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Gala Technology Holding Limited

望塵科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2458)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

RESULTS HIGHLIGHTS

- Gross profit increased by approximately RMB11.6 million, or 3.5%, from approximately RMB333.1 million for the year ended 31 December 2022 to approximately RMB344.7 million for the year ended 31 December 2023.
- Research and development expenses increased by approximately RMB22.2 million, or 25.6%, from approximately RMB87.0 million for the year ended 31 December 2022 to approximately RMB109.2 million for the year ended 31 December 2023.
- Selling and marketing expenses decreased by approximately RMB43.7 million, or 25.2%, from approximately RMB173.2 million for the year ended 31 December 2022 to approximately RMB129.5 million for the year ended 31 December 2023.
- Profit for the year increased by approximately RMB60.7 million, or 451.2%, from approximately RMB13.5 million for the year ended 31 December 2022 to approximately RMB74.2 million for the year ended 31 December 2023.
- Profit for the year attributable to owners of the Company increased by approximately RMB60.7 million, or 448.6%, from approximately RMB13.5 million for the year ended 31 December 2022 to approximately RMB74.2 million for the year ended 31 December 2023.
- Basic and diluted earnings per share for the years ended 31 December 2023 and 2022 were approximately RMB0.54 and RMB0.12, respectively.
- The Board recommended payment of a final dividend of RMB18.82 cents per share in respect of the year ended 31 December 2023 (2022: nil).

The board of directors (the “**Board**”) of Gala Technology Holding Limited (the “**Company**”) announces the audited consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2023, with comparative figures for the year ended 31 December 2022, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Revenue	3	633,633	637,886
Cost of revenue		<u>(288,977)</u>	<u>(304,822)</u>
Gross profit		344,656	333,064
Other losses, net	4	(4,010)	(4,463)
Other income	5	21,303	12,352
Selling and marketing expenses		(129,506)	(173,200)
General and administrative expenses		(45,617)	(56,023)
Research and development expenses		(109,231)	(86,976)
Impairment loss under expected credit loss model, net of reversal		(246)	(1,856)
Finance costs		<u>(4,593)</u>	<u>(677)</u>
Profit before tax	6	72,756	22,221
Income tax credits (expenses)	7	<u>1,479</u>	<u>(8,752)</u>
Profit for the year		74,235	13,469
Other comprehensive income for the year			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences on translation from functional currency to presentation currency		<u>2,670</u>	<u>—</u>
Total comprehensive income for the year		76,905	13,469
Profit (loss) for the year attributable to:			
— Owners of the Company		74,203	13,525
— Non-controlling interests		<u>32</u>	<u>(56)</u>
		74,235	13,469
Total comprehensive income (expense) attributable to:			
— Owners of the Company		76,873	13,525
— Non-controlling interests		<u>32</u>	<u>(56)</u>
		76,905	13,469
Earnings per share for profit attributable to owners of the Company (RMB per share)			
— Basic and diluted	8	<u>0.54</u>	<u>0.12</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2023	2022
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		4,235	6,633
Right-of-use assets		4,009	10,747
Intangible assets		92,884	39,674
Prepayments, deposits and other receivables		5,707	5,907
Deferred tax assets		2,358	3,598
		109,193	66,559
Current assets			
Trade receivables	10	33,371	43,023
Prepayments, deposits and other receivables		34,458	11,660
Financial assets at fair value through profit or loss ("FVTPL")		41,837	—
Contract costs		8,148	16,452
Cash and cash equivalents		300,411	232,566
		418,225	303,701
Total assets		527,418	370,260
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital		1,186	8
Share premium		130,891	—
Other reserves		94,171	84,588
Retained earnings		106,180	38,890
		332,428	123,486
Non-controlling interests		(840)	(872)
Total equity		331,588	122,614

		As at 31 December	
		2023	2022
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities			
Trade payables	11	45,774	15,083
Other payables		52	466
Lease liabilities		330	4,475
		<u>46,156</u>	<u>20,024</u>
Current liabilities			
Trade payables	11	78,106	44,121
Other payables and accruals		31,959	50,396
Contract liabilities		30,707	49,633
Current income tax liabilities		4,572	7,428
Lease liabilities		4,330	6,651
Financial liability at FVTPL		—	69,393
		<u>149,674</u>	<u>227,622</u>
Total liabilities		<u>195,830</u>	<u>247,646</u>
Total equity and liabilities		<u>527,418</u>	<u>370,260</u>
Net current assets		<u>268,551</u>	<u>76,079</u>
Total assets less current liabilities		<u>377,744</u>	<u>142,638</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Gala Technology Holding Limited (the “**Company**”) was incorporated in the Cayman Islands on 12 June 2018 as an exempted company with limited liability under the Companies Act (as revised) of the Cayman Islands. The address of the Company’s registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business is 4203–4204, Qianhai Shimao Finance Centre II, No. 3040, Aohai Avenue, Nanshan Street, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen, People’s Republic of China (the “**PRC**”).

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 January 2023 (the “**Listing**”).

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in the mobile sports game development, publishing and operation in the PRC.

Certain comparative figures have been reclassified to conform to the current year’s presentation, including reclassifying interest income of RMB3,968,000 for the year ended 31 December 2022 from “finance income, net” to “other income”. The directors of the Company consider that such presentation would better reflect the financial performance and position of the Group.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets at FVTPL and a financial liability at FVTPL which are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to Hong Kong Accounting Standard ("HKAS") 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²
Amendments to HKAS 21	Lack of Exchangeability ³

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after 1 January 2024.

³ Effective for annual periods beginning on or after 1 January 2025.

The directors of the Company anticipate that the application of all of the above amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SEGMENT INFORMATION AND REVENUE

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision maker. As a result of this evaluation, the directors of the Company consider that the Group's operations are operated and managed as a single segment, which is mobile sports game development and operation mainly in the PRC (including Mainland China and Hong Kong), and no segment information is presented, accordingly.

Revenue for the years ended 31 December 2022 and 2023 are as follows:

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Web-based and mobile online game revenue — Over time	<u>633,633</u>	<u>637,886</u>

The Group has a large number of game players, no revenue from any individual game player exceeded 10% or more of the Group's revenue during the year ended 31 December 2023 or 2022.

The Group's non-current assets other than deferred tax assets and financial instruments by the geographical location in which the asset is located, is as follows:

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	20,571	34,853
Hong Kong	<u>84,557</u>	<u>26,200</u>
	<u>105,128</u>	<u>61,053</u>

4. OTHER LOSSES, NET

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Loss on disposal of property, plant and equipment	(621)	—
Fair value gains on financial assets at FVTPL	264	125
Fair value gain on extension of a financial liability at FVTPL	—	3,065
Fair value loss on a financial liability at FVTPL	—	(6,816)
Exchange loss, net	(3,450)	(753)
Others	(203)	(84)
	<u>(4,010)</u>	<u>(4,463)</u>

5. OTHER INCOME

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants (<i>Note</i>)	10,531	5,036
Bank interest income	5,572	2,093
Value-added tax refund	1,136	1,543
Interest income from loan receivable	143	—
Others	3,921	3,680
	<u>21,303</u>	<u>12,352</u>

Note:

The amounts represent the Group's entitlement to subsidies for technological innovation received from the local government grants in the PRC. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

6. PROFIT BEFORE TAX

	Year ended 31 December	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Profit for the period has been arrived at after charging		
Staff costs:		
Directors' emoluments	3,421	3,024
Other staff costs		
Wages, salaries and bonuses	111,830	88,534
Social security costs, housing provident fund and other staff cost	29,335	21,960
Share-based compensation	—	2,872
	<hr/>	<hr/>
Total staff costs	144,586	116,390
	<hr/> <hr/>	<hr/> <hr/>
Depreciation of property, plant and equipment	3,243	2,576
Depreciation of right-of-use assets	6,738	6,534
Amortisation of intangible assets	37,968	19,641
	<hr/>	<hr/>
Total depreciation and amortisation	47,949	28,751
	<hr/> <hr/>	<hr/> <hr/>

7. INCOME TAX (CREDITS) EXPENSES

The income tax (credits) expenses of the Group for the years ended 31 December 2022 and 2023 is analysed as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current tax		
— PRC Enterprise Income Tax (“EIT”)	950	8,179
— Hong Kong profits tax	729	516
Overprovision in prior years		
— PRC EIT	(4,398)	—
Deferred income tax	<u>1,240</u>	<u>57</u>
Income tax (credits) expenses	<u>(1,479)</u>	<u>8,752</u>

Hong Kong Income Tax

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2,000,000 of taxable profits of qualifying group entity will be taxed at 8.25%, and taxable profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% for the years ended 31 December 2023 and 31 December 2022 on the assessable profits.

PRC EIT

The income tax provision of the Group in respect of its operations in the PRC was calculated at the tax rate of 25% for the year ended 31 December 2023 (2022: 25%) on the assessable profits, except for stated below, based on the existing legislation, interpretations and practices in respect thereof.

Shenzhen Wangchen Technology Co., Ltd (“**Wangchen Technology**”) was subject to EIT rate of 15% (2022: 25%) for the year ended 31 December 2023. Preferential tax rate of 15% is subject to requirement of the “Preferential Enterprise Income Tax Treatment for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone”. Wangchen Technology applied for preferential tax rate during the year ended 31 December 2022 and received the notice for fulfilment of the above preferential enterprise income tax treatment for both 2023 and 2022 during the year ended 31 December 2023. The tax provision overprovided in prior year has been adjusted accordingly. The enacted tax rate for the related deferred taxation was adjusted accordingly.

Shenzhen Wangchen Moji Technology Co., Ltd has fulfilled the requirement of the “Notice of the State Council on Printing and Distributing Several Policies for Promoting the High-quality Development of the Integrated Circuit Industry and Software Industry in the New Era” (Guo Fa [2020] No.8) and it is subject to a reduced preferential EIT tax rate of 12.5% (2022: 0%) for the year ended 31 December 2023.

PRC Withholding Tax (“WHT”)

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the year ended 31 December 2023 or 2022, the Group did not require its subsidiaries established in the PRC to distribute their retained earnings to foreign investors, and the Group is able to control the timing of the reversal of the temporary differences arising from the unremitted earnings of these PRC subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period.

The tax (credits) expenses on the Group’s profit before tax differs from the theoretical amount that would arise using the PRC statutory income tax rate as follows:

	Year ended 31 December	
	2023	2022
	RMB’000	RMB’000
Profit before tax	<u>72,756</u>	<u>22,221</u>
Tax calculated at PRC statutory tax rate of 25%	18,189	5,555
Tax effects of:		
Differential income tax rates applicable to subsidiaries	(7,424)	585
Super Deduction for research and development expenses (<i>Note</i>)	(10,451)	(9,967)
Income not taxable for tax purposes	(747)	(546)
Expenses not deductible for tax purpose	3,965	13,125
Tax losses for which no deferred income tax was recognised	157	—
Utilisation of previously unrecognised tax losses	(770)	—
Overprovision in prior year	<u>(4,398)</u>	<u>—</u>
	<u>(1,479)</u>	<u>8,752</u>

Note:

According to the relevant laws and regulations promulgated by the PRC State Administration of Taxation made effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim up to 200% (2022: 200%) of their qualified research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year (“**Super Deduction**”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits during the years ended 31 December 2023 and 2022.

8. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

For the year ended 31 December 2022, the weighted average number of ordinary shares used for the purpose of basic earnings per share has been retrospectively adjusted for the effects of the issue of shares in connection with the capitalisation issue of 112,580,000 shares which took place on 16 January 2023.

	Year ended 31 December	
	2023	2022
Profit attributable to the owners of the Company (<i>RMB'000</i>)	<u>74,203</u>	<u>13,525</u>
Weighted average number of ordinary shares in issue (<i>thousand shares</i>)	<u>136,996</u>	<u>113,580</u>
Basic earnings per share attributable to the owners of the Company (<i>RMB per share</i>)	<u>0.54</u>	<u>0.12</u>

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to ordinary equity holders of the Company, adjusted to reflect the impact from any dilutive potential ordinary shares issued by the Company, as appropriate. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares assumed to have been issued on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

In June 2021, the Company issued convertible bonds in the principal amount of HK\$77,112,000 (equivalent to RMB64,163,000). On 16 January 2023, the shares of the Company were listed on the Main Board of the Stock Exchange with offer price of HK\$6.5 per share. The pre-initial public offering (“Pre-IPO”) convertible bonds were automatically converted into 12,000,000 shares of the Company on the same day, representing approximately 8.70% of the issued share capital of the Company. It has no significant dilutive effect on earnings per share calculation in both years.

9. DIVIDENDS

No dividends were paid, declared or proposed during the years ended 31 December 2022 and 31 December 2023.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2023 of RMB18.82 cents (2022: nil) per ordinary share, in an aggregate amount of RMB25,971,050 (2022: nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. TRADE RECEIVABLES

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	33,727	45,072
Less: impairment loss under expected credit loss model	<u>(356)</u>	<u>(2,049)</u>
Trade receivables, net	<u><u>33,371</u></u>	<u><u>43,023</u></u>

- (a) The credit terms of trade receivables granted by the Group are normally from 30 to 90 days. An aging analysis of trade receivables based on recognition date is as follows:

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	33,295	42,029
3 months to 1 year	317	2,360
Over 1 year	<u>115</u>	<u>683</u>
	<u><u>33,727</u></u>	<u><u>45,072</u></u>

- (b) The Group applies the HKFRS 9 simplified approach to measure expected credit loss which uses a lifetime expected loss allowance for all trade receivables. The Group measures the expected loss allowance on a combination of both individual and collective basis.

As at 31 December 2023, the balance of loss allowance in respect of these collectively-assessed trade receivables balances was RMB356,000 (2022: RMB216,000) based on the average expected loss allowance rates of 1.1% (2022: 0.5%).

11. TRADE PAYABLES

Trade payables due to third parties primarily consist of the license fee and royalty fee payable to the licensors for the rights to use the intellectual properties of certain sports athletes in the Group's developed games in specified geographic areas for certain period of time.

The aging analysis of trade payables based on recognition date is as follows:

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
0–365 days	101,958	53,897
1–2 years	16,693	557
Over 2 years	<u>5,229</u>	<u>4,750</u>
	<u><u>123,880</u></u>	<u><u>59,204</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

As a leading technology-driven mobile sports game company in China, the Company has accumulated over 10 years of game development and operation experience, adhering to the principle of “enhancing sports with technology for more fun”. The games launched cover football, baseball and basketball, which are three of the most popular sports worldwide, forming unique game content and a large user base.

The shares of the Company were listed on the Main Board of the Stock Exchange on 16 January 2023 (the “**Listing Date**”), allowing us to further strengthen our industry talent pool in 2023, enhance the efficiency of our “research and operation integration” model, and consolidate our leading position in the mobile sports game track in China.

In 2023, our Group focused on the steady development of game development and operation business while striving to improve customer acquisition efficiency and perfect our refined operational strategies, resulting in an increase in gross profit, and a substantial reduction in both selling and marketing expenses as well as general and administrative expenses compared to 2022. The effectiveness of our cost management measures gradually manifested.

We consolidated and deepened our official cooperation with international sports associations (FIFPro, NBA, and NBPA) as well as top football clubs such as F.C. Barcelona, F.C. Bayern Munich, and Manchester City F.C.. We continuously updated game content and launched new versions with new themes, providing users with a rich and diversified gaming experience. In 2023, although the revenue of Football Master (足球大師) and NBA Basketball Master (NBA籃球大師), which have been launched for nearly ten years and seven years respectively, have decreased, our well-known football management simulation game Football Champion (最佳11人) continued to iterate, carrying out a comprehensive art upgrade and adding a variety of built-in casual games and a Superstar Career Mode, bringing a better paid experience and receiving widespread acclaim from users, thus maintaining a stable revenue scale. Our action-based football game Total Football (最佳球會), with its highly realistic player modeling, rich player actions, and delicate operation feel in the game, has steadily increased its recognition and reputation. Moreover, Total Football (最佳球會) signed several well-known football stars from the top five football leagues and domestic leagues in 2023. With the help of rich operational activities and the market effect of major football events, it significantly increased the scale of active users and paying users, resulting in a substantial increase in revenue compared to the same period last year, effectively compensating for the decline in revenue from old games.

In 2023, the Group acquired intellectual properties (“IP”) right licenses from Major League Baseball (“MLB”) and Major League Baseball Players Association (“MLBPA”) and launched testing and small-scale operation of the new game MLB Clutch Hit Baseball (MLB棒球大師) in North America in mid-2023. As our Group’s first action-based baseball game, MLB Clutch Hit Baseball (MLB棒球大師) was actively optimized in 2023 to ensure the best gaming experience for players while maintaining efficient marketing promotion. We did not blindly carry out large-scale promotions.

Although the revenue of old games has declined, thanks to the good performance of the Group’s core games and the initial success of cost management measures, the Group’s total revenue for the year ended 31 December 2023, remained stable year-on-year, reaching approximately RMB633.6 million (2022: RMB637.9 million). Gross profit increased by approximately 3.5% from approximately RMB333.1 million for the year ended 31 December 2022, to approximately RMB344.7 million for the year ended 31 December 2023. Selling and marketing expenses and general and administrative expenses decreased by approximately 25.2% and 18.6% respectively from approximately RMB173.2 million and RMB56.0 million for the year ended 31 December 2022, to approximately RMB129.5 million and RMB45.6 million for the year ended 31 December 2023. The profit for the year and the profit for the year attributable to the owners of the Company increased significantly by approximately 451.2% and 448.6% respectively, to approximately RMB74.2 million and RMB74.2 million respectively, for the year ended 31 December 2023.

FUTURE OUTLOOK

In the coming year, our Group will further optimise our product matrix and profitability. While striving to increase the scale of our revenue, we will also continue to enhance our customer acquisition efficiency and refine our operations, as we did in 2023, to ensure the quality of our revenue. In 2023, Total Football (最佳球會), representing our Group’s top-notch technology, successfully took over from Football Master (足球大師), which had been launched nearly a decade ago, and reached new peaks in its revenue and profitability in the first quarter of 2024. The quality of the game versions for overseas markets has significantly improved after several iterations and upgrades, and we will start promoting in overseas markets in mid-2024. Another core game, Football Champion (最佳11人), will continue to consolidate its player activity, in-game community scale and profitability. MLB Clutch Hit Baseball (棒球大師) is our Group’s first baseball game launched in North America. After receiving feedback from the small-scale operation that began in mid-2023, we chose to improve the game quality and localized content to attract players, rather than blindly promoting it in the market. The good performance of other core games also gave us ample time to optimise and upgrade the content. As of now, we have upgraded the North American version of MLB Clutch Hit Baseball (棒球大師) to a satisfactory level and plan to start large-scale promotion in the second quarter of 2024. MLB Clutch Hit Baseball (棒球大師)’s game licence in the Mainland China has been obtained, and versions for Japan, South Korea and Taiwan will be launched in the second quarter of 2024.

The Group has three games under development, namely the action-based basketball game “Project Code: Action-based Basketball”, the fishing simulation game “Project Code: Fishing Master”, and the action-based American football game. “Code: Action-based American Football” will use the upgraded motion capture and human motion engine, our Group’s artificial intelligence (“AI”) technology, and realistic audience rendering technology to maximize the restoration of player movements, tactical running positions, and court interactions in real basketball games, allowing players to enjoy the next generation of basketball experience on mobile devices. “Code: Fishing Master” uses a real physics engine, motion capture technology, weather change system, real water surface effects, and high-definition fish modeling to provide players with an immersive fishing experience. Of the games under development, “Code: Action-based Basketball” is expected to be launched in the summer of 2024, and “Code: Fishing Master” and the action-based American football game will be launched within the next one to two years.

The Group is full of confidence in the sports gaming track we are in. Moreover, with the advancement of technology, the Group can further optimise the game quality of the released games, and can increase the efficiency of development and iteration of the games in the pipeline. We will keep up with the pace of technological updates, increase the reserve of core talents in game research and development (“R&D”) and operations, accelerate the application and research breakthroughs of artificial intelligence generated content (“AIGC”) technology, expand our layout in the field of casual games, launch a more diversified product portfolio, and provide users with higher quality game content.

FINANCIAL PERFORMANCE

Consolidated Statement of Comprehensive Income

The following table presents items of the audited consolidated statement of comprehensive income of the Group in absolute amounts and as percentages to the total revenue for the years indicated.

	Year ended 31 December			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Revenue	633,633	100.0	637,886	100.0
Cost of revenue	(288,977)	(45.6)	(304,822)	(47.8)
Gross profit	344,656	54.4	333,064	52.2
Other losses, net	(4,010)	(0.6)	(4,463)	(0.7)
Other income	21,303	3.4	12,352	1.9
Selling and marketing expenses	(129,506)	(20.4)	(173,200)	(27.2)
General and administrative expenses	(45,617)	(7.2)	(56,023)	(8.8)
Research and development expenses	(109,231)	(17.2)	(86,976)	(13.6)
Impairment loss under expected credit loss model, net of reversal	(246)	*	(1,856)	(0.3)
Finance cost	(4,593)	(0.7)	(677)	0.1
Profit before tax	72,756	11.5	22,221	3.5
Income tax credits (expenses)	1,479	0.2	(8,752)	(1.4)
Profit for the year	74,235	11.7	13,469	2.1
Other comprehensive income for the year	2,670	0.4	—	*
Total comprehensive income for the year	76,905	12.1	13,469	2.1
Profit (loss) for the year attributable to:				
Owners of the Company	74,203	11.7	13,525	2.1
Non-controlling interests	32	*	(56)	*

* *Less than 0.1%*

Non-HKFRS measure

The table sets forth the adjusted net profit (Non-HKFRS measure) of the Group for the years indicated after adjusting for the net fair value changes on the Pre-IPO Convertible Bonds (as defined below), share-based compensation, and the listing expenses as a non-HKFRS measure:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Profit and total comprehensive income for the year, net of tax	74,235	13,469
Add:		
Fair value loss on a financial liability measured at FVTPL	—	6,816
Listing expenses	412	22,356
Share-based compensation	—	2,872
Deduct:		
Fair value gain on extension of a financial liability measured at FVTPL	—	(3,065)
Adjusted net profit (Non-HKFRS measure)	74,647	42,448

The Group believes that the presentation of such non-HKFRS measure when shown in conjunction with the corresponding HKFRS measure provides useful information to potential investors and management in facilitating a comparison of its operating performance from year to year by eliminating potential impacts of the net fair value changes on the convertible bonds issued by the Company on 21 June 2021 in the principal amount of HK\$77,112,000 (the “**Pre-IPO Convertible Bonds**”), share-based compensation, and the listing expenses.

The use of the non-HKFRS measure has limitations as any other analytical tool, and should not be considered in isolation from or as a substitute for or superior to, the analysis of the Group’s results of operations or financial condition as reported under the HKFRS. In addition, the non-HKFRS measure may be defined differently from similar terms used by other companies.

Key financial ratios

The following table sets forth the key financial metrics of the Group for the years indicated:

	Year ended 31 December	
	2023	2022
Gross profit margin	54.4%	52.2%
Net profit margin ⁽¹⁾	11.7%	2.1%
Return on equity ⁽²⁾	22.3%	11.0%
Return on assets ⁽³⁾	14.1%	3.6%
Interest coverage ratio ⁽⁴⁾	16.8 times	33.8 times
	Year ended 31 December	
	2023	2022
Current ratio ⁽⁵⁾	2.8 times	1.3 times
Quick ratio ⁽⁶⁾	2.8 times	1.3 times

Notes:

1. Net profit margin equals profit for the year divided by revenue for the year, multiplied by 100%.
2. Return on equity equals profit attributable to owners of the Company for the year divided by the closing balance of the equity attributable to owners of the Company, multiplied by 100%.
3. Return on assets equals profit for the year divided by the closing balance of total assets, multiplied by 100%.
4. Interest coverage ratio equals operating profit for the year divided by interest expenses for the year.
5. Current ratio equals total current assets divided by total current liabilities as at the year end date.
6. Quick ratio equals total current assets less inventories divided by total current liabilities as at the year end date.

FINANCIAL REVIEW

Revenue

The following table sets out the revenue in absolute amounts and as percentages to the total revenue of the Group by publishing models for the years indicated:

	Year ended 31 December			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Self-publishing games	630,140	99.4	632,920	99.2
Third-party publishing games	3,493	0.6	4,966	0.8
Total	<u>633,633</u>	<u>100</u>	<u>637,886</u>	<u>100</u>

Revenue decreased by approximately RMB4.3 million, or 0.7%, from approximately RMB637.9 million for the year ended 31 December 2022 to approximately RMB633.6 million for the year ended 31 December 2023, which was mainly attributable to: (i) decrease in revenue from Football Master (足球大師) (which had been launched for almost a decade) and NBA Basketball Master (NBA籃球大師) (which had been launched for nearly 7 years); and (ii) lack of large-scale promotional campaign for MLB Clutch Hit (棒球大師) since its release in mid-year as the Group remained focus in fine-tuning the game as at the year-end date.

Cost of revenue

The following table sets forth a breakdown of the cost of revenue in absolute amounts and as percentages to the total cost of revenue of the Group for the years indicated:

	Year ended 31 December			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Commission fee to the Platforms	180,965	62.6	215,565	70.7
License fees	73,293	25.4	58,902	19.3
Revenue sharing to third-party publishers	2,622	1.0	3,193	1.1
Staff costs	18,053	6.2	14,431	4.7
Server usage expenses	11,990	4.1	11,239	3.7
Others*	2,054	0.7	1,492	0.5
Total	<u>288,977</u>	<u>100</u>	<u>304,822</u>	<u>100</u>

* Others mainly consist of depreciation of property, plant and equipment and depreciation of right-of-use assets.

Cost of revenue decreased by approximately RMB15.8 million or 5.2% from approximately RMB304.8 million for the year ended 31 December 2022 to approximately RMB289.0 million for the year ended 31 December 2023. The decrease in cost of revenue was primarily attributable to the decrease in revenue and the comparatively lower commission rate charged by overseas platforms, resulting in a decrease in commission fee to the Platforms by approximately RMB34.6 million or 16.1%; on the other hand, (i) due to the acquisition of the IP license of the newly launched baseball action simulation game “MLB Clutch Hit Baseball (棒球大師)” by the Group from MLB and MLBPA for the year ended 31 December 2023, and in accordance with some of the Group’s IP licensing arrangements that provide for revenue sharing from our income generated, our license fees increased by approximately RMB14.4 million or 24.4%; and (ii) due to the increase in the number of staff for the maintenance, operation and customer service of the newly launched games “Total Football (最佳球會)” and “MLB Clutch Hit Baseball (棒球大師)”, our staff costs increased by approximately RMB3.7 million or 25.1%.

Gross profit

The gross profit increased by approximately RMB11.6 million, or 3.5%, from approximately RMB333.1 million for the year ended 31 December 2022 to approximately RMB344.7 million for the year ended 31 December 2023. The gross profit margin of the Group increased from approximately 52.2% for the year ended 31 December 2022 to approximately 54.4% for the year ended 31 December 2023. Commission fee to the Platforms constituting the largest component among the cost of revenue, representing approximately 62.6% (2022: 70.7%) of the total cost of revenue of the Group during the year ended 31 December 2023. The increase in gross profit and gross profit margin was primarily due to (i) the Group’s continuous effort in consolidating revenue from overseas markets, thus enjoyed lower commission rate charged by overseas distribution platforms; and (ii) decrease in commission fee to the Platforms as a result of the Group’s effort in expansion into the local distribution platforms in the PRC with lower commission fee level, leading to the improvement of the Group’s gross profit and gross profit margin for the year ended 31 December 2023.

Other losses, net

Other losses, net decreased by approximately RMB0.5 million, or 10.2%, from approximately RMB4.5 million for the year ended 31 December 2022 to approximately RMB4.0 million for the year ended 31 December 2023, mainly due to currency exchange fluctuations.

Other income

Other income increased by approximately RMB8.9 million, or 72.5%, from approximately RMB12.4 million for the year ended 31 December 2022 to approximately RMB21.3 million for the year ended 31 December 2023, mainly attributable to (i) certain new grants and/or subsidies of approximately RMB10.5 million received by the Group from the local governmental departments during the year ended 31 December 2023; and (ii) the Group's interest income of approximately RMB5.7 million.

Selling and marketing expenses

Selling and marketing expenses decreased by approximately RMB43.7 million, or 25.2%, from approximately RMB173.2 million for the year ended 31 December 2022 to approximately RMB129.5 million for the year ended 31 December 2023, primarily attributable to the significant decrease in operating expenses as a result of our constantly improving efficiency of customer acquisition and refined operation in the year ended 31 December 2023.

General and administrative expenses

General and administrative expenses decreased by approximately RMB10.4 million, or 18.6%, from approximately RMB56.0 million for the year ended 31 December 2022 to approximately RMB45.6 million for the year ended 31 December 2023, which was primarily attributable to (i) the decrease in listing expenses by approximately RMB21.9 million, or 98.2%; (ii) the increase in traveling and office expenses by approximately RMB3.4 million, or 49.2%; (iii) professional fees incurred upon listing of approximately RMB3.7 million; (iv) the increase in the employee benefits and salaries for general and administrative staff by approximately RMB2.5 million, or 18.4%; and (v) other general and administrative expenses increase as a result of business development by approximately RMB2.5 million, or 81.1%.

R&D expenses

R&D expenses increased by approximately RMB22.2 million, or 25.6%, from approximately RMB87.0 million for the year ended 31 December 2022 to approximately RMB109.2 million for the year ended 31 December 2023, which was primarily attributable to the increase in employee benefits and salaries of the R&D staff by approximately RMB20.9 million, or 27.9% primarily due to the increase in the number of the Group's R&D staff for the year ended 31 December 2023 for the development of the new games released during the year and in the pipeline and the salary increment offered to reward the talented R&D personnel of the Group.

Impairment losses under expected credit loss model, net of reversal

Net of impairment loss on financial assets decreased by approximately RMB1.7 million, or 86.7% from approximately RMB1.9 million for the year ended 31 December 2022 to approximately RMB0.2 million for the year ended 31 December 2023, which was mainly because since 2023 the Group has implemented measures primarily through establishing a repayment monitoring mechanism to track borrowers' repayment status in a timely manner, reducing the occurrence of bad debts.

Finance costs

For the year ended 31 December 2023, finance costs amounted to approximately RMB4.6 million, mainly attributable to the interest accretion on non-current license fee and royalties payables of approximately RMB4.2 million arising from the Group's acquisition of the IP license for the newly launched baseball action simulation game "MLB Clutch Hit Baseball (棒球大師)" from MLB and MLBPA.

Income tax credits (expenses)

The Group recorded income tax expenses of approximately RMB8.8 million for the year ended 31 December 2022, while the Group recorded income tax credits of approximately RMB1.5 million for the year ended 31 December 2023, which was primarily due to a change in enacted tax rate applied on the taxation of Wangchen Technology from 25% to 15% during the year ended 31 December 2023 and the tax provision overprovided in prior year has been adjusted accordingly.

Liquidity, Financial and Capital Resources

As at 31 December 2023, the total assets of the Group increased by 42.4% to RMB527.4 million (2022: RMB370.3 million), the net current assets increased by 253.0% to RMB268.6 million (2022: RMB76.1 million) and total equity increased by 170.4% to RMB331.6 million (2022: RMB122.6 million) as compared to that as at 31 December 2022. The increase in net current assets is primarily due to increase in cash and cash equivalents and financial assets at FVTPL leading to an increase in current assets, and a decrease in current liabilities resulting from the full conversion of the Pre-IPO convertible bonds into the shares of the Company on the Listing Date. The increase of total equity was mainly attributable to the share premium arisen from the issue of shares on the Listing Date and the profit made for the year ended 31 December 2023.

As at 31 December 2022 and 31 December 2023, the Group had no bank borrowings.

The Group's current ratio remained relatively stable at approximately 2.8 times for the year ended 31 December 2023 compared with approximately 1.3 times for the year ended 31 December 2022.

As at 31 December 2023, the Group had cash and cash equivalents of approximately RMB300.4 million (2022: RMB232.6 million). The cash and cash equivalents were mainly denominated in Renminbi (“RMB”). For the purpose of presentation in the consolidated statement of cash flows, the cash and cash equivalents comprise cash on hand and demand deposits, which are subject to an insignificant risk of changes in value. The Group generally deposits its excess cash in interest-bearing bank accounts and current accounts.

The following table sets forth a summary of the cash flows for the years indicated:

	Year Ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	98,264	74,182
Net cash used in investing activities	(95,061)	(24,341)
Net cash generated from/(used in) financing activities	61,972	(9,365)
Net increase in cash and cash equivalents	65,175	40,476
Cash and cash equivalents at end of the year	300,411	232,566

Net cash generated from operating activities

Primary source of cash generated from operating activities consists of revenue generated from game development and operation of the Group. Cash used in operating activities are mainly used to fund the development, publishing and operation of the games. Cash flows generated from operating activities for the year ended 31 December 2023 was approximately RMB98.3 million, representing an increase of approximately RMB24.1 million when compared to approximately RMB74.2 million for the year ended 31 December 2022. The increase in cash flows from operating activities was mainly due to increase in amortization of intangible assets of approximately RMB18.3 million and increase in interest received of RMB3.5 million.

Net cash used in investing activities

Net cash used in investing activities primarily reflects cash used for purchases of financial assets at FVTPL, and purchases of property, plant and equipment, purchases of intangible assets; offset by proceeds from disposal of financial assets at FVTPL and repayment from related parties. Cash flows used in investing activities for the year ended 31 December 2023 was approximately RMB95.1 million, representing an increase of approximately RMB70.8 million when compared to approximately RMB24.3 million for the year ended 31 December 2022. The increase in cash flows used in investing activities was mainly due to (i) the purchases of financial assets at FVTPL of approximately RMB83.1 million; (ii) increase in purchase of intangible assets of approximately RMB14.6 million and partially offset by (iii) the disposals of financial assets at FVTPL of approximately RMB41.7 million.

Net cash generated from/(used in) financing activities

Net cash generated from/(used in) financing activities primarily reflects proceeds from issue of shares, payment for Listing expenses and payment for principal elements of lease liabilities. Net cash generated from financing activities for the year ended 31 December 2023 was approximately RMB62.0 million, which was mainly due to the proceeds received from issue of shares of approximately RMB69.4 million.

Gearing ratio

As at 31 December 2023, gearing ratio (defined as debt divided by total equity, where debt includes lease liabilities and a financial liability at FVTPL) was 0.01 times (2022: 0.66 times).

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Leases liabilities		
— Current	4,330	6,651
— Non-current	330	4,475
Financial liability at FVTPL	—	69,393
	<hr/>	<hr/>
Debt	4,660	80,519
Equity	331,588	122,614
	<hr/>	<hr/>
Gearing ratio	<u>0.01 times</u>	<u>0.66 times</u>

Contingent Liabilities

As at 31 December 2023, the Group did not have any contingent liabilities (2022: nil).

Pledge of Assets

As at 31 December 2023, none of the assets of the Group was pledged (2022: nil).

Capital Commitments

As at 31 December 2023, the Group did not have any capital commitments (2022: RMB92.3 million).

Material Acquisitions and Disposal of Subsidiaries

The Group had neither material acquisition nor disposal of subsidiaries, associates and joint ventures for the year ended 31 December 2023 (2022: nil).

Significant Investments

The significant investments held by the Group during the year ended 31 December 2023 are as follows:

Name of investment	Cost (RMB)	Redeemed	Fair value	Realised fair	Percentage to the total assets as at 31 December 2023
		during the year ended 31 December 2023 (RMB)	as at 31 December 2023 (RMB)	value gain/ interest during the year ended 31 December 2023 (RMB)	
Wealth management product known as 招銀理財招贏日日鑫 現金管理類理財計劃 (代碼：80008) issued by CMB Wealth Management Co., Ltd. (招銀理財有限責任公司) ("CMB Wealth Management")	34 million	(24 million)	10,016,886.44	170,092.07	1.9%
Wealth management product known as 招銀理財招贏朝招金 多元穩健型現金管理類理財計劃 (代碼：7007) issued by CMB Wealth Management	31 million	(23 million)	8,013,565.92	136,474.23	1.5%
Wealth management product known as 工銀理財法人“添利 寶”淨值型理財產品 (代碼： TLB1801) issued by ICBC Wealth Management Co., Ltd. (工銀理財有限責任公司) ("ICBC Wealth Management")	5 million	N/A	5,043,460.91	43,460.91	1.0%
Wealth management product known as 工銀理財法人“添利寶 2號”淨值型理財產品 (代碼：XTL1901) issued by ICBC Wealth Management	5 million	N/A	5,042,835.58	42,835.58	1.0%

The Board believes that the investment is reasonable and serves as an effective means to utilise the surplus cash reserve resources of the Group and generate satisfactory capital gain for the Group. The risk level associated with the wealth management products is low, while also providing the Group with better return as compared to fixed deposits generally offer by commercial banks in the PRC. Please refer to the announcement of the Company dated 8 September 2023 for further details regarding the purchases and disposals of wealth management products issued by CMB Wealth Management.

Save as disclosed above, the Group did not have any significant investments for the year ended 31 December 2023 (2022: nil).

Future Plans for Material Investments and Capital Assets

As at 31 December 2023, save as disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 30 December 2022 (the “**Prospectus**”) the Group did not have any other future plans for material investments or capital assets (2022: same).

Treasury Policies and Foreign Exchange Exposure

The Group has adopted a prudent approach on treasury management for the purpose of investing the sufficient financial resources in wealth management products.

The Group’s foreign currency transactions are mainly denominated in United States dollar (“**US\$**”), European dollar (“**EUR**”) and Hong Kong dollar (“**HK\$**”). The majority of assets and liabilities are denominated in RMB, US\$, EUR and HK\$ and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities denominating in a currency other than RMB, which is the functional currency of the major operating companies within the Group.

The Group did not experience any significant liquidity problems resulting from currency exchange fluctuations during the year ended 31 December 2023 (2022: same). The Group did not hedge its foreign currency exposure during the year ended 31 December 2023 (2022: same).

Employees and Remuneration Policy

The Group had 412 full-time employees as at 31 December 2023 (2022: 367), most of whom were based in the PRC. The total staff costs amounted to approximately RMB144.6 million for the year ended 31 December 2023 (2022: RMB116.4 million).

The Group has established rules and procedures of recruitment, job promotion, compensation, benefits, leave, dismissal, etc. The Group determines employees' compensation packages on the basis of work performance and the market standard of remuneration. The Group compensates its employees with base salaries and performance-based bonuses. The Group has adopted a share option scheme and a share award scheme as a long term incentive to directors and employees.

The Group's companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and other defined contribution social security plans organized by relevant government authorities in the PRC on a monthly basis. The Group is committed to enhancing the professional knowledge and skills of our employees and promoting their personal growth and development. Our employees are also provided with training opportunities on various fronts, including induction training, business-related training and training on compliance and corruption prevention.

DIVIDEND

A final dividend in respect of the year ended 31 December 2023 of RMB18.82 cents (2022: nil) per ordinary share, in an aggregate amount of RMB25,971,050 (2022: nil), has been proposed by the directors of the Company (the “**Directors**”) and is subject to the approval of the shareholders of the Company (the “**Shareholders**”) at the forthcoming annual general meeting to be held on Tuesday, 4 June 2024 (the “**AGM**”). The proposed final dividend is expected to be paid on or before Friday, 30 August 2024 to Shareholders whose names appear on the Register of Members at the close of business on Friday, 5 July 2024, being the record date for determining Shareholders' entitlement to the proposed final dividend. Final dividend will be paid in HKD. The amount of the final dividend payable in HKD shall be calculated based on the average exchange rate of RMB to HKD as announced by the People's Bank of China for the calendar week prior to the date of the AGM.

There is no arrangement for any Shareholder to waive or agree to waive any dividend.

CLOSURE OF REGISTER OF MEMBERS

For AGM

The register of members of the Company (the “**Register of Members**”) will be closed from Thursday, 30 May 2024 to Tuesday, 4 June 2024 (both days inclusive), during which period no transfer of shares of the Company will be registered, for ascertaining Shareholders' entitlement to attend the AGM. In order to qualify for attending and voting at the AGM, the Shareholders must lodge all duly completed transfer forms accompanied by the relevant share certificates with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for

registration no later than 4:30 p.m. on Wednesday, 29 May 2024. Shareholders whose names appear on the Register of Members at the close of business on Tuesday, 4 June 2024 are entitled to attend and vote at the AGM.

For the final dividend

The Register of Members will be closed from Wednesday, 3 July 2024 to Friday, 5 July 2024 (both days inclusive), during which period no transfer of shares of the Company will be registered, for ascertaining Shareholders' entitlement to receive the proposed final dividend. In order to be eligible to receive the proposed final dividend, the non-registered Shareholders must lodge all duly completed transfer forms accompanied by the relevant share certificates with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 2 July 2024.

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

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

CHANGE OF ADDRESS OF THE PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company's principal place of business in Hong Kong has been changed to 31st Floor, 148 Electric Road, North Point, Hong Kong, with effect from 4 May 2023.

CHANGE OF COMPANY SECRETARY

Ms. Cheng Lucy has been appointed as the company secretary of the Company (the "**Company Secretary**"), with effect from 4 May 2023. Mr. Chu Kai Chi resigned as the Company Secretary on 4 May 2023.

CHANGE OF INDEPENDENT AUDITOR

As disclosed in the Company's announcements dated 22 May 2023 and 16 June 2023 respectively and a circular of the Company dated 24 May 2023, PricewaterhouseCoopers retired as the independent auditor of the Company upon expiration of its term of office at the conclusion of the AGM held on 16 June 2023 (the "**2023 AGM**"). Deloitte Touche Tohmatsu has been appointed as the Company's independent auditor with effect from the conclusion of the 2023 AGM until the conclusion of the next AGM.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board on 28 March 2024. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

IMPORTANT EVENTS AFTER THE REPORTING YEAR

On 16 January 2024, the trustee of the executive aligned share award scheme of the Company (the "**Executive Aligned Share Award Scheme**", which was adopted on 15 December 2023) purchased an aggregate of 3,240,000 listed shares of the Company from the market for a total amount of HK\$15,681,600 pursuant to the rules of the Executive Aligned Share Award Scheme and the terms of the trust deed. Up to the date of this announcement, these shares have not been granted.

Save as disclosed above, there were no other material and important events affecting the Group that had occurred after 31 December 2023 and up to the date of this announcement.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company's net proceeds from the global offering were approximately HK\$11.0 million (after deducting the underwriting commissions and other expenses in connection with the global offering). The following table sets forth details of the use of net proceeds from the Listing Date to 31 December 2023:

Purpose of the net proceeds	Percentage of total amount of net proceeds (%)	Amount of net proceeds allocated* (HK\$'000)	Actual usage from the Listing Date and up to 31 December 2023 (HK\$'000)	Unutilised net proceeds as at 31 December 2023 (HK\$'000)	Expected timeline for usage of net proceeds
Renew existing IP right licenses and obtain additional IP right licenses from sports leagues, sports associations and sports clubs for the development of existing and new mobile sports games	30	3,289	1,328	1,961	By December 2024
Solidifying the marketing efforts to actively promote the Group's games to both PRC and overseas markets	35	3,838	2,006	1,832	By December 2024
Further strengthening the Group's talent pool and further improving the Group's research and development capabilities	25	2,741	1,795	946	By December 2024
Working capital and general corporate purposes	10	1,096	450	646	By December 2024
Total	100%	10,964	5,579	5,385	

* Refers to the intend to use of proceeds under heading "Use of Proceeds" as stated in the Prospectus.

The unutilised net proceeds is currently held in bank deposits at authorised financial institutions and/or licensed banks as defined under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and laws in the relevant jurisdictions (where applicable) and it will be used in the manner consistent with the proposed allocations and expected timeframe as disclosed in the Prospectus and above.

AUDIT COMMITTEE

The Board has established the Audit Committee on 21 December 2022 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and code provision D.3.3 of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix C1 to the Listing Rules. The Audit Committee consists of three members, namely, Mr. Leung Ming Shu (chairman of the Audit Committee), Ms. Chak Hoi Kee Clara and Mr. Zhan Peixun, all being independent non-executive directors.

The primary duties of the Audit Committee include, but are not limited to, (i) reviewing and supervising the financial reporting process and internal control system of the Group, risk management and internal audit; (ii) providing advice and comments to the Board; and (iii) performing other duties and responsibilities as may be assigned by the Board.

The Audit Committee has reviewed the Company’s consolidated financial statements for the year ended 31 December 2023 and discussed with the management and the Company’s independent auditor, Messrs. Deloitte Touche Tohmatsu, regarding the accounting policies and practices adopted by the Company as well as risk management and internal control matters.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set forth in Appendix C3 to the Listing Rules since the Listing Date. The Company has made specific enquiry with the directors of the Company (the “**Directors**”) and all Directors have confirmed that they have complied with the Model Code since the Listing Date.

CORPORATE GOVERNANCE CODE

The Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability.

Since the Listing Date, the Company has adopted and applied the code provisions under the CG Code set out in Appendix C1 to the Listing Rules as its own corporate governance code. The Board has reviewed the Company’s corporate governance practices and is satisfied that save as disclosed below, the Company has been in compliance with the code provisions set out in Part 2 of the CG Code since the Listing Date.

According to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Jia Xiaodong (“**Mr. Jia**”) is currently the chairman of the Board and the chief executive officer of the Group. Taking into account Mr. Jia’s extensive experience in the online game industry and in view of Mr. Jia’s role in the overall management of the Group since the Group’s founding, the Board believes that it is in the interest of the Group for Mr. Jia to take up both roles for effective management and operations. Therefore, the Directors consider that the deviation from such code provision is appropriate. Notwithstanding such deviation, the Directors are of the view that the Board is able to function efficiently and perform its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions will be made in consultation with the members of the Board and the relevant Board committees, and there are three independent non-executive Directors on the Board who can provide independent advice on the operations and management of the Group, the Board takes the view that there is adequate safeguard in place to ensure a sufficient balance of powers within the Board. The Board will also review the structure and composition of the Board and senior management team from time to time in light of the prevailing circumstances to maintain a high standard of corporate governance practices of the Company.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.galasports.com) and the Stock Exchange (www.hkexnews.hk). The annual report containing all the information required by the Listing Rules will be available on the above websites in due course.

By Order of the Board
Gala Technology Holding Limited
Jia Xiaodong

Executive Director, Chairman and Chief Executive Officer

Hong Kong, 28 March 2024

As at the date of this announcement, the executive Directors are Mr. Jia Xiaodong (Chairman and Chief Executive Officer), Mr. Huang Xiang and Mr. Li Xin; and the independent non-executive Directors are Mr. Zhan Peixun, Mr. Leung Ming Shu and Ms. Chak Hoi Kee Clara.