1: Disclosure of Accounting Policies

The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies. The management of the Group has reviewed the disclosure of accounting policy information and considered it is consistent with the amendments.

Amendments to IAS 8: Definition of Accounting Estimates

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of measurement (Continued)

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on recognition, give rise to equal taxable and deductible temporary differences.

Amendments to IAS 12: International Tax Reform – Pillar Two Model Rules

The amendments provide entities with temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's Pillar Two model rules. The Amendments also introduce targeted disclosure requirements to help investors understand an entity's exposure to income taxes arising from the rules.

IFRS 17: Insurance Contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

The core of IFRS 17 is the general measurement model where estimates are re-measured in each reporting period. Under the model, contracts are measured based on discounted probability-weighted cash flows, an explicit risk adjustment for non-financial risk, and a contractual service margin representing the unearned profit of the contract which is recognised as revenue over the coverage period.

An optional, simplified premium allocation approach is permitted for certain types of contracts, such as short duration contracts.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts such as those with direct participation features. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin.

Amendment to IFRS 17: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

The adoption of IFRS 17 and the above amendments does not have any significant impact on the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of preparation

(i) Incident relating to an investee company

As set out in announcements of the Company dated 20 March 2023, 30 March 2023, 3 April 2023, 25 April 2023, 23 June 2023, 30 June 2023, 25 July 2023, 3 August 2023, 17 August 2023, 24 August 2023, 31 August 2023, 29 September 2023, 4 January 2024 and 23 February 2024, certain authorities in the PRC had initiated an investigation on an investee company ("**Investee Company**") which is classified as other financial assets at FVOCI in which the Group holds 25% equity interest (the "**Criminal Case**"). The Investee Company's four employees (the "**Investee Company's Four Employees**") and the legal representative of the Company's certain subsidiaries (the "**Legal Representative of Certain Subsidiary**") were subject to certain criminal compulsory measures taken by the relevant government authorities on suspicion of certain crime. In connection with the Criminal Case, the Group's certain business/bank accounts maintained with a third-party payment platform in the PRC with an aggregate amount of approximately RMB105,600,000 at 31 December 2022, were frozen by the relevant government authorities in the PRC (the "**Frozen Accounts**"). Prior to the release of the Frozen Accounts, the aggregate cash amount of the Frozen Accounts was approximately RMB136,197,000.

The Group had tendered detained funds pending final judgement of approximately RMB154,895,000 (the "**Detained Funds**") to the relevant government authority on 3 July 2023 and all Frozen Accounts had been released and available for daily business operations as of 25 July 2023. Subsequent to 31 December 2022 and up to the date of approving the consolidated financial statements, the criminal investigation phase of the Criminal Case was completed, and the Criminal Case has entered into the examination and prosecution stage.

During the criminal investigation phase of the Criminal Case, the relevant government authority did not list any member of the Group as a criminal suspect. As of 26 March 2024, the Group has not received any notice from the relevant government authority adding it as a criminal suspect.

On 31 August 2023, the Company appointed an external and independent accounting firm (the "**Independent Investigator**") to conduct an internal investigation and to assess its impacts on the Frozen Accounts and the Criminal Case (the "**Incident**") (the "**Independent Investigation**").

On 19 February 2024, the Independent Investigator issued the report of the Independent Investigation (the "**Independent Investigation Report**") and certain key findings about the Incident were brought to the attention to the directors of the Company:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of preparation (Continued)

(i) Incident relating to the investee company (Continued)

(a) the product and service of the Investee Company is a social networking app with the functions of live streaming and audio chatting room. On 18 March 2023 and 19 March 2023, the Investee Company's Four Employees and the Legal Representative of Certain Subsidiary were subject to certain criminal compulsory measure taken by the relevant government authority on suspicion of certain crime. During the criminal investigation phase of the Criminal Case, the relevant government authority did not list any member of the Group as a criminal suspect;

(b) the freezing of the Frozen Accounts did not significantly affect the Group's daily operations, as the major products of the Group continued to operate normally, and new third-party payment platform accounts could be established if needed. As of 25 July 2023, all Frozen Accounts had been released and available for daily business operations. According to the relevant rules on the confidentiality of the criminal investigation, public security authorities normally do not disclose the reasons of freezing and the investigation status to banking financial institutions or specific non-financial institutions;

(c) as stated in the legal opinion issued by the PRC counsel of the Company (the "**Legal Opinion**"), Application of Seizing and Freezing Measures in the Handling of Criminal Cases (公安機關辦理刑事案件適用查封、凍結措施有關規定) defines the scope of frozen assets in criminal case as "various assets that can be used to prove the guilt or innocence of a criminal suspect" (可用以證明犯罪嫌疑人有罪或者無罪的各種財產), and the owner of the frozen accounts may not necessarily be the criminal suspect (or entity). Especially in economic crime cases where flow of funds is complicated, any account having fund flows with the account of the criminal suspect may also be frozen by relevant government authority for investigation purpose; and

(d) as stated in the Legal Opinion on the Incidents, which stated that (i) the Group is currently not involved in certain crime; and (ii) the Criminal Case would not have material adverse impact on the Group's financial position and business operation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of preparation (Continued)

(i) Incident relating to the investee company (Continued)

Having considered the internal and external information available to the management of the Group, the Independent Investigation Report obtained from Independent Investigator and the Legal Opinion, the directors of the Company considered that, the Group reserves its right to seek reimbursement and/or compensation from the Investee Company and/or relevant individuals for any loss arising from the Frozen Accounts and subsequently, the Detained Funds. Upon occurrence of the Incident, the Investee Company had suspended its operations with no significant assets retained and the Group had recognised a decrease of fair value on the investment in the Investee Company of approximately RMB19,000,000 in other comprehensive income for the year ended 31 December 2022. Based on the Legal Opinion, it is likely that the Detained Funds would be confiscated by the relevant government authorities upon conclusion of the Criminal Case and therefore, the Group recognised the estimated risks arising from the Incident of approximately RMB154,895,000, which approximates to amount of the Detained Funds as "Provision for loss on the Incident" in the consolidated financial statements for the year ended 31 December 2022 in accordance with the accounting policies adopted by the Group.

In March 2024, the Group obtained an updated legal opinion issued by the PRC counsel of the Company which re-confirmed the material conclusions as stated in the Legal Opinion.

Based on the latest information available, the management of the Group understood, and the PRC counsel of the Company concurred that the Group was not involved in certain crime relating to the Incident because (i) the duration for the criminal investigation phase is closed to the maximum allowance period; (ii) comprehensive criminal investigation had been completed by the various government authorities; (iii) no criminal investigation was made against the Group with no further detained funds were imposed by the relevant government authority; and (iv) no notice was received from the relevant government authority for including the Group into the investigation target for the Criminal Case.

Based on the above, notwithstanding the Criminal Case was yet to be judged and concluded, the directors of the Company believe the Group's exposure on the Incident would be largely limited to the provision amount as recognised at 31 December 2023 and 2022. In addition, the directors of the Company would seek for further legal advice and take appropriate actions to recover any crystallised loss on the Incident from the Investee Company and/or relevant individuals. Furthermore, other than the above, the directors of the Company were not aware of any other adverse impact on the business operation and financial position of the Group that would arise from the Incident.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of preparation (Continued)

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented, separately from owners of the Company, in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in event of liquidation, are measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are initially measured at fair value, unless another measurement basis is required by IFRS Accounting Standards.

Allocation of total comprehensive income

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to the owners of the Company and the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Changes in ownership interest

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any of its non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries

A subsidiary is an entity that is 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. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented in Note 31 to the consolidated financial statements, an investment in subsidiary is stated at cost less impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually, or more frequently when there is an indication that the cash-generating unit maybe impaired, for impairment as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

On disposal of a cash generating unit during the periods, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) 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 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, as set out in Note 26(d) to the consolidated financial statements. 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 as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

– 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.

– 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Other investments in debt and equity securities (Continued)

(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".

(g) Property and equipment

The following items of property and equipment are stated at cost less accumulated depreciation and impairment losses as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements:

– right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and

– items of property and equipment, including right-of-use assets arising from leases of underlying property and equipment as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

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

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

	Estimated useful lives
– Office equipment and furniture	3–5 years
– Electronic equipment	3–5 years
– Vehicles	3–4 years
– Leasehold improvement	Shorter of lease term or 2–10 years
– Leasehold properties	Over the term of lease

Where parts of an item of property 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 estimated useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leased assets

At inception of a contract, the Group assesses whether a 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 Group has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

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 or less and leases of low-value assets. 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.

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 as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leased assets (Continued)

As a lessee (Continued)

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 lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

The Group has applied the practical expedient provided in Amendments to IFRS 16: Covid-19-Related Rent Concessions beyond 30 June 2021 and does not assess whether eligible rent concessions occurring-as a direct consequence of the Covid-19 pandemic are lease modification. The Group accounts for any change in lease payments resulting from the rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

(i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(ii) any reduction in lease payments affects only payments originally due on or before 30 June 2022; and

(iii) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient consistently to all eligible rent concessions with similar characteristics and in similar circumstances.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements. Other development expenditure is recognised as an expense in the period in which it is incurred.

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 as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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 useful lives of copyrights, trademark and technology and software were estimated by the management of the Group based on the respective periods over which such assets can bring economic benefits to the Group. The estimation of the useful lives has taken into account the patent protection period, the historical life and characteristics of similar assets, the iteration cycle of live streaming and social networking technologies, update frequency and market competition, and the useful lives adopted by comparable companies in the market. 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:

	Estimated useful lives
Copyrights, trademark and technology	5–10 years
Software	3–10 years

Both the period and method of amortisation are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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, trade receivables and other receivables).

Other financial assets measured at fair value 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 of fixed-rate financial assets, trade and other receivables and other financial assets measured at amortised cost are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

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 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, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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 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 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). 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 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).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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 the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements 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 delinquency in payments;
- it is 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 or contract 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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 an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment, including right-of-use assets;
- intangible assets;
- goodwill; and
- Investment 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 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. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) an then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses
  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. 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 periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements and are reclassified to receivables when the right to the consideration has become unconditional as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements. A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

(l) Trade and other receivables

A receivable is recognised when the Group has unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of the consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, that amount is presented as contract assets as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

(m) 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. Cash and cash equivalents are assessed for ECL in accordance with the accounting policy as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

(n) Trade and other payables

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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 period 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.

In accordance with the rules and regulations in the PRC, the employees of the Group's entities established in the PRC are required to participate in defined contribution retirement plans organised by local governments. Contributions to those plans are expensed as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits to its employees.

(ii) Share-based payments – restricted share unit

For equity-settled share-based payment transactions, the fair value of awarded shares granted to employees is recognised as an employee cost with a corresponding increase in share-based payment reserve within equity. The fair value is measured at grant date using the discounted cash flow model and market method, taking into account the terms and conditions upon which the shares were granted.

At each reporting date, the number of equity instruments that are expected to be vested are estimated. The impact on the revision of original estimates is recognised in profit or loss and as a corresponding adjustment to equity over the remaining vesting period, unless the revision to original estimates is due to market conditions. Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognised in relation to such shares are reversed effective at the date of the forfeiture.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Employee benefits (Continued)

(iii) Share-based payments – share option

The Group's employees, including the directors of the Company, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of the equity instruments at the grant date. The fair value of share options granted to employees is recognised as an staff cost with a corresponding increase in a reserve within equity.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the vesting conditions are to be fulfilled, ending on the date on which the entitlement of relevant employees to the award is no longer conditional on the satisfaction of any non-market vesting conditions ("**vesting date**"). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior periods is charged/credited to profit or loss for the year of review, with a corresponding adjustment to the reserve within equity.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to accumulated profits.

(iv) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax

Income tax for the period 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 business combinations, 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 period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

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.

Apart from certain limited exceptions, 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 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 investment 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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.

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 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 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.

(q) Provisions and contingent liabilities

Provisions are recognised 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue and other income

(i) Revenue from contracts with customers within IFRS 15

The Group principally derives its revenues from live streaming, social networking and other services. Revenue is recognised when control of a service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after the deduction of any trade discounts.

Live streaming services

The Group operates mobile and personal computer live streaming platforms, consisting of IT infrastructure, mobile applications and its proprietary algorithm, to offer live and interactive streaming services to individual users as customers. The Group creates and sells to individual users virtual items, so they can simultaneously present to hosts during their live streaming session to show their support. The Group considers the sale of virtual items in connection with live streaming service as a single performance obligation, and the associated revenue is recognised on a gross basis, as the Group has sole discretion in designing, pricing and monetising the virtual items before they are transferred to individual users. Revenue is recognised at a point-in-time when the virtual items are consumed as they are presented to live streaming hosts, at an amount which becomes known at the time the items are consumed.

Individual users purchase virtual items using the Group's virtual token which is in turn acquired through third-party payment companies. Virtual tokens are non-refundable, it is often used to acquired virtual items and consumed soon after it is purchased. As such, the Group does not expect any significant breakage. Unconsumed virtual tokens and virtual items are recorded as contract liabilities.

Social networking services

The Group also operates social networking platforms, which help users meet potential friends from all over the world. The Group creates and sells to individual users virtual items. Revenue from such sale is recognised at a point-in-time when the virtual items are consumed, as the consideration for matching the potential friends or chatting with hosts. Revenue is recognised on a gross basis as the Group is the principal with respect to the fulfillment of the associated promises.

Other services

The Group provides other services, such as advertisement and technical services. Revenues are recognised upon fulfillment of services obligation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue and other income (Continued)

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost 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 as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

(iii) Government grants

Government grants are recognised in the 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 the 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 recognised as deferred income and subsequently recognised in the profit or loss over the useful life of the assets.

(iv) Dividends

Dividends income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividends income from listed investments is recognised when the share price of the investment goes ex-dividend.

(s) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate 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 into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations which have a functional currency other than RMB, the Group's presentation currency, 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) 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. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(u) 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 holding company of the Group.

(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.

(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 holding company 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 holding company of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Related parties (Continued)

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 and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the chief operating decision-maker ("**CODM**") of the Group for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. The CODM has been identified as the executive directors of the Group.

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.

(w) Future changes in IFRS Accounting Standards

At the date of authorisation of the consolidated financial statements, the IASB has issued the following new/revised IFRS Accounting Standards that are not yet effective for the current financial reporting period, which the Group has not early adopted.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current [1]
Amendments to IAS 1	Non-current Liabilities with Covenants [1]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements [1]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback [1]
Amendments to IAS 21	Lack of Exchangeability [2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [3]

[1] Effective for annual periods beginning on or after 1 January 2024
[2] Effective for annual periods beginning on or after 1 January 2025
[3] The effective date to be determined

The directors of the Company do not anticipate that the adoption of the new/revised IFRS Accounting Standards in future periods will have any material impact on the financial performance and financial position of the Group.

3. ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Notes 23 and 26 to the consolidated financial statements contain information about the assumptions and their risk factors relating to fair value of equity-settled share-based transactions and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of non-current assets as described in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements. These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value-in-use. In determining the value-in-use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgements relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these judgements and estimates could have a significant impact on the recoverable amount of the assets and could result in an additional impairment charge or reversal of impairment in future periods.

3. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(b) Deferred tax assets

Deferred tax assets are recognised for all temporary differences to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In assessing whether such temporary differences can be utilised in the future, the Group needs to make judgements and estimates on the ability of each of its subsidiaries to generate taxable income in the future years. The Group believes it has recorded adequate deferred taxes based on the prevailing tax rules and regulations and its current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to deferred taxation may be necessary which would impact the Group's results or financial position.

(c) Fair value measurements and valuation process

The Group's other financial assets are measured at fair value for financial reporting purposes. The directors of the Company have to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of a financial instrument, the Group uses market observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuer to perform the valuation. The directors of the Company work closely with independent professional valuers to establish the appropriate valuation techniques and inputs to the model.

(d) Loss allowance for ECL on trade and other receivables

The management of the Group estimates the loss allowance of trade and other receivable by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty, which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of other receivables at amortised cost.

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group is principally engaged in providing live streaming services, social networking and other services. Disaggregation of revenue from contracts with customers within IFRS 15 by major service lines are as follows:

	2023 ***RMB'000***	2022 *RMB'000*
Live streaming	**2,278,345**	4,912,118
Social networking	**252,312**	184,291
Others	**39,428**	1,099
	2,570,085	5,097,508

The Group's customer base is diversified, where there was no customer with whom transactions exceeded 10% of the Group's revenue during the years ended 31 December 2023 and 2022.

4. REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (Continued)

Disaggregation of revenue from contracts with customers within IFRS 15 by the timing of revenue recognition is as follows:

	2023 **RMB'000**	2022 RMB'000
At a point in time	**2,530,657**	5,096,409
Over time	**39,428**	1,099
	2,570,085	5,097,508

The Group has applied the practical expedient in paragraph 121 of IFRS 15 and therefore the information about remaining performance obligations is not disclosed for contracts that have an original expected duration of one year or less.

(b) Segment reporting

For the purposes of assessing segment performance and allocating resources among segments, the CODM monitors the results, assets and liabilities attributable to each reportable segment as follows:

1) 6.cn – represents the Group's PC client flagship product with its own mobile apps including 6.cn live streaming, Shiliu live streaming and Huafang live streaming, which enable the PRC users to access content offered on 6.cn through mobile phones;

2) Huajiao – represents the Group's mobile app flagship product, which offers a stage for people who aspire to show their talents and share their skills, experience and lifestyles through interactive and entertaining experience delivered in live streaming sessions; and

3) HOLLA Group – represents the Group's overseas social entertainment and networking products which offer social discovery and video-based chatroom services to overseas users.

No analysis of the Group's assets and liabilities by operating segments is presented as it is not regularly provided to the CODM for review.

4. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

Segment revenue and result

	Year ended 31 December 2023			
	6.cn *RMB'000*	**Huajiao** *RMB'000*	**HOLLA Group** *RMB'000*	**Total** *RMB'000*
Revenue from external customers and reportable segment revenue	**650,464**	**1,654,271**	**265,350**	**2,570,085**
Reportable segment profit/(loss) before taxation	**55,582**	**1,710**	**(15,045)**	**42,247**
Including:				
Host cost	**429,433**	**1,236,028**	**41,759**	**1,707,220**
Promotion and advertising expenses	**40,263**	**162,685**	**66,741**	**269,689**
Staff cost (excluded share-based payment expenses)	**84,225**	**180,135**	**58,225**	**322,585**
Depreciation	**1,153**	**13,470**	**2,850**	**17,473**
Amortisation	**15,761**	**2,398**	**3,105**	**21,264**
Capital expenditures	**2,192**	**1,739**	**624**	**4,555**
Interest income	**(21,144)**	**(15,691)**	**(382)**	**(37,217)**
Income tax	**3,974**	**3,040**	**(785)**	**6,229**

	Year ended 31 December 2022			
	6.cn *RMB'000*	Huajiao *RMB'000*	HOLLA Group *RMB'000*	Total *RMB'000*
Revenue from external customers and reportable segment revenue	1,351,565	3,561,652	184,291	5,097,508
Reportable segment profit/(loss) before taxation	182,155	366,139	(28,291)	520,003
Including:				
Host cost	935,588	2,558,139	37,056	3,530,783
Promotion and advertising expenses	61,196	369,139	58,681	489,016
Staff cost (excluded share-based payment expenses)	107,704	197,512	53,686	358,902
Depreciation	2,890	16,786	1,677	21,353
Amortisation	15,801	3,170	2,705	21,676
Capital expenditures	1,617	10,237	695	12,549
Interest income	(17,078)	(5,659)	(26)	(22,763)
Income tax	19,539	42,046	(330)	61,255

4. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

Reconciliations of revenue from external customers and reportable segment revenues, profit before taxation:

	2023 RMB'000	2022 RMB'000
Revenue		
Revenue from external customers and reportable segment revenue	**2,570,085**	5,097,508
Profit		
Reportable segment profit before taxation	**42,247**	520,003
Unallocated expenses	**(12,959)**	(5,690)
Provision for loss on the Incident	**–**	(154,895)
Depreciation and amortisation resulted from revaluation of property and equipment, and intangible assets	**(17,862)**	(18,145)
Finance costs	**(1,665)**	(2,303)
Impairment loss on goodwill and intangible assets	**(681,763)**	(790)
Share-based payment expenses	**(118,882)**	(45,178)
(Loss)/Profit before taxation	**(790,884)**	293,002

Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers which are based on the location of customers.

	2023 RMB'000	2022 RMB'000
Revenue from external customers:		
The PRC	**2,304,735**	4,913,217
Overseas	**265,350**	184,291
	2,570,085	5,097,508

No geographical analysis on segment assets is provided as substantially all of the Group's non-current assets were located at the PRC.

Information about major customers

No external customers individually contributed 10% or more of the total revenue during the years ended 31 December 2023 and 2022.

5. OTHER INCOME, NET

	2023 RMB'000	2022 RMB'000
Income from financial products issued by banks	**741**	13,249
Changes in fair value of financial products issued by banks	**(770)**	763
Interest income	**39,649**	22,763
Government grants *(Note i)*	**4,117**	10,246
(Loss)/Gain on disposal of long-term assets	**(3,642)**	(574)
Additional deduction of value-added tax ("**VAT**") *(Note ii)*	**7,260**	31,416
Others	**1,558**	197
	48,913	78,060

Notes:

(i) In the opinion of the directors of the Company, there were no unfulfilled conditions or contingencies relating to these grants.

(ii) Pursuant to the Announcement on Relevant Policies for Deepening the Value-added Tax Reform (Cai Shui Haiguan [2019] No. 39) jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs, the Group's subsidiaries, as modern service companies, qualify for additional 10% deduction of input VAT from output VAT. In accordance with the Announcement of the Ministry of Finance and the State Taxation Administration Regarding the VAT Policies for Promoting the Bailout and Development of Distressed Industries in the Service Sector ([2022] No. 11) the above policies are extended to 31 December 2022.

According to the Announcement of the Ministry of Finance and the State Taxation Administration ([2023] No.1), the Group's subsidiaries, as modern service companies, qualify for additional 5% deduction of input VAT from output VAT during the year ended 31 December 2023.

The additional deduction is recognised as other income.

6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation is arrived at after charging/(crediting):

	2023 RMB'000	2022 RMB'000
(a) Finance costs		
Interest on lease liabilities	**1,665**	2,303
(b) Staff costs (charged to "cost of sales", "selling and marketing expenses", "general and administrative expenses" and "research and development expenses", as appropriate)		
Salaries, allowances, bonuses and other benefits in kind	**262,207**	285,308
Contributions to defined retirement schemes	**62,670**	73,594
Share-based payment expenses *(Note 23(c))*	**118,882**	45,178
	443,759	404,080

6. (LOSS)/PROFIT BEFORE TAXATION (CONTINUED)

The employees of certain subsidiaries of the Group established in the PRC (excluding Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby the Group is required to contribute to the schemes at a rate of 16% of the employees' salaries. Employees of certain subsidiaries of the Group are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (excluding Hong Kong), from the above-mentioned retirement schemes at their normal retirement age.

The Group has no further material obligation for payment of other retirement benefits beyond the above contributions during the years ended 31 December 2023 and 2022.

		2023 **RMB'000**	2022 RMB'000
(c)	**Other items**		
	Depreciation (charged to "cost of sales", "selling and marketing expenses", "general and administrative expenses" and "research and development expenses", as appropriate) *(Note 11(a))*		
	– owned property and equipment	**6,500**	7,362
	– right-of-use assets	**10,973**	13,991
		17,473	21,353
	Host cost	**1,707,220**	3,530,783
	Amortisation of intangible assets (charged to "cost of sales", "selling and marketing expenses", "general and administrative expenses" and "research and development expenses", as appropriate)	**21,264**	21,676
	Provision for/(Reversal of) loss allowance	**20,062**	(180)
	Impairment loss on goodwill and intangible assets *(Notes 12 and 13)*	**681,763**	790
	Promotion and advertising expenses	**269,689**	489,016
	Bandwidth expenses and server custody costs	**33,837**	55,781
	Payment processing cost	**80,556**	89,152
	Auditors' remuneration *(Note)*		
	– Audit services	**9,000**	4,000
	– Non-audit services	**380**	–
	Listing expenses	**–**	25,593

Note:

The auditors' remuneration for the year ended 31 December 2022 represented the remuneration paid and payable to KPMG, the Group's former auditor, for their audit work on the consolidated financial statements of the Group for the year ended 31 December 2022 (the "**2022 KPMG Audit**"). KPMG did not complete the 2022 KPMG Audit and no audit report was issued.

After the appointment of Mazars CPA Limited ("**Mazars**"), the existing auditor of the Group, on 17 August 2023, the remuneration payable to Mazars in respect of the audit of the consolidated financial statements of the Group for the year ended 31 December 2022 is RMB4,500,000 (the "**2022 Mazars Audit**") which was included in the auditors' remuneration for the year ended 31 December 2023. The 2022 Mazars Audit was negotiated, confirmed, commenced and substantially completed during the year ended 31 December 2023.

7. INCOME TAX EXPENSES

(a) Income tax expenses represent:

	2023 RMB'000	2022 *RMB'000*
Current taxation		
The PRC Enterprise Income Tax ("**EIT**")	**7,285**	20,216
Deferred taxation *(Note 24(b))*		
Origination or reversal of temporary differences	**(1,056)**	41,039
	6,229	61,255

(b) Reconciliation between income tax expenses and (loss)/profit before taxation as follows:

	2023 RMB'000	2022 *RMB'000*
(Loss)/Profit before taxation	**(790,884)**	293,002
Income tax at applicable tax rate *(i and ii)*	**(197,721)**	73,251
Effect of preferential tax rates applicable to certain subsidiaries of the Group *(ii)*	**12,836**	(48,340)
Tax effect of additional tax deduction on research and development expenses *(ii)*	**(13,226)**	(15,481)
Tax effect of non-deductible expenses	**200,263**	47,599
Tax effect of utilisation of tax losses not previously recognised	**(2,909)**	(2,950)
Tax effect of unrecognised tax losses and temporary differences	**6,986**	7,176
Income tax expenses for the year	**6,229**	61,255

Notes:

(i) Income tax rate applies to the Group:

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

The Hong Kong Profits Tax rate during the years ended 31 December 2023 and 2022 is 16.5%. Hong Kong Profits Tax has not been provided as the group entities established in Hong Kong had no assessable profits for the years ended 31 December 2023 and 2022.

7. INCOME TAX EXPENSES (CONTINUED)

(b) Reconciliation between income tax expenses and profit before taxation as follows: (Continued)

Notes: (Continued)

(i) Income tax rate applies to the Group: (Continued)

The tax rate in Delaware state in United States ("**US**") is 8.7%. The group entities established in US have not provided income tax as the Group had no assessable profits in US for the years ended 31 December 2023 and 2022.

Singapore income tax has not been provided as the Group had no assessable profits for the years ended 31 December 2023 and 2022.

(ii) The Group's entities established in the PRC are subject to "EIT" at a statutory rate of 25%, except for Huafang Technology Co., Ltd. (北京花房科技有限公司, "**Huafang Technology**"), Beijing Mijing Hefeng Technology Co., Ltd. (北京密境和風科技有限公司, "**Mijing Hefeng**") and Beijing HOLLA Technology Co., Ltd. (北京猴啦科技有限公司, "**Beijing HOLLA**"), which were approved to be "New and High Technology Enterprise" since October 2022, October 2021 and October 2023 respectively with a valid period of 3 years. The "New and High Technology Enterprise" is subject to a preferential rate of 15% during the valid period. The State Taxation Administration of the PRC announced in March 2021 that enterprises engaging in research and development activities would be entitled to claim at maximum 200% of their research and development expenses as "Super Deduction". The directors of the Company consider the eligibility of the PRC subsidiaries and recognise the additional tax deduction for the years ended 31 December 2023 and 2022.

8. DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: Nil).

9. INFORMATION ABOUT THE BENEFIT OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Details of emoluments of the directors of the Company are as follows:

		Year ended 31 December 2023						
	Note	Directors' fees *RMB'000*	Salaries, allowances and other benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Contributions to defined retirement schemes *RMB'000*	Sub-total *RMB'000*	Share-based payment expenses *RMB'000*	Total *RMB'000*
Executive director								
Ms. Yu Dan		–	2,351	1,806	44	4,201	37,378	41,579
Non-executive directors								
Mr. Zhou Hongyi *(Chairman)*		–	–	–	–	–	–	–
Mr. Chen Shengmin		–	–	–	–	–	–	–
Mr. Zhao Dan		–	–	–	–	–	–	–
Independent non-executive directors								
Mr. Chen Weiguang	*(a)*	180	–	–	–	180	–	180
Mr. Li Bing	*(a)*	180	–	–	–	180	–	180
Ms.Qian Aimin	*(a)*	180	–	–	–	180	–	180
		540	2,351	1,806	44	4,741	37,378	42,119

9. INFORMATION ABOUT THE BENEFIT OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Directors' emoluments (Continued)

		Year ended 31 December 2022						
	Note	Directors' fees *RMB'000*	Salaries, allowances and other benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Contributions to defined retirement schemes *RMB'000*	Sub-total *RMB'000*	Share-based payment expenses *RMB'000*	Total *RMB'000*
Executive director								
Ms. Yu Dan		–	2,040	1,500	40	3,580	12,308	15,888
Non-executive directors								
Mr. Zhou Hongyi *(Chairman)*		–	–	–	–	–	–	–
Mr. Chen Shengmin		–	–	–	–	–	–	–
Mr. Zhao Dan		–	–	–	–	–	–	–
Independent non-executive directors								
Mr. Chen Weiguang	*(a)*	–	–	–	–	–	–	–
Mr. Li Bing	*(a)*	–	–	–	–	–	–	–
Ms. Qian Aimin	*(a)*	–	–	–	–	–	–	–
		–	2,040	1,500	40	3,580	12,308	15,888

Note:

(a) Mr. Chen Weiguang, Mr. Li Bing and Ms. Qian Aimin were appointed as independent non-executive directors of the Company on 21 November 2022.

No emoluments were paid or payable by the Group to the directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2023 and 2022.

9. INFORMATION ABOUT THE BENEFIT OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one is director (2022: one) whose emoluments are disclosed in Note 9(a) to the consolidated financial statements. The aggregate of the emoluments in respect of the other four (2022: four) highest paid individuals are as follows:

	2023 ***RMB'000***	2022 *RMB'000*
Salaries and other emoluments	**5,302**	4,916
Discretionary bonuses	**6,381**	9,062
Share-based payment expenses	**54,580**	15,873
Contributions to defined retirement schemes	**176**	194
	66,439	30,045

The emoluments of the above highest paid non-director individuals are within the following bands:

	2023 ***Number of individuals***	2022 *Number of individuals*
Hong Kong dollars ("**HKD**") 2,500,001-HKD3,000,000	**1**	–
HKD3,500,001-HKD4,000,000	**–**	1
HKD5,500,001-HKD6,000,000	**–**	1
HKD9,000,001-HKD9,500,000	**–**	1
HKD10,000,001-HKD10,500,000	**1**	–
HKD15,500,001-HKD16,000,000	**–**	1
HKD25,500,001-HKD26,000,000	**1**	–
HKD34,500,001-HKD35,000,000	**1**	–
	4	4

No emoluments were paid or payable by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2023 and 2022. There was no arrangement under which a director or the five highest paid individuals waived or agreed to waive any remuneration for the years ended 31 December 2023 and 2022.

10. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to the owners of the Company of approximately RMB796,880,000 (2022: approximately RMB231,788,000) and the weighted average of 1,000,000,000 ordinary shares (2022: 956,521,000 shares) in issue during the year ended 31 December 2023.

The calculation of the weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss)/earnings per share has been determined based on the assumption that the Capitalisation Issue (as defined in Note 25(b) to the consolidated financial statements below) to the shareholders had occurred on 1 January 2022.

Weighted average number of ordinary shares:

	2023 **'000**	2022 '000
Issued ordinary shares at 1 January	**1,000,000**	53,333
Effect of Capitalisation Issue	**–**	900,667
Effect of new ordinary shares issued	**–**	2,521
Weighted average number of ordinary shares at 31 December	**1,000,000**	956,521

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the (loss)/profit attributable to the owners of the Company of approximately RMB796,880,000 (2022: approximately RMB231,788,000) and the weighted average number of issued ordinary shares of 1,004,087,000 (2022: 966,552,000 shares) after adjusting the effects of dilutive potential ordinary shares during the year ended 31 December 2023, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2023 **'000**	2022 '000
Weighted average number of ordinary shares at 31 December	**1,000,000**	956,521
Effect of deemed issue of shares under the Company's share option scheme	**4,087**	10,031
Weighted average number of ordinary shares (diluted) at 31 December	**1,004,087**	966,552

For the year ended 31 December 2023, the Company's share option scheme had an anti-dilutive effect to the basic loss per share calculation. The conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share for the year ended 31 December 2023. Therefore, the basic and diluted loss per share for the year ended 31 December 2023 are the same.

11. PROPERTY AND EQUIPMENT

(a) Reconciliations of carrying amounts

	Office equipment and furniture *RMB'000*	Electronic equipment *RMB'000*	Vehicles *RMB'000*	Leasehold improvement *RMB'000*	Leasehold properties *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2022	1,991	27,203	127	8,152	63,047	100,520
Additions	4,539	2,884	–	4,654	900	12,977
Disposals	(854)	(9,252)	–	(309)	(991)	(11,406)
At 31 December 2022	5,676	20,835	127	12,497	62,956	102,091
Accumulated depreciation:						
At 1 January 2022	(606)	(14,224)	(92)	(244)	(2,281)	(17,447)
Charge for the year	(797)	(3,728)	(35)	(2,802)	(13,991)	(21,353)
Written back on disposals	656	7,538	–	–	957	9,151
At 31 December 2022	(747)	(10,414)	(127)	(3,046)	(15,315)	(29,649)
Net carrying amount:						
At 31 December 2022	4,929	10,421	–	9,451	47,641	72,442
Cost:						
At 1 January 2023	**5,676**	**20,835**	**127**	**12,497**	**62,956**	**102,091**
Additions	**802**	**251**	**2,033**	**–**	**1,503**	**4,589**
Disposals	**(2,177)**	**(5,062)**	**–**	**–**	**(24,690)**	**(31,929)**
At 31 December 2023	**4,301**	**16,024**	**2,160**	**12,497**	**39,769**	**74,751**
Accumulated depreciation:						
At 1 January 2023	**(747)**	**(10,414)**	**(127)**	**(3,046)**	**(15,315)**	**(29,649)**
Charge for the year	**(1,959)**	**(1,911)**	**(92)**	**(2,538)**	**(10,973)**	**(17,473)**
Written back on disposals	**1,587**	**898**	**–**	**–**	**7,710**	**10,195**
At 31 December 2023	**(1,119)**	**(11,427)**	**(219)**	**(5,584)**	**(18,578)**	**(36,927)**
Net carrying amount:						
At 31 December 2023	**3,182**	**4,597**	**1,941**	**6,913**	**21,191**	**37,824**

11. PROPERTY AND EQUIPMENT (CONTINUED)

(b) Leasehold properties

(i) The Group's leased offices expire from 1.5 to 5 years. None of the leases includes an option to purchase the leased assets at the end of the lease term.

(ii) The analyses of expenses items in relation to leases recognised in the Group's profit or loss are as follows:

	2023 **RMB'000**	2022 RMB'000
Depreciation of leasehold properties	**10,973**	13,991
Interest on lease liabilities *(Note 6(a))*	**1,665**	2,303
Expense relating to short-term leases	**1,444**	2,045

(iii) Details of total cash outflow for leases and the maturity analyses of lease liabilities are set out in Notes 17(c) and 21 to the consolidated financial statements.

12. INTANGIBLE ASSETS

	Copyrights, trademark and technology *RMB'000*	**Software** *RMB'000*	**Total** *RMB'000*
Cost:			
At 1 January 2022	218,457	4,253	222,710
Additions	–	472	472
Disposals	–	(496)	(496)
Exchange realignments	–	332	332
At 31 December 2022 and 1 January 2023	**218,457**	**4,561**	**223,018**
Additions	**–**	**1,498**	**1,498**
Disposals	**(15,730)**	**(405)**	**(16,135)**
Exchange realignments	**–**	**66**	**66**
At 31 December 2023	**202,727**	**5,720**	**208,447**

12. INTANGIBLE ASSETS (CONTINUED)

	Copyrights, trademark and technology *RMB'000*	Software *RMB'000*	Total *RMB'000*
Accumulated amortisation:			
At 1 January 2022	(88,695)	(1,374)	(90,069)
Charge for the year	(21,124)	(552)	(21,676)
Written back on disposals	–	417	417
Impairment loss	(169)	–	(169)
Exchange realignments	–	(138)	(138)
At 31 December 2022 and 1 January 2023	**(109,988)**	**(1,647)**	**(111,635)**
Charge for the year	**(20,277)**	**(987)**	**(21,264)**
Written back on disposals	**15,726**	**146**	**15,872**
Exchange realignments	**–**	**(34)**	**(34)**
At 31 December 2023	**(114,539)**	**(2,522)**	**(117,061)**
Net carrying amount:			
At 31 December 2023	**88,188**	**3,198**	**91,386**
At 31 December 2022	108,469	2,914	111,383

At 31 December 2023, the copyrights, trademark and technology of approximately RMB83,236,000 (2022: RMB98,842,000) and approximately RMB4,510,000 (2022: RMB6,765,000) were mainly acquired through business combination in Huajiao-6.cn Merger (as defined in Note 13(a) to the consolidated financial statements) and HOLLA Group in prior years, respectively, which relate to live streaming and social networking business.

The copyrights, trademark and technology are tested for impairment at least annually and has been included in the 6.cn CGU and HOLLA Group CGU, as appropriate, for impairment assessment of goodwill as set out in Note 13 to the consolidated financial statements.

13. GOODWILL

	RMB'000
Cost:	
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	**2,542,997**
Accumulated impairment losses:	
At 1 January 2022, 31 December 2022 and 1 January 2023	**1,843,840**
Impairment loss	**681,763**
At 31 December 2023	**2,525,603**
Net carrying amount:	
At 31 December 2023	**17,394**
At 31 December 2022	699,157

Goodwill is allocated to the Groups of cash-generating unit ("**CGU**") as follows:

	2023 ***RMB'000***	2022 *RMB'000*
6.cn	**–**	681,763
HOLLA Group	**17,394**	17,394
Tianjin Maijike Network Technology Co., Ltd. ("**Maijike**")	**–**	–
Total	**17,394**	699,157

13. GOODWILL (CONTINUED)

(a) Goodwill arisen in business combinations and accumulated up to 31 December 2022

(i) 6.cn

Pursuant to a series of share purchase agreements, Huafang Technology acquired Mijing Hefeng in two phases. In the first phase, Huafang Technology issued 5,987,000 shares in December 2018 to the then shareholders of Mijing Hefeng, namely Tianjin Huajiao No. 1 technology partnership (limited partnership) and Tianjin Huajiao No. 2 technology partnership (limited partnership), in exchange of 19.96% ownership of Mijing Hefeng. In the second phase, Huafang Technology issued 24,013,000 shares in April 2019 to the rest of the then shareholders of Mijing Hefeng, in exchange for the remaining 80.04% ownership of Mijing Hefeng. On 29 April 2019, Huafang Technology completed the acquisition of Mijing Hefeng ("**Huajiao-6.cn Merger**"). Upon the completion of the Huajiao-6.cn Merger, Mijing Hefeng became 100% owned by Huafang Technology.

The Huajiao-6.cn Merger had been accounted for as a reverse acquisition in accordance with IFRS 3 "Business Combinations" having taken into account the terms of the share purchase agreements, relative voting rights in the consolidated entity, composition of the governing body and senior management of the enlarged group after the acquisition as well as the relative size of Huafang Technology and Mijing Hefeng. Details of the Huajiao-6.cn Merger are set out in the section headed "History, Reorganisation and Corporate Structure" to the Prospectus.

During the year ended 31 December 2020, the Covid-19 pandemic had significantly disrupted normal economic life in the PRC and around the world. The pandemic had accelerated the proliferation of mobile-based live streaming and has had a disproportionately greater effect on PC-based live streaming due to the government mandated mobility restrictions which could impede access to streaming studios. Market competition had also intensified to compete for user time and viable hosts as new players continue to enter the entertainment live streaming industry. These challenges resulted in a decline in 6.cn's business performance during the year ended 31 December 2020. Based on the impairment test performed at 31 December 2020, the recoverable amount of CGU of 6.cn had been reduced to approximately RMB751,462,000 and the impairment loss of approximately RMB1,777,709,000 was recognised during the year ended 31 December 2020.

(ii) HOLLA Group and Maijike

Goodwill at 31 December 2022 amounting to approximately RMB17,394,000 arose on the acquisition of HOLLA Group.

Since the major changes in market conditions and the uncertainty of profitability of Maijike's business, the directors of the Company decided to suspend the business of Maijike, the goodwill of Maijike was fully impaired during the year ended 31 December 2022.

13. GOODWILL (CONTINUED)

(b) Goodwill impairment testing

The Group has engaged independent professional valuers, China United Assets Appraisal Group ("**CUA**") and CHFT Advisory and Appraisal Ltd. ("**CHFT**") to perform appraisal of the value of the CGUs in the 6.cn and HOLLA Group business segments, respectively for the years ended 31 December 2023 and 2022.

At 31 December 2023 and 2022, the recoverable amounts of CGUs have been determined on the basis of higher of the CGUs' fair value less costs of disposal ("**FVLCD**") and value-in-use ("**VIU**") calculations. An impairment loss shall be recognised for the CGUs if the recoverable amount of the CGUs is less than its carrying amount.

During the six months ended 30 June 2023, there was a decline in the revenue and earnings projection resulted from the combined effects of the overall reduced future growth expectations in the PRC market and the whole downturn of the industry, combinedly with the fact that the actual operating results falls short of expectation during the first half of 2023. The management of the Group considered there were events or changes in circumstances that would give rise to potential impairment, therefore, the management of the Group conducted impairment tests for all CGUs at 30 June 2023. The FVLCD of CGU of 6.cn was assessed to be below its VIU at 30 June 2023. Therefore, the recoverable amount of CGU of 6.cn at 30 June 2023 was determined based on the VIU by the management of the Group.

The VIU of the CGU of HOLLA Group was assessed to be in excess its carrying amount, so the Group considered that there was no impairment loss in the goodwill of HOLLA Group during the six months ended 30 June 2023. For the CGU of 6.cn, due to the factors mentioned above and continuing increase in operating costs, the performance of CGU of 6.cn was directly affected.

The management of the Group conducted an impairment test on the CGU of 6.cn and based on the results of the impairment test performed, the recoverable amount of CGU of 6.cn of approximately RMB45,238,000 was below its carrying amount. Accordingly, the goodwill allocated to CGU of 6.cn was impaired by approximately RMB681,763,000 during the six months ended 30 June 2023.

At 31 December 2023, an impairment assessment was also conducted for the CGU of HOLLA Group and the CGU of 6.cn under the same approach for the impairment assessment at 30 June 2023.

At 31 December 2023, based on the impairment test performed, the recoverable amount of the CGU of 6.cn calculated based on VIU exceeded its carrying value by approximately RMB4,985,000 ("**headroom**"), and no further impairment of the CGU of 6.cn was recognised.

At 31 December 2023, based on the impairment test performed, the recoverable amount of CGU of HOLLA Group calculated based on VIU calculation exceeded carrying value by approximately RMB42,126,000 ("**headroom**") and no impairment loss of goodwill was recognised.

13. GOODWILL (CONTINUED)

(b) Goodwill impairment testing (Continued)

The VIU calculations of each CGU were based on pre-tax cash flow projections from financial budgets prepared by the management of the Group covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates below. The terminal growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments or entities as below. The management of the Group determined budgeted gross margin based on past performance and their expectations for market development.

The key assumptions used for VIU calculations of each CGU are as follows:

6.cn	At 30 June 2023
Annual revenue (decline)/growth rates for next five years *(i)*	**(44)%~6%**
Terminal growth rate *(ii)*	**3%**
Discount rate *(iii)*	**13.3%**
HOLLA Group	
Annual revenue growth rates for next five years *(i)*	**8%~21%**
Terminal growth rate *(ii)*	**3%**
Discount rate *(iii)*	**14.2%**

6.cn	At 31 December 2023
Annual revenue (decline)/growth rates for next five years *(i)*	**(46)%~6%**
Terminal growth rate *(ii)*	**3%**
Discount rate *(iii)*	**13.5%**
HOLLA Group	
Annual revenue growth rates for next five years *(i)*	**7%~14%**
Terminal growth rate *(ii)*	**3%**
Discount rate *(iii)*	**14.4%**

13. GOODWILL (CONTINUED)

(b) Goodwill impairment testing (Continued)

(i) the annual revenue (decline)/growth rates adopted are based on the CGUs of 6.cn and HOLLA Group's historical experience and the Group's expectations of future changes in the live streaming industry and adjusted for other factors that are specific to the CGUs of 6.cn and HOLLA Group.

(ii) cash flows beyond the five-year period are extrapolated used a terminal growth rate based on the relevant industry growth forecasts and does not exceed the average terminal growth rate of the relevant industry.

(iii) the discount rates used are pre-tax and reflect specific risks relating to the CGU of 6.cn and HOLLA Group.

The following table indicates how the amounts of headroom would have decreased if certain key assumptions used in the forecast had changed, assuming all other assumptions remained constant:

6.cn	31 December 2023 Headroom decreased by *RMB'000*
If annual revenue growth rates decreases by 0.5%	**16,914**
If terminal growth rate decreases by 0.5%	**1,816**
If discount rate increases by 0.5%	**2,524**

The directors of the Company were of the view that the decrease in annual revenue growth rates by 0.5% in the VIU calculation of 6.cn would cause the carrying amount to exceed the recoverable amount.

HOLLA Group	Headroom decreased by *RMB'000*
If annual revenue growth rates decreases by 0.5%	**14,848**
If terminal growth rate decreases by 0.5%	**3,528**
If discount rate increases by 0.5%	**4,966**

The directors of the Company were of the view that any reasonably possible change in key assumptions used in the VIU calculation of HOLLA Group would not cause the carrying amount to exceed the recoverable amount.

At 31 December 2022, based on the valuation report prepared by CHFT, the recoverable amounts of the respective CGUs of 6.cn and HOLLA Group were determined based on FVLCD by the management of the Group.

13. GOODWILL (CONTINUED)

(b) Goodwill impairment testing (Continued)

In determining the FVLCD of the CGUs, the management of the Group has adopted market approach (level 3 fair value measurements). Several companies with business scopes and operations similar to the CGUs of 6.cn and HOLLA Group were adopted as comparable companies. The comparable companies were selected mainly with reference to the following selection criteria:

(i) the comparable companies selected were principally engaged in social software and live streaming software operations in the PRC or overseas;

(ii) the comparable companies had sufficient listing and operating histories; and

(iii) the financial information and the share price of the comparable companies was available to the public.

Key assumptions used for FVLCD calculations for CGU of 6.cn and HOLLA Group are as follows:

	2022
Earnings ("**E**") divided by share price ratio ("**P**") ("**P/E**" ratio)	2.85~20.45
Enterprise value ("**EV**") divided by sales ratio ("**S**") ("**EV/S**" ratio)	0.14~2.17
Discounts for lack of marketability ("**DLOM**")	15%

At 31 December 2022, based on the impairment test performed, the recoverable amount of CGU of 6.cn and HOLLA Group calculated based on FVLCD exceeded carrying value by approximately RMB43,953,000 and approximately RMB139,254,000 ("**headroom**"), respectively, and no impairment of goodwill was recognised.

The following table indicates how the amounts of headroom would have decreased if certain key assumptions used in the forecast had changed, assuming all other assumptions remained constant:

6.cn	2022 Headroom decreased by *RMB'000*
If P/E ratio decreases by 0.5%	618
If DLOM increases by 0.5%	4,269

HOLLA Group	2022 Headroom decreased by *RMB'000*
If EV/S decreases by 0.5%	783
If DLOM increases by 0.5%	921

14. OTHER FINANCIAL ASSETS

	2023 RMB'000	2022 RMB'000
Current		
Financial products issued by banks *(xi)*	**100,838**	422,238
Non-current		
Financial assets measured at FVOCI		
– Investment in Tianjin Jiadui Technology Co., Ltd. (天津佳對科技有限公司, "**Tianjin Jiadui**") *(i)*	**–**	19,600
– Investment in Wuhan Qijifangzhou Information Technology Co., Ltd. (武漢奇蹟方舟信息技術有限公司, "**Wuhan Qijifangzhou**") *(ii)*	**15,163**	15,500
– Investment in Chengdu Xundui Culture Communication Co., Ltd. (成都尋對文化傳媒有限公司, "**Chengdu Xundui**") *(iii)*	**–**	19,300
– Investment in Battuta Technology Pte. Ltd. ("**Battuta**") *(iv)*	**15,456**	14,300
– Investment in Chengdu Aobeisha Cultural Communication Co., Ltd. (成都奧貝沙文化傳媒有限公司, "**Chengdu Aobeisha**") *(v)*	**–**	18,000
– Investment in Chengdu Lailiaoyiliao Cultural Communication Co., Ltd. (成都來聊一聊文化傳媒有限公司, "**Chengdu Lailiaoyiliao**") *(vi)*	**–**	15,077
– Investment in Hainan Lefuqiyu Technology Co., Ltd. (海南樂芙奇遇科技有限公司, "**Hainan Lefuqiyu**") *(vii)*	**8,026**	4,000
– Investment in Investee Company *(viii)*	**–**	–
– Investment in Chengdu Yuandiansiwei Cultural Communication Co., Ltd. (成都元點思維文化傳媒有限公司, "**Chengdu Yuandiansiwei**") *(ix)*	**–**	10,000
– Investment in Billionaire Pte Ltd. ("**Billionaire**") *(x)*	**7,026**	18,000
	45,671	133,777

(i) The Group holds 25% of the interests of Tianjin Jiadui, which operates an online dating platform in the PRC during the years ended 31 December 2023 and 2022. The Group has not appointed directors or participated in the operations of Tianjin Jiadui. Since the major changes in market conditions and the uncertainty of profitability, Tianjin Jiadui is currently adjusting its business focus. In view of the uncertainty of Tianjin Jiadui's business prospect, the directors of the Company consider the fair value of Tianjin Jiadui would be insignificant..

(ii) The Group holds 25% of the interests of Wuhan Qijifangzhou, which is an information technology service provider in the PRC during the years ended 31 December 2023 and 2022. The Group has not appointed directors or participated in the operations of Wuhan Qijifangzhou.

(iii) The Group holds 25% of the interests of Chengdu Xundui, which operates an online social networking platform in the PRC during the years ended 31 December 2023 and 2022. The Group has not appointed directors or participated in the operations of Chengdu Xundui. Chengdu Xundui was deregistered subsequent to 31 December 2023.

14. OTHER FINANCIAL ASSETS (CONTINUED)

(iv) The Group holds 25% of the interests of Battuta, which operates an online social networking platform in Singapore during the years ended 31 December 2023 and 2022. The Group has not appointed directors or participated in the operations of Battuta.

(v) The Group holds 25% of the interests of Chengdu Aobeisha, which operates an online social networking platform in the PRC during the year ended 31 December 2023. The Group has not appointed directors or participated in the operations of Chengdu Aobeisha. Since the major changes in market conditions and the uncertainty of profitability, Chengdu Aobeisha is currently adjusting its business focus. In view of the uncertainty of Chengdu Aobeisha's business prospect, the directors of the Company consider the fair value of Chengdu Aobeisha would be insignificant.

(vi) The Group holds 30% of the interests of Chengdu Lailiaoyiliao, which operates an online social networking platform in the PRC during the year ended 31 December 2023. The Group has not appointed directors or participated in the operations of Chengdu Lailiaoyiliao. Since the major changes in market conditions and the uncertainty of profitability, Chengdu Lailiaoyiliao is currently adjusting its business focus. In view of the uncertainty of Chengdu Lailiaoyiliao's business prospect, the directors of the Company consider the fair value of Chengdu Lailiaoyiliao would be insignificant.

(vii) The Group holds 25% of the interests of Hainan Lefuqiyu, which operates an online social networking platform in the PRC during the year ended 31 December 2023. The Group has not appointed directors or participated in the operations of Hainan Lefuqiyu. The Group further invested approximately RMB4,000,000 in Hainan Lefuqiyu due to favourable development of the product.

(viii) The Group holds 25% of the interests of Investee Company, which operates an online social networking platform in the PRC during the year ended 31 December 2022. The Group has not appointed directors or participated in the operations of Investee Company. As Investee Company's business operation has been suspended with no significant assets retained due to the Incident as set out in Note 2(c)(i) to the consolidated financial statements, the assumption of continuous operation is not applicable and the management of the Group is of the opinion that the cost approach is the appropriate valuation method. The fair value estimated was insignificant to the Group and the directors of the Company decided to fully impair the investment cost of approximately RMB19,000,000 during the year ended 31 December 2022.

(ix) The Group holds 25% of the interests of Chengdu Yuandiansiwei, which operates an online social networking platform in the PRC during the year ended 31 December 2022. The Group has not appointed directors or participated in the operations of Chengdu Yuandiansiwei. The investment costs of approximately RMB10,000,000 was fully recovered prior to Chengdu Yuandiansiwei' deregistration during the year ended 31 December 2023.

(x) The Group holds 28% of the interests of Billionaire, which operates an online social networking platform in Singapore during the year ended 31 December 2023. The Group has not appointed directors or participated in the operations of Billionaire.

(xi) Details of the financial products issued by banks are set out in Note 26(d) to the consolidated financial statements.

15. TRADE RECEIVABLES

	2023 **RMB'000**	2022 RMB'000
Trade receivables	**3,071**	800
Less: loss allowance	**–**	(14)
	3,071	786

All of the trade receivables are expected to be recovered within one year.

(a) Ageing analysis

At the end of each reporting period, the ageing analysis of trade receivables, based on the invoice date, are as follows:

	2023 **RMB'000**	2022 RMB'000
Within 3 months	**3,071**	600
3 to 6 months	**–**	100
6 to 12 months	**–**	–
Over 1 year	**–**	100
Less: loss allowance	**–**	(14)
	3,071	786

Further details on the Group's credit policy and credit risk are set out in Note 26(a) to the consolidated financial statements.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2023 **RMB'000**	2022 RMB'000
Prepayments for purchase of services	**13,489**	49,265
Deposits	**3,564**	5,105
Deposit for acquisition of equity interests of a company *(iv)*	**15,000**	–
Detained fund pending final judgement *(iii)*	**154,895**	–
Loans to Battuta and its subsidiary *(i)*	**47,791**	24,332
Loans to third parties *(ii)*	**37,848**	10,693
Amounts due from third parties *(v)*	**17,453**	18,060
Receivable from third party payment platform *(iii)*	**40,437**	169,337
Deductible input VAT	**4,068**	9,929
Government grant receivables	**4,042**	4,042
Others	**7,292**	527
	345,879	291,290
Less: loss allowance	**(20,262)**	(186)
	325,617	291,104

(i) During the year ended 31 December 2022, the Group offered unsecured and interest-free loans with no fixed repayment term to Battuta and its subsidiary in an aggregate principal amount of approximately RMB24,332,000, which is repayable in 12 months. During the year ended 31 December 2023, the Group recovered approximately RMB20,850,000 for the interest-free loans and further advanced interest-free loans in an aggregate principal amount of approximately RMB44,309,000, which is repayable in 12 months.

(ii) During the year ended 31 December 2023, the Group offered unsecured and interest-free loans to Typing Technology Pte. Ltd and its subsidiary ("**Typing Technology Group**") in principal amount of approximately RMB15,004,000, which is repayable in 12 months. Subsequent to 31 December 2023, the Group recovered approximately RMB354,000 from Typing Technology Group.

During the years ended 31 December 2023 and 2022, the Group offered unsecured and interest-free loans to Beijing Sandou Technology Co., Ltd. ("**Beijing Sandou**") in principal amount of approximately RMB19,300,000 and approximately RMB9,300,000, respectively, which is repayable in 12 months. At 31 December 2023, the Group recognised loss allowance of approximately RMB19,300,000 after taken into account the financial position of Beijing Sandou by the directors of the Company.

During the years ended 31 December 2023 and 2022, the Group offered unsecured and interest free loans to Turned E Pte. Ltd. ("**Turned E**") in principal amount of approximately USD500,000 (equivalent to approximately RMB3,544,000) and approximately USD200,000 (equivalent to approximately RMB1,393,000), respectively, which is repayable in 12 months. Subsequent to 31 December 2023 and 2022, the Group recovered approximately USD200,000 (equivalent to approximately RMB1,416,000) and approximately USD200,000 (equivalent to approximately RMB1,393,000), respectively, from Turned E.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

(iii) At 31 December 2023, receivable from third party payment platform of nil (2022: approximately RMB105,600,000) was frozen by the relevant PRC authorities due to the Incident as disclosed in Note 2(c)(i) to the consolidated financial statements. The Group had tendered Detained Funds of approximately RMB154,895,000 to the relevant PRC authorities on 3 July 2023 and all Frozen Accounts had been released and can be used for normal business operation on 25 July 2023.

(iv) On 29 December 2023, the Group paid approximately RMB15,000,000 to acquire 25% equity interests of a company which was incorporated in Singapore ("**Singapore Company**"). Up to the date of this report, the application to register as a shareholder of the Singapore Company is still in progress.

(v) The amounts are unsecured, non-interest bearing and repayable on demand. Subsequent to 31 December 2023 and 2022, the Group recovered approximately RMB3,582,000 and approximately RMB607,000 from the third parties respectively.

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

17. CASH AT BANKS AND ON HAND AND OTHER CASH FLOW INFORMATION

(a) Cash at banks and on hand:

Cash at banks earn interest at floating rates based on daily bank deposit rates. The carrying amounts of bank balances and cash are denominated in the following currencies:

	2023 ***RMB'000***	2022 *RMB'000*
RMB	**1,640,429**	1,502,557
USD	**66,606**	15,253
HKD	**117,421**	115,221
Singapore dollars ("**SGD**")	**108**	–
	1,824,564	1,633,031

17. CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities:

The tables below detail changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities *RMB'000*	Listing expenses payable *RMB'000*	Total *RMB'000*
At 1 January 2022	58,309	1,642	59,951
Changes from financing cash flows:			
Interest element of lease rentals paid	(2,303)	–	(2,303)
Capital element of lease rentals paid	(12,797)	–	(12,797)
Listing expenses paid	–	(1,301)	(1,301)
Other changes:			
Increase in lease liabilities from entering into new lease during the year	900	–	900
Interest expenses *(Note 6(a))*	2,303	–	2,303
Decrease in lease liabilities from terminating of leases during the year	(68)	–	(68)
At 31 December 2022	46,344	341	46,685
At 1 January 2023	**46,344**	**341**	**46,685**
Changes from financing cash flows:			
Interest element of lease rentals paid	**(1,665)**	**–**	**(1,665)**
Capital element of lease rentals paid	**(10,043)**	**–**	**(10,043)**
Listing expenses paid	**–**	**(341)**	**(341)**
Other changes:			
Increase in lease liabilities from entering into new lease during the year	**1,503**	**–**	**1,503**
Interest expenses *(Note 6(a))*	**1,665**	**–**	**1,665**
Decrease in lease liabilities from early termination of leases during the year	**(16,403)**	**–**	**(16,403)**
At 31 December 2023	**21,401**	**–**	**21,401**

17. CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION (CONTINUED)

(c) Total cash outflow for leases:

Amounts included in the cash flow statement for leases comprise the following:

	2023 **RMB'000**	2022 RMB'000
Within operating cash flows	**1,606**	4,296
Within financing cash flows	**11,708**	15,100
	13,314	19,396

(d) Major non-cash transactions

In addition to the information disclosed elsewhere in the consolidated financial statements, the Group had the following major non-cash transactions:

(i) During the year ended 31 December 2023, the Group entered into lease arrangements in respect of right-of-use assets with a total capital value at the inception of the leases of approximately RMB1,503,000 (2022: approximately RMB900,000).

(ii) At 31 December 2023, the Group incurred payables of approximately RMB1,263,000 (2022: Nil) to the vendor for the addition of property, plant and equipment.

18. TRADE PAYABLES

	2023 **RMB'000**	2022 RMB'000
Host	**46,834**	107,975
Advertisers	**9,584**	37,208
Bandwidth providers	**1,591**	9,377
Others	**6,001**	10,070
Total	**64,010**	164,630

18. TRADE PAYABLES (CONTINUED)

The ageing analyses of the trade payables, based on the invoice date, are as follows:

	2023 **RMB'000**	2022 *RMB'000*
1 to 3 months	**62,013**	161,300
4 to 6 months	**666**	966
7 to 12 months	**559**	805
Over 1 year	**772**	1,559
	64,010	164,630

All trade payables are interest free with normal credit terms up to 30 days.

19. CONTRACT LIABILITIES

	2023 **RMB'000**	2022 *RMB'000*
Live streaming *(i)*	**82,356**	91,687

(i) Contract liabilities primarily arose from the considerations received from customers within IFRS 15 before the Group satisfying performance obligations. It would be recognised as revenue upon rendering services. Almost all of the contract liabilities balances at 31 December 2022 and 2023 will be recognised as revenue within one year.

The changes in contract liabilities during the years ended 31 December 2023 and 2022 were mainly due to the changes in prepayment of top-up from users on the platform in connection with the live streaming services.

20. ACCRUED EXPENSES AND OTHER PAYABLES

	2023 **RMB'000**	2022 *RMB'000*
Accrued expenses	**15,036**	5,863
Deposits	**300**	1,865
Amounts due to related parties	**925**	251
Amount due to Tianjin Jiadui *(i)*	**–**	10,326
Payables for staff related cost	**36,392**	46,204
Payables for other taxes	**9,098**	19,668
Others	**8,079**	6,255
	69,830	90,432

(i) The amount due to Tianjin Jiadui was non-trade in nature, unsecured, interest-free and repayable on demand.

All of the accrued expenses and other payables are expected to be settled within one year or are repayable on demand.

21. LEASE LIABILITIES

The following tables show the remaining contractual maturities of the Group's lease liabilities in relation to leasehold properties as set out in Note 11 to the consolidated financial statements at the end of each of the reporting period:

	2023		2022	
	Present value of the minimum lease payments *RMB'000*	**Total minimum lease payments** *RMB'000*	Present value of the minimum lease payments *RMB'000*	Total minimum lease payments *RMB'000*
Within 1 year	**8,001**	**8,865**	11,917	13,850
After 1 year but within 2 years	**8,067**	**8,548**	12,871	14,260
After 2 years but within 5 years	**5,333**	**5,440**	21,556	22,502
	13,400	**13,988**	34,427	36,762
	21,401	**22,853**	46,344	50,612
Less: total future interest expenses		**(1,452)**		(4,268)
Present value of lease liabilities		**21,401**		46,344

22. PROVISION FOR LOSS ON THE INCIDENT

	2023 *RMB'000*	2022 *RMB'000*
At beginning of year	**154,895**	–
Addition	**–**	154,895
At end of the reporting period	**154,895**	154,895

The provision for loss on the Incident represented the management of the Group's best estimate of the outcome of the Incident as set out in Note 2(c)(i) to the consolidated financial statements.

23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) Restricted share unit ("RSU") Scheme of the Company

In January 2017, the shareholder of Mijing Hefeng approved an equity-settled stock incentive plan (the "**2017 Plan**"). Pursuant to the 2017 Plan, the total equity of Mijing Hefeng as was assumed to be divided into 12,200,000,000 units for the purpose of implementing the 2017 Plan and 1,002,041,000 units thereof were granted to certain employees and key management personnel (including a director) of Mijing Hefeng under the 2017 Plan.

In October 2020, the board of directors of Huafang Technology resolved to launch a more comprehensive equity-settled stock incentive plan (the "**2020 Plan**"). Pursuant to the 2020 Plan, the total equity of Huafang Technology was assumed to be divided into 21,688,000,000 units for the purpose of implementing the 2020 Plan and 1,355,605,000 units thereof (equivalent to 6.25% of the total shares of Huafang Technology after expansion in share capital on 11 November 2022) were granted to certain employees (including a director) of Huafang Technology, among which 435,661,000 units were identified as a replacement for the awards under the 2017 Plan and 919,944,000 units were newly granted under the 2020 Plan.

For the replacement portion, the transition from the 2017 Plan to the 2020 Plan was as follows:

(1) 268,086,000 units under the 2017 Plan had been vested by the time of transition. These units under the 2017 Plan were carried over to the 2020 Plan with a decreasing effect on the number of shares that employees were entitled to, i.e., employees would now become entitled to the shares of Huafang Technology (instead of Mijing Hefeng) but at a lower quantity.

(2) 167,575,000 units under the 2017 Plan were still within the vesting period at the time of transition. Those outstanding units under the 2017 Plan were exchanged for units under the 2020 Plan on a one-to-one basis. The terms and conditions of the 2017 Plan continued to be carried out, except that the employees would receive shares of Huafang Technology instead of Mijing Hefeng but at a lower quantity for vested units in the future.

The Group had applied modification accounting to the afore-mentioned replacement and determined that no incremental fair value was granted to employees as a result of those modifications.

The vesting conditions of the new grants under the 2020 Plan include both service conditions and non-market performance conditions. The new grants to each employee/director would vest in instalments of 30%, 30%, 20% and 20% at each anniversary from the grant date over the next four years.

The Group has sponsored a limited partnership vehicle (Tianjin Huafang Feiteng Technology Center (L.P.) (天津花房飛騰科技中心（有限合夥）) ("**Huafang Feiteng**"),) established by its employees to hold 6.25% of its shares to meet the obligations of physical delivery of vested shares under the 2020 Plan. Employees that participate in the 2020 Plan have subscribed for the shares in the shareholding vehicles of Huafang Feiteng at a nominal amount and can receive the shares of Huafang Technology indirectly when the units are vested. The subscription price will be returned to the employees for units that are forfeited under the 2020 Plan.

23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) Restricted share unit ("RSU") Scheme of the Company (Continued)

Along with the incorporation of the Company and the completion of the Reorganisation, the 2020 Plan was adjusted to be carried out on the level of the Company with no other changes including but not limited to the terms and condition. There is no change in the accounting treatment due to this adjustment.

As the Group has power to govern the relevant activities of Huafang Feiteng and its shareholding vehicles and can derive benefits from the contributions of the eligible employees who are awarded with the shares under the stock incentive plan, the Group has consolidated these vehicles and reflected non-vested shares held by Huafang Feiteng as other reserve.

(i) Fair value and assumptions

The fair value of the restricted share units granted was estimated at the date of grant, using the discounted cash flow method or latest financing price to determine the equity fair value of Mijing Hefeng under 2017 Plan and Huafang Technology under 2020 Plan, and adopting the valuation model of Average Asian Option Pricing Model to determine the fair value of the underlying restricted share units, taking into account the terms and conditions upon which the restricted share units were granted. The following table lists the inputs to the model used:

Assumptions of restricted share units	2020	2019	2018
Volatility	61.80%	58.76%	68.40%
Dividend yield	0%	0%	0%
Expected option life (months)	23.0–30.0	39.0	52.0

The fair value of the equity interests was measured by the valuation reports which were prepared by independent professional valuers and reviewed and approved by the management of the Group.

(ii) Set out below are the movement in the number of awarded restricted share units under the RSU Scheme:

	2023 **'000**	2022 '000
Outstanding at the beginning of the reporting period	**297,415**	613,912
Forfeited during the reporting period	**(72,639)**	(27,149)
Vested during the reporting period	**(97,297)**	(289,348)
Outstanding at the end of the reporting period	**127,479**	297,415

23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(b) Share options

A share option scheme was authorised in November 2022 to incentivise employees. These options will be vested in three tranches, being 40% after one year and 30% after the two year and 30% after the third year from the date of grant and are then exercisable within a period of three years.

(i) The number and weighted average exercise prices of share options are as follows:

	At 31 December 2023	
	Weighted average exercise price *USD*	**Number of options** *'000*
Outstanding at the beginning of the reporting period	**0.0001**	**89,502**
Forfeited during the reporting period	**0.0001**	**(17,549)**
Granted during the reporting period	**–**	**–**
Exercised during the reporting period	**–**	**–**
Outstanding at the end of the reporting period	**0.0001**	**71,953**
Exercisable at the end of the reporting period	**0.0001**	**31,414**

	At 31 December 2022	
	Weighted average exercise price *USD*	Number of options *'000*
Outstanding at the beginning of the reporting period	–	–
Forfeited during the reporting period	–	–
Granted during the reporting period	0.0001	89,502
Exercised during the reporting period	–	–
Outstanding at the end of the reporting period	0.0001	89,502
Exercisable at the end of the reporting period	–	–

23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(b) Share options (Continued)

(ii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model.

	2022
At the date of grant	
Fair value at measurement date *(RMB)*	2.43
Exercise price *(USD)*	0.0001
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	63.52%–75.48%
Dividend yield	0%
Risk-free interest rate	2.10%–2.40%

(c) (Credit)/Expenses arising from equity-settled share-based transactions

	2023 *RMB'000*	2022 *RMB'000*
Cost of sales	**(4,546)**	12,563
Selling and marketing expenses	**(535)**	948
General and administrative expenses	**126,794**	26,246
Research and development expenses	**(2,831)**	5,421
	118,882	45,178

24. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements of current taxation in the consolidated statement of financial position are as follows:

	2023 *RMB'000*	2022 *RMB'000*
Income tax payable at 1 January	**513**	8,871
Provision for the year	**7,285**	20,216
Income tax paid	**(9,507)**	(28,574)
Income tax (recoverable)/payable at 31 December	**(1,709)**	513

24. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised

(i) Movements of each component of deferred tax assets and liabilities

The deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the years ended 31 December 2023 and 2022 are as follows:

	Revaluation of property and equipment, and intangible assets *RMB'000*	Deductible cumulative tax losses *RMB'000*	Other temporary differences *RMB'000*	Total *RMB'000*
Deferred tax arising from:				
At 1 January 2022	(19,524)	63,814	57	44,347
(Charged)/Credited to profit or loss *(Note 7(a))*	3,006	(43,623)	(422)	(41,039)
Charged to other comprehensive income	–	–	(375)	(375)
At 31 December 2022 and 1 January 2023	**(16,518)**	**20,191**	**(740)**	**2,933**
Credited/(Charged) to profit or loss *(Note 7(a))*	**2,905**	**(2,069)**	**220**	**1,056**
Credited to other comprehensive income	**–**	**–**	**66**	**66**
At 31 December 2023	**(13,613)**	**18,122**	**(454)**	**4,055**

At 31 December 2023 and 2022, the Group has tax losses arising in the PRC of approximately RMB120,813,000 and approximately RMB134,607,000, respectively, which is probable that such tax losses can be offset against future taxable profit of the respective subsidiaries for a maximum of 10 years and shall be expired in 2029.

(ii) Reconciliations to the consolidated statement of financial position

	2023 ***RMB'000***	2022 *RMB'000*
Deferred tax assets	**17,974**	19,773
Deferred tax liabilities	**(13,919)**	(16,840)
	4,055	2,933

24. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements, certain subsidiaries of the Company incorporated in Hong Kong and the PRC have estimated unused tax losses of approximately RMB11,004,000 and approximately RMB160,914,000, respectively (2022: approximately RMB18,633,000 and approximately RMB115,449,000, respectively) available for offsetting against future profits, which are subject to the agreement from the tax authority. The Group has not recognised deferred tax assets in respect of cumulative tax losses as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entities.

At the end of the reporting period, the Group has the following tax losses arising in the PRC that can be offset against future taxable profits of the respective subsidiaries for a maximum of 5 years or 10 years which are available to certain PRC subsidiaries approved to be "New and High Technology Enterprise" from the year in which the tax loss was incurred:

	2023 ***RMB'000***	2022 *RMB'000*
2023	**–**	29,795
2024	**1,411**	11,433
2025	**11,457**	16,702
2026	**9,932**	18,314
2027	**933**	39,205
2028	**32,850**	–
2029	**10,022**	–
2030	**5,245**	–
2031	**8,381**	–
2032	**38,272**	–
2033	**42,411**	–
No expiry	**11,004**	18,633
Total	**171,918**	134,082

(d) Deferred tax liabilities not recognised

At 31 December 2023, the Group did not recognise deferred tax liabilities in respect of undistributed retained earnings of the subsidiaries in the PRC of the Group amounting to approximately RMB29,567,000 (2022: approximately RMB28,747,000), as the Group is able to control the timing of the distribution of the retained earnings of these subsidiaries and it is probable that the subsidiaries would not make such distribution relating to these undistributed retained earnings in the foreseeable future.

25. CAPITAL, RESERVES AND DISTRIBUTIONS

(a) Movements of the Company's equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity during the years ended 31 December 2023 and 2022 is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity are set out below:

	Share capital RMB'000 (Note 25(b))	Share premium RMB'000 (Note 25(c)(i))	Share-based payment reserve RMB'000 (Note 25(c)(iv))	Translation reserve RMB'000 (Note 25(c)(v))	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2022	33	–	30,190	–	–	30,223
Loss for the year	–	–	–	–	(5,685)	(5,685)
Other comprehensive loss						
Item that will not be reclassified to profit or loss:						
Exchange differences on translation of the Company's financial statements to presentation currency	–	–	–	(270)	–	(270)
Total comprehensive loss for the year	–	–	–	(270)	(5,685)	(5,955)
Transaction with owners						
Contributions and distributions						
Issue of shares pursuant to the Capitalisation Issue *(Note 25(b)(i))*	629	(629)	–	–	–	–
Issue of shares pursuant to the Global Offering *(Note 25(b)(ii))*	32	110,889	–	–	–	110,921
Equity-settled share-based transactions	–	–	45,178	–	–	45,178
	661	110,260	45,178	–	–	156,099
At 31 December 2022	694	110,260	75,368	(270)	(5,685)	180,367
At 1 January 2023	**694**	**110,260**	**75,368**	**(270)**	**(5,685)**	**180,367**
Loss for the year	**–**	**–**	**–**	**–**	**(11,042)**	**(11,042)**
Other comprehensive income						
Item that will not be reclassified to profit or loss:						
Exchange differences on translation of the Company's financial statements to presentation currency	**–**	**–**	**–**	**1,840**	**–**	**1,840**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**1,840**	**(11,042)**	**(9,202)**
Transaction with owners						
Contributions and distributions						
Equity-settled share-based transactions	**–**	**–**	**118,882**	**–**	**–**	**118,882**
At 31 December 2023	**694**	**110,260**	**194,250**	**1,570**	**(16,727)**	**290,047**

25. CAPITAL, RESERVES AND DISTRIBUTIONS (CONTINUED)

(b) Share capital

The Company was incorporated in the Cayman Islands on 1 June 2021 in order to comply with relevant foreign investment restrictions in the PRC, with an initial authorised share capital of USD50,000 divided into 500,000,000 shares of USD0.0001 each. On 1 June 2021 and 29 July 2021, the Company issued 53,333,333 shares to the original shareholders.

The Articles of Association of the Company were conditionally adopted on 21 November 2022 and the authorised capital of the Company at the date of adoption of the Articles is USD200,000 divided into 2,000,000,000 shares of USD0.0001 each.

	Number of ordinary shares *'000*	Amount *RMB'000*
Issued and fully paid:		
At 1 January 2022	53,333	33
Issue of shares pursuant to Capitalisation Issue *(Note (i))*	900,667	629
Issue of shares pursuant to the Global Offering *(Note (ii))*	46,000	32
At 31 December 2022, 1 January 2023 and 31 December 2023	1,000,000	694

(i) Pursuant to the resolutions in writing of the Company's shareholders passed on 22 November 2022, subject to the share premium account of the Company being credited as a result of the issue of the Company's shares under the Listing, the directors of the Company were authorised to allot and issue a total of 900,666,667 shares of USD0.0001 each to the existing shareholders, credited as fully paid at par by way of capitalisation of the sum of approximately USD90,067 (equivalent to approximately RMB629,000) standing to be credit of the share premium account of the Company (the "**Capitalisation Issue**") and the shares to be allotted and issued pursuant to this resolution shall carry the same rights as all shares in issue (save for the rights to participate in the Capitalisation Issue). The Capitalisation Issue was fully completed on 30 November 2022.

(ii) On 12 December 2022, the Company issued 46,000,000 ordinary shares with a par value of USD0.0001 each, at a price of HKD2.8 per share by way of global offer ("**Global Offering**") upon the Listing. The proceeds of approximately USD4,600 (equivalent to approximately RMB32,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of approximately RMB110,889,000 (net of share issuance expenses of approximately RMB4,503,000), were credited to the share premium account.

25. CAPITAL, RESERVES AND DISTRIBUTIONS (CONTINUED)

(c) Nature and purpose of reserves

(i) Share premium

Share premium represents the excess of the net proceeds from issuance of the Company's shares over its par value. Under the laws of the Cayman Islands and the Company's Articles of Association, it is distributable to the Company's shareholders provided that the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

(iii) Other reserve

The aggregate amount of the paid-in capital of all the entities comprising the Group at the respective dates were recorded as other reserve, after elimination of investments in subsidiaries.

In accordance with the relevant PRC laws and regulations, the Company's subsidiaries established and operated in the PRC are required to transfer 10% of its net profit to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increase capital of the subsidiary and is non-distributable other than in liquidation.

At 31 December 2023, the statutory reserve made by the Company's PRC subsidiaries amounting to approximately RMB166,511,000 (2022: approximately RMB166,429,000) were included in the Group's reserves.

As disclosed in Note 23 to the consolidated financial statements, Huafang Feiteng is controlled by the Company and therefore the unvested portion of shares issued to Huafang Feiteng was presented as other reserve. Such other reserve represents the shares held by Huafang Feiteng controlled by the Company for the RSU Scheme.

The other reserve also comprises the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/received arising from the changes in ownership interests in subsidiaries that do not result in a loss of control.

25. CAPITAL, RESERVES AND DISTRIBUTIONS (CONTINUED)

(c) Nature and purpose of reserves (Continued)

(iv) Share-based payment reserve

The share-based payments reserve represents the portion of the grant date fair value of unvested restricted share units granted to the employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments as set out in the relevant accounting policy adopted by the Group in Note 2 to the consolidated financial statements.

(v) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of foreign operations and/or translation of Company's financial statements into presentation currency.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and 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 shareholder 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.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business.

The Group is also exposed to fair value price risk on its investments.

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.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(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 exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with a minimum credit rating assigned by the management of the Group, for which the Group considered to have low credit risk.

The Group's credit risk is primarily attributable to trade receivables and other receivables. The directors of the Company expect the occurrence of losses from non-performance by the counterparties of trade and other receivables was remote and loss allowance provision for trade and other receivables was immaterial.

Trade receivables

Trade receivables mainly arise from advertisement and technical services provided to certain corporate clients.

Receivables that were past due but not impaired relate to a number of diversified customers. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9. To measure ECL, trade receivables have been grouped based on shared credit risk characteristics which is the days past due. Expected loss rate of the overall trade receivables is assessed to be 0.5%. Based on evaluation on expected loss rate and gross carrying amount, the directors of the Company are of the opinion that the ECL in respect of these balances is considered immaterial and therefore there has not been a provision of loss allowance.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Other receivables

Other receivables mainly included receivable from third party payment platform, deposits, loans and others. The receivable from third party payment platform at the end of each reporting period were due from reputable online payment platforms, such as WeChat, Alipay and Apple pay etc. In the view of the history of cooperation with the online platforms and the sound collection history of the balance due from them, the director of the Company believes that the credit risk inherent in the Group's outstanding receivable balance from third party payment platform is very low, thus no expected credit losses were provided during the years ended 31 December 2023 and 2022. For deposits, loans and others, the Group made periodic assessments as well as individual assessments on the recoverability based on historical experience and prevailing conditions, the average expected loss rates during the years ended 31 December 2023 and 2022 were ranging from 0.08% to 14%.

(b) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group has no specific policy for managing its liquidity.

The following tables show the remaining contractual maturities at 31 December 2023 and 2022 of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at 31 December 2023 and 2022) and the earliest dates the Group can be required to pay:

	At 31 December 2023 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 but less than 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Trade payables	64,010	–	–	–	64,010	64,010
Accrued expenses and other payables	60,732	–	–	–	60,732	60,732
Lease liabilities	8,865	8,548	5,440	–	22,853	21,401
Provision for loss on the Incident	154,895	–	–	–	154,895	154,895
	288,502	8,548	5,440	–	302,490	301,038

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (Continued)

	At 31 December 2022 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 but less than 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Trade payables	164,630	–	–	–	164,630	164,630
Accrued expenses and other payables	70,764	–	–	–	70,764	70,764
Lease liabilities	13,850	14,260	22,502	–	50,612	46,344
Provision for loss on the Incident	154,895	–	–	–	154,895	154,895
	404,139	14,260	22,502	–	440,901	436,633

(c) Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is primarily exposed to fair value interest rate risk in relation to lease liabilities and cash flow risk in relation to variable-rate bank balances. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances and cash is insignificant because the current market interest rates are relatively low and stable.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value measurement

(i) Financial assets and liabilities measured at fair value

In accordance with IFRS 13 Fair Value Measurement, the Group defines the three levels of fair value hierarchy. 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.

Recurring fair value measurements	Fair value at 31 December 2023	Fair value Measurement at 31 December 2023 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets:				
Financial products issued by banks	**100,838**	–	–	**100,838**
Unlisted equity investments	**45,671**	–	–	**45,671**
	146,509	–	–	**146,509**

Recurring fair value measurements	Fair value at 31 December 2022	Fair value Measurement at 31 December 2022 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets:				
Financial products issued by banks	422,238	–	–	422,238
Unlisted equity investments	133,777	–	–	133,777
	556,015	–	–	556,015

During the years ended 31 December 2023 and 2022, 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 at the end of the reporting period in which they occur.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value measurement (Continued)

Information about Level 3 fair value measurements

(i) Financial products issued by banks

Financial products issued by banks were mainly principal-guaranteed structured deposits, while the rest were short-term and redeemable on-demand investment products. Financial products issued by banks typically had a maturity period of less than three months during the years ended 31 December 2023 and 2022.

The fair value of financial products issued by banks has been estimated and reported by the banks on a monthly basis. The unobservable inputs are the expected annual return rate fixed in the investment contracts. These expected annual return rates were up to 2.22% at 31 December 2023 (2022: up to 4.36%).

At 31 December 2023 and 2022, it is estimated that with all other variables held constant, an increase/decrease of the fair value of the financial products issued by banks by 1% would have decreased/increased (2022: increased/decreased) the Group's (loss)/profit before taxation by approximately RMB1,008,000 and approximately RMB4,220,000, respectively.

The movements of financial products issued by banks during the years ended 31 December 2023 and 2022 in the balance of these Level 3 fair value measurements are as follows:

	2023 **RMB'000**	2022 RMB'000
At the beginning of the reporting period	**422,238**	45,346
Addition	**111,338**	6,452,739
Disposal	**(431,968)**	(6,076,610)
Change in fair value	**(770)**	763
At the end of the reporting period	**100,838**	422,238

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value measurement (Continued)

Information about Level 3 fair value measurements (Continued)

(ii) Unlisted equity investments

The carrying amount of equity investments are measured at fair values in the consolidated statement of financial position at 31 December 2023 and 2022. The Group's equity investments are investments in unlisted companies. The Group determines the fair value by adopting the precedent transaction analysis, income approach or cost approach, as appropriate. The valuation involves the management of the Group's estimates on recent transaction prices or cash flow forecast for the relevant business and requires the adoption of certain assumptions such as budgeted sales, gross margin, other related expenses, discount rate and terminal growth rate and fair value of relevant assets and liabilities. Where observable market data is not available, or where instruments are not liquid, estimates must be developed based on the most appropriate source data.

At 31 December 2023 and 2022, it is estimated that with all other variables held constant, an increase/decrease in the fair values of equity investments by 1% would have decreased/increased the Group's other reserve by approximately RMB457,000 and approximately RMB1,338,000, respectively.

The movements of unlisted equity investments during the years ended 31 December 2023 and 2022 in the balance of these Level 3 fair value measurements are as follows:

	2023 ***RMB'000***	2022 *RMB'000*
At the beginning of the reporting period	**133,777**	65,960
Addition	**4,000**	84,000
Disposal	**(10,000)**	–
Change in fair value	**(82,106)**	(16,183)
At the end of the reporting period	**45,671**	133,777

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value measurement (Continued)

Information about Level 3 fair value measurements (Continued)

(ii) Unlisted equity investments (Continued)

The following table shows the significant unobservable inputs used in the valuation model for the material unlisted equity investments:

Assets	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity of unobservable inputs
Equity investment in Wuhan Qijifangzhou	Level 3	Discounted cash flow method (2022: Discounted cash flow method)	Long-term growth rate	2%-4% (2022: –1%-1%)	The higher long-term growth rate, the higher fair value of the investment, and vice versa	Increase/Decrease 1% result in increase/decrease in fair value by approximately RMB1,195,000/RMB993,000 (2022: RMB600,000/ RMB600,000)
			Discount rate	13%-15% (2022: 11%-13%)	The higher discount rate, the lower fair value of the investment, and vice versa	Increase/Decrease 1% result in decrease/increase in fair value by approximately RMB1,483,000/ RMB1,796,000 (2022: RMB900,000/RMB1,000,000)
Equity investment in Billionaire	Level 3	Discounted cash flow method (2022: Precedent transaction analysis)	Long-term growth rate (2022: N/A)	2%-4% (2022: N/A)	The higher long-term growth rate, the higher fair value of the investment, and vice versa	Increase/Decrease 1% result in increase/decrease in fair value by approximately RMB1,461,000/ RMB1,195,000 (2022: Nil)
			Discount rate (2022: N/A)	12%-14% (2022: N/A)	The higher discount rate, the lower fair value of the investment, and vice versa	Increase/Decrease 1% result in decrease/increase in fair value by approximately RMB1,505,000/ RMB1,875,000 (2022: Nil)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value measurement (Continued)

Information about Level 3 fair value measurements (Continued)

(ii) Unlisted equity investments (Continued)

The following table shows the significant unobservable inputs used in the valuation model for the material unlisted equity investments: *(Continued)*

Assets	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity of unobservable inputs
Equity investment in Battuta	Level 3	Discounted cash flow method (2022: Discounted cash flow method)	Long-term growth rate	2%-4% (2022: –1%-1%)	The higher long-term growth rate, the higher fair value of the investment, and vice versa	Increase/Decrease 1% result in increase/decrease in fair value by approximately RMB1,679,000/ RMB1,374,000 (2022: RMB2,800,000/ RMB2,300,000)
			Discount rate	12%-14% (2022: 11%-13%)	The higher discount rate, the lower fair value of the investment, and vice versa	Increase/Decrease 1% result in decrease/increase in fair value by approximately RMB1,861,000/ RMB2,286,000 (2022: RMB2,900,000/ RMB3,500,000)
Equity investment in Hainan Lefuqiyu	Level 3	Discounted cash flow method (2022: Precedent transaction analysis)	Long-term growth rate (2022: N/A)	2%-4% (2022: N/A)	The higher long-term growth rate, the higher fair value of the investment, and vice versa	Increase/Decrease 1% result in increase/decrease in fair value by approximately RMB538,000/RMB447,000 (2022: Nil)
			Discount rate (2022: N/A)	13%-15% (2022: N/A)	The higher discount rate, the lower fair value of the investment, and vice versa	Increase/Decrease 1% result in decrease/increase in fair value by approximately RMB692,000/RMB834,000 (2022: Nil)

27. NON-CONTROLLING INTERESTS

The following table shows the information relating to non-wholly owned subsidiaries that have material non-controlling interest ("**NCI**") during the years ended 31 December 2023. The summarised financial information represents amounts before inter-company eliminations.

	Mijing Hefeng and its subsidiaries
At 31 December 2023	
Proportion of NCI's ownership interests	**1.5%**
	RMB'000
Current assets	**1,097,441**
Non-current assets	**112,093**
Current liabilities	**(122,379)**
Non-current liabilities	**(13,685)**
Net assets	**1,073,470**
Carrying amount of NCI	**16,102**
Year ended 31 December 2023	
Revenue and other income	**379,806**
Expenses	**(446,642)**
Loss and total comprehensive loss	**(66,836)**
Total comprehensive loss attributable to NCI	**(1,004)**
Net cash flows from/(used in):	
Operating activities	**1,996**
Investing activities	**324**
Financing activities	**(54)**

28. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES THAT DO NOT RESULT IN A LOSS OF CONTROL

	2023 RMB'000	2022 RMB'000
Net consideration	219	–
Disposal of interests in subsidiaries without loss of control	(17,105)	–
Difference recognised in equity	(16,886)	–

On 11 August 2023, the Group disposed 1.5% of the equity interests out of 100% interest held in Mijing Hefeng at consideration of approximately RMB219,000. The increase of carrying amount of the non-controlling interests in Mijing Hefeng's net assets on the date of disposal was approximately RMB17,105,000. This resulted in a decrease in equity attributable to owners of the Company of approximately RMB16,886,000.

29. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

In additions to the transactions/information disclosed elsewhere in the consolidated financial statements, the material related party transactions entered into by the Group and the balances with related parties at the end of each year are set out below.

(a) Names and relationships of the related parties that had material transactions with the Group during the year:

Chinese name of related party	English name of related party	Relationship
北京奇虎科技有限公司	Beijing Qihu Technology Co., Ltd.	controlled by controlling shareholder
北京鴻享技術服務有限公司	Beijing Hongxiang Technology Service Co., Ltd.	controlled by controlling shareholder
北京鴻盈信息技術有限公司	Beijing Hongying Technology Service Co., Ltd.	controlled by controlling shareholder
天津奇瀚科技有限公司	Tianjin Qihan Technology Co., Ltd.	controlled by controlling shareholder
北京奇元科技有限公司	Beijing Qiyuan Technology Co., Ltd.	controlled by controlling shareholder

* The official names of these entities are in Chinese. The English translation of the names is for identification purpose only.

29. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Transactions with related parties

	2023 **RMB'000**	2022 *RMB'000*
Charges of rental services	**462**	1,319
Charges of other services*	**22,474**	29,386

* Charges of other services mainly included bandwidth expenses and promotion and advertising expenses, which constitute continuing connected transactions. In the opinion of the management of the Group, they are under normal commercial terms that are fair and reasonable and in the best interests of the Group.

(c) Balances with related parties

The Group's balances with related parties at the end of the reporting period are as follows:

	2023 **RMB'000**	2022 *RMB'000*
Prepayments, deposits and other receivables*	**332**	1,223
Trade payables	**2,108**	7,159
Accrued expenses and other payables	**925**	423

* Prepayments, deposits and other receivables are mainly bandwidth charges.

Amounts due from and to related parties of the Group are unsecured, interest-free, repayable on demand/on contract terms. All balances with related parties are trade in nature.

(d) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the directors of the Company.

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 9(a) to the consolidated financial statements, and certain of the highest paid employees as disclosed in Note 9(b) to the consolidated financial statements, is as follows:

	2023 **RMB'000**	2022 *RMB'000*
Short-term employee benefits	**12,954**	19,189
Post-employment benefits	**229**	292
Share-based payments expenses	**73,458**	29,213
	86,641	48,694

Total remuneration was included in staff costs as set out in Note 6(b) to the consolidated financial statements.

30. INVESTMENTS IN SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries at the end of each reporting period and up to the date of this report are as follows:

Name of subsidiary	Class of shares held	Place of incorporation/ registration and operation and date of incorporation	Registered/ Issued and paid-up capital	Attributable equity interest held by the Company		Principal activities
				2023	2022	
Directly held –						
Liuhua HK Limited	Ordinary share	Hong Kong ("**HK**")/ 10 June 2021	HKD10,000	**100%**	100%	Investment holding
EXU Inc.	Ordinary share	Cayman Islands/ 6 August 2014	USD50,000	**100%**	100%	Investment holding
Party Game PTE. LTD. ("**Party Game**") *(iii)*	Ordinary share	Singapore/ 2 November 2022	SGD100,000	**100%**	–	Dormant
Indirectly held –						
Chengdu Huafang Online Technology Co., Ltd. (成都花房在線科技有限公司, "**Chengdu Huafang**") *(i)*	Ordinary share	The PRC/ 28 June 2021	USD100,000	**100%**	100%	Investment holding
Huafang Technology *(i)* and *(ii)*	Ordinary share	The PRC/ 22 March 2006	RMB53,333,333	**100%**	100%	Operation of livestreaming platforms
Mijing Hefeng *(i)*, *(ii)* and *(iv)*	Ordinary share	The PRC/ 24 December 2014	RMB14,623,400	**98.5%**	100%	Operation of livestreaming platforms
Sichuan Huayin Technology Co., Ltd. (四川花音科技有限公司, "**Sichuan Huayin**") *(i)*, *(ii)* and *(iv)*	Ordinary share	The PRC/ 30 March 2019	RMB2,000,000	**98.5%**	100%	Supporting service to operation of mobile livestreaming platforms, voice-centric apps
Hainan Kailin Technology Co., Ltd. (海南凱林科技有限公司, "**Hainan Kailin**") *(i)*, *(ii)* and *(iv)*	Ordinary share	The PRC/ 22 May 2020	RMB1,000,000	**98.5%**	100%	Supporting service to operation of mobile livestreaming platforms

30. INVESTMENTS IN SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name of subsidiary	Class of shares held	Place of incorporation/ registration and operation and date of incorporation	Registered/ Issued and paid-up capital	Attributable equity interest held by the Company		Principal activities
				2023	2022	
Beijing Huafang Canlan Technology Co., Ltd. (北京花房燦爛科技有限公司, "**Huafang Canlan**") *(i)*	Ordinary share	The PRC/ 27 March 2018	RMB10,000,000	**100%**	100%	Investment holding in internet entities
Beijing HOLLA *(i)* and *(ii)*	Ordinary share	The PRC/ 22 July 2016	RMB74,762,849	**100%**	100%	Virtual idol design and operation and operation of internet social application
Chengdu Huayang Technology Co., Ltd. (成都花漾科技有限公司, "**Chengdu Huayang**") *(i)* and *(ii)*	Ordinary share	The PRC/ 16 April 2019	RMB1,000,000	**100%**	100%	Investment holding in internet entities
Maijike *(i)* and *(ii)*	Ordinary share	The PRC/ 1 September 2017	RMB10,000,000	**100%**	100%	Operation of internet social application
Beijing Ruzuo Technology Co., Ltd. (北京入座科技有限公司, "**Ruzuo Technology**") *(i), (ii)* and *(iv)*	Ordinary share	The PRC/ 15 October 2020	RMB1,000,000	**98.5%**	100%	Dormant
Beijing Huafang Hongfa Technology Co., Ltd. (北京花房鴻發科技有限公司 "**Beijing Hongfa**") *(i)* and *(ii)*	Ordinary share	The PRC/ 13 May 2021	RMB1,000,000	**99%**	99%	Dormant
EXU (HK) LIMITED ("**EXU**")	Ordinary share	HK/ 13 August 2014	HKD10,000	**100%**	100%	Operation of dating centric live social apps
MONKEY, INC. ("**Monkey**")	Ordinary share	The United States ("**US**")/ 27 September 2017	USD50	**100%**	100%	Operation of dating centric live social apps

30. INVESTMENTS IN SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name of subsidiary	Class of shares held	Place of incorporation/ registration and operation and date of incorporation	Registered/ Issued and paid-up capital	Attributable equity interest held by the Company		Principal activities
				2023	2022	
CHATWITH, INC. ("**Chatwith**")	Ordinary share	US/9 April 2020	USD50	**100%**	100%	Operation of dating centric live social apps
OVIEDO INTERACTIVES LIMITED ("**Oviedo**")	Ordinary share	HK/ 11 September 2019	HKD10,000	**100%**	100%	Operation of dating centric live social apps
MITU INC LIMITED ("**Mitu**")	Ordinary share	HK/ 20 August 2020	HKD10,000	**100%**	100%	Operation of dating centric live social apps
HG VISION PTE. LTD. ("**HG Vision**")	Ordinary share	Singapore/ 28 April 2022	Singapore Dollar ("**SGD**") 100,000	**100%**	100%	Dormant
Chengdu Yuanjin *(i)*, *(ii)* and *(iv)*	Ordinary share	The PRC/ 8 April 2022	RMB1,000,000	**64.025%**	65%	Dormant
Tianjin Huafang Online Technology Co., Ltd. (天津花房在線科技有限責任公司, "**Tianjin Huafang**")	Ordinary share	The PRC/ 17 January 2023	RMB150,000,000	**100%**	–	Dormant
Mijing Hefeng (Zhuhai Hengqin) Technology Co., Ltd. (密境和風（珠海橫琴）科技有限公司, "**Mijing Hefeng Zhuhai**") *(iv)*	Ordinary share	The PRC/ 29 May 2023	RMB1,000,000	**98.5%**	–	Supporting service to operation of mobile livestreaming platforms

30. INVESTMENTS IN SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name of subsidiary	Class of shares held	Place of incorporation/ registration and operation and date of incorporation	Registered/ Issued and paid-up capital	Attributable equity interest held by the Company 2023	2022	Principal activities
Beijing Huafang Television Communication Co., Ltd. (北京花房影視傳媒有限公司, "**Huafang Television**")	Ordinary share	The PRC/ 19 July 2023	RMB1,000,000	**100%**	–	Dormant
Ai Ta Intelligent Technology (Chengdu) Co., Ltd. (愛塔智能科技(成都)有限公司, "**Ai Ta**") *(i)* and *(iii)*	Ordinary share	The PRC/ 23 April 2020	RMB10,000,000	**100%**	–	Dormant
Hai Nan Huafang Cuican Technology Limited (海南花房璀璨科技有限公司, "**Hai Nan Huafang**") *(i)* and *(iii)*	Ordinary share	The PRC/ 20 August 2022	RMB1,000,000	**100%**	–	Operation of livestreaming platforms
Huafang Investment Holding Limited	Ordinary share	British Virgin Islands/ 19 January 2023	USD50,000	**100%**	–	Investment holding
Third Space Limited	Ordinary share	HK/ 10 March 2023	HKD1	**100%**	–	Dormant
E LEO. PTE. LTD.	Ordinary share	Singapore/ 30 May 2023	SGD100,000	**100%**	–	Dormant

30. INVESTMENTS IN SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name of subsidiary	Class of shares held	Place of incorporation/ registration and operation and date of incorporation	Registered/ Issued and paid-up capital	Attributable equity interest held by the Company 2023	2022	Principal activities
Beijing Yiqi Kaqi Technology Limited (北京一起咔柒科技有限公司)	Ordinary share	The PRC/ 21 March 2023	RMB1,000,000	**100%**	–	Dormant
Hai Nan Mi He Technology Limited (海南米荷科技有限公司, "**Hai Nan Mi He**") *(v)*	Ordinary share	The PRC/ 24 August 2022	RMB1,000,000	**–**	–	Dormant
Hai Nan Yi Meng Technology Limited (海南逸盟科技有限公司, "**Hai Nan Yi Meng**") *(v)*	Ordinary share	The PRC/ 26 August 2022	RMB1,000,000	**–**	–	Dormant
Zhuhai Hengqin Youyou Chuangxiang Technology Limited (珠海横琴游游創想科技有限公司)	Ordinary share	The PRC/ 29 January 2024	RMB1,000,000	**–**	–	Dormant
Zhuhai Hengqin Duoyuan Zhaoqi Technology Limited (珠海横琴多元朝氣科技有限公司)	Ordinary share	The PRC/ 31 January 2024	RMB1,000,000	**–**	–	Dormant

30. INVESTMENTS IN SUBSIDIARIES OF THE COMPANY (CONTINUED)

(i) All these subsidiaries are domestic limited liability companies.

(ii) Prior to the incorporation of the Company and the completion of the Reorganisation, the Listing Business was carried out by Huafang Technology, Mijing Hefeng, Hainan Kailin, Huafang Canlan, Beijing HOLLA, Chengdu Huayang, Maijike, Sichuan Huayin, Ruzuo Technology, Beijing Hongfa and Chengdu Yuanjin (together referred to "**Huafang Technology Controlled Entities**").

As the operating live streaming platforms are essential for the operations of the Listing Business, they are conducted by Huafang Technology Controlled Entities registered in the PRC and are subject to foreign investment restrictions under the relevant PRC laws and regulations, as part of the Reorganisation, Chengdu Huafang, an indirectly wholly-owned subsidiary of the Company, entered into a series of contractual arrangements (the "**Contractual Arrangements**"), with Huafang Technology and its registered shareholders, as detailed in the section headed "Contractual Arrangements" in the Prospectus.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Huafang Technology, receive variable returns from involvement in Huafang Technology, has the ability to affect those returns through its power over Huafang Technology, and hence, has the control over Huafang Technology. Consequently, the Group regards Huafang Technology Controlled Entities as subsidiaries of the Group and Huafang Technology Controlled Entities are consolidated into the Group's consolidated financial statements. The directors of the Company believes that the Contractual Arrangements are in compliance with the PRC laws and are legally enforceable.

The companies accounted for as subsidiaries through Contractual Arrangements contributed revenue of approximately RMB2,305,000,000 (2022: RMB4,913,000,000) to the Group, representing approximately 90% (2022: 96%) of the Group's total revenue for the year ended 31 December 2023, and the total assets and total liabilities of approximately RMB2,080,000,000 (2022: RMB3,370,628,000) and approximately RMB233,505,000 (2022: RMB548,790,000), representing approximately 90% (2022: 99%) and approximately 91% (2022: 97%) of the Group's total assets and total liabilities at 31 December 2023, respectively.

(iii) Ai Ta, Hai Nan Huafang and Party Game were acquired by the Group during the year ended 31 December 2023.

(iv) During the year ended 31 December 2023, the Group disposed 1.5% shareholding of Mijing Hefeng to an independent third party at a consideration of approximately RMB219,000.

(v) Subsequently to 31 December 2023, Hai Nan Mi He and Hai Nan Yi Meng were acquired by the Group which are dormant.

None of the subsidiaries had any debt securities outstanding as at the end of the reporting period or at any time during the reporting period.

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2023** **RMB'000**	2022 RMB'000
Non-current assets			
Investment in subsidiaries		**194,249**	75,367
		194,249	75,367
Current assets			
Cash at banks and on hand		**102,701**	112,291
		102,701	112,291
Current liabilities			
Trade payables		**387**	–
Accrued expenses and other payables		**4,849**	5,683
Amount due to subsidiaries	*(a)*	**1,667**	1,608
		6,903	7,291
Net current assets		**95,798**	105,000
Total assets less current liabilities		**290,047**	180,367
Net assets		**290,047**	180,367
Capital and reserves			
Share capital	*25(b)*	**694**	694
Reserves	*25(c)*	**289,353**	179,673
Total equity		**290,047**	180,367

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 26 March 2024 and signed on its behalf by

Zhou Hongyi
Director

Yu Dan
Director

(a) Amounts due to subsidiaries

The amounts due are unsecured, interest-free and repayable on demand.

Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings.

"AGM"	annual general meeting of the Company
"AI"	artificial intelligence
"AIGC"	artificial intelligence-generated content
"ARPPU"	average revenue per paying user, calculated as revenue in a given period divided by the number of paying users during that period
"Articles"	the articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"CEO"	chief executive officer of the Company
"CG Code"	the "Corporate Governance Code" as contained in Appendix C1 (formerly "Appendix 14") to the Listing Rules
"Chairman"	the chairman of the Board
"China" or "PRC"	the People's Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"Company", "Group", "Huafang Group" or "we"	Huafang Group Inc. (花房集团公司), an exempted company incorporated under the laws of Cayman Islands with limited liability on 1 June 2021 and except where the context indicated otherwise its subsidiaries
"Consolidated Affiliated Entities"	the entities we control through the Contractual Arrangements, i.e., Huafang Technology and its subsidiaries including Mijing Hefeng, Hainan Kailin, Beijing Huafang Canlan Technology Co., Ltd. (北京花房燦爛科技有限公司), Beijing Holla Technology Co., Ltd. (北京猴啦科技有限公司), Chengdu Huayang Technology Co., Ltd. (成都花漾科技有限公司), Tianjin Maijike Network Technology Co., Ltd. (天津邁即刻網絡科技有限公司), Sichuan Huayin Technology Co., Ltd. (四川花音科技有限公司), Beijing Huafang Hongfa Technology Co., Ltd. (北京花房鴻發科技有限公司), Beijing Ruzuo Technology Co., Ltd. (北京入座科技有限公司) and Chengdu Yuanjin Culture Media Co., Ltd. (成都元錦文化傳媒有限公司), the financial accounts of which have been consolidated and accounted for as if they were subsidiaries of the Company by virtue of the Contractual Arrangements
"Contractual Arrangements"	a series of contractual arrangements we entered into to allow the Company to exercise control over the business operation of the Consolidated Affiliated Entities and enjoy all the economic interests derived therefrom, as more particularly described in the section headed "Contractual Arrangements" in the Prospectus
"Director(s)"	the director(s) of the Company

"Global Offering"	the Hong Kong Public Offering and the International Offering as defined and described in the Prospectus
"Hainan Kailin"	Hainan Kailin Technology Co., Ltd. (海南凱林科技有限公司), a limited liability company incorporated under the laws of PRC on 22 May 2020, one of our Consolidated Affiliated Entities
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"HOLLA Group"	a group of companies operated under EXU INC., including EXU (HK) LIMITED, Monkey, Inc., Chatwith, Inc., Oviedo Interactives Limited and Mitu Inc Limited, each of which is the subsidiary of the Company
"Huafang Technology"	Beijing Huafang Technology Co., Ltd. (北京花房科技有限公司) (formerly known as Beijing 6.cn Technology Co., Ltd. (北京六間房科技有限公司)), a limited liability company incorporated under the laws of PRC on 17 March 2006
"Huajiao-6.cn Merger"	has the meaning given to it in the section headed "History, Reorganization and Corporate Structure" in the Prospectus
"Independent Third Party(ies)"	an individual or a company which, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, is not a connected person of the Company within the meaning of the Listing Rules
"IPO"	the Company's initial public offering of its Shares
"Listing Date"	12 December 2022, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"MAU"	the number of active users during a given month
"Mijing Hefeng"	Beijing Mijing Hefeng Technology Co., Ltd. (北京密境和風科技有限公司), a limited liability company incorporated under the laws of PRC on 24 December 2014
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix C3 (formerly "Appendix 10") to the Listing Rules
"MPU"	the number of paying user during a given month

"Nomination Committee"	the nomination committee of the Company
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Company on 21 November 2022
"Prospectus"	the prospectus of the Company dated 30 November 2022
"Qihoo Group"	Beijing Hongxiang Technology Services Co., Ltd. (北京鴻享技術服務有限公司) and its subsidiaries and associates
"Registered Shareholders"	the registered shareholders of Huafang Technology
"Remuneration Committee"	the remuneration committee of the Company
"Reporting Period"	the year ended 31 December 2023
"RMB"	Renminbi, the lawful currency of the PRC
"R&D"	research and development
"Sanctioned Countries"	In the case of the United States sanctions, Cuba, Iran, North Korea, Syria, the Crimean, Donetsk People's Republic, and Luhansk People's Republic regions of Ukraine, and any other country or territory that is subject to a general and comprehensive export, import, financial or investment embargo under International Sanctions. In the case of European Union, United Kingdom and Australian sanctions, countries in relation to which economic sanctions were adopted
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of par value US$0.0001 each in the issued share capital of the Company "Shareholder(s)"
"Shareholders"	shareholders of the Company
"Songcheng Performance"	Songcheng Performance Development Co., Ltd. (宋城演藝發展股份有限公司), a controlling shareholder of the Company, a company incorporated in the PRC on 21 September 1994 and listed on the Shenzhen Stock Exchange since 9 December 2010 (stock code: 300144), which is principally engaged in investment, development and operation of theme parks, tourism, and cultural performances
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$" or "U.S. dollar"	United States dollars, the lawful currency of the United States of America
"WFOE"	Chengdu Huafang Online Technology Co., Ltd. (成都花房在線科技有限公司), a limited liability company incorporated under the laws of the PRC on 28 June 2021 and an indirect wholly-owned subsidiary of the Company
"%"	per cent