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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023 AND CONTINUED SUSPENSION OF TRADING

KEY FINANCIALS

- Revenue for the six months ended 30 June 2023 (the "**Relevant Period**") amounted to approximately RMB1.6 billion, representing a decrease of approximately 34.4% from approximately RMB2.5 billion for the six months ended 30 June 2022 (the "**Last Corresponding Period**").
- Gross profit for the Relevant Period amounted to approximately RMB453.6 million, representing a decrease of approximately 29.4% from approximately RMB642.7 million for the Last Corresponding Period.
- Loss for the Relevant Period was approximately RMB688.7 million, compared with a profit of approximately RMB203.3 million in the Last Corresponding Period.
- Non-IFRS adjusted net profit amounted to approximately RMB56.3 million, representing a decrease of approximately 74.9% from approximately RMB224.3 million for the Last Corresponding Period.

The Board of Directors (the "**Board**") of Huafang Group Inc. (the "**Company**") presents the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the Relevant Period together with the comparative figures for the Last Corresponding Period as follows. The interim results have not been audited by the external auditor but they have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2023

	Notes	Six months ended 30 June 2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	*3*	**1,626,139**	2,479,823
Cost of sales		**(1,172,491)**	(1,837,159)
Gross profit		**453,648**	642,664
Other income, net	*4*	**29,811**	33,677
Selling and marketing expenses		**(219,229)**	(261,070)
General and administrative expenses		**(143,772)**	(55,603)
Research and development expenses		**(116,111)**	(114,914)
Impairment loss on goodwill	*9*	**(681,763)**	–
(Loss)/Profit from operations		**(677,416)**	244,754
Finance costs	*5*	**(1,067)**	(1,315)
(Loss)/Profit before taxation	*5*	**(678,483)**	243,439
Income tax expenses	*6*	**(10,189)**	(40,172)
(Loss)/Profit for the period		**(688,672)**	203,267
(Loss)/Profit for the period attributable to:			
Owners of the Company		**(688,655)**	203,267
Non-controlling interests		**(17)**	–
(Loss)/Profit for the period		**(688,672)**	203,267
(Loss)/Earnings per share	*8*		
– Basic *(RMB)*		**(0.69)**	0.21
– Diluted *(RMB)*		**(0.69)**	0.21

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss)/Profit for the period	**(688,672)**	203,267
Other comprehensive (loss)/income		
Items that will not be reclassified to profit or loss:		
– Exchange differences on translation of the Company's financial statements to presentation currency	**4,013**	–
– Changes in the fair value of financial assets at fair value through other comprehensive income ("**FVOCI**")	**(77,769)**	–
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency	**(2,223)**	282
Total other comprehensive (loss)/income for the period, net of tax	**(75,979)**	282
Total comprehensive (loss)/income for the period	**(764,651)**	203,549
Total comprehensive (loss)/income for the period attributable to:		
Owners of the Company	**(764,634)**	203,549
Non-controlling interests	**(17)**	–
	(764,651)	203,549

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2023

	Notes	At 30 June 2023 RMB'000 (Unaudited)	At 31 December 2022 RMB'000 (Audited)
Non-current assets			
Property and equipment		**62,919**	72,442
Intangible assets		**102,071**	111,383
Goodwill	9	**17,394**	699,157
Other financial assets	10	**46,008**	133,777
Deferred tax assets		**17,689**	19,773
		246,081	1,036,532
Current assets			
Trade receivables	11	**–**	786
Prepayments, deposits and other receivables	12	**345,764**	291,104
Other financial assets	10	**100,838**	422,238
Cash at banks and on hand		**1,874,279**	1,633,031
		2,320,881	2,347,159
Current liabilities			
Trade payables	13	**67,095**	164,630
Contract liabilities		**82,830**	91,687
Accrued expenses and other payables	14	**86,402**	90,432
Lease liabilities		**11,874**	11,917
Provision for loss on the Incident		**154,895**	154,895
Current taxation		**1,376**	513
		404,472	514,074
Net current assets		**1,916,409**	1,833,085
Total assets less current liabilities		**2,162,490**	2,869,617
Non-current liabilities			
Deferred tax liabilities		**15,373**	16,840
Lease liabilities		**30,265**	34,427
		45,638	51,267
Net assets		**2,116,852**	2,818,350
Capital and reserves			
Share capital	15	**694**	694
Reserves		**2,116,216**	2,817,697
Equity attributable to owners of the Company		**2,116,910**	2,818,391
Non-controlling interests		**(58)**	(41)
Total equity		**2,116,852**	2,818,350

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

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 was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 3611.HK) on 12 December 2022 (the "**Listing**"). The registered office of the Company is situated on the Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The Company's principal place of business is situated at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong and the Group's headquarter is situated at Building 5, Yard 6, Jiuxianqiao Road, Chaoyang District, Beijing, the People's Republic of China (the "**PRC**").

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

The Company and its subsidiaries (together, the "**Group**") are principally engaged in operating online social entertainment live streaming platforms and social networking services (the "**Listing Business**") both in the PRC and overseas.

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

The Reorganisation only involved inserting certain investment holding companies with no substantive operations as the new holding companies of the Listing Business. There were no changes in the economic substance of the ownership and the business of the Group before and after the Reorganisation. Accordingly, the comparative information of the unaudited condensed consolidated financial statements for the six months ended 30 June 2022 has been prepared and presented as a continuation of the financial information of the Listing Business with the assets and liabilities recognised and measured at their historical carrying amounts prior to the Reorganisation. Intra-group balances, transactions and unrealised gain/loss on intra-group transactions are eliminated in full in preparing the unaudited condensed consolidated financial statements.

The unaudited condensed consolidated statement of profit or loss, the unaudited condensed consolidated statement of profit or loss and other comprehensive income, the unaudited condensed consolidated statement of changes in equity and the unaudited condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2023 and 2022 include the financial performance and cash flows of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the relevant periods, or since their respective dates of incorporation or establishment, where this is a shorter period. The unaudited condensed consolidated statement of financial position of the Group at 30 June 2022 has been prepared to present the financial position of the companies now comprising the Group as if the current group structure had been in existence at that date.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2023 (the "**Interim Financial Statements**") of the Group have been prepared in accordance with IAS 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("**IASB**") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The preparation of the Interim Financial Statements in conformity with IAS 34 requires the management of the Group to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a period to date basis. Actual results may differ from these estimates.

2. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements include an explanation of events and transactions that are significant to an understanding of the changes in financial position and financial performance of the Group since 31 December 2022, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the IFRS Accounting Standards which collective term includes all applicable individual IFRS Accounting Standards, IAS Standards and IFRIC Interpretations issued by the IASB. They shall be read in conjunction with the Group's audited financial statements for the year ended 31 December 2022 (the "**2022 Financial Statements**").

The Interim Financial Statements have been prepared on the historical costs basis, except for the other financial assets at fair value through profit or loss ("**FVPL**") and other financial assets at FVOCI which are measured at fair value.

The accounting policies and methods of computation applied in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of the 2022 Financial Statements.

At the date of authorisation of the Interim Financial Statements, the IASB has issued a number of new/revised IFRS Accounting Standards that are not yet effective for the current period, which the Group has not early adopted. The directors of the Company do not anticipate that the adoption of the new/revised IFRS Accounting Standards in future periods will have any material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Live streaming	**1,486,440**	2,398,173
Social networking	**126,090**	81,307
Others	**13,609**	343
	1,626,139	2,479,823

The Group's customer base is diversified, where there was no customer with whom transactions exceeded 10% of the Group's revenue for the six months ended 30 June 2023 and 2022.

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
At a point in time	**1,612,530**	2,479,480
Over time	**13,609**	343
	1,626,139	2,479,823

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

(b) Segment reporting

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

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

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

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

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

Segment revenue and result

	Six months ended 30 June 2023			
	6.cn ***RMB'000*** **(Unaudited)**	**Huajiao** ***RMB'000*** **(Unaudited)**	**HOLLA Group** ***RMB'000*** **(Unaudited)**	**Total** ***RMB'000*** **(Unaudited)**
Revenue from external customers and reportable segment revenue	**456,627**	**1,042,451**	**127,061**	**1,626,139**
Reportable segment profit/(loss) before taxation	**56,425**	**29,355**	**(6,950)**	**78,830**
Including:				
Host cost	**296,029**	**726,609**	**24,474**	**1,047,112**
Promotion and advertising expenses	**28,337**	**139,734**	**32,353**	**200,424**
Staff cost (excluded share-based payment expenses)	**49,485**	**109,209**	**33,981**	**192,675**

	Six months ended 30 June 2022			
	6.cn *RMB'000* (Unaudited)	Huajiao *RMB'000* (Unaudited)	HOLLA Group *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Revenue from external customers and reportable segment revenue	642,486	1,755,883	81,454	2,479,823
Reportable segment profit/(loss) before taxation	106,473	183,724	(17,869)	272,328
Including:				
Host cost	428,533	1,255,365	16,880	1,700,778
Promotion and advertising expenses	25,743	181,481	13,709	220,933
Staff cost (excluded share-based payment expenses)	55,606	91,104	26,570	173,280

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Revenue from external customers and reportable segment revenue	**1,626,139**	2,479,823
Profit		
Reportable segment profit before taxation	**78,830**	272,328
Unallocated expenses	**(2,362)**	(6)
Depreciation and amortisation resulted from revaluation of property and equipment, and intangible assets	**(8,931)**	(9,214)
Finance costs	**(1,067)**	(1,315)
Impairment loss on goodwill	**(681,763)**	–
Share-based payment expenses	**(63,190)**	(18,354)
(Loss)/Profit before taxation	**(678,483)**	243,439

Geographical information

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from external customers:		
The PRC	**1,499,078**	2,398,369
Overseas	**127,061**	81,454
	1,626,139	2,479,823

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

Information about major customers

No external customers individually contributed 10% or more of the total revenue for the six months ended 30 June 2023 and 2022.

4. OTHER INCOME, NET

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Income from financial products issued by banks	**741**	5,637
Changes in fair value of financial products issued by banks	**(770)**	57
Interest income	**17,767**	12,322
Government grants *(Note i)*	**3,047**	653
Loss on disposal of long-term assets	**(2,612)**	(274)
Additional deduction value-added tax ("**VAT**") *(Note ii)*	**5,733**	13,589
Others	**5,905**	1,693
	29,811	33,677

Notes:

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

(ii) Pursuant to the Announcement on Relevant Policies for Deepening the Value-added Tax Reform (Cai Shui Haiguan [2019] No.39) jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs, the Group's subsidiaries, as modern service companies, qualify for additional 10% deduction of input VAT from output VAT during the six months ended 30 June 2023 and 2022. In accordance with the Announcement of the Ministry of Finance and the State Taxation Administration Regarding the VAT Policies for Promoting the Bailout and Development of Distressed Industries in the Service Sector ([2022] No. 11) the above policies are extended to 31 December 2022.

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

5. LOSS/(PROFIT) BEFORE TAXATION

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

		Six months ended 30 June	
		2023	2022
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
(a)	**Finance cost**		
	Interest on lease liabilities	**1,067**	1,315
(b)	**Staff costs (charged to "cost of sales", "selling and marketing expenses", "general and administrative expenses" and "research and development expenses", as appropriate)**		
	Salaries, allowances, bonuses and other benefits in kind	**154,665**	139,203
	Contributions to defined retirement schemes	**38,010**	34,077
	Share-based payment expenses	**63,190**	18,354
		255,865	191,634

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

The Group has no further material obligation for payment of other retirement benefits beyond the above contributions for the six months ended 30 June 2023 and 2022.

		Six months ended 30 June	
		2023	2022
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
(c)	**Other items**		
	Depreciation charge (charged to "cost of sales", "selling and marketing expenses", "general and administrative expenses" and "research and development expenses", as appropriate)		
	– owned property and equipment	**3,238**	4,080
	– right-of-use assets	**6,938**	6,830
		10,176	10,910
	Host cost	**1,047,112**	1,700,778
	Amortisation of intangible assets (charged to "cost of sales", "selling and marketing expenses", general and administrative expenses" and "research and development expenses", as appropriate)	**10,803**	10,843
	Reversal of allowance for doubtful debts	**(92)**	(168)
	Impairment loss on goodwill *(Note 9)*	**681,763**	–
	Promotion and advertising expenses	**200,424**	220,933
	Bandwidth expenses and server custody costs	**18,828**	27,113
	Payment processing cost	**45,498**	41,642
	Auditors' remuneration		
	– Current period	**380**	–
	– Under-provision in prior period	**4,500**	–
	Listing expenses	**–**	2,716

6. INCOME TAX EXPENSES

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current taxation		
The PRC Enterprise Income Tax ("**EIT**")	**9,571**	15,760
Deferred taxation		
Origination or reversal of temporary differences	**618**	24,412
	10,189	40,172

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 for the six months ended 30 June 2023 and 2022 is 16.5%. Hong Kong Profits Tax has not been provided as the group entities established in Hong Kong had no assessable profits for the six months ended 30 June 2023 and 2022.

The tax rate in Delaware state in United States ("**US**") is 8.7%. The group entities established in US have not provided income tax as the Group had no assessable profits in US for the six months ended 30 June 2023 and 2022.

Singapore income tax has not been provided as the Group had no assessable profits for the six months ended 30 June 2023 and 2022.

The Group's entities established in the PRC are subject to EIT at a statutory rate of 25%, except for Huafang Technology Co., Ltd. (北京花房科技有限公司 "**Huafang Technology**") and Beijing Mijing Hefeng Technology Co., Ltd. (北京密境和風科技有限公司 **"Mijing Hefeng**"), which were approved to be "New and High Technology Enterprise" since October 2021 with a valid period of 3 years. The "New and High Technology Enterprise" is subject to a preferential rate of 15% during the valid period. The State Taxation Administration of the PRC announced in March 2021 that enterprises engaging in research and development activities would be entitled to claim at maximum 200% of their research and development expenses as "Super Deduction". The directors of the Company consider the eligibility of the PRC subsidiaries and recognise the additional tax deduction for the six months ended 30 June 2023 and 2022.

7. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2023 and 2022. The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2023 and 2022.

8. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately RMB688,655,000 (30 June 2022: profit attributable to the owners of the Company of approximately RMB203,267,000) and the weighted average of 1,000,000,000 ordinary shares (30 June 2022: 954,000,000 shares) in issue during the six months ended 30 June 2023.

The calculation of the weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss)/earnings per share has been determined based on the assumption that the Capitalisation Issue (as defined in Note 15 below) to the shareholders had occurred on 1 January 2022.

Weighted average number of ordinary shares:

	2023	2022
	(Unaudited)	(Unaudited)
	'000	*'000*
Issued ordinary shares at 1 January	**1,000,000**	53,333
Effect of Capitalisation Issue	**–**	900,667
Weighted average number of ordinary shares at 30 June	**1,000,000**	954,000

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately RMB688,655,000 (30 June 2022: profit attributable to the owners of the Company of approximately RMB203,267,000) and the weighted average number of issued ordinary shares of 1,044,345,000 (30 June 2022: 954,000,000 shares) after adjusting the effects of dilutive potential ordinary shares during the six months ended 30 June 2023, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2023	2022
	(Unaudited)	(Unaudited)
	'000	*'000*
Weighted average number of ordinary shares at 30 June	**1,000,000**	954,000
Effect of deemed issue of shares under the Company's share option scheme	**44,345**	–
Weighted average number of ordinary shares (diluted) at 30 June	**1,044,345**	954,000

For the six months ended 30 June 2023, the Company's share option scheme had an anti-dilutive effect to the basic loss per share calculation. The conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share for the six months ended 30 June 2023. Therefore, the basic and diluted loss per share for the six months ended 30 June 2023 are the same.

For the six months 30 June 2022, diluted earnings per share is the same as basic earnings per share as there were no potential ordinary shares outstanding during the reporting period.

9. GOODWILL

	RMB'000
Cost:	
At 1 January 2023 (Audited) and 30 June 2023 (Unaudited)	**2,542,997**
Accumulated impairment losses:	
At 1 January 2023 (Audited)	**1,843,840**
Impairment loss on goodwill	**681,763**
At 30 June 2023 (Unaudited)	**2,525,603**
Net carrying amount:	
At 30 June 2023 (Unaudited)	**17,394**
At 31 December 2022 (Audited)	699,157

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

	At 30 June 2023 *RMB'000* **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
6.cn	**–**	681,763
HOLLA Group	**17,394**	17,394
Tianjin Maijike Network Technology Co., Ltd. ("**Maijike**")	**–**	–
Total	**17,394**	699,157

(a) Goodwill arisen in business combinations

(i) 6.cn

Pursuant to a series of share purchase agreements, Huafang Technology acquired Mijing Hefeng in two phases. In the first phase, Huafang Technology issued 5,987,000 shares in December 2018 to the then shareholders of Mijing Hefeng, namely Tianjin Huajiao No. 1 technology partnership (limited partnership) and Tianjin Huajiao No. 2 technology partnership (limited partnership), in exchange of 19.96% ownership of Mijing Hefeng. In the second phase, Huafang Technology issued 24,013,000 shares in April 2019 to the rest of the then shareholders of Mijing Hefeng, in exchange for the remaining 80.04% ownership of Mijing Hefeng. On 29 April 2019, Huafang Technology completed the acquisition of Mijing Hefeng ("**Huajiao-6.cn Merger**"). Upon the completion of the Huajiao-6.cn Merger, Mijing Hefeng became 100% owned by Huafang Technology and the original shareholders of Mijing Hefeng owned 60% of Huafang Technology.

The Huajiao-6.cn Merger had been accounted for as a reverse acquisition in accordance with IFRS 3 "Business Combinations" having taken into account the terms of the share purchase agreements, relative voting rights in the consolidated entity, composition of the governing body and senior management of the enlarged group after the acquisition as well as the relative size of Huafang Technology and Mijing Hefeng. Details of the Huajiao-6.cn Merger are set out in the paragraph headed "History, Reorganisation and Corporate Structure" to the Prospectus.

During the year ended 31 December 2020, the Covid-19 pandemic had significantly disrupted the normal economic life in the PRC and around the world. The pandemic had accelerated the proliferation of mobile-based live streaming and has had a disproportionately greater effect on PC-based live streaming due to the government mandated mobility restrictions which could impede access to streaming studios. Market competition had also intensified to compete for user time and viable hosts as new players continue to enter the entertainment live streaming industry. These challenges resulted in a decline in 6.cn's business performance during the year ended 31 December 2020. Based on the impairment test performed at 31 December 2020, the recoverable amount of CGU of 6.cn had been reduced to approximately RMB751,462,000 and the impairment loss of approximately RMB1,777,709,000 was recognised during the year ended 31 December 2020.

(ii) HOLLA Group and Maijike

Goodwill amounted to approximately RMB17,394,000 which arose on the acquisition of HOLLA Group.

Since the major changes in market conditions and the uncertainty of profitability of Maijike's business, the directors of the Company decided to suspend the business of Maijike, the goodwill of Maijike was fully impaired during the year ended 31 December 2022.

(b) Goodwill impairment testing

The management of the Group reviews the provision for goodwill impairment on an ongoing basis, generally annually and more frequently if there are any events or changes in circumstances that would give rise to potential impairment. Pursuant to IFRS Accounting Standards, the recoverable amount of a CGU is determined on the basis of the higher of its fair value less costs of disposal ("**FVLCD**") and its value in use ("**VIU**") calculation. An impairment loss shall be recognised for the CGU if the recoverable amount of the CGU is less than its carrying amount.

Due to the decline in the revenue and earnings projection resulted from the combined effects of the overall reduced future growth expectations in the PRC market and the whole downturn of the industry, combinedly with the fact that the actual operating results falls short of expectation during the first half of 2023, the FVLCD result of CGU of 6.cn was assessed to be below than its VIU result. Therefore, the recoverable amount of CGU of 6.cn at 30 June 2023 was determined based on the VIU by the management of the Group.

At 30 June 2023, the management of the Group reassessed the recoverable amount of all CGUs and engaged an independent professional valuer to conduct impairment tests for all the CGUs.

Based on the assessment results, except for CGU of 6.cn, the VIU results of CGU of HOLLA Group was assessed to be in excess its carrying amount, and the Group considered that there was no impairment loss in the goodwill of HOLLA Group during the six months ended 30 June 2023. For the CGU of 6.cn, because of the factors mentioned above and continuing increased in operating costs, the performance of CGU of 6.cn was directly affected. The management of the Group conducted an impairment test on the CGU of 6.cn and based on the results of the impairment test performed, the recoverable amount of CGU of 6.cn of approximately RMB45,238,000, which was below its carrying amount. Accordingly, the goodwill allocated to CGU of 6.cn was impaired by approximately RMB681,763,000 for the six months ended 30 June 2023.

The VIU calculations of each CGU were based on pre-tax cash flow projections from financial budgets prepared by the management of the Group covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates below. The terminal growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments or entities as below. The management of the Group determined budgeted gross margin based on past performance and their expectations for the market development.

The key assumptions used for VIU calculations of each CGU are as follows:

	At 30 June 2023 (Unaudited)
6.cn	
Annual revenue (decline)/growth rates for next five years *(i)*	**(44)%~6%**
Terminal growth rate *(ii)*	**3%**
Discount rate *(iii)*	**13.3%**

	At 30 June 2023 (Unaudited)
HOLLA Group	
Annual revenue growth rates for next five years *(i)*	**8%~21%**
Terminal growth rate *(ii)*	**3%**
Discount rate *(iii)*	**14.2%**

(i) the annual revenue (decline)/growth rates adopted are based on the CGUs of 6.cn and HOLLA Group CGU's historical experience and the Group's expectations of future changes in the live streaming industry and adjusted for other factors that are specific to the CGU of 6.cn and HOLLA Group.

(ii) cash flows beyond the five-year period are extrapolated used a terminal growth rate based on the relevant industry growth forecasts and does not exceed the average terminal growth rate of the relevant industry.

(iii) the discount rates used are pre-tax and reflect specific risks relating to the CGU of 6.cn and HOLLA Group.

At 30 June 2023, based on the impairment test performed, the recoverable amount of CGU of HOLLA Group calculated based on VIU calculation exceeded carrying value by approximately RMB126,363,000 ("**headroom**") and no impairment loss of goodwill was recognised.

The following table indicates how the amounts of headroom would have decreased if certain key assumptions used in the forecast had changed, assuming all other assumptions remained constant:

	At 30 June 2023 Headroom decreased by *RMB'000* **(Unaudited)**
HOLLA Group	
If annual revenue growth rates decreases by 50 basis point	**5,073**
If terminal growth rate decreases by 50 basis point	**18,790**
If discount rate increases by 50 basis point	**7,376**

The directors of the Company were of the view that any reasonably possible change in key assumptions used in the VIU calculation of HOLLA Group would not cause the carrying amount to exceed the recoverable amount.

10. OTHER FINANCIAL ASSETS

	At 30 June 2023 *RMB'000* **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Current		
Financial products issued by banks	**100,838**	422,238
Non-current		
Financial assets measured at FVOCI		
– Investment in Tianjin Jiadui Technology Co., Ltd. (天津佳對科技有限公司, "**Tianjin Jiadui**") *(i)*	**2,087**	19,600
– Investment in Wuhan Qijifangzhou Information Technology Co., Ltd. (武漢奇蹟方舟信息技術有限公司, "**Wuhan Qijifangzhou**") *(ii)*	**15,207**	15,500
– Investment in Chengdu Xundui Culture Communication Co., Ltd. (成都尋對文化傳媒有限公司, "**Chengdu Xundui**") *(iii)*	**766**	19,300
– Investment in Battuta Technology Pte. Ltd. ("**Battuta**") *(iv)*	**15,341**	14,300
– Investment in Chengdu Aobeisha Cultural Communication Co., Ltd. (成都奧貝沙文化傳媒有限公司, "**Chengdu Aobeisha**") *(v)*	**1,474**	18,000
– Investment in Chengdu Lailiaoyiliao Cultural Communication Co., Ltd. (成都來聊一聊文化傳媒有限公司, "**Chengdu Lailiaoyiliao**") *(vi)*	**–**	15,077
– Investment in Hainan Lefuqiyu Technology Co., Ltd. (海南樂芙奇遇科技有限公司, "**Hainan Lefuqiyu**") *(vii)*	**4,053**	4,000
– Investment in Investee Company (as defined in the 2022 Financial Statements) *(viii)*	**–**	–
– Investment in Chengdu Yuandiansiwei Cultural Communication Co., Ltd. (成都元點思維文化傳媒有限公司, "**Chengdu Yuandiansiwei**") *(ix)*	**–**	10,000
– Investment in Billionaire Pte Ltd. ("**Billionaire**") (x)	**7,080**	18,000
	46,008	133,777

(i) The Group holds 25% of the interests of Tianjin Jiadui, which operates an online dating platform in the PRC during the six months ended 30 June 2023 and 2022. The Group has not appointed directors or participated in the operations of Tianjin Jiadui.

(ii) The Group holds 25% of the interests of Wuhan Qijifangzhou, which is an information technology service provider in the PRC during the six months ended 30 June 2023 and 2022. The Group has not appointed directors or participated in the operations of Wuhan Qijifangzhou.

(iii) The Group holds 25% of the interests of Chengdu Xundui, which operates an online social networking platform in the PRC the six months ended 30 June 2023 and 2022. The Group has not appointed directors or participated in the operations of Chengdu Xundui.

(iv) The Group holds 25% of the interests of Battuta, which operates an online social networking platform in Singapore during the six months ended 30 June 2023 and 2022. The Group has not appointed directors or participated in the operations of Battuta.

(v) The Group holds 25% of the interests of Chengdu Aobeisha, which operates an online social networking platform in the PRC during the six months ended 30 June 2023 and 2022. The Group has not appointed directors or participated in the operations of Chengdu Aobeisha.

(vi) The Group holds 30% of the interests of Chengdu Lailiaoyiliao, which operates an online social networking platform in the PRC during the six months ended 30 June 2023 and 2022. The Group has not appointed directors or participated in the operations of Chengdu Lailiaoyiliao.

(vii) The Group holds 25% of the interests of Hainan Lefuqiyu, which operates an online social networking platform in the PRC during the six months ended 30 June 2023 and 2022. The Group has not appointed directors or participated in the operations of Hainan Lefuqiyu.

(viii) The Group holds 25% of the interests of Investee Company, which operates an online social networking platform in the PRC during the six months ended 30 June 2023 and 2022. The Group has not appointed directors or participated in the operations of Investee Company. The fair value of the investment at 31 December 2022 was fully impaired as Investee Company's business operation had been suspended with no significant assets retained due to the Incident as disclosed in the 2022 Financial Statements.

(ix) The Group holds 25% of the interests of Chengdu Yuandiansiwei, which operates an online social networking platform in the PRC during the six months ended 30 June 2023 and 2022. The Group has not appointed directors or participated in the operations of Chengdu Yuandiansiwei. The investment costs of approximately RMB10,000,000 was fully recovered during the six months ended 30 June 2023.

(x) The Group holds 28% of the interests of Billionaire, which operates an online social networking platform in Singapore during the six months ended 30 June 2023 and 2022. The Group has not appointed directors or participated in the operations of Billionaire.

11. TRADE RECEIVABLES

	At 30 June 2023 ***RMB'000*** **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Trade receivables	**–**	800
Less: loss allowance	**–**	(14)
	–	786

All of the trade receivables are expected to be recovered within one year.

Ageing analysis

At the end of each reporting period, the ageing analysis of trade receivables, based on the invoice date, are as follows:

	At 30 June 2023 ***RMB'000*** **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Within 3 months	**–**	600
3 to 6 months	**–**	100
6 to 12 months	**–**	–
Over 1 year	**–**	100
Less: loss allowance	**–**	(14)
	–	786

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2023 *RMB'000* **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Prepayments for purchase of services	**27,909**	49,265
Deposits	**5,069**	5,105
Loans to Battuta and its subsidiary *(i)*	**48,310**	24,332
Loans to third parties *(ii)*	**24,360**	10,693
Amounts due from third parties	**18,060**	18,060
Receivable from third party payment platform *(iii)*	**214,601**	169,337
Deductible input VAT	**1,789**	9,929
Government grant receivables	**4,042**	4,042
Others	**1,732**	527
	345,872	291,290
Less: loss allowance	**(108)**	(186)
	345,764	291,104

(i) During the six months ended 30 June 2023 and year ended 31 December 2022, the Group offered unsecured and interest-free loans to Battuta and its subsidiary in an aggregate principal amount of approximately RMB48,310,000 and approximately RMB24,332,000, respectively, which is repayable in 12 months.

(ii) During the six months ended 30 June 2023 and year ended 31 December 2022, the Group offered unsecured and interest-free loans to Beijing Sandou Technology Co., Ltd. in principal amount of approximately RMB19,300,000 and approximately RMB9,300,000, respectively, which is repayable in 12 months.

During the six months ended 30 June 2023 and year ended 31 December 2022, the Group offered unsecured and interest-free loans to Turned E Pte. Ltd. in principal amount of approximately RMB5,060,000 and approximately RMB1,393,000, respectively, which is repayable in 12 months.

(iii) At 30 June 2023, receivable from third party payment platform of approximately RMB128,900,000 (31 December 2022: approximately RMB105,600,000) was frozen by the relevant government authorities in the PRC due to the Incident as disclosed in the 2022 Financial Statements. The Group had tendered detained funds pending final judgment (待結案扣押款) of approximately RMB154,895,000 to the relevant government authorities in the PRC on 3 July 2023 and all frozen accounts had been released and available for daily business operations on 25 July 2023.

Saved as disclosed above, all of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

13. TRADE PAYABLES

	At 30 June 2023 *RMB'000* (Unaudited)	At 31 December 2022 *RMB'000* (Audited)
Host	**27,975**	107,975
Advertisers	**26,169**	37,208
Bandwidth providers	**4,897**	9,377
Others	**8,054**	10,070
Total	**67,095**	164,630

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

	At 30 June 2023 *RMB'000* (Unaudited)	At 31 December 2022 *RMB'000* (Audited)
1 to 3 months	**62,917**	161,300
4 to 6 months	**1,883**	966
7 to 12 months	**811**	805
Over 1 year	**1,484**	1,559
	67,095	164,630

All trade payables are interest free with normal credit terms up to 30 days.

14. ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2023 *RMB'000* (Unaudited)	At 31 December 2022 *RMB'000* (Audited)
Accrued expenses	**12,974**	5,863
Deposits	**1,956**	1,865
Amounts due to related parties	**–**	251
Amount due to Tianjin Jiadui *(Note i)*	**10,326**	10,326
Payables for staff related cost	**41,892**	46,204
Payables for other taxes	**5,462**	19,668
Others	**13,792**	6,255
	86,402	90,432

Note:

(i) The amount due to Tianjin Jiadui is non-trade in nature, unsecured, interest-free and repayable on demand. As at the date of this report, the Group subsequently settled approximately RMB8,953,000 to Tianjin Jiadui.

All of the accrued expenses and other payables are expected to be settled within one year or are repayable on demand.

15. SHARE CAPITAL

The Company was incorporated in the Cayman Islands on 1 June 2021 in order to comply with relevant foreign investment restrictions in the PRC, with an initial authorised share capital of USD50,000 divided into 500,000,000 shares of USD0.0001 each. On 1 June 2021 and 29 July 2021, the Company issued 53,333,333 shares to the original shareholders.

The Articles of Association of the Company were conditionally adopted on 21 November 2022 and the authorised capital of the Company at the date of adoption of the Articles is USD200,000 divided into 2,000,000,000 shares of USD0.0001 each.

	Number of ordinary shares	**Amount**
	'000	*RMB'000*
Issued and fully paid:		
At 1 January 2022 (Audited)	53,333	33
Issue of shares pursuant to Capitalisation Issue *(Note (i))*	900,667	629
Issue of shares pursuant to the Global Offering *(Note (ii))*	46,000	32
At 31 December 2022 (Audited), 1 January 2023 (Audited) and 30 June 2023 (Unaudited)	1,000,000	694

(i) Pursuant to the resolutions in writing of the Company's shareholders passed on 22 November 2022, subject to the share premium account of the Company being credited as a result of the issue of the Company's shares under the Listing, the directors of the Company were authorised to allot and issue a total of 900,666,667 shares of USD0.0001 each to the existing shareholders, credited as fully paid at par by way of Capitalisation of the sum of approximately USD90,067 (equivalent to approximately RMB629,000) standing to be credit of the share premium account of the Company (the "**Capitalisation Issue**") and the shares to be allotted and issued pursuant to this resolution shall carry the same rights as all shares in issue (save for the rights to participate in the Capitalisation Issue). The Capitalisation Issue was fully completed on 30 November 2022.

(ii) On 12 December 2022, the Company issued 46,000,000 ordinary shares with a par value of USD0.0001 each, at a price of Hong Kong dollar 2.8 per share by way of global offer ("**Global Offering**") upon the Listing. The proceeds of approximately USD4,600 (equivalent to approximately RMB32,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of approximately RMB110,889,000 (net of share issuance expenses of approximately RMB4,503,000), were credited to the share premium account.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND BUSINESS REVIEW

Affected by complex market environment and other aspects, challenges and opportunities coexisted in the first half of 2023. The Group reinforced its core live streaming business ecosystem, provided high-quality content and product experience for users, and continued to promote solid growth in its overseas social business matrix. At the same time, the Group fulfilled advantages in the "Huafang Lab" innovative mechanism, noticed frontier changes in market and new reform in technology, and made overall arrangement for the Group's innovative business and new opportunities.

I. Focused on the essence of entertainment live streaming business, and built a product power with premium content as its cornerstone

As its core businesses, the Group's two entertainment live streaming flagship products, namely "Huajiao" and "6.cn", actively tackled challenges arisen from market changes. Adhering to premium content as its core product power and becoming user-centric, the Group continually optimized content quality of the platform, and improved customer's experience in watching live streaming and interaction. In addition, entertainment live streaming business also continued to explore partial innovation under traditional business model, and applied artificial intelligence, virtual avatar and other technologies to various fields, such as content creation, operational efficiency enhancement and compliance review, aiming to build an entertainment live streaming platform with high quality for users.

II. Overseas entertainment social matrix began to take shape, and achieved stable and sound growth on the whole

A number of the Group's overseas social networking and entertainment service products have satisfied the strong social entertainment needs and diverse preferences of users by continuously enhancing their content and operation management and optimizing the product community ecology based on different cultures and user habits, as well as the needs of users in different regions (including North America, Europe, the Far East and the Middle East and North Africa). In the first half of 2023, the revenue from overseas social business achieved a year-on-year increase of 55.1% and the average MAUs (monthly active users) increased by 66.4%, thereby realizing steady and sound growth on the whole.

III. Continued to discover and explore cutting-edge opportunities and bring users differentiated product experience

As an important mechanism for the Group's strategic innovation, "Huafang Lab" has continued to pay attention to the cutting-edge of the industry and explore the in-depth integration of new modes, new technologies and new business models into the Group's mature business. With the rapid development of AIGC (artificial intelligence-generated content) technology and Large Language Model ("**LLM**") since last year, their application in the pan-entertainment and social fields has become the direction of the Group's innovative layout, and has been initially verified in different scenarios such as audio and video live streaming and socializing. In the future, the Group will actively explore more possibilities of AIGC+X to bring users more differentiated entertainment and social product experience.

BUSINESS STRATEGIES AND FUTURE OUTLOOK

In the face of the ever-changing market landscape and external environment, the Group will actively embrace changes and challenges and continually develop its traditional entertainment live streaming business, so as to achieve healthy and steady development in the long run. At the same time, the Group will insist on continuous iteration and innovation, focus on the development of overseas social networking market scale, and actively grasp the trend of the rapid rise of artificial intelligence in order to seek new business growth engines.

I. Consolidating the cornerstone of entertainment live streaming business and proactively embrace new changes in the market

The Group will further develop its principal businesses of entertainment live streaming and socializing, optimize its flagship products such as Huajiao and 6.cn, provide high-quality live streaming content and create a healthy operating environment, to ensure the stable and sustainable development of the core businesses. Meanwhile, the Group will make continuous effort to improve user experience, conduct in-depth cooperation with outstanding content makers, and actively explore new contents and forms of live streaming, so as to provide quality and diversified entertainment, social contact and companionship value for our users. As a pioneer in the live streaming industry, the Group has been embracing technological advance and market changes, and will promote the combination of new technologies such as AIGC and its pan-entertainment live streaming business, and actively search for new growth opportunities and innovation potentials to cope with the ever-changing market environment.

II. Focusing on overseas social hit products to achieve breakthrough in scale growth

With the rapid development of global mobile social networking, the Group's overseas social networking business has continued to grow and has formed a matrixed, localized and refined operation system. Continuing to leverage its overseas teams' abundant experience in international operation, the Group will centralize its advantageous resources and develop hit products, thus accelerating its scale growth; seek new business opportunities in overseas market more enthusiastically, and make arrangements in the advantageous resources more rationally, so as to build up its principal products and key regions and drive its business to grow at a high rate, with a view to further enhancing the Group's market share and brand influence in overseas social networking.

III. Promote innovation and exploration in the field of AI and turn it into a new growth curve

Based on the current rapid development in LLM and artificial intelligence, and with an aim to promote the Group's innovation and exploration in the field of AI and to build a second business curve, "Huafang Lab", the Group's strategic brand project, will be committed to exploring innovative AI projects, so as to ensure that the Group maintains its competitive strengths in this field, and at the same time, continue to develop innovative projects such as virtual avatar, application of augmented reality ("**AR**") and virtual reality ("**VR**") technologies, new forms of socializing and other segments in the social networking field.

In addition, the Group will actively fulfill its social responsibility and continue to uphold high ethical standards, expecting to further contribute value to society through the provision of more in-depth online platform services. To maintain the sustainability of its businesses, the Group will formulate environmental, economic, and social strategies, and will continue to create long-term value for its shareholders, employees, users and the society by consistently adhering to its mission of "connecting people with technology and spreading happiness through companionship" and its vision of "building a top influential online social entertainment ecosystem in the world".

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 Relevant Period, the Group generated the vast majority of its revenue from operations in China.

The Group's total revenue decreased by 34.4% to approximately RMB1.6 billion for the Relevant Period as compared to approximately RMB2.5 billion for the Last Corresponding Period.

The revenue generated from live streaming and audio social networking decreased by 38.0% to approximately RMB1.5 billion in the Relevant Period, as compared to approximately RMB2.4 billion in the Last Corresponding Period. This was mainly due to the challenging external environment and the Group's implementation of more cautious operating strategies throughout the year.

The revenue generated from overseas social networking increased by 55.1% to approximately RMB126.1 million in the Relevant Period as compared to approximately RMB81.3 million in the Last Corresponding Period primarily due to the Group's expansion of its overseas markets.

During the Relevant Period, 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 RMB13.6 million for the Relevant Period, compared with approximately RMB0.3 million for the Last Corresponding Period.

Cost of Sales

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

The Group's cost of sales decreased by 36.2% to approximately RMB1.2 billion for the Relevant Period, as compared to approximately RMB1.8 billion for the Last Corresponding Period which is in line with the decrease of revenue.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the Group's gross profit decreased by 29.4% to approximately RMB453.6 million in the Relevant Period, as compared to approximately RMB642.7 million in the Last Corresponding Period, and the Group's gross profit margin in the Relevant Period was 27.9%, compared to 25.9% in the Last Corresponding Period.

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 16.0% to approximately RMB219.2 million in the Relevant Period as compared to approximately RMB261.1 million in the Last Corresponding Period, primarily attributable to a decrease in marketing and promotion fees.

General and Administrative Expenses

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

The Group's general and administrative expenses increased by 158.6% to approximately RMB143.8 million in the Relevant Period as compared to approximately RMB55.6 million in the Last Corresponding Period, primarily due to an increase in share-based compensation expenses.

Research and Development Expenses

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

The Group's research and development expenses increased by 1.0% to approximately RMB116.1 million in the Relevant Period as compared to approximately RMB114.9 million in the Last Corresponding Period.

Other Income

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

Other income decreased by 11.5% to approximately RMB29.8 million in the Relevant Period as compared to approximately RMB33.7 million in the Last Corresponding Period primarily due to (i) VAT (value-added tax) preference policies adjusted from 10% to 5% since January 2023, and (ii) the foreign exchange gain driven by the appreciation of U.S. dollar against Renminbi.

Impairment Loss on Goodwill

Impairment loss on goodwill was approximately RMB681.8 million in the Relevant Period, mainly due to the decline in the revenue and earnings projection resulted from the combined effects of the overall reduced future growth expectations in the PRC market and the whole downturn of the industry, combinedly with the fact that the actual operating results falls short of expectation during the first half of 2023, the FVLCD result of CGU of 6.cn was assessed to be below than its VIU result. Therefore, the recoverable amount of CGU of 6.cn at 30 June 2023 was determined based on the VIU by the management of the Group.

Operating Loss

As a result of the foregoing, operating loss was approximately RMB677.4 million in the Relevant Period, compared with an operation profit of approximately RMB244.8 million in the Last Corresponding Period.

Finance Costs

Finance cost decreased by 18.9% to approximately RMB1.1 million in the Relevant Period as compared to approximately RMB1.3 million in the Last Corresponding Period.

Income tax expenses

Income tax expenses decreased by 74.6% to approximately RMB10.2 million in the Relevant Period as compared to approximately RMB40.2 million in the Last Corresponding Period.

Loss for the Period

As a result of the foregoing, loss for the period was approximately RMB688.7 million in the Relevant Period, compared with a profit of approximately RMB203.3 million in the Last Corresponding Period.

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 period, adjusted to add back share-based compensation expenses, listing expenses and impairment loss on goodwill. 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.

	Six months ended 30 June	
	2023	2022
	RMB in thousands	
(Loss)/Profit for the period	**(688,672)**	203,267
Add:		
Share-based compensation expenses	**63,190**	18,354
Listing expenses	**–**	2,716
Impairment loss on goodwill	**681,763**	–
Adjusted net profit (non-IFRS measure)	**56,281**	224,337

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 was approximately RMB2.6 billion as of 30 June 2023, as compared to approximately RMB3.4 billion as of 31 December 2022. The Group's total liabilities was approximately RMB450.1 million as of 30 June 2023, as compared to approximately RMB565.3 million as of 31 December 2022.

As of 30 June 2023, the current ratio (the current assets to current liabilities ratio) of the Group was 5.7, and the gearing ratio (total liabilities to total equity ratio) was 0.2, as compared with 4.6 and 0.2, respectively, as of 31 December 2022.

As of 30 June 2023, the Group's cash and cash equivalents were approximately RMB1.9 billion, compared with approximately RMB1.6 billion as of 31 December 2022. Approximately RMB1.7 billion is denominated in Renminbi and approximately RMB0.2 billion is denominated in other currencies (primarily Hong Kong dollars). The Group currently does not hedge transactions in foreign currencies.

Borrowings

For the Relevant Period, 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 at fair value through other comprehensive income, including the Group's equity investment in certain technology companies during the Relevant Period. 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 30 June 2023, the Group had current and non-current financial assets at fair value through other comprehensive income of approximately RMB146.8 million (31 December 2022: approximately RMB556.0 million), mainly comprised (a) financial products issued by banks of approximately RMB100.8 million (31 December 2022: approximately RMB422.2 million); and (b) unlisted equity investment of approximately RMB46.0 million (31 December 2022: approximately RMB133.8 million).

Capital Expenditures

The Group's capital expenditures were approximately RMB3.0 million for the Relevant Period, compared with approximately RMB9.4 million for the Last Corresponding Period. The Group funded its capital expenditure requirements during the Relevant Period mainly from cash generated from the Group's operating activities.

Contingent Liabilities

As of 30 June 2023, the Group did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of the Group.

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 Relevant Period, 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 Relevant Period. 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.

Charges on the Group's Assets

As of 30 June 2023, the Group had no charges on the Group's assets.

EMPLOYEES

The Group had approximately 684 employees as at 30 June 2023, as compared to 864 employees as at 31 December 2022. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits, 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.

USE OF PROCEEDS FROM GLOBAL OFFERING

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

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

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

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Relevant Period (for the six months ended 30 June 2022: 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 C1 (formerly "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.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code during the Relevant Period.

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 C3 (formerly "Appendix 10") to the Listing Rules as its own 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 Company or its securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Relevant Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the Relevant Period.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Relevant Period.

REVIEW OF FINANCIAL INFORMATION

Audit Committee

The audit committee of the Company (comprising Ms. QIAN Aimin, Mr. CHEN Shengmin and Mr. LI Bing) has reviewed the consolidated financial information of the Group for the six months ended 30 June 2023, 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.

CHANGE OF AUDITOR

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

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

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.huafang.com. The interim report of the Company for the Relevant Period containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the above websites 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.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 3 April 2023 pending the publication of the 2022 Audited Annual Results, and will remain suspended until the Company fulfils the resumption guidance and any supplement or modification thereto. The Company will publish further announcement(s) to inform the shareholders of the Company of its progress in complying with the resumption guidance as and when appropriate, as well as quarterly updates on its development pursuant to Rule 13.24A of the Listing Rules.

Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

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

Hong Kong, 29 February 2024

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.