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Gala Technology Holding Limited

望塵科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2458)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

RESULTS HIGHLIGHTS

- Revenue increased by approximately RMB178.0 million, or 38.7%, from approximately RMB459.9 million for the year ended 31 December 2021 to approximately RMB637.9 million for the year ended 31 December 2022.
- Gross profit increased by approximately RMB111.6 million, or 50.4%, from approximately RMB221.5 million for the year ended 31 December 2021 to approximately RMB333.1 million for the year ended 31 December 2022.
- Listing expenses increased by approximately RMB6.5 million, or 40.9%, from approximately RMB15.9 million for the year ended 31 December 2021 to approximately RMB22.4 million for the year ended 31 December 2022.
- Adjusted net profit (Non-HKFRS measure*) decreased by approximately RMB14.3 million, or 25.2%, from approximately RMB56.7 million for the year ended 31 December 2021 to approximately RMB42.4 million for the year ended 31 December 2022.
- Basic and diluted earnings per share for the years ended 31 December 2022 and 2021 were approximately RMB0.12 and RMB0.35, respectively.

* Please refer to P.19 Non-HKFRS measure for further details.

The board of directors (the “**Board**”) of Gala Technology Holding Limited (the “**Company**”) announces the audited consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2022, with comparative figures for the year ended 31 December 2021, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2022	2021
	Notes	RMB'000	RMB'000
Revenue	3	637,886	459,851
Cost of revenue	6	(304,822)	(238,324)
Gross profit		333,064	221,527
Other losses, net	4	(4,463)	(1,137)
Other income	5	8,384	3,319
Selling and marketing expenses	6	(173,200)	(85,590)
General and administrative expenses	6	(56,023)	(34,589)
Research and development expenses	6	(86,976)	(62,705)
(Net impairment losses)/reversal of impairment loss on financial assets		(1,856)	160
Operating profit		18,930	40,985
Finance income, net		3,291	741
Profit before income tax		22,221	41,726
Income tax expenses	7	(8,752)	(2,336)
Profit and total comprehensive income for the year, net of tax		13,469	39,390
Comprehensive income/(loss) attributable to:			
Owners of the Company		13,525	39,986
Non-controlling interests		(56)	(596)
		13,469	39,390
Earnings per share for profit attributable to owners of the Company (RMB per share)			
— Basic and diluted earnings per share	8	0.12	0.35

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2022	2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Non-current assets			
Property, plant and equipment		6,633	4,507
Right-of-use assets		10,747	12,488
Intangible assets		39,674	15,018
Prepayment, deposits and other receivables		5,907	1,235
Deferred tax assets		3,598	3,655
		66,559	36,903
Current assets			
Trade receivables	10	43,023	35,598
Prepayments, deposits and other receivables		10,985	15,942
Current income tax receivables		—	567
Amounts due from non-controlling interests		675	1,715
Amounts due from related parties		—	36
Contract costs		16,452	13,108
Short-term bank deposits		—	83
Cash and cash equivalents		232,566	188,410
		303,701	255,459
Total assets		370,260	292,362
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		8	8
Other reserves		84,588	79,555
Retained earnings		38,890	29,629
		123,486	109,192
Non-controlling interests		(872)	(1,879)
Total equity		122,614	107,313

		As at 31 December	
		2022	2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Liabilities			
Non-current liabilities			
Trade payables	11	15,083	—
Other payables		466	306
Lease liabilities		4,475	7,830
		<u>20,024</u>	<u>8,136</u>
Current liabilities			
Trade payables	11	44,121	30,617
Other payables and accruals		50,396	39,632
Contract liabilities		49,633	35,853
Current income tax liabilities		7,428	611
Lease liabilities		6,651	4,558
Financial liability at fair value through profit or loss		69,393	65,642
		<u>227,622</u>	<u>176,913</u>
Total liabilities		<u>247,646</u>	<u>185,049</u>
Total equity and liabilities		<u>370,260</u>	<u>292,362</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Gala Technology Holding Limited (the “**Company**”) was incorporated in the Cayman Islands on 12 June 2018 as an exempted company with limited liability under the Companies Act (as revised) of the Cayman Islands. The address of the Company’s registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

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

The Company is an investment holding company and its subsidiaries (together, the “**Group**”) are principally engaged in the mobile sports game development, publishing and operation (the “**Listing Business**”) in the People’s Republic of China (the “**PRC**”).

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and a financial liability at fair value through profit or loss, which are measured at fair value.

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

(a) New and amended standards adopted by the Group

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing 1 January 2022:

Annual Improvements Project	Annual Improvements to HKFRSs 2018–2020 (amendments)
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments (amendments)
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 2021 (amendments)
Revised Accounting Guideline 5	Merger Accounting for Common Control Combinations

The amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards, amendments to existing standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group.

The Group is in the process of assessing potential impact of the above other new standards and amendments to existing standards that is relevant to the Group upon initial application. The management of the Group plans to adopt these new standards and amendments to existing standards and amendments to existing standards when they become effective.

3 SEGMENT INFORMATION AND REVENUE

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

Revenue for the years ended 31 December 2021 and 2022 are as follows:

	Year ended 31 December	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Web-based and mobile online game revenue — Over time	<u>637,886</u>	<u>459,851</u>

The Group has a large number of game players, no revenue from any individual game player exceeded 10% or more of the Group's revenue during the year ended 31 December 2022 (2021: same).

The Group is mainly domiciled in the PRC. Majority of revenue are derived in the PRC and no revenue are derived from any other individual country exceeded 10% or more of the Group's revenue during the year ended 31 December 2022 (2021: same). The Group's non-current assets other than deferred tax assets by the geographical location in which the asset is located, are as follows:

	As at 31 December	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Non-current assets (other than deferred tax assets)		
PRC	36,761	22,315
Hong Kong	<u>26,200</u>	<u>10,933</u>
	<u>62,961</u>	<u>33,248</u>

4 OTHER LOSSES, NET

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Fair value gains on financial assets measured at fair value through profit or loss	125	485
Fair value gain on extension of a financial liability measured at fair value through profit or loss	3,065	—
Fair value loss on a financial liability measured at fair value through profit or loss	(6,816)	(1,479)
Loss on disposal of property, plant and equipment	—	(748)
Exchange (loss)/gain, net	(753)	145
Others	(84)	460
	<u>(4,463)</u>	<u>(1,137)</u>

5 OTHER INCOME

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants (<i>Note a</i>)	5,036	2,978
Value-added tax refund (<i>Note a</i>)	1,543	230
Others	1,805	111
	<u>8,384</u>	<u>3,319</u>

Note:

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

6 EXPENSES BY NATURE

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Commission fee to Platforms	215,565	168,098
Advertising and marketing expenses	160,455	76,451
Employee benefit expense	116,390	82,490
Amortisation of intangible assets	19,641	19,416
Revenue share to Publishers	3,193	5,682
Royalty fees	39,858	28,481
Server usage expenses	11,239	7,434
Utilities and office expenses	3,489	2,234
Graphic design expenses and dubbing fee	5,445	2,383
Depreciation of right-of-use assets	6,534	4,056
Expenses relating to short-term leases	71	276
Depreciation of property, plant and equipment	2,576	1,893
Listing expenses	22,356	15,857
Other professional service fees	3,469	1,783
Auditors' remuneration		
— Audit services	2,301	97
— Non-audit services	89	20
Traveling and entertainment expenses	1,460	359
Tax and levies	2,813	2,383
Transportation expenses	548	124
Data analysing service expenses	625	499
Others	2,904	1,192
	<u>2,904</u>	<u>1,192</u>
Total of cost of revenue, selling and marketing expenses, general and administrative expenses, and research and development expenses	<u>621,021</u>	<u>421,208</u>

7 INCOME TAX EXPENSES

The income tax expenses of the Group for the years ended 31 December 2021 and 2022 are analysed as follows:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
— China corporate income tax	8,179	820
— Hong Kong profits tax	516	—
Deferred income tax	57	1,516
	<u>57</u>	<u>1,516</u>
Income tax expenses	<u>8,752</u>	<u>2,336</u>

Notes:

(a) Cayman Islands and BVI Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Group entities established under the International Business Companies Acts of BVI are exempted from BVI income taxes.

(b) Hong Kong Income Tax

Hong Kong profits tax was calculated at rate of 16.5% for the year ended 31 December 2022 (2021: same) on the assessable profits. No Hong Kong profits tax was provided for as there were sufficient available accumulated tax losses brought forward to offset against the estimated assessable profit for the year ended 31 December 2021.

(c) PRC Corporate Income Tax (“CIT”)

The income tax provision of the Group in respect of its operations in the PRC was calculated at the tax rate of 25% for the year ended 31 December 2022 (2021: 25%) on the assessable profits, except for stated below, based on the existing legislation, interpretations and practices in respect thereof.

Shenzhen Wangchen Technology Co., Ltd (“**Wangchen Technology**”) was qualified as “High and New Technology Enterprise” (“**HNTE**”) and it was subject to a reduced preferential CIT tax rate of 15% prior to 2021 according to the applicable tax preference applicable to the HNTE. Wangchen Technology was subject to CIT rate of 25% for the year ended 31 December 2022 (2021: 25%), and the enacted tax rate for the related deferred taxation was adjusted accordingly.

Shenzhen Wangchen Moji Technology Co., Ltd has fulfilled the requirement of the “Preferential Corporate Income Tax Treatment for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone” and it is subject to a reduced preferential CIT tax rate of 15% for the year ended 31 December 2022 (2021: 15%).

(d) PRC Withholding Tax (“WHT”)

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

During the year ended 31 December 2022, the Group did not require its PRC subsidiaries to distribute their retained earnings to foreign investors (2021: same). Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period.

8 EARNINGS PER SHARE

(a) Basic earnings per share

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

For the years ended 31 December 2022 and 2021, the weighted average number of ordinary shares used for the purpose of basic earnings per share has been retrospectively adjusted for the effects of the issue of shares in connection with the capitalisation issue of 112,580,000 shares which took place on 16 January 2023.

For the year ended 31 December 2021, the weighted average number of ordinary shares used for the purpose of basic earnings per share has been retrospectively adjusted for the effects of the issue of shares in connection with the reorganisation of 960,000 shares which took place on 14 May 2021.

	Year ended 31 December	
	2022	2021
Profit attributable to the owners of the Company (<i>RMB'000</i>)	<u>13,525</u>	<u>39,986</u>
Weighted average number of ordinary shares in issue (<i>thousand shares</i>)	<u>113,580</u>	<u>113,580</u>
Basic earnings per share attributable to the owners of the Company (<i>RMB per share</i>)	<u>0.12</u>	<u>0.35</u>

(b) Diluted earnings per share

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

On 21 June 2021, the Company issued convertible bonds in the principal amount of HK\$77,112,000 (equivalent to RMB64,163,000). The conversion feature of the convertible bonds is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2022 (2021: same), therefore the conversion feature of convertible bonds has no dilutive effect on earnings per share calculation.

9 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

Dividends declared and paid for the year ended 31 December 2021 represented dividends declared and paid by Wangchen Technology to the then shareholders based on their respective shareholdings.

	Year ended 31 December	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Dividends	—	80,000

10 TRADE RECEIVABLES

	As at 31 December	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	45,072	39,427
Less: net impairment loss on trade receivables	<u>(2,049)</u>	<u>(3,829)</u>
Trade receivables, net	<u>43,023</u>	<u>35,598</u>

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

	As at 31 December	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Up to 3 months	42,029	34,398
3 months to 1 year	2,360	1,305
Over 1 year	<u>683</u>	<u>3,724</u>
	<u>45,072</u>	<u>39,427</u>

- (b) The Group applies the HKFRS 9 simplified approach to measure expected credit loss which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance, the remaining trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

The expected losses rate was up to 1.8% for the year ended 31 December 2022 (2021: 1.3%). Based on management's assessment, the Group recorded provision for impairment losses on trade receivables of RMB1,856,000 during the year ended 31 December 2022 (2021: reversal of impairment loss on trade receivables of RMB160,000) in the consolidated statement of comprehensive income.

Movements on the Group's provision for impairment of trade receivables are as follows:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	3,829	3,989
Provision for/(reversal of) impairment	1,856	(160)
Written off	(3,636)	—
	<u> </u>	<u> </u>
At end of the year	<u>2,049</u>	<u>3,829</u>

- (c) The Group's trade receivables were denominated in the following currencies:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	14,912	17,607
US\$	26,627	15,735
HK\$	3,533	6,085
	<u> </u>	<u> </u>
	<u>45,072</u>	<u>39,427</u>

The provisions for impaired trade receivables have been included in "(net impairment losses)/reversal of impairment loss on financial assets" in the consolidated statement of comprehensive income.

- (d) As at 31 December 2021 and 2022, the fair values of trade receivables approximated their carrying amounts. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the net receivable balance. The Group does not hold any collateral as security.

11 TRADE PAYABLES

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current		
— Third parties	15,083	—
Current		
— Third parties	44,121	30,617
	<u>59,204</u>	<u>30,617</u>

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

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

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
0–90 days	53,274	17,155
91–365 days	1,180	2,172
1–2 years	—	4,546
Over 2 years	4,750	6,744
	<u>59,204</u>	<u>30,617</u>

As at 31 December 2021 and 2022, the fair value of trade payables approximated their carrying amount.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

2022 was an extraordinary year for the Company as we recorded a significant increase in revenue. Our shares were successfully listed on the Main Board of the Stock Exchange on 16 January 2023, which has brought us a good reputation in the capital market as the leading sports game developer and operator in the PRC. Currently, we have launched and been operating several sports games in the major markets of the world and have obtained outstanding market response and solid word-of-mouth among players. By the end of 2022, the Company had in total four game products in operation, covering football and basketball, the two major commercial sports in the world. In 2022, while *Football Master* (足球大師) and *NBA Basketball Master* (NBA籃球大師), two existing games of the Company, continued to generate substantial income, *Football Champion* (最佳11人), launched in 2020, recorded exponential growth in revenue. The game product put up an excellent performance in both Mainland China and overseas markets, generating the highest proportion of annual revenue among the Company's game products. Meanwhile, the Company launched *Total Football* (最佳球會) in 2022, which was the Group's first action-based football game product successfully launched in China. Upon launch, *Total Football* (最佳球會) was quickly acclaimed among players and posted a brilliant commercial performance. Our total revenue increased by approximately 38.7% from RMB459.9 million for the year ended 31 December 2021 to RMB637.9 million for the year ended 31 December 2022.

In 2022, despite a substantial growth in revenue year-on-year, the Company experienced various challenges in operation and management, the so-called “growing pains”.

First, the PRC witnessed stringent control measures against the Covid-19 pandemic and the accompanying pressure on economic growth in 2022. The material challenge posed operating pressure of varying degrees on most physical and internet-based enterprises. As an Internet game enterprise closely associated with sports events, the Company's business was impacted to a certain extent due to the impact on sports events caused by pandemic control measures and slowdown in economic growth. In order to keep increasing the market confidence in the Company's products and maintain sufficient market competitiveness.

Second, the Company increased its input in technology and product research and development in 2022. Our research and development expenditure increased by approximately 38.8% from RMB62.7 million for the year ended 31 December 2021 to RMB87.0 million for the year ended 31 December 2022. The investment emphasizes future development on increasing the revenue of the Company. The increase in research and development expenditure primarily included two aspects, one being the research and development of general technology, including AI algorithm, graphic rendering technology, data, middleware platform, etc. This part of technology accumulation will contribute to further improvement in quality and competitiveness of the Company's current and future

products and widen the lead over other market competitors. The second aspect of the expenditure was on various projects in progress, including baseball, action-based basketball, American football, etc. In order to gradually launch these projects in progress starting from 2023, we further enhanced our research and development efforts in 2022, with a view to introducing new products on schedule and reaping better market response.

Meanwhile, due to the launch of new games and increased marketing efforts in overseas markets, the Company recorded a significant increase in selling and marketing expenses in 2022. Our selling and marketing expenses increased by approximately 102.3% from RMB85.6 million for the year ended 31 December 2021 to RMB173.2 million for the year ended 31 December 2022. The investment emphasizes future development on increasing the revenue of the Company. Similar to research and development expenditure, the payoff of selling and marketing expenses often lags behind its input, resulting in a considerable impact on the Company's earnings performance. Having said that, we consider the marketing input in 2022 healthy and are confident that it will consistently deliver excellent market response of our products, as well as our reasonable expectations on the return cycle of our new action-based sports games. Indeed, our new product *Total Football* (最佳球會), a game focusing on action-based competition, requires additional input in its initial phase to develop a solid in-game ecosystem. As the number of active players increases, it will gradually release player purchases to establish a healthier and more sustainable income. The performance of *Total Football* (最佳球會) since its release bore testimony to our confidence. *Total Football* (最佳球會) is the fastest growing game in terms of acquisition of users and game income among the Group's released games. The growth of revenue during the first six months since its release has exceeded the level achieved by *Football Champion* (最佳11人), currently being the Company's top-grossing product, during the first six months since its release.

FUTURE OUTLOOK

In the coming year, in light of rapid improvements in the external environment and steady release of the Company's internal consolidation capability, the Company is confident to achieve a better business performance for the investors and general public, primarily attributable to the following aspects:

1. Given the PRC's adjustments to the pandemic control strategy in the end of 2022 and proposal of a series of economic stimulation policies, it is expected that the Chinese economy will expand more significantly in 2023, encouraging domestic consumption of gaming contents indirectly. In addition, as the negative impact of Covid-19 subsides around the world, various sports events will resume as normal this year. In particular, the success of the Football World Cup in the end of 2022 remained influential well into the first half of 2023, boosting the Company's performance, especially the turnover of its football related products.

2. Continuous improvements in revenue scale and profitability of its key products will propel the Company's performance to a new level. As *Football Champion* (最佳11人) and *Total Football* (最佳球會) have entered a stable and mature stage of their life cycle, their player activity and in-game community size will also reach new heights, thus allowing for better earnings contributions to the Company from the two key products. Thanks to the continuous iteration and optimisation of the content of *Football Champion* (最佳11人), we expect that, assuming a stable active user base having been established, the paying users retention rate and average monthly top up amount per paying user (ARPPU) will increase significantly. On the other hand, the launch of *Total Football* (最佳球會) in Mainland China as well as other key markets including Japan, Korea, Southeast Asia, Europe and Latin America will further increase the active user base of *Total Football* (最佳球會), which will in turn lead to rapid growth in game revenue.
3. *MLB Baseball Master* (MLB棒球大師) and *Fishing* (釣魚) (a new casual sports game being developed by the Group in 2023) are scheduled to be released in 2023 to the global market. *MLB Baseball Master* (MLB棒球大師) will cover the major baseball markets including North America, Japan, Korea, and Greater China, while *Fishing* is one of the most popular types of casual sports games worldwide. We are confident that the launch of these two games will drive significant revenue growth for the Company, while rapidly expanding our registered users and active user base.
4. It should be particularly stressed that the values brought about by the ongoing technology accumulation of the Company in combination with the latest applications of AI related technology will be further reflected in various online products and newly introduced products of the Company in 2023 and the future. Although AI technology, represented by ChatGPT, has only become a hot topic in the gaming scene this year, the Company has started to develop crucial AI technologies years ago, which include the development of AI engine for sports competitions and AI technology for realistic reproduction of 3D stadiums. After several years of exploration and iteration, we are far ahead of our competitors in terms of AI technology accumulation. The Company's unique Arena4D technology, whose application has long gone beyond the conventional game development needs of 3D character and scene generation, can also use 3D capture and real-time computing to reconstruct and render the competition in a virtual space, reproducing in real time a true-to-life stadium that allows audience to watch the game in an immersive third-person view. In addition, Arena4D can capture the top players' motion and incorporate these professional movements into our games' player movement database, thereby further enhancing the realism of our games. In terms of data acquisition, we collect feeds from multiple 4K cameras to capture every detail of the arena simultaneously. As for stadium reconstruction, using a self-developed AI algorithms with high performance, Arena4D is able to conduct real-time computation on the previously captured video signals, tracking and restoring the trajectory of the players and the ball instantaneously. At the current stage, there is no need for players to wear specialised motion capture equipment and clothing, hence such upgraded technology is named "markerless motion capture". For the rendering process, the Company has, through ten years of research and development, accumulated a huge library of high-precision models of virtual players and stadiums.

Arena4D's AI system combines the data obtained from the above-mentioned processes to generate the skeleton, muscles, image and position of the virtual players, and drive the digital players to recreate a realistic game. At last, the system uses our established AI technologies to complete a photo-quality rendering, reproducing a 1:1 arena in real time with minimal delay. Each game product line of the Company will take full advantage of the profound technological acumen under its belt to further improve product quality and significantly enhance development and iteration efficiency through AI technology.

Looking forward, the Company will insist on implementing the following three strategies, which have proved to be effective and will provide significant support to Company to steadily improve its business performance:

1. Multi-product line strategy: In light of the launch of *MLB Baseball Master (MLB棒球大師)* in 2023 and smooth progress in the research and development of games such as fishing, action-based basketball and action-based American football, the Company is releasing its technology and product competency in a number of sports, thereby further improving its turnover and earnings. In addition, the Company's product lines progressively cover major commercial sports, such as football, basketball, baseball and American football, and hardcore and casual game genres, which will vastly enhance the brand influence of the Company and develop resilience against the risk of relying on a single product. In the future, the strategy of "single technology, diverse products" will construct a barrier of "technology-product-brand" for the Company in the sports game sector, thus enabling the Company to become the most competitive sports game developer and operator on mobile platforms.
2. Global strategy: In the past three years, the proportion of income from overseas markets has been increasing for the Company. As the Company launches a number of game products developed with the global market in mind, the proportion of income from outside Mainland China will inevitably continue to increase. The Company will also enhance its customized product development, marketing, and operating and customer service capability in the major markets of the world, thereby ensuring the success of its key products in the global market.
3. Multi-platform strategy: While the current products of the Company continue to focus on mobile devices, given the continuous improvements in its product development capacity and technologies such as rendering, the Company intends to bring its current and future quality products to various platforms, including PC, consoles, Steam, WeChat Mini Program, Nintendo Switch, etc., with a view to further expanding the coverage and turnover of the Company's game products without significantly increasing development costs.

As the saying goes, "difficulties mastered are opportunities won." In 2022, the Company and many fellow industry players all experienced many challenges and difficulties. However, the Company always adheres to the mission of "creating the best sports game products for players around the world" and devotes all its resources to the core business of the Company. Therefore, we believe that regardless of past hardships, a brighter and better future awaits us.

FINANCIAL PERFORMANCE

Consolidated Statement of Comprehensive Income

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

	Year ended December 31			
	2022		2021	
	RMB'000	%	RMB'000	%
Revenue	637,886	100.0	459,851	100.0
Cost of revenue	(304,822)	(47.8)	(238,324)	(51.8)
Gross profit	333,064	52.2	221,527	48.2
Other losses, net	(4,463)	(0.7)	(1,137)	(0.2)
Other income	8,384	1.3	3,319	0.7
Selling and marketing expenses	(173,200)	(27.2)	(85,590)	(18.6)
General and administrative expenses	(56,023)	(8.8)	(34,589)	(7.5)
Research and development expenses	(86,976)	(13.6)	(62,705)	(13.6)
(Net impairment losses)/ reversal of impairment loss on financial assets	(1,856)	(0.2)	160	*
Operating profit	18,930	3.0	40,985	8.9
Finance income, net	3,291	0.5	741	0.2
Profit before income tax	22,221	3.5	41,726	9.1
Income tax expenses	(8,752)	(1.4)	(2,336)	(0.5)
Profit and total comprehensive income for the year, net of tax	13,469	2.1	39,390	8.6
Comprehensive income/(loss) attributable to:				
Owners of the Company	13,525	2.1	39,986	8.7
Non-controlling interests	(56)	*	(596)	(0.1)
	13,469	2.1	39,390	8.6

* Less than 0.1%

Non-HKFRS measure

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

	Year ended December 31	
	2022	2021
	RMB'000	RMB'000
Profit and total comprehensive income for the year, net of tax	13,469	39,390
Add:		
Fair value loss on a financial liability measured at fair value through profit or loss	6,816	1,479
Listing expenses	22,356	15,857
Share-based compensation	2,872	—
Deduct:		
Fair value gain on extension of a financial liability measured at fair value through profit or loss	(3,065)	—
Adjusted net profit (Non-HKFRS measure)	42,448	56,726

The Group believes that the presentation of such non-HKFRS measure when shown in conjunction with the corresponding HKFRS measure provides useful information to potential investors and management in facilitating a comparison of its operating performance from year to year by eliminating potential impacts of the net fair value changes on the convertible bonds issued by the Company on 21 June 2021 in the principal amount of HK\$77,112,000 (the “**Pre-IPO Convertible Bonds**”), share-based compensation, and the listing expenses. The use of the non-HKFRS measure has limitations as any other analytical tool, and should not be considered in isolation from or as a substitute for or superior to, the analysis of the Group’s results of operations or financial condition as reported under the HKFRS. In addition, the non-HKFRS measure may be defined differently from similar terms used by other companies.

Key financial ratios

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

	Year ended December 31	
	2022	2021
Gross profit margin	52.2%	48.2%
Net profit margin ⁽¹⁾	2.1%	8.6%
Return on equity ⁽²⁾	11.0%	36.6%
Return on assets ⁽³⁾	3.6%	13.5%
Interest coverage ratio ⁽⁴⁾	28.0 times	55.6 times
	As at December 31	
	2022	2021
Current ratio ⁽⁵⁾	1.3 times	1.4 times
Quick ratio ⁽⁶⁾	1.3 times	1.4 times

Notes:

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

FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Football Master (足球大師)	108,801	17.1	134,988	29.4
NBA Basketball Master (NBA籃球大師)	155,684	24.4	176,693	38.4
Football Champion (最佳11人—冠軍球會)	311,547	48.8	148,170	32.2
Total Football (最佳球會)	61,854	9.7	—	—
Total	637,886	100.0	459,851	100.0

Revenue increased by approximately RMB178.0 million, or 38.7%, from approximately RMB459.9 million for the year ended 31 December 2021 to approximately RMB637.9 million for the year ended 31 December 2022, which was mainly attributable to: (i) the revenue generated from the new game launched in July 2022 — Total Football (最佳球會) of approximately RMB61.9 million, and (ii) the increased revenue generated from Football Champion (最佳11人—冠軍球會) by approximately RMB163.3 million, from approximately RMB148.2 million for the year ended 31 December 2021 to approximately RMB311.5 million for the year ended 31 December 31 2022, as the Group has been expanding Football Champion (最佳11人—冠軍球會) in overseas markets such as Hong Kong, South Korea, Japan and Vietnam since the second half of 2021.

Cost of revenue

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

	Year ended 31 December			
	2022		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Commission fee to the Platforms	215,565	70.7	168,098	70.5
License fees	58,902	19.3	47,739	20.0
Revenue sharing to third-party publishers	3,193	1.1	5,682	2.4
Staff costs	14,431	4.7	8,503	3.6
Server usage expenses	11,239	3.7	7,434	3.1
Others*	1,492	0.5	868	0.4
Total	304,822	100.0	238,324	100.0

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

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

	Year ended 31 December			
	2022		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Football Master (足球大師)	59,762	19.6	74,284	31.2
NBA Basketball Master (NBA籃球大師)	83,238	27.3	92,952	39.0
Football Champion (最佳11人—冠軍球會)	123,605	40.5	61,647	25.9
Total Football (最佳球會)	23,088	7.6	—	—
Others*	15,129	5.0	9,441	3.9
Total	304,822	100.0	238,324	100.0

* Others refer to cost of revenue unallocated to different games, mainly consist of staff costs, depreciation of property, plant and equipment and depreciation of right-of-use assets.

Cost of revenue increased by approximately RMB66.5 million, or 27.9%, from approximately RMB238.3 million for the year ended 31 December 2021 to approximately RMB304.8 million for the year ended 31 December 2022. The increase in cost of revenue was primarily attributable to (i) the increase of approximately RMB47.5 million, or 28.2% of commission fee payable to the Platforms which was in line with the growth in revenue; and (ii) the increase of approximately RMB11.2 million, or 23.4% of license fees which was also in line with the growth in revenue as some of the Group's intellectual properties (“IP”) licensing arrangements provide for revenue sharing from our income generated.

Gross profit

The following table sets forth a breakdown of the gross profit and gross profit margin by games for the years indicated:

	Year ended 31 December			
	2022		2021	
	Gross profit	Gross profit	Gross profit	Gross profit
	<i>RMB'000</i>	margin	<i>RMB'000</i>	margin
		%		%
Football Master (足球大師)	49,039	45.1	60,704	45.0
NBA Basketball Master (NBA籃球大師)	72,446	46.5	83,741	47.4
Football Champion (最佳11人—冠軍球會)	187,942	60.3	86,523	58.4
Total Football (最佳球會)	38,766	62.7	—	—
Others*	(15,129)	—	(9,441)	—
Total	333,064	52.2	221,527	48.2

* Others refer to cost of revenue unallocated to different games, mainly consist of staff costs, depreciation of property, plant and equipment and depreciation of right-of-use assets.

The gross profit increased by approximately RMB111.6 million, or 50.4%, from approximately RMB221.5 million for the year ended 31 December 2021 to approximately RMB333.1 million for the year ended 31 December 2022. The gross profit margin of the Group increased from approximately 48.2% for the year ended 31 December 2021 to approximately 52.2% for the year ended 31 December 2022. The increase in gross profit margin was primarily due to (i) the Group's successful expansion into the overseas markets, in particular with the introduction of Football Champion (最佳11人—冠軍球會) in Hong Kong, South Korea, Vietnam and Japan since the second half of 2021; and (ii) commission fee to the Platforms constituting the largest component among the cost of revenue, representing approximately 70.7% of the total cost of revenue of the Group during the year ended 31 December 2022. Therefore, coupled with the increase in the

proportion of income generated from the overseas markets and the comparatively lower commission rate charged by overseas distribution platforms than the local distribution platforms in the PRC, the growth of commission fee to the Platforms was relatively lower than the growth of revenue for the year ended 31 December 2022, contributing to the improvement of the Group's gross profit margin.

Other losses, net

Other losses, net increased by approximately RMB3.4 million, or 309.1%, from approximately RMB1.1 million for the year ended 31 December 2021 to approximately RMB4.5 million for the year ended 31 December 2022, mainly because the Group recorded an increase in fair value loss on a financial liability measured at fair value through profit or loss by approximately RMB5.3 million partially offset by a fair value gain on the extension of a financial liability measured at fair value through profit or loss of approximately RMB3.1 million.

Other income

Other income increased by approximately RMB5.1 million, or 154.5%, from approximately RMB3.3 million for the year ended 31 December 2021 to approximately RMB8.4 million for the year ended 31 December 2022, mainly because the Group received certain new grants and/or subsidies from the local governmental departments during the year ended 31 December 2022.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB87.6 million, or 102.3%, from approximately RMB85.6 million for the year ended 31 December 2021 to approximately RMB173.2 million for the year ended 31 December 2022, which was primarily attributable to the increase in advertising and marketing expenses by approximately RMB84.0 million, or 109.9% as the Group carried out massive online advertising activities during the year ended 31 December 2022 for promoting Football Champion (最佳11人— 冠軍球會) in the overseas markets and the new game launched in July 2022 — Total Football (最佳球會).

General and administrative expenses

General and administrative expenses increased by approximately RMB21.4 million, or 61.8%, from approximately RMB34.6 million for the year ended 31 December 2021 to approximately RMB56.0 million for the year ended 31 December 2022, which was primarily attributable to the increase in listing expenses by approximately RMB6.5 million, or 40.9%, increase in the employee benefits and salaries for general and administrative staff by approximately RMB2.9 million, or 27.0% and increase in office expenses by approximately RMB1.0 million, or 90.7%.

Research and development expenses

Research and development expenses increased by approximately RMB24.3 million, or 38.8%, from approximately RMB62.7 million for the year ended 31 December 2021 to approximately RMB87.0 million for the year ended 31 December 2022, which was primarily attributable to the increase in employee benefits and salaries of the research and development staff of approximately RMB19.2 million, or 34.6% primarily due to the increase in the number of the Group's research and development staff for the year ended 31 December 2022 for the development of the new mobile sports games released during the year and in the pipeline and the salary increment offered to reward the talented research and development personnel of the Group.

(Net impairment losses)/reversal of impairment loss on financial assets

The Group recorded a reversal of impairment loss on financial assets of approximately RMB0.2 million for the year ended 31 December 2021, while the Group recorded net impairment losses on financial assets of approximately RMB1.9 million for the year ended 31 December 2022 because it made provision for impairment of trade receivables regarding an overdue amount by one of the payment vendors of approximately RMB1.9 million during the year. The Group have taken measures to recover the outstanding amount by serving payment demand request on the payment vendor and the finance team closely monitored the collectability of this payment and will continue to communicate with the payment vendor to obtain updates of its anticipated settlement.

Finance income, net

Net finance income increased by approximately RMB2.6 million, or 371.4%, from approximately RMB0.7 million for the year ended 31 December 2021 to approximately RMB3.3 million for the year ended 31 December 2022, which was primarily attributable to the increase in interest income from bank deposits of approximately RMB0.6 million, or 41.6% and an interest accretion on non-current licence fee and royalties payables of approximately RMB1.9 million (2021: nil).

Income tax expense

Income tax expense increased by approximately RMB6.5 million, or 282.6%, from approximately RMB2.3 million for the year ended 31 December 2021 to approximately RMB8.8 million for the year ended 31 December 2022, which was primarily due to a change in enacted tax rate applied on deferred taxation of Wangchen Technology from 15% to 25% during the year ended 31 December 2021.

Liquidity, Financial and Capital Resources

As at 31 December 2022, the total assets of the Group increased by 26.6% to RMB370.3 million (2021: RMB292.4 million), the net current assets decreased by 3.1% to RMB76.1 million (2021: RMB78.5 million) and total equity increased by 14.3% to RMB122.6 million (2021: RMB107.3 million) as compared to that as at 31 December 2021. The increase of total equity was mainly attributable to the profit made for the year ended 31 December 2022.

As at 31 December 2021 and 31 December 2022, the Group had no bank borrowings.

The Group's current ratio remained relatively stable at approximately 1.3 times for the year ended 31 December 2022 compared with approximately 1.4 times for the year ended 31 December 2021.

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB232.6 million (2021: RMB188.4 million). For the purpose of presentation in the consolidated statement of cash flows, the cash and cash equivalents comprise cash on hand and demand deposits, which are subject to an insignificant risk of changes in value. The Group generally deposits its excess cash in interest-bearing bank accounts and current accounts.

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

	Year Ended 31 December	
	2022	2021
	RMB'000	RMB'000
Net cash generated from operating activities	74,182	67,831
Net cash used in investing activities	(24,341)	(18,484)
Net cash used in financing activities	(9,365)	(23,326)
Net increase in cash and cash equivalents	40,476	26,021
Cash and cash equivalents at end of the year	232,566	188,410

Net cash generated from operating activities

Primary source of cash generated from operating activities consists of revenue generated from game development and operation of the Group. Cash used in operating activities are mainly used to fund the development, publishing and operation of the games. Cash flows generated from operating activities for the year ended 31 December 2022 was approximately RMB74.2 million, representing an increase of approximately RMB6.4 million when compared to approximately RMB67.8 million for the year ended 31 December 2021. The increase in cash flows from operating activities was mainly due to decrease in income tax paid of RMB2.3 million and increase in interest received of RMB0.6 million.

Net cash used in investing activities

Net cash used in investing activities primarily reflects cash used for purchases of financial assets at fair value through profit or loss, and purchases of property, plant and equipment, purchases of intangible assets; offset by proceeds from disposal of financial assets at fair value through profit or loss and repayment from related parties. Cash flows used in investing activities for the year ended 31 December 2022 was approximately RMB24.3 million, representing an increase of approximately RMB5.8 million when compared to approximately RMB18.5 million for the year ended 31 December 2021. The increase in cash flows used in investing activities was mainly due to decrease in repayment from related parties of RMB4.1 million.

Net cash used in financing activities

Cash used in financing activities primarily reflects dividends paid, payment for Listing expenses and payment for principal elements of lease liabilities which were partially offset by the proceeds from issuance of a financial liability at fair value through profit or loss (i.e. the Pre-IPO Convertible Bonds). Cash flows used in financing activities for the year ended 31 December 2022 was approximately RMB9.4 million, representing a decrease of approximately RMB13.9 million when compared to approximately RMB23.3 million for the year ended 31 December 2021. The decrease in cash flows used in financing activities was because there was no proceeds from issuance of the Pre-IPO Convertible Bonds (2021: RMB64.2 million) and no dividends paid during the year ended 31 December 2022 (2021: RMB80.0 million was paid by Wangchen Technology to the then shareholders based on the respective shareholdings).

Gearing ratio

As at 31 December 2022, gearing ratio (defined as debt divided by total equity, where debt includes lease liabilities and a financial liability at fair value through profit or loss) was 0.66 times (2021: 0.73 times).

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Leases liabilities		
— Current	6,651	4,558
— Non-current	4,475	7,830
Financial liability at fair value through profit or loss	69,393	65,642
Debt	80,519	78,030
Equity	122,614	107,313
Gearing ratio	0.66 times	0.73 times

Contingent Liabilities

As at 31 December 2022, the Group did not have any contingent liabilities (2021: nil).

Pledge of Assets

As at 31 December 2022, none of the assets of the Group was pledged (2021: nil).

Capital Commitments

Capital commitments of the Group as at 31 December 2022 amounted to approximately RMB92.3 million (2021: RMB10.8 million), which primarily consisted of purchase of intangible assets.

Material Acquisitions and Disposal of Subsidiaries

The Group had neither material acquisition nor disposal of subsidiaries, associates and joint ventures for the year ended 31 December 2022 (2021: nil).

Significant Investments

As at 31 December 2022, the Group did not have any significant investments (2021: nil).

Future Plans for Material Investments and Capital Assets

As at 31 December 2022, save as disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 30 December 2022 (the “**Prospectus**”) the Group did not have any other future plans for material investments or capital assets (2021: same).

Treasury Policies and Foreign Exchange Exposure

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

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

The Group did not experience any significant liquidity problems resulting from currency exchange fluctuations during the year ended 31 December 2022 (2021: same). The Group did not hedge its foreign currency exposure during the year ended 31 December 2022 (2021: same).

Employees and Remuneration Policy

The Group had 367 full-time employees as at 31 December 2022 (2021: 279), most of whom were based in the PRC. The total staff costs amounted to approximately RMB116.4 million for the year ended 31 December 2022 (2021: RMB82.5 million).

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

DIVIDEND

After taking into consideration the capital expenditure required by the Group's plan to develop new games and promote its existing games and new game in overseas markets in 2023, the Board recommended not to declare any final dividend of the Company for the year ended 31 December 2022 (2021: RMB80.0 million was paid by Wangchen Technology to the then shareholders based on the respective shareholdings).

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (the "AGM") will be held on Friday, 16 June 2023. A notice convening the AGM will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.galasports.com), and will be issued and despatched to the shareholders within such time and in such manner as required under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

For the purpose of determining shareholder's eligibility to attend and vote at the AGM, the register of members of the Company will be closed from 13 June 2023 to 16 June 2023. In order to qualify to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on 12 June 2023.

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

As the Company's shares were not listed on the Stock Exchange as at 31 December 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

IMPORTANT EVENTS AFTER THE REPORTING YEAR

The Company has been successfully listed on the Main Board of the Stock Exchange following the completion of global offering of ordinary shares of the Company, including, a public offering in Hong Kong of 3,726,000 shares and an international offering of 8,694,000 shares, at a price of HK\$6.50 per share (collectively the “**Global Offering**”) on 16 January 2023 (the “**Listing Date**”).

Save as disclosed above, there were no other material and important events affecting the Group that had occurred after 31 December 2022 and up to the date of this announcement.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company's net proceeds from the Global Offering were approximately HK\$11.0 million (after deducting the underwriting commissions and other expenses in connection with the Global Offering). The net proceeds has not been used as at the date of this announcement and is currently held in bank deposits at authorized financial institutions and/or licensed banks as defined under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and laws in the relevant jurisdictions (where applicable) and it will be used in the manner consistent with the proposed allocations and expected timeline as disclosed in the Prospectus:

- approximately 30% will be used for renewing existing IP right licenses and obtaining additional IP right licenses from sports leagues, sports associations and sports clubs for the development of existing and new mobile sports games;
- approximately 35% will be used for solidifying the marketing efforts to actively promote the Group's games to both PRC and overseas markets;
- approximately 25% will be used for further strengthening the Group's talent pool and further improving the Group's research and development capabilities; and
- approximately 10% will be used for working capital and general corporate purposes.

For further information, please refer to the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in the Prospectus.

AUDIT COMMITTEE

The Group has established the Audit Committee on 21 December 2022 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and code provision D.3.3 of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, namely, Mr. Leung Ming Shu (chairman of the Audit Committee), Ms. Chak Hoi Kee Clara and Mr. Zhan Peixun, all being independent non-executive directors.

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

The Audit Committee had discussed and reviewed the Company’s consolidated financial statements for the year ended 31 December 2022 with the Company’s management.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set forth in Appendix 10 to the Listing Rules since the Listing Date. The Company has made specific enquiry with the directors of the Company (the “**Directors**”) and all Directors have confirmed that they have complied with the Model Code since the Listing Date.

CORPORATE GOVERNANCE CODE

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

Since the Listing Date, the Company has adopted and applied the code provisions under the CG Code set out in Appendix 14 to the Listing Rules as its own corporate governance code. The Board has reviewed the Company’s corporate governance practices and is satisfied that save as disclosed below, the Company has been in compliance with the code provisions set out in Part 2 of the CG Code since the Listing Date.

According to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Jia Xiaodong (“**Mr. Jia**”) is currently the chairman of the Board and the chief executive officer of the Group. Taking into account Mr. Jia’s extensive experience in the online game industry and in view of Mr. Jia’s role in the overall management of the Group since the Group’s founding, the Board believes that it is in the interest of the Group for Mr. Jia to take up both roles for effective management and operations. Therefore, the Directors consider that the deviation from such code provision is appropriate. Notwithstanding such deviation, the Directors are of the view that the Board

is able to function efficiently and perform its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions will be made in consultation with the members of the Board and the relevant Board committees, and there are three independent non-executive Directors on the Board who can provide independent advice on the operations and management of the Group, the Board takes the view that there is adequate safeguard in place to ensure a sufficient balance of powers within the Board. The Board will also review the structure and composition of the Board and senior management team from time to time in light of the prevailing circumstances to maintain a high standard of corporate governance practices of the Company.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

By Order of the Board
Gala Technology Holding Limited
Jia Xiaodong
Chairman and Executive Director

Hong Kong, 29 March 2023

As at the date of this announcement, the executive directors of the Company are Mr. Jia Xiaodong, Mr. Huang Xiang and Mr. Li Xin; and the independent non-executive directors of the Company are Mr. Zhan Peixun, Mr. Leung Ming Shu and Ms. Chak Hoi Kee Clara.