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友誼時光
F R I E N D T I M E S

FriendTimes Inc.

友誼時光股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6820)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

The Board of Directors hereby announces the unaudited interim results of the Group for the six months ended 30 June 2021 (the “**Interim Results**”) together with comparative figures for the corresponding period in 2020, which have been prepared in accordance with HKFRS.

FINANCIAL PERFORMANCE SUMMARY

	For the six months ended 30 June		
	2021	2020	Changes
	RMB'000	RMB'000	%
	(Unaudited)	(Unaudited)	
Revenue	833,007	1,050,260	-20.7%
Gross profit	560,302	688,909	-18.7%
Profit for the period	130,291	163,116	-20.1%
Adjusted profit for the period	156,037	163,116	-4.3%

* Adjusted profit for the period represents profit for the period excluding share-based remuneration expenses. HKFRS does not define adjusted profit for the period and therefore it may not be comparable to similar indicators presented by other listed companies.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is a leading integrated and well-established mobile game developer, publisher and operator. The Group is headquartered in Suzhou, China, with branches in regions including Shanghai, Wuxi, Chengdu and Hong Kong in China, and South Korea and Japan, and was listed on the Main Board of the Stock Exchange on 8 October 2019. Since our inception in 2010, we have been strategically focusing on mobile games targeting female players to capture the significant growth potential in both the mobile game industry and the female-oriented game market. We successfully launched core products such as the Fate of the Empress (浮生為卿歌), the Legend of Empress (熹妃傳), the Royal Chaos (熹妃Q傳) and others, which are well received among users.

As a key national cultural export enterprise and a pioneer in the segment of ancient Chinese-style female-oriented games, the Group keeps a professional global distribution and operation team. While consolidating the leading position in the domestic female market, we are also exploring overseas markets actively. We will continue to adhere to the corporate mission of “Let Culture Create Values”, and are committed to spreading excellent traditional Chinese culture to a wider group and region, so as to build a carrier for global outstanding cultural exchanges, promote cultural inheritance and heritage, constantly explore cultural values, and shape a more profound influence of culture.

Business Review

For the six months ended 30 June 2021, the Group’s total revenue was approximately RMB833.0 million, decreasing by 20.7% as compared to the corresponding period in 2020; the net profit amounted to RMB130.3 million, decreasing by 20.1% as compared to the corresponding period in 2020; the adjusted profit for the period was RMB156.0 million, decreasing by 4.3% as compared to the corresponding period in 2020. The above changes were mainly due to the facts that no major new games were launched during the current reporting period as a result of product scheduling and the revenue from existing games has declined to a certain extent. We attached importance to the construction of research and development system and the promotion of research and development personnels’ salary and benefits.

In terms of game realization performance, we continued to show our own strengths and keen market insight and constantly improved our monetization capability through our refined publication and operation ability, launch of overseas versions, and strategy of continuous version and gameplay development. For the six months ended 30 June 2021, monthly average revenue per paying user (ARPPU) increased to RMB739.7, representing an increase of 27.2% over the corresponding period in 2020, and the accumulated total number of registered users reached 139.0 million.

In terms of operational strategy, we have adopted a strategy of the long life cycle of games and performed refined operation on each of our products. We provided updates and optimizations on versions, content and activities at least once a month to constantly introduce new dynamics into the games, ensuring players' gaming experience and deliver stable turnover. The Legend of Empress (熹妃傳) with continuous operation for more than six years launched "Ten Canal Views (運河十景)" function, which strives to promote canal culture through "Suzhou Stories" happened in the areas south of the Yangtze River and enable users to feel the thousand-year-old culture of Gusu in a subtle way by deep integration of traditional culture and digital technology.

The Fate of the Empress (浮生為卿歌), a flagship product of the Group, was officially launched on 31 December 2019. Subsequent to the launch, we have maintained the continuous operation and optimization of the high-frequency version of such product. In addition to constant creation and update, we also invested in various marketing activities to obtain long-term traffic to maintain the sustainability of the product turnover. For the six months ended 30 June 2021, the Fate of the Empress (浮生為卿歌) ranked the 13th place (highest record) and the 28th place (on average) in China's iOS Top Games, and its highest record in iOS Top Games of Hong Kong, Macau and Taiwan was ranked the 7th, 2nd and 9th place, respectively. Meanwhile, the Fate of the Empress (浮生為卿歌) achieved the highest record of ranking the 13th in Korean iOS Top Games. In the first half of 2021, we have elaborately prepared a series of activities to ensure players' gaming experience. For example, we organized a crossover activity "The Fate of the Paladin (浮生亦逍遙)" between the Fate of the Empress (浮生為卿歌) and the Chinese Paladin: Sword and Fairy (仙劍奇俠傳), which unlocked new gameplay, maps, costumes, and pet mounts, etc.. We also launched a brand new home system and created a diverse interactive community. Besides, we launched crossover fashion clothes with the national first-tier chain photography agency "Poetic Oriental Beauty (盤子女人坊)", with "reshaping the new national tide" as the core. Based on the pet mounts in the Fate of the Empress (浮生為卿歌) as the prototype, we designed and created the mystery box (盲盒) for the series of ancient Chinese-style fairy pets namely Yooe.

Game Reserve

Promise of Lingyun (凌雲諾)

Promise of Lingyun (凌雲諾) is a glamorous Chinese-style social mobile game with modern art. It blends classical aspects with modern art to demonstrate the fascinating ancient Chinese culture. The game features a variety of Chinese-style gameplay such as poetry and painting social interaction, bonding, and costumes. By using the traditional yet novel Chinese brush painting method, the game combines the traditional Chinese classical culture with the essence of contemporary art techniques to create a new aesthetic impression of Chinese-style, outlining realistic paintings of ancient times, and elegantly shapes an ancient Chinese world with splashes of paint.

In July 2021, Promise of Lingyun (凌雲諾) officially launched its first Chinese animation CG, “Keep your promise to guard the homeland together (承君之諾，共守山河)”. Set against the backdrop of the magnificent landscape, the CG depicts the scenes of the ancient Chinese landscape and tells the story of an ancient female official who, in the face of a pandemic and the disturbances of the society, has her heart set on her country and the people, and works together with her colleagues to portray the grand story of defending the homeland despite challenges, demonstrating the spirit of “Every woman has the right to walk her own way”. The online pre-order for Promise of Lingyun (凌雲諾) is now available and has been recommended on the App Store with various testing activities underway.

A Story of Lala’s: Rising Star (杜拉拉升職記)

A Story of Lala’s: Rising Star (杜拉拉升職記) is an authentic inspirational female-oriented simulation mobile game. It is adapted from a novel with the same title, and is a role-playing game in the modern female workplace setting. By focusing on the perspective of modern women, the game constructs the core value of “having attitudes even in the workplace” and emphasizes on self-confidence and independence of modern women in metropolitan. The product incorporates the classic storyline of the novel, with glamorous 3D workplace scenes and delicate portrait, combines a variety of game play and practical advice in the workplace, allowing players to experience personal growth and socialisation in a relaxing and enjoyable gaming environment. At the end of July 2021, A Story of Lala’s: Rising Star (杜拉拉升職記) was officially launched at the ChinaJoy, which illustrated the aura and capabilities of women in the workplace, as well as the characteristics of women in the new era who are independent, hardworking and aggressive under the theme of “Super Alpha Gravity”.

Code: FS2 (代號: FS2)

As the Company’s strategic flagship product, Code: FS2 (代號: FS2), a new generation of female-oriented traditional Chinese-style mobile game, is inherited from the Fate of the Empress (浮生為卿歌), and adopts new engine effects, artistic production techniques and innovative gameplay features, aiming to bring players a rich and multifaceted gameplay experience, and to satisfy users’ fantasies of a real ancient world with higher freedom, more realistic and more extreme restoration.

Product Agency

In the past two years, the Company has successively invested in R&D studios in various regions such as Beijing, Changsha, Xiamen and Chengdu, and signed agency agreements for their products under research. At present, the above projects are progressing steadily. Among them, the project Code: W (代號: W) of a studio in Xiamen has been started testing overseas. Code: W (代號: W) is a mobile game of simulated idol development, in which players can get an interesting experience to debut as a girl group member.

OUTLOOK

Looking ahead, we will continue to increase our investment in development and cultivation of talents skilled in development, distribution and operation of games, seek investment and acquisition opportunities that can create synergy in the upstream and downstream industry chains, build a diversified and highly innovative product portfolio, upgrade industrialized production level, strengthen our global competitiveness, accelerate the ecology and commercialization of original IP, expand our industry layout around the “IP+” strategy and introduce new dynamics into the Group’s long-term development, so as to realize our vision of “Becoming a Global Well-established Cultural and Innovative Enterprise” as soon as possible.

SOCIAL RESPONSIBILITY

The Group is committed to becoming a caring and socially responsible enterprise. It continues to undertake corporate social responsibilities through charitable activities, hoping to help more people and organisations in need of help through the power of enterprise. In May 2021, responding to the call of the Game Publishers Association Publications Committee of the China Audio-video and Digital Publishing Association, the Group went to Yan’an and donated thousands of sets of books and school supplies to Zaoyuan Primary School in Yan’an. In July 2021, affected by the extreme weather, many parts of Henan Province encountered extremely heavy rainfall. The Group donated RMB1 million to the disaster-stricken areas in Henan through the Henan Charity Federation for emergency rescue and post-disaster reconstruction. In the future, the Group will continue to practice its charity culture and assume more social responsibilities.

Minors are the future builders of the country. Protecting their physical and mental health and regulating their reasonable use of internet services are the historical mission and social responsibilities of the Group. We attach great importance to the guidance of the physical and mental health of minors, regard the protection of minors as a key issue of continuous concern, and continue to deepen the protection of minors through technical research and development. In strict compliance with the latest requirements of the National Press and Publication Administration, the Group has built a complete real-name account system and anti-addiction system by way of real-name authentication, game login, game duration limitation, etc., and took safeguard measures such as building special complaint channels for minors, so as to comprehensively build a protection system for minors, thereby creating a favourable environment for the healthy growth of minors.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the six months ended 30 June 2021 — unaudited
(Expressed in Renminbi)

	<i>Note</i>	Six months ended 30 June	
		2021	2020
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2	833,007	1,050,260
Cost of sales		(272,705)	(361,351)
Gross profit		560,302	688,909
Other income		11,676	19,646
Sales and marketing expenses		(280,810)	(379,030)
Research and development expenses		(178,181)	(130,694)
General and administrative expenses		(31,340)	(21,680)
Other expenses-donations		–	(2,000)
Profit from operations		81,647	175,151
Finance costs		(11)	(50)
Share of loss of associates and joint venture		(1,733)	(175)
Changes in fair value of financial assets measured at fair value through profit or loss		2,212	(2,734)
Profit before taxation	3	82,115	172,192
Income tax	4(a)	48,176	(9,076)
Profit for the period		130,291	163,116
Earnings per share			
Basic and diluted (<i>RMB</i>)	5	0.06	0.07

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

for the six months ended 30 June 2021 — unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	130,291	163,116
Other comprehensive income for the period		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(6,379)</u>	<u>7,460</u>
Total comprehensive income for the period	<u>123,912</u>	<u>170,576</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2021 — unaudited

(Expressed in Renminbi)

		At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		283,937	263,730
Intangible assets		3,642	3,856
Right-of-use assets		9,377	7,855
Financial assets measured at fair value through profit or loss	6	15,000	15,000
Financial assets measured at fair value through other comprehensive income		8,825	4,925
Film right		10,377	6,547
Interests in associates and joint venture		10,874	9,580
Time deposits		30,000	–
Deferred tax assets	4(b)	70,053	48,589
Other non-current assets		28,800	28,350
		<u>470,885</u>	<u>388,432</u>
Current assets			
Contract costs		8,133	7,922
Financial assets measured at fair value through profit or loss	6	141,974	120,144
Trade and other receivables	7	227,273	180,659
Pledged bank deposits		1,684	1,698
Time deposits		38,761	–
Cash and cash equivalents		774,243	1,093,324
		<u>1,192,068</u>	<u>1,403,747</u>
Current liabilities			
Trade and other payables	8	104,795	142,951
Contract liabilities		37,177	28,919
Current taxation		4,622	48,191
Lease liabilities		1,150	1,171
		<u>147,744</u>	<u>221,232</u>
Net current assets		<u>1,044,324</u>	<u>1,182,515</u>
Total assets less current liabilities		<u>1,515,209</u>	<u>1,570,947</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2021 — unaudited

(Expressed in Renminbi)

	<i>Note</i>	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Non-current liabilities			
Contract liabilities		13,323	4,526
Lease liabilities		507	–
		<u>13,830</u>	<u>4,526</u>
NET ASSETS		<u><u>1,501,379</u></u>	<u><u>1,566,421</u></u>
CAPITAL AND RESERVES			
	9		
Share capital		154	154
Reserves		1,501,225	1,566,267
TOTAL EQUITY		<u><u>1,501,379</u></u>	<u><u>1,566,421</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 31 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagement 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 December 2020 are available in the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2021.

2 REVENUE

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by business lines is as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by business lines		
— Revenue from self-developed games published by the Group	806,899	1,022,088
— Revenue from self-developed games published through intellectual property license arrangement and others	26,108	28,172
	<u>833,007</u>	<u>1,050,260</u>

(b) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the games were published, the intellectual property was licensed or the services were provided.

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Mainland China	597,638	891,035
Overseas	235,369	159,225
	<u>833,007</u>	<u>1,050,260</u>

3 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	<i>Note</i>	Six months ended 30 June	
		2021	2020
		<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits		156,651	124,421
Equity settled share-based payments		25,746	–
Contributions to defined contribution plans	(i)	13,879	8,763
		<u>196,276</u>	<u>133,184</u>

- (i) Employees of the Group's subsidiaries in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

(b) Other items

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation of property, plant and equipment	6,803	3,637
Depreciation of right-of-use assets	714	2,010
Amortisation of intangible assets	794	3,437
Reversal/provision for the impairment losses of trade and other receivables	(119)	342
Auditors' remuneration	500	500
	<u>500</u>	<u>500</u>

4 INCOME TAX

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

	<i>Note</i>	Six months ended 30 June	
		2021	2020
		<i>RMB'000</i>	<i>RMB'000</i>
Current tax:			
Provision for current income tax for the period		1,239	19,917
Over-provision in prior years	(i)	(27,951)	–
		<u>(26,712)</u>	<u>19,917</u>
Deferred tax:			
Origination and reversal of temporary differences		(21,464)	(10,841)
		<u>(48,176)</u>	<u>9,076</u>

- (i) It mainly represented reversal of Hong Kong Profits Tax provision made on prior years' profits of Wish Interactive Technology Limited ("Wish Interactive"), a Hong Kong incorporated company and subsidiary of the Group, following the receipt of written Profits Tax exemption notice from Inland Revenue Department of Hong Kong ("IRD") dated 16 June 2021. Wish Interactive is principally engaged in the provision of mobile game publishing and operation services.

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the period are as follows:

Deferred tax arising from:	Change in fair value of financial assets measured at fair value through profit or loss <i>RMB'000</i>	Cumulative tax losses <i>RMB'000</i>	Accruals and others <i>RMB'000</i>	Deductible advertising expenses <i>RMB'000</i>	Unrealized profit <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2020	1,256	12,711	2,406	5,250	–	21,623
Credited to profit or loss	2,196	24,527	(936)	–	1,179	26,966
Balance at 31 December 2020	3,452	37,238	1,470	5,250	1,179	48,589
Credited/(charged) to profit or loss	1,548	25,787	(621)	(5,250)	–	21,464
Balance at 30 June 2021	<u>5,000</u>	<u>63,025</u>	<u>849</u>	<u>–</u>	<u>1,179</u>	<u>70,053</u>

5 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share for the six months ended 30 June 2021 and 2020 is calculated by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue.

	Six months ended 30 June	
	2021	2020
Profit attributable to the equity shareholders of the Company <i>(RMB'000)</i>	130,291	163,116
Weighted average number of ordinary shares in issue (<i>'000</i>)	<u>2,180,850</u>	<u>2,187,997</u>
Basic earnings per share	<u>0.06</u>	<u>0.07</u>

Weighted average number of ordinary shares in issue:

	Six months ended 30 June	
	2021	2020
	'000	'000
Ordinary shares at 1 January	2,180,850	2,191,512
Effect of shares repurchased	–	(3,515)
	<u>2,180,850</u>	<u>2,187,997</u>

(b) Diluted earnings per share

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

6 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June	At 31 December
	2021	2020
	RMB'000	RMB'000
Investment in a Limited Liability Partnership (“LLP”)	15,000	15,000
Investment in wealth management products	90,000	70,000
Listed equity securities	51,974	50,144
	<u>156,974</u>	<u>135,144</u>
Financial assets measured at fair value through profit or loss included in the consolidated financial statement:		
Current	141,974	120,144
Non-current	15,000	15,000

7 TRADE AND OTHER RECEIVABLES

		At 30 June 2021	At 31 December 2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	(a)	142,213	138,159
Less: Loss allowance		(375)	(494)
Trade receivables, net		141,838	137,665
Deposits and prepayments		48,807	12,464
VAT deductible		16,128	13,730
Income tax recoverable		12,395	10,354
Other receivables		8,105	6,446
		227,273	180,659

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

(a) Ageing analysis

As at 30 June 2021 and 31 December 2020, the ageing analysis of trade receivables, based on the invoice date and net of allowance, is as follows:

	At 30 June 2021	At 31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	141,840	137,686
Over 3 months but within 1 year	–	–
Over 1 year but within 2 years	170	473
Over 2 years but within 3 years	203	–
Less: Loss allowance	(375)	(494)
Trade receivables, net	141,838	137,665

8 TRADE AND OTHER PAYABLES

		At 30 June 2021	At 31 December 2020
	<i>Note</i>	RMB'000	RMB'000
Trade payables	(a)	28,305	19,955
Accrued payroll		49,604	76,672
Payables related to property, plant and equipment		23,853	43,131
Other payables and accruals		3,033	3,193
		<u>104,795</u>	<u>142,951</u>

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

(a) An ageing analysis of trade payables, based on the invoice date, is as follows:

	At 30 June 2021	At 31 December 2020
	RMB'000	RMB'000
Within 3 months	27,883	19,840
Over 3 months but within 6 months	169	19
Over 6 months but within 12 months	157	5
Over 1 year	96	91
	<u>28,305</u>	<u>19,955</u>

9 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period:

The Board of directors did not recommend a payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

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

	Six months ended 30 June 2021	2020
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 12 cents per share (six months ended 30 June 2020: 10 cents per share)	214,700	199,829
	<u>214,700</u>	<u>199,829</u>

(b) Repurchase and cancellation of ordinary shares

The Company did not repurchase its own shares through the Stock Exchange during six months ended 30 June 2021 (six months ended 30 June 2020: an aggregate of 3,762,000 shares at a total consideration of RMB3,513,000).

(c) Equity settled share-based transactions

The Company has adopted a share award scheme on 14 September 2020 (the “Share Award Scheme”) for the purpose of incentivise directors, senior management and certain key employees for their contribution to the Group, and to attract and retain skilled and experienced personnel for the future growth of the Group by providing them with the opportunity to own equity interests in the Company. Mr. Jiang Xiaohuang, the controlling shareholder of the Company, decided to indirectly transfer an aggregate of 80,000,000 shares of the Company as a gift within three years, at nil consideration, as the pool of shares of the Share Award Scheme. A trust has been set up for the administration and vesting of restricted shares (“RSUs”) granted pursuant to the Share Award Scheme.

On 1 January 2021, the first aggregate of 40,000,000 restricted shares were granted for nil consideration to 37 eligible employees of the Group under the Share Award Scheme with fair value of HKD1.99 per share determined by the latest closing market price of the shares to the vesting date. These restricted shares vest for a period up from one month to 5 years. In addition to the service condition, there are other vesting conditions related to the employee’s performance and the Group’s performance for each of the vesting period.

Movements in the number of RSUs granted to the Group’s directors, senior management, and employees and the respective weighted-average grant date fair value are as follows:

	Number of RSUs	Weighted average fair value per RSU at grant date HKD
Outstanding as of 31 December 2020	–	–
Granted during six months ended 30 June 2021	40,000,000	1.99
Forfeited during six months ended 30 June 2021	(667,000)	1.99
Vested during six months ended 30 June 2021	<u>(9,111,000)</u>	1.99
Outstanding as of 30 June 2021	<u><u>30,222,000</u></u>	

During the six months ended 30 June 2021, a total number of 9,111,000 shares had been vested. As at 30 June 2021, a total of 30,222,000 shares was outstanding for vesting.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2021, the Group recorded revenue of approximately RMB833.0 million, representing a decrease of approximately RMB217.3 million or approximately 20.7% from approximately RMB1,050.3 million for the corresponding period in 2020. This was mainly due to no large-scale new games were launched during the reporting period resulting from the arrangement of product schedules, and income from legacy games dropped to a certain extent. However, the Group continued to optimize its services, improve the quality of its game products, and promote its core game, the Fate of the Empress (浮生為卿歌), to maintain good results in the domestic and foreign markets.

The table below sets forth a breakdown of revenue by activity, shown in actual amounts and as percentages to total revenue for the periods indicated:

	Six months ended 30 June				Period to period change %
	2021		2020		
	RMB'000	%	RMB'000	%	
Revenue from games	832,998	100.00%	1,050,228	100.00%	-20.70%
Others	9	0.00%	32	0.00%	-70.70%
Revenue	833,007	100.00%	1,050,260	100.00%	-20.70%

Revenue from games by geographic markets

The table below sets forth a breakdown of revenue from games by geographic markets in absolute amounts and as percentages to our total revenue from games for the periods indicated:

	Six months ended 30 June				Period to period change %
	2021		2020		
	RMB'000	%	RMB'000	%	
Domestic market	597,638	71.7%	891,007	84.8%	-32.9%
Overseas market	235,360	28.3%	159,221	15.2%	47.8%
Revenue from games	832,998	100.00%	1,050,228	100.00%	-20.70%

Cost of sales

The Group's cost of sales decreased by 24.5% from approximately RMB361.4 million for the six months ended 30 June 2020 to approximately RMB272.7 million for the six months ended 30 June 2021, which was mainly due to the decrease in distribution costs charged by distribution platforms resulting from the decrease in revenue from games.

Gross profit and gross profit margin

As a result of the above, gross profit decreased by 18.7% from approximately RMB688.9 million for the six months ended 30 June 2020 to approximately RMB560.3 million for the six months ended 30 June 2021. Gross profit margin increased from approximately 65.6% for the six months ended 30 June 2020 to approximately 67.3% for the six months ended 30 June 2021, which was mainly due to the increase in proportion of revenue from own pipelines.

Sales and marketing expenses

For the six months ended 30 June 2021, the Group's sales and marketing expenses amounted to approximately RMB280.8 million, representing an decrease of RMB98.2 million or approximately 25.9% from approximately RMB379.0 million for the six months ended 30 June 2020, which was mainly due to the decrease in promotion spending.

Research and development expenses

For the six months ended 30 June 2021, the Group's research and development expenses amounted to approximately RMB178.2 million, representing an increase of RMB47.5 million or approximately 36.3% from approximately RMB130.7 million for the six months ended 30 June 2020, which was mainly due to (i) the increase in employee expenses resulting from the development of new games and continually upgrading of existing games, and (ii) the increase in the share-based remuneration expenses of research and development personnels.

General and administrative expenses

For the six months ended 30 June 2021, the Group's administrative expenses amounted to approximately RMB31.3 million, representing an increase of RMB9.6 million or approximately 44.6% from approximately RMB21.7 million for the six months ended 30 June 2020, mainly due to (i) the increase in remuneration and benefits of employees; and (ii) the increase in the share-based remuneration expenses of management personnels.

Finance costs

For the six months ended 30 June 2021, the Group's finance costs amounted to approximately RMB0.01 million, representing a decrease of RMB0.04 million from approximately RMB0.05 million for the six months ended 30 June 2020, mainly due to the decrease in interest expenses resulting from matured lease liabilities.

Income tax expense

For the six months ended 30 June 2021, the Group recognised an income tax credit amounted to approximately RMB48.2 million, representing a decrease of RMB57.3 million from the income tax expense of approximately RMB9.1 million for the six months ended 30 June 2020, mainly due to the entitlement to preferential income tax policies and recognition of deferred income tax expense.

Profit for the period

For the six months ended 30 June 2021, our profit for the period amounted to approximately RMB130.3 million, representing a decrease of approximately RMB32.8 million or approximately 20.1% from approximately RMB163.1 million for the six months ended 30 June 2020.

Adjusted profit for the period

Adjusted profit for the period is calculated by adding back share-based remuneration expenses to the profit for the period.

The table below sets forth the reconciliation between the Group's profit for the period and adjusted profit for the period for the six months ended 30 June 2021 and 2020:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	130,291	163,116
Add: Share-based remuneration	25,746	–
Adjusted profit for the period	156,037	163,116

Liquidity and capital resources

As at 30 June 2021, the Group's current liabilities/net assets amounted to approximately 0.10 (31 December 2020: 0.14).

As at 30 June 2021, the Group's cash and cash equivalents amounted to approximately RMB774.2 million. The Group monitors and maintains cash and cash equivalents to a level that management believes to be sufficient to meet the Group's operating needs, reducing the impact of cash flow fluctuations.

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	45,860	82,795
Net cash used in investing activities	(144,896)	(135,078)
Net cash used in financing activities	(216,461)	(94,208)
Net change in cash and cash equivalents	(315,497)	(146,491)
Cash and cash equivalents as at the beginning of the period	1,093,324	893,400
Effect of foreign exchange rate changes	(3,584)	3,981
Cash and cash equivalents as at 30 June	774,243	750,890

Operating activities

During the six months ended 30 June 2021, net cash flow generated from operating activities of the Group was RMB45.9 million, which was mainly due to (i) the Group's profit before taxation of RMB82.1 million; (ii) the provision for share-based remuneration expenses of RMB25.7 million; (iii) a net cash outflow of RMB52.8 million resulting from the changes in working capital; and (iv) income tax paid of RMB18.7 million.

Investing activities

For the six months ended 30 June 2021, net cash used in investing activities of the Group was RMB144.9 million, which primarily included (i) our payments for investments measured at fair value through profit or loss of RMB216.8 million; (ii) our payment for purchase of time deposits of RMB68.8 million; (iii) our payment for purchase of property, plant and equipment, intangible assets and other non-current assets of RMB47.6 million; (iv) our payment for equity investments of RMB9.9 million; and (v) the proceeds from redemption of investments measured at fair value through profit or loss amounted to RMB181.1 million.

Financing activities

For the six months ended 30 June 2021, net cash used in financing activities of the Group was RMB216.5 million, which was mainly used in the payment of final dividends, and as of 30 June 2020, net cash used in financing activities was RMB94.2 million.

Capital expenditures

The Group's capital expenditures mainly included (i) construction of our new office building in Suzhou, purchase of property, plant and equipment such as servers and computer equipment; (ii) purchase of copyrights, software and IP licenses of literature and intangible assets such as various office software that has been used or to be used by our games; and (iii) increase in right-of-use assets arising from housing leases. Capital expenditures for the six months ended 30 June 2021 and 30 June 2020 are set out below:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	27,313	37,560
Intangible assets	580	–
Right-of-use assets	2,235	–

As of 30 June 2021, the Group did not have any capital commitments (31 December 2020: RMB18.0 million).

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Contracted for but not provided for	–	17,729
Authorized but not contracted for	–	288
	<hr/>	<hr/>
	–	18,017
	<hr/> <hr/>	<hr/> <hr/>

Gearing ratio

As at 30 June 2021, gearing ratio (the aggregate of bank loans and lease liabilities divided by total equity) was 0.1% (31 December 2020: 0.1%). There was no significant change of the gearing ratio for the six months ended 30 June 2021. As at 30 June 2021, the Group did not have bank borrowings (31 December 2020: Nil).

Contingent liabilities

As of 30 June 2021, the Group did not have any unrecorded significant contingent liabilities or any guarantees (2020: Nil).

Employees and remuneration policies

As at 30 June 2021, the Group had a total of 1,414 employees (30 June 2020: 1,375 employees), all based in the PRC. The Group determined the remuneration policy for the employees based on their performance, work experience and the current market salary level. We did not experience any material labour disputes during the six months ended 30 June 2021.

Restructuring and significant investments

During the six months ended 30 June 2021, the Group did not have any restructuring and significant investments.

Financial assets

1. The wealth management products as at 30 June 2021 were issued by listed commercial banks in China, all of which were principal-protected deposits at floating rate. During the respective investment period of wealth management products, the Company shall not terminate any relevant subscription agreements, redeem or withdraw principal before the respective maturity dates of financial products of the commercial banks. The commercial banks also have no right to terminate any subscription agreements. As at 30 June 2021, the fair value of the financial instrument issued by any cooperative commercial bank purchased did not exceed 5% of the Group's total assets.
2. As at 30 June 2021, stock investment represented the fair value of equity shares listed on an active stock market. The Directors of the Company believed that the closing price of the securities was the fair value of the investment. As of 30 June 2021, the fair value of stock investments did not exceed 5% of the Group's total assets.
3. The Company has formulated standardized capital and investment management policies to monitor and control potential risks related to investment activities. When considering whether to invest and what kind of products to invest in, the management will consider, among other things, the risk level, investment return, liquidity and maturity of the relevant wealth management products on a case-by-case basis. Our investment portfolio and policies are regularly reviewed by our Directors and management team.

Material acquisitions and disposals of assets

During the six months ended 30 June 2021 and up to date of this announcement, there were no material acquisitions and disposals of assets.

Off-balance sheet arrangements

The Group has not entered into and has no intention to enter into any off-balance sheet arrangements. The Group has not entered into any financial guarantees or made other commitments to guarantee the payment obligations of the third parties.

Pledge of assets by the Group

As at 30 June 2021, the Group did not pledge any assets as collateral for bank borrowings or any other financing activities (31 December 2020: no assets were pledged).

Foreign currency exchange risks

For the six months ended 30 June 2021, most of transactions denominated in non-RMB were denominated in U.S. dollars and Hong Kong dollars. The management team closely monitors foreign currency exchange risks to ensure that appropriate measures are implemented in a timely and effective manner. In the past, the Group has not incurred any significant foreign currency exchange losses in its operations. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

Event after the reporting period

The Group did not have any significant events after 30 June 2021 and up to the date of this announcement.

Use of Proceeds from the Listing

The IPO proceeds from the listing of the shares of the Company on the Main Board of the Stock Exchange were approximately RMB434.0 million. For the six months ended 30 June 2021, the IPO proceeds were utilized in accordance with the intended purposes stated in the Prospectus published by the Company, with the balance amounted to approximately RMB173.0 million. The balance of IPO proceeds will continue to be utilized according to the manner and proportions as disclosed in the Prospectus.

	Net amount available as at 31 December 2020	Actual net amount utilized for the six months ended 30 June 2021	Unutilized net amount as at 30 June 2021
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
R&D of game products, R&D and upgrading of core technology platform	91.1	39.1	52.0
Global market launch and operation	93.3	45.6	47.7
IP ecological construction	54.6	10.7	43.9
Acquisition of upstream and downstream industries	30.5	9.9	20.6
Working capital and general corporate use	21.7	13.0	8.7
Total	291.2	118.2	173.0

OTHER INFORMATION

Interim dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2021.

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

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed the listed securities of the Company.

Share Award Scheme

The Board has approved the adoption of the Share Award Scheme of the Company on 14 September 2020.

The Share Award Scheme does not constitute a share option scheme under Chapter 17 of the Listing Rules and is a discretionary scheme of the Company. No Shareholders' approval is required to adopt the Share Award Scheme.

Objectives of the Share Award Scheme

- i. to further improve the Group's incentive system, align the interests of certain Eligible Participants with the Group's interests and encourage them to create long-term value for the Group; and
- ii. to attract and motivate key professional talents to enhance the competitiveness and promote the sustainable development of the Group.

Administration of the Share Award Scheme

- i. The Share Award Scheme is subject to the administration of the Scheme Rules and the terms of the Trust Deed (as the case may be);
- ii. The Board may, by passing ordinary resolutions, appoint the initial member(s) of the advisory committee; the advisory committee may by written instrument irrevocably appoint any person to be an additional member of the advisory committee. The advisory committee gives instructions or notices to the Trustee on all matters in connection with the Share Award Scheme and other matters in the routine administration of the Trust; and
- iii. The Trustee will hold the Shares and the income derived therefrom in accordance with the Scheme Rules and subject to the terms of the Trust Deed.

Sources of Awarded Shares of the Share Award Scheme

Mr Jiang Xiaohuang, the controlling shareholder of the Company, decided to indirectly transfer an aggregate of 80,000,000 shares of the Company as a gift within three years, at nil consideration, as the pool of shares of the Share Award Scheme. As at the date of this announcement, Mr. Jiang Xiaohuang indirectly transferred an aggregate of 60,000,000 Shares of the Company as a gift.

Duration and Termination of the Share Award Scheme

The Share Award Scheme shall be effective from the Adoption Date and shall be terminated at the earlier of (i) the tenth anniversary from the Adoption Date; or (ii) the date of early termination determined by the advisory committee. The termination of this Share Award Scheme shall not cause any material and adverse effect to any existing rights of any Selected Participants under this Share Award Scheme.

Implementation of the Share Award Scheme

- i. On 14 September 2020, Mr. Jiang Xiaohuang, a controlling shareholder of the Company, decided to indirectly transfer an aggregate of 80,000,000 Shares of the Company as a gift within three years, at nil consideration, as the pool of Shares of the Share Award Scheme.
- ii. On 1 December 2020, Mr. Jiang Xiaohuang completed the first annual share contribution plan and indirectly transferred an aggregate of 40,000,000 Shares of the Company as a gift at nil consideration, as the pool of Shares of the Share Award Scheme.
- iii. On 28 December 2020, the Board, based on the recommendation of the remuneration committee of the Company, resolved to grant a total of 40,000,000 Awarded Shares, which have been held by the Trustee on behalf of the Selected Participants, at nil consideration to the Share Award Grantees. The grant of Awarded Shares has been effective from 1 January 2021. The Share Award Grantees include (i) Mr. Wu Jie, an executive Director (awarded 2,000,000 Shares of the Company); (ii) Mr. Sun Bo, an executive Director (awarded 2,000,000 Shares of the Company); and (iii) employees of the Group (awarded 36,000,000 Shares of the Company).
- iv. On 28 June 2021, Mr. Jiang Xiaohuang completed the second annual share contribution plan and indirectly transferred an aggregate of 20,000,000 Shares of the Company as a gift at nil consideration, as the pool of Shares of the Share Award Scheme.

Compliance with the CG Code

The Company has adopted the code provisions set out in the CG Code as its own corporate governance framework. The Company complied with the code provisions as set out in the CG Code for the six months ended 30 June 2021, save for the deviations from code provision A.2.1 as disclosed below.

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

Mr. Jiang Xiaohuang is the Chairman and CEO of the Company currently. Due to Mr. Jiang's background, qualifications and experiences in the Company, he is considered to be the best candidate for both roles at present. The Board considers that Mr. Jiang's dual role at this stage is conducive to maintaining the continuity of the Company's policies and the operation efficiency and stability of the Company, which is appropriate and in the best interest of the Company and Shareholders.

Besides, all major decisions of the Company have been made in consultation with members of the Board and appropriate committees, as well as the Senior Management. In addition, Directors are encouraged to participate actively in all meetings of the Board and of such Board committees of which they are members, and the Chairman ensures that all issues raised are properly briefed at the Board meetings, and he works with the Senior Management to provide adequate, accurate, clear, complete and reliable information to all members of the Board in a timely manner. Further, the Board meets with Mr. Jiang regularly to discuss issues relating to the operation of the Company.

The Board is therefore of the view that there is an adequate balance of power and that appropriate safeguards are in place. Mr. Jiang holding both positions of the Chairman and CEO of the Company will not have any impact on the balance between power and authority of the Board and the Senior Management of the Company. However, the Board will continue to regularly monitor and review the Company's current structure and to make necessary changes when appropriate.

Compliance with the Model Code on Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as a code for its own relevant Directors to conduct securities transactions. The Company has made specified enquiry with all the Directors, and each of them has confirmed that during the six months ended 30 June 2021, they have always complied with the required standards contained in the Model Code.

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

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, at least 25% of the Company's total number of issued Shares were held by the public at all time since the Listing Date.

Audit Committee

Our Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The members of the Audit Committee are Mr. Zhu Wei, Mr. Zhang Jinsong and Ms. Tang Haiyan, all of whom are independent non-executive Directors. Mr. Zhu Wei is the chairman of the Audit Committee. The primary duties of the Audit Committee are to make recommendations to our Board on the appointment, re-appointment and removal of external auditors; review the financial statements; provide material advice in respect of our financial reporting process; oversee our internal control and risk management systems and audit process; and provide advice and comment to our Board on matters related to corporate governance.

The Audit Committee has reviewed and discussed the Group's unaudited consolidated interim financial statements for the six months ended 30 June 2021 and has met with the Auditor who has reviewed the interim financial statements in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

Publication of the Interim Results and 2021 Interim Report

The interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.friendtimes.net). The 2021 interim report of the Group will be dispatched to the Shareholders and published on the aforementioned websites in due course in accordance with Rule 13.40 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Adoption Date”	14 September 2020, being the date on which the Board adopted the Share Award Scheme
“Audit Committee”	the Company’s audit committee which was established in accordance with the requirements of the Listing Rules, for the purposes of reviewing and providing supervision over the Group’s financial reporting system, risk management and internal control
“Auditor”	KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
“Award”	an award by the Board to a Selected Participant entitling the Selected Participant to receive such number of Awarded Shares and the related income on such terms and conditions as the Board may determine
“Awarded Shares”	in respect of a Selected Participant, such number of Shares determined by the Board under an Award
“Board” or “Board of Directors”	board of directors of the Company
“CEO”	chief executive officer
“CG Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Chairman”	chairman of the Board
“China” or “PRC”	the People’s Republic of China, unless otherwise stated, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan herein
“Company” or “our Company” or “the Company”	FriendTimes Inc., an exempted company incorporated in the Cayman Islands on 16 November 2018 with limited liability and listed on the Stock Exchange on 8 October 2019 (Stock code: 6820)
“Director(s)”	director(s) of the Company

“Eligible Participant(s)”	any senior and mid-level management, core technical personnel and key employees who, at the absolute discretion of the Board, will contribute or have contributed to any member of the Group
“Group” or “the Group” or “we” or “us”, or “our”	the Company and its subsidiaries, or where the context refers to any time prior to the Company becoming the holding company of its present subsidiaries, the present subsidiaries of the Company and the businesses operated by such subsidiaries or their predecessors (as the case may be)
“HKFRS”	Hong Kong Financial Reporting Standards
“Hong Kong”	the Hong Kong Special Administrative Region
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IP”	intellectual property
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	8 October 2019, the date on which the Shares of the Company were listed on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	the Model Code of Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules
“Prospectus”	the prospectus of the Company dated 24 September 2019
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme Rules”	the rules of the Share Award Scheme, as amended from time to time
“Selected Participant(s)”	Eligible Participant(s) selected by the Board pursuant to the Scheme Rules who holds a subsisting Award
“Senior Management”	senior management of the Company
“Share(s)”	ordinary share(s) in the issued capital of the Company with nominal value of US\$0.00001 each

“Share Award Scheme”	the share award scheme adopted by the Company on the Adoption Date (in its present or any amended form)
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	the company(ies) which are for the time being and from time to time the subsidiary(ies) (within the meaning of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Listing Rules) of the Company, whether incorporated in Hong Kong, the British Virgin Islands, the PRC or elsewhere
“Trust”	the trust constituted by the Trust Deed
“Trust Deed”	a trust deed dated 3 August 2020 and entered into by and among the Company, the Trustee and its nominee (as restated, supplemented and amended from time to time)
“Trustee”	TMF Trust (HK) Limited, the trustee which has been appointed by the Company to manage the Share Award Scheme
“%”	per cent

By Order of the Board
FriendTimes Inc.
Jiang Xiaohuang
Chairman and Executive Director

Hong Kong, 31 August 2021

As at the date of this announcement, the Board comprises Mr. Jiang Xiaohuang, Mr. Xu Lin, Mr. Wu Jie and Mr. Sun Bo as the executive Directors; and Mr. Zhu Wei, Ms. Tang Haiyan and Mr. Zhang Jinsong as the independent non-executive Directors.