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花房集团
HUAFANG GROUP

Huafang Group Inc.
花房集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3611)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

KEY FINANCIALS

- Revenue for the year ended December 31, 2022 amounted to approximately RMB5.1 billion, representing an increase of 10.8% from approximately RMB4.6 billion recorded in 2021.
- Gross profit for the year ended December 31, 2022 amounted to approximately RMB1.3 billion, representing an increase of 6.2% from approximately RMB1.2 billion recorded in 2021.
- Profit attributable to equity shareholders of the Company for the year ended December 31, 2022 amounted to approximately RMB386.7 million, representing an increase of 19.0% from approximately RMB325.0 million recorded in 2021.
- Non-IFRS net profit attributable to equity shareholders of the Company was approximately RMB457.4 million for the year ended December 31, 2022, representing an increase of 6.2% from approximately RMB430.6 million recorded in 2021.
- Basic earnings per share and diluted earnings per share in 2022 were RMB0.40 cents and RMB0.40 cents (2021: RMB0.34 cents and RMB0.34 cents), respectively, representing an increase of 17.6% and 17.6% from 2021, respectively.

The audit process for the annual consolidated financial statement of Huafang Group Inc. (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended December 31, 2022 has not been completed as of the announcement date. In order to keep the shareholders of the Company (the “**Shareholders**”) and potential investors informed of the business operation and financial position of the Group, the board (the “**Board**”) of directors (the “**Directors**”) of the Company decided to present the unaudited consolidated final results of the Group for the year ended December 31, 2022, together with the comparative figures for the year ended December 31, 2021.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

For the year ended December 31, 2022

(Expressed in RMB)

	<i>Note</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue	4	5,097,508	4,599,690
Cost of sales		<u>(3,799,508)</u>	<u>(3,377,109)</u>
Gross profit		1,298,000	1,222,581
Other income, net	5	78,060	68,852
Selling and marketing expenses		(537,216)	(544,839)
General and administrative expenses		(152,525)	(146,011)
Research and development expenses		(235,329)	(207,850)
Impairment loss on goodwill and intangible assets		<u>(790)</u>	<u>–</u>
Profit from operations		<u>450,200</u>	<u>392,733</u>
Finance costs		(2,303)	(484)
Profit before taxation		447,897	392,249
Income tax	6	<u>(61,255)</u>	<u>(67,226)</u>
Profit for the year		<u>386,642</u>	<u>325,023</u>
Attributable to:			
Equity shareholders of the Company		386,683	325,023
Non-controlling interests		<u>(41)</u>	<u>–</u>
Profit for the year		<u>386,642</u>	<u>325,023</u>
Earnings per share (RMB)			
– Basic	7	<u>0.40</u>	<u>0.34</u>
– Diluted		<u>0.40</u>	<u>0.34</u>

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2022

(Expressed in RMB)

	2022	2021
	RMB'000	RMB'000
Profit for the year	386,642	325,023
Other comprehensive income for the year (after tax and reclassification adjustments):		
<i>Item that will not be reclassified to profit or loss:</i>		
– Changes in the fair value of financial assets at fair value through other comprehensive income	2,067	1,224
<i>Item that may be reclassified subsequently to profit or loss:</i>		
– Exchange differences on translation into presentation currency	(955)	(46)
Total comprehensive income for the year	387,754	326,201
Attributable to:		
Equity shareholders of the Company	387,795	326,201
Non-controlling interests	(41)	–
Total comprehensive income for the year	387,754	326,201

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2022

(Expressed in RMB)

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
Non-current assets			
Property and equipment		72,442	83,073
Intangible assets		111,383	132,641
Goodwill		699,157	699,778
Other financial assets		153,689	65,960
Deferred tax assets		19,773	63,848
		<u>1,056,444</u>	<u>1,045,300</u>
Current assets			
Trade receivables	9	786	621
Prepayments, deposits and other receivables	10	291,104	138,457
Other financial assets		422,238	45,346
Cash at bank and on hand		1,633,031	1,614,783
		<u>2,347,159</u>	<u>1,799,207</u>
Current liabilities			
Trade payables	11	164,630	143,150
Contract liabilities	12	91,687	85,781
Accrued expenses and other payables		90,432	80,840
Lease liabilities		11,917	12,246
Current taxation		513	8,871
		<u>359,179</u>	<u>330,888</u>
Net current assets		<u>1,987,980</u>	<u>1,468,319</u>
Total assets less current liabilities		<u>3,044,424</u>	<u>2,513,619</u>

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
Non-current liabilities			
Deferred tax liabilities		16,840	19,501
Lease liabilities		34,427	46,063
		<u>51,267</u>	<u>65,564</u>
Net assets		<u>2,993,157</u>	<u>2,448,055</u>
Capital and reserves			
Share capital		694	33
Reserves		2,992,504	2,448,022
Total equity attributable to equity shareholders of the Company		2,993,198	2,448,055
Non-controlling interests		(41)	–
TOTAL EQUITY		<u>2,993,157</u>	<u>2,448,055</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

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 has not carried out any business since the date of its incorporation. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in operating online social entertainment live streaming platforms and social networking services both in the People’s Republic of China (the “**PRC**” or “**China**”) 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.

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“**IASs**”) and Interpretations issued by the International Accounting Standards Board (the “**IASB**”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted these amendments consistently for the periods presented. None of these developments have had a material impact to the financial statements of the Group. The Group has not applied any new amendments that are not yet effective for the current accounting period.

3 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that 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 fair value through other comprehensive income (“**FVOCI**”)

4 REVENUE REPORTING

Revenue

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Live streaming and audio social networking	4,912,118	4,477,093
Overseas social networking	184,291	118,243
Others	1,099	4,354
	<u>5,097,508</u>	<u>4,599,690</u>

The Group's customer base is diversified, where there was no customer with whom transactions have exceeded 10% of the Group's revenue during the year.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Point in time	5,096,409	4,597,043
Over time	1,099	2,647
	<u>5,097,508</u>	<u>4,599,690</u>

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.

5 OTHER INCOME, NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Income from wealth management products	13,249	7,593
Changes in fair value of wealth management products	763	(999)
Interest income	22,763	20,375
Government grants	10,246	9,862
(Loss)/gain on disposal of long-term assets	(574)	866
Additional deduction of input VAT	31,416	26,809
Others	197	4,346
	<u>78,060</u>	<u>68,852</u>

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(a) Taxation in the consolidated statements of profit or loss represent:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current taxation		
Provision for the year	20,216	25,961
Deferred taxation		
Origination and reversal of temporary differences	<u>41,039</u>	<u>41,265</u>
	<u>61,255</u>	<u>67,226</u>

(b) **Reconciliation between tax expenses and accounting profits at applicable tax rates:**

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before taxation	<u>447,897</u>	<u>392,249</u>
Notional tax on profit before taxation, calculated at the applicable rates in the jurisdictions concerned (i)	111,974	98,062
Effect of preferential tax rates applicable to certain subsidiaries of the Group (ii)	(48,340)	(42,795)
Tax effect of additional tax deduction on research and development expenses (iii)	(15,481)	(12,146)
Tax effect of non-deductible expenses	8,875	16,597
Tax effect of using of tax losses not recognized	(2,950)	–
Tax effect of unused tax losses and temporary differences not recognized	<u>7,177</u>	<u>7,508</u>
Actual tax expenses	<u>61,255</u>	<u>67,226</u>

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 year ended 31 December 2022 is 16.5%.

In accordance with the Corporate Income Tax Law (“**Income Tax Law**”) of the PRC, corporate income tax rate for the Group’s PRC is 25% unless otherwise specified.

- (ii) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of “High and New Technology Enterprise” (“**HNTE**”), which entitles the qualified companies to a preferential income tax rate of 15%, subject to fulfilment of the recognition criteria.

Huafang Technology and Mijing Hefeng were qualified as a HNTE and entitled to the preferential tax rate of 15% for the calendar years ended 31 December 2021 and 2022.

Subject to Caishui [2020] No.31, Hainan Kailin was entitled to a preferential tax rate of 15% for the calendar years ended 31 December 2021 and 2022.

Subject to Caishui [2020] No.23, Sichuan Huayin was entitled to preferential tax rate of 15% for the calendar year ended 31 December 2022.

- (iii) Qualified research and development expenses are allowed for additional tax deduction based on 75% of such expenses for the calendar year ended 31 December 2021, and are allowed for additional tax deduction based on 100% of such expenses according to the relevant tax rules in the PRC, effective from 27 September 2022.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB386,683,000 (2021: RMB325,023,000) and the weighted average of 956,521,000 ordinary shares (2021: 954,000,000 shares) in issue during the year.

In addition, the Directors are authorized to issue a total of 900,666,667 Shares credited as fully paid at par value to the Shareholders whose names appear on the register of members of the Company at the close of business on 30 November 2022 by the way of capitalization of the sum of US\$90,006.6667 standing to the credit of the other reserve account. Accordingly, the weighted average number of shares has also been adjusted retrospectively from 1 January 2021 for such capitalization issue.

Weighted average number of ordinary shares:

	2022 '000	2021 '000
Issued ordinary shares at 1 January	53,333	53,333
Effect of new ordinary shares issued	2,521	–
Effect of capitalization issue	<u>900,667</u>	<u>900,667</u>
Weighted average number of ordinary shares at 31 December	<u>956,521</u>	<u>954,000</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB386,683,000 (2021: RMB325,023,000) and the weighted average number of issued ordinary shares of 966,552,000 (2021: 954,000,000 shares) after adjusting the effects of dilutive potential ordinary shares during the year, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2022 '000	2021 '000
Weighted average number of ordinary shares at 31 December	956,521	954,000
Effect of deemed issue of shares under the Company's share option scheme	<u>10,031</u>	<u>–</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u>966,552</u>	<u>954,000</u>

8 DIVIDENDS

The directors of the Company did not propose the payment of any dividend for the year (2021: nil).

9 TRADE RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	800	640
Less: loss allowance	(14)	(19)
	<u>786</u>	<u>621</u>

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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	600	624
3 to 6 months	100	–
6 to 12 months	–	–
Over 1 year	100	16
Less: loss allowance	(14)	(19)
	<u>786</u>	<u>621</u>

10 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Prepayments for purchase of services	49,265	43,036
Deposits	5,105	8,961
Loans to third parties (i)	35,025	–
Amounts due from third parties	18,060	–
Receivable from third party payment platform	169,337	73,993
Deductible input VAT	9,929	5,184
Government grant receivables	4,042	7,072
Others	527	572
	<u>291,290</u>	<u>138,818</u>
Less: loss allowance	(186)	(361)
	<u>291,104</u>	<u>138,457</u>

- (i) As at 31 December 2022, the Group offered interest-free loans to Battuta and its subsidiary in an aggregate principal amount of RMB24,332,000 with the term of repayment of 12 months, the Group also offered an interest-free loan to Beijing Sandou Technology Co., Ltd. in principal amount of RMB9,300,000 with the terms of repayment of 6 months and an interest-free loan to Turned E pte. Ltd. in principal amount of RMB1,393,000 with the terms of repayment of 12 months.

All of the prepayments, deposits and other receivables are expected to be recovered or recognized as expenses within one year.

11 TRADE PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Host	107,975	96,525
Advertisers	37,208	29,470
Bandwidth providers	9,377	9,449
Others	10,070	7,706
	<hr/>	<hr/>
Total	164,630	143,150
	<hr/>	<hr/>

The ageing analyses of the trade payables, based on the invoice date, are as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
1 to 3 months	161,300	141,644
4 to 6 months	966	650
7 to 12 months	805	249
Over 1 year	1,559	607
	<hr/>	<hr/>
	164,630	143,150
	<hr/>	<hr/>

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

12 CONTRACT LIABILITIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Live streaming (i)	91,687	85,781
	<hr/>	<hr/>

- (i) Contract liabilities primarily arose from the considerations received from customers before the Group satisfying performance obligations. It would be recognized as revenue upon rendering services. Almost all of the contract liabilities balance as at 31 December 2021 and 2022 was recognized as revenue within one year.

MARKET AND BUSINESS REVIEW

In 2022, despite the intensification of competition in the industry and the strengthening of industrial regulations, the Group continued to achieve dynamic growth and remarkable performances. The Group's total revenue for the year ended December 31, 2022 amounted to approximately RMB5.1 billion, representing a year-on-year increase of 10.8% and the net profit for the year ended December 31, 2022 amounted to approximately RMB386.6 million, representing a year-on-year increase of 19.0%. The average MAUs (monthly active users) of the Group in 2022 were approximately 61.1 million and the average MPUs (monthly paying users) of the Group in 2022 were approximately 1.6 million. The monthly ARPPU (average revenue per paying user) of the Group in 2022 was over RMB270. The Group also ranked among the "China's Top 100 Internet Companies", an award to internet companies with social influence, growth potential and social responsibility, for the fifth time. *Huajiao*, one of the Group's flagship platforms, ranked first among all online entertainment live streaming mobile applications in China in April 2022 in terms of market penetration, according to Analysys (易觀千帆).

In 2022, the Group kept focusing on the sphere of online social entertainment, with a business portfolio from live streaming to a suite of multi-faceted social networking products and services. The followings highlight the Group's performance in 2022:

- The Group's entertainment live streaming business achieved a sound growth; at the same time, the social networking business grew rapidly and became the second growth curve of the Group.

Huajiao and *6.cn*, the two major flagship products of the Group, mainly involved entertainment live streaming business. These entertainment live streaming platforms realized revenue of approximately RMB3.5 billion in 2022, representing a year-on-year increase of 2.9%.

The audio-based social business has been growing rapidly, and realized revenue of approximately RMB1.4 billion in 2022 with a year-on-year growth of 30.6%.

The Group's team for overseas social networking business is an original team targeting the overseas markets with extensive products and localized operation experience, and the Group's overseas social networking business achieved outstanding performance in 2022 and realized revenue of approximately RMB184.3 million with a year-on-year growth of 55.9%, which was primarily due to the Group's efforts in expanding its overseas presence and increasing its overseas influence, both of which led to significant increases in the number of overseas users and ARPPU. In 2022, the average MAUs of overseas social networking were over 6 million, representing a year-on-year increase of approximately 27%. The monthly ARPPU of overseas social networking in 2022 also achieved solid growth with a year-on-year increase of approximately 30%. Thus, the Group's overseas social networking business recorded a high revenue.

In 2022, the Group had set up a strategic brand project, namely "Huafang Lab", with an aim to encourage innovation and attract a brilliant entrepreneurial team. "Huafang Lab" focuses on developing innovative projects such as metaverse, virtual image, virtual space creation, application of augmented reality ("AR") and virtual reality ("VR") technologies, new forms of socializing and other segments in the social networking field.

- The Group made arrangements for metaverse and created “FUNVERSE” (娛樂元宇宙)

Leveraging its long-term technical accumulation and extensive experience of products operation, the Group has gradually established a matrix covering live streaming and a series of diversified products and services for socializing, and accordingly, cultivated an online culture with inclusivity, diversity and friendliness. In 2022, the Group continually made arrangements in various applications such as digital collections, virtual scenarios and virtual human, and created “FUNVERSE”, a new space of digital entertainment that is more intelligent and offers more immersed experience for users. Shanggu Xuan'er (上古玄兒), the Group's first virtual human, debuted as the host of the celebration ceremony for the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”). On *Huajiao*, the Group's flagship platform, both of the hosts and users are able to interact, socialize and share their life in the digital world by creating their own virtual images. The intellectual property of virtual human and FUNVERSE co-created by the users thereof will create synergy effects on various platforms of the Group, thereby providing a more diversified identification system and more vivid interactive scenes for users.

- Environmental, Social, and Governance (“ESG”)

While the COVID-19 pandemic crisis has started to subside in 2022, businesses all over the world have continued to be greatly affected by the pandemic. The Group has learnt that sustainability is the key to withstand difficult macroeconomic situations. As a responsible corporate citizen, the Group recognizes this and continues to make sustainability an operational priority. The Company believes that sustainability governance and performance is the foundation to a successful operation, including minimizing the Group's pollution emissions, promoting equal rights, and offering more opportunities for all employees.

At the same time, stakeholders are increasingly nudging corporations into taking sustainability factors into consideration when doing businesses. To better understand the demands and expectations of the Group's shareholders, the Group invites employees, service providers, and clients to participate in a survey to maintain effective communication, allowing the Group to better accommodate their needs. Through embedding sustainability in the Group's business concept, the Group creates greater value for both its stakeholders and society. Without the contribution of the Group's employees, customers, business partners, and communities, it would not have been possible for the Group to have achieved so much.

The Group attaches 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. The Group also organizes charity events to give back to community. The Group, for instance, donated RMB100,000 to Hubei Youth Development Foundation for “Dream House (希望夢想小屋)”, a project launched by the Enshi Tujia & Miao Autonomous Prefecture Committee of the Communist Youth League of China (共青團恩施州委) to improve the learning and living environment of local children from low income families. “Care for Kids in Mata” (“情暖童心，心繫馬塔”) is one of the public welfare activities continuously carried out by the Group. In 2022, the Group organized all employees to donate the living and learning materials that kids in Mata, Shaanxi were in short supply of. All the donated materials have been sent to the kids together with the care and greetings from the Group's staff.

BUSINESS STRATEGIES AND FUTURE OUTLOOK

As opportunities always coexist with challenges, the Group is optimistic about the future. The industry has been structurally shifting into a healthier mode and will focus on creating value for customers. The Company believes that the prosperous development of digital economy and the revolutionary progress of artificial intelligence-generated content (AIGC) will drive innovations in the industry globally. The Group will continue to uphold the mission of “connecting people with technology and spreading happiness through companionship”, embrace changes and create value for the Group’s users by (1) further expanding products and services to reach more users and optimize the ecosystem; (2) further improving the content ecosystem and strengthening the Group’s core competitiveness; (3) further improving user experience and loyalty and achieve more diversified monetization channels; (4) further enhancing the Group’s technological capability; (5) further expanding the Group’s business through selective investment and acquisitions; and (6) further incorporating ESG into the Group’s core strategy.

- Further developing the principal business and expanding products and services: the Group will continually develop its entertainment live streaming and socializing businesses, optimize its flagship products such as *Huajiao* and *6.cn*, consolidate the business moat, increase its market share. Meanwhile, the Group will continually explore the market demand in industry segments and expand the product and service matrix to reach more users and optimize the platform ecology.
- Improving the content ecosystem and strengthening the core competitiveness: the Group will constantly conduct in-depth cooperation with multi-channel network, introduce content makers with high profile and marvelous talent, enhance the promotion of quality content, design more diverse relationship links within the community, consolidate a “lasting, pluralistic and inclusive” community culture, and improve the positive influence on the society.
- Continually improving user experience and loyalty: the Group will adhere to the concept of “users foremost”, constantly observe and capture the demand of users, demonstrate its value in social networking, companionship and identification to users, improve the satisfaction and loyalty of users, to bring more possibilities for the Group’s commercialization.
- Increasing the Group’s investment in technology research and development: the Group will continually increase its investment in research and development of AR, VR and other technologies and deepen the application of such technologies. The Group will also increase its investment in AIGC related technologies and integrate artificial intelligence technology with its existing business to give full play to the Company’s technological innovation advantage. At the same time the Group will continue to pay attention to the development and innovation of cutting-edge technologies in domestic and overseas markets, and explore the combination of such development and innovation with the business of the Group, to offer the Group’s users a new experience with more imagination of social entertainment.
- Further expanding the Group’s business through selective investment and acquisition: the Group will continue to attract like-minded teams through investing in and acquiring the quality projects in the market to create synergistic and complementary effects with the Group’s existing business, so as to strengthen the Group’s performance and market share.

- ESG: the Group will continue to drive its sustainability performance and further incorporate sustainability into the Group's core strategy. The Group hopes to continue facilitating material connections between people, and to explore the meaning of companionship through offering even more in-depth online services. The Group looks forward to maintaining online platforms for people with talent to express themselves and fulfil their dreams, allowing it to further contribute value to society. In order to maintain business sustainability, the Group will continue to uphold high ethical standards, and formulate environmental, economic, and social strategies to achieve stable and sustainable returns for the Group's shareholders.

FINANCIAL REVIEW

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 December 31, 2022, the Group generated the vast majority of its revenue from operations in China. The following table sets forth a breakdown of the Group's revenue by business line for the years indicated:

	For the year ended December 31,				YoY Change %
	2021 Amount	%	2022 Amount	%	
	<i>(RMB in thousands except for percentages)</i>				
Live Streaming and Audio Social Networking					
<i>Huajiao</i> ⁽¹⁾	3,469,218	75.4	3,561,558	69.9	2.7
<i>6.cn</i>	1,007,875	21.9	1,350,560	26.5	34.0
Subtotal	4,477,093	97.3	4,912,118	96.4	9.7
Overseas Social Networking	118,243	2.6	184,291	3.6	55.9
Others	4,354	0.1	1,099	0.0	(74.8)
Total	4,599,690	100.0	5,097,508	100.0	10.8

(1) *Huajiao*'s revenue included that of *Naitang* (formerly known as *Huazhi* until the official change of name in August 2022), a stand-alone audio-based product introduced in May 2019.

The Group's total revenue increased by 10.8% to approximately RMB5.1 billion for the year ended December 31, 2022 as compared to approximately RMB4.6 billion for the year ended December 31, 2021.

The revenue generated from live streaming and audio social networking increased by 9.7% to approximately RMB4.9 billion in 2022 as compared to approximately RMB4.5 billion in 2021. This was mainly due to the successful commercialization of audio social networking services and the Group's refined operations.

The following table sets forth a breakdown of the Group's revenue by type of live streaming and audio social networking for the years indicated.

	For the year ended December 31,				YoY Change %
	2021		2022		
	Amount	%	Amount	%	
	<i>(RMB in thousands except for percentages)</i>				
Live Streaming	3,370,687	75.3	3,467,484	70.6	2.9
Audio Social Networking	<u>1,106,406</u>	<u>24.7</u>	<u>1,444,634</u>	<u>29.4</u>	<u>30.6</u>
Total	<u>4,477,093</u>	<u>100.0</u>	<u>4,912,118</u>	<u>100.0</u>	<u>9.7</u>

The revenue generated from overseas social networking increased by 55.9% to approximately RMB184.3 million in 2022 as compared to approximately RMB118.2 million in 2021 primarily due to the Group's expansion of its overseas markets.

During the year ended December 31, 2022, 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 was approximately RMB1.1 million for the year ended December 31, 2022, compared with approximately RMB4.4 million for the year ended December 31, 2021.

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 increased by 12.5% to approximately RMB3.8 billion for the year ended December 31, 2022, as compared to approximately RMB3.4 billion for the year ended December 31, 2021. This was mainly due to the increase of host costs. Host costs, as a major component of cost of revenues, increased by 14.1% to approximately RMB3.5 billion in 2022 as compared to approximately RMB3.1 billion in 2021, which is mainly due to the facts that (i) the Group introduced high-quality hosts to its live streaming platforms and (ii) the Group further expanded its overseas business.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the Group's gross profit increased by 6.2% to approximately RMB1.3 billion in 2022 as compared to approximately RMB1.2 billion in 2021, and the Group's gross profit margin in 2022 was 25.5%, compared to 26.6% in 2021.

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 1.4% to approximately RMB537.2 million in 2022 as compared to approximately RMB544.8 million in 2021.

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, office leasing expense and others.

The Group's general and administrative expenses increased by 4.5% to approximately RMB152.5 million in 2022 as compared to approximately RMB146.0 million in 2021.

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 and office leasing expenses, travel expenses and others.

The Group's research and development expenses increased by 13.2% to approximately RMB235.3 million in 2022 as compared to approximately RMB207.9 million in 2021, which was in line with the Group's general business expansion and growth.

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 increased by 13.4% to approximately RMB78.1 million in 2022 as compared to approximately RMB68.9 million in 2021 primarily due to (i) the increased income from investments in financial products of banks purchased by the Group before listing on the Stock Exchange, and (ii) the foreign exchange gain driven by the appreciation of U.S. dollar against Renminbi.

Operating Profit

As a result of the foregoing, operating profit increased by 14.6% to approximately RMB450.2 million in 2022 as compared to approximately RMB392.7 million in 2021.

Finance Costs

Finance costs increased by 375.8% to approximately RMB2.3 million in 2022 as compared to approximately RMB0.5 million in 2021, primarily because the Group's business expansion and growth demand for larger office space, which led to an increase in lease liabilities.

Income Tax

Income tax expenses decreased by 8.9% to approximately RMB61.3 million in 2022 as compared to approximately RMB67.2 million in 2021.

Profit for the Year

As a result of the foregoing, profit for the year increased by 19.0% to approximately RMB386.6 million in 2022 as compared to approximately RMB325.0 million in 2021.

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 and listing expenses. 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 of the Company dated November 30, 2022 (the "Prospectus")) recognized in consolidated income statements during the two years ended December 31, 2021 and 2022. 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 IFRSs.

	For the year ended	
	December 31,	
	2021	2022
	<i>RMB in thousands</i>	
Profit for the year	325,023	386,642
Add:		
Share-based compensation expenses ⁽¹⁾	83,993	45,178
Listing expenses	21,601	25,593
Adjusted net profit (non-IFRS measure)	<u>430,617</u>	<u>457,413</u>

(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 stock incentive plan. 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 increased from approximately RMB2.8 billion as of December 31, 2021 to approximately RMB3.4 billion as of December 31, 2022, while the Group's total liabilities increased from approximately RMB396.5 million as of December 31, 2021 to approximately RMB410.4 million as of December 31, 2022. As of December 31, 2022, the current ratio (the current assets to current liabilities ratio) of the Group was 6.5 and the gearing ratio (total debt to total equity ratio) was 0.1, as compared with 5.4 and 0.2, respectively as of December 31, 2021.

As of December 31, 2022, the Group's cash and cash equivalents were approximately RMB1.6 billion, compared with approximately RMB1.6 billion as of December 31, 2021. Approximately RMB1.5 billion is denominated in Renminbi and approximately RMB0.1 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 December 31, 2022, 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 December 31, 2022. 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 December 31, 2022, the Group had current and non-current financial assets at fair value through profit or loss of approximately RMB575.9 million (December 31, 2021: approximately RMB111.3 million), mainly comprised (a) financial products issued by banks of approximately RMB422.2 million (December 31, 2021: approximately RMB45.3 million); and (b) unlisted equity investment of approximately RMB153.7 million (December 31, 2021: approximately RMB66.0 million).

Capital Expenditures

The Group's capital expenditures were approximately RMB12.5 million for the year ended December 31, 2022, compared with approximately RMB17.5 million as of December 31, 2021. The Group funded its capital expenditure requirements during the year ended December 31, 2022 mainly from cash generated from the Group's operating activities.

Contingent Liabilities

As of December 31, 2022, 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.

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 December 31, 2022, 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 December 31, 2022. 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 December 31, 2022, 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.

Charges on the Group's Assets

As of December 31, 2022, the Group had no charges on the Group's assets.

EMPLOYEES

The Group had approximately 864 employees as at December 31, 2022, as compared to 623 employees as at December 31, 2021. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits, 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 based on their merit, qualification and competence.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities during the year ended December 31, 2022.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the year ended December 31, 2022. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the year ended December 31, 2022 and up to the date of this announcement.

USE OF PROCEEDS FROM GLOBAL OFFERING

The shares of the Company were listed on the Hong Kong Stock Exchange on December 12, 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).

For the period from the listing date (being December 12, 2022, the “**Listing Date**”) up to December 31, 2022, 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”. For the details on the breakdown of the use of proceeds, please refer to the 2022 annual report of the Company to be published in April 2023.

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 utilization of the net proceeds raised from the Global Offering by December 31, 2025, subject to changes in light of the Group’s evolving business needs and changing market conditions.

FINAL DIVIDEND

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2022 (2021: Nil).

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 Corporate Governance Code (the “**CG Code**”) as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Listing Rules**”) as its own code to govern its corporate governance practices.

Code provision C.2.7 of the CG Code stipulates that the chairman of the Board should at least annually hold meetings with the independent non-executive Directors without the presence of other Directors, and code provision C.5.1 of the CG Code stipulates that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. Due to the fact that the Company was listed on December 12, 2022, neither Board meetings nor Board committee meetings were held throughout the period from the Listing Date to December 31, 2022.

Save as disclosed above, in the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code throughout the period from the Listing Date to December 31, 2022.

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 for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules 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 period from the Listing Date to December 31, 2022. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group throughout the period from the Listing Date to December 31, 2022.

REVIEW OF FINANCIAL STATEMENTS

Audit Committee

The audit committee of the Company (comprising Ms. QIAN Aimin, Mr. CHEN Shengmin and Mr. LI Bing) has reviewed the unaudited consolidated financial information of the Group for the year ended December 31, 2022, including accounting principles and practices adopted by the Group, and discussed risk management and internal controls and financial reporting matters with the Group’s management.

Review of Preliminary Announcement of Results by the Independent Auditor

The auditing process for the annual consolidated financial statements for the year ended December 31, 2022 has not been completed by the Company’s auditor, KPMG. The unaudited consolidated results contained herein have not been agreed by the Company’s auditor. An announcement relating to the annual results as agreed with the Company’s auditor will be made when the auditing process has been completed in accordance with the Hong Kong Standards on Auditing issued by the HKICPA. Pursuant to Rule 13.49(3)(ii)(b) of the Listing Rules, if the final results as agreed with the Company’s auditor differ materially from the unaudited consolidated results above, full particulars of and reasons for the difference, will be set out in the further preliminary announcement of the final results.

PUBLICATION OF UNAUDITED ANNUAL RESULTS AND ANNUAL REPORT

This unaudited annual results announcement is published on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and the Company at www.huafang.com. The annual report of the Company for the year ended December 31, 2022 containing all the information in accordance with the requirements under the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Hong Kong Stock Exchange and the Company in due course.

APPRECIATION

On behalf of the Board, I would like to thank all colleagues of the Company for their diligence, dedication, loyalty and integrity. I would also like to thank all shareholders, customers, bankers and other business partners of the Company for their trust and support.

By order of the Board
Huafang Group Inc.
花房集团公司
Mr. ZHOU Hongyi
Chairman

Hong Kong, March 30, 2023

As at the date of this announcement, the Board comprises Ms. YU Dan as executive Director; Mr. ZHOU Hongyi, Mr. CHEN Shengmin and Mr. ZHAO Dan as non-executive Directors; and Mr. CHEN Weiguang, Mr. LI Bing and Ms. QIAN Aimin as independent non-executive Directors.