百奧家庭互動有限公司
BAIOO Family Interactive Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code：2100

Annual Report 2018

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Dai Jian *(Chairman)*
Mr. Wu Lili
Mr. Li Chong
Mr. Wang Xiaodong

Independent Non-executive Directors

Ms. Liu Qianli
Dr. Wang Qing
Mr. Ma Xiaofeng

AUDIT COMMITTEE

Ms. Liu Qianli *(Chairperson)*
Dr. Wang Qing
Mr. Ma Xiaofeng

NOMINATION COMMITTEE

Mr. Dai Jian *(Chairperson)*
Mr. Ma Xiaofeng
Ms. Liu Qianli

REMUNERATION COMMITTEE

Dr. Wang Qing *(Chairperson)*
Mr. Ma Xiaofeng
Mr. Wu Lili

CHIEF EXECUTIVE OFFICER

Mr. Dai Jian

ACTING CHIEF FINANCIAL OFFICER

Ms. Chen Xiao Hong

COMPANY SECRETARY

Ms. Lau Yee Wa

AUTHORIZED REPRESENTATIVES

Mr. Wu Lili
Mr. Dai Jian

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

COMPANY'S WEBSITE

www.baioo.com.hk

STOCK CODE

2100

HEADQUARTERS IN THE PRC

34 Floor, Goldchi Building
120 Huangpu W Ave, Tianhe
Guangzhou, Guangdong
China 510623

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Hutchins Drive
Cricket Square
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Hutchins Drive
Cricket Square
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKS

China Minsheng Bank, Guangzhou Branch
Minsheng Building, No. 68 Lie De Avenue
Tianhe District
Guangzhou
Guangdong 510620
PRC

China Merchants Bank Guangzhou, Ti Yu Dong Road Sub Branch
30/F, Goldlion Centre, No. 138 Ti Yu Dong Road
Tianhe District
Guangzhou
Guangdong 510620
PRC

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Central
Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAW

DLA Piper Hong Kong
17/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

LEGAL ADVISORS AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman (Cayman) Limited
Hutchins Drive
Cricket Square
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

INVESTOR RELATIONS

Christensen China Limited
Tel: (852) 2117 0861
Fax: (852) 2117 0869
Email: Baioo@ChristensenIR.com

Company Profile

Founded in 2009 and listed on the Hong Kong Stock Exchange in 2014, BAIOO Family Interactive Limited is a major online entertainment destination designed for young teens in China, with the aim of become a leading company in China's fast-growing pan-entertainment industry.

Since its establishment, BAIOO has been primarily committed to the development and operation of online contents for teenagers. Some of the Company's key products have accumulated more than 100 million registered users. To achieve further business expansion in the mobile internet era, BAIOO has released a collection of popular mobile games that have been particularly well received within the mobile industry.

Currently, BAIOO primarily focuses on three major genres that it has advantages in, namely female-oriented games, comic adapted "nijigen" (「(二次元」) games and pet collection and cultivation type games. Its key products include web-based virtual world Aobi Island (「奧比島」), Aola Star (「奧拉星」) and Legend of Aoqi (「奧奇傳說」), as well as mobile games Zaowufaze (「造物法則」, also known as "Law of Creation") and Helix Waltz (「螺旋圓舞曲」). BAIOO also operates several online comic series, including Aola Star: Parallel Universe (「奧拉星 • 平行時空」) and Shiwuyu (「食物語」).

The Company's core philosophy is to expand the product line through original content creation as well as through the acquisition of valuable IP. It will continue to pursue potential strategic cooperation with well-known comic IP while leveraging its well-incubated IP portfolio as we look to develop fun and engaging products and drive improvement across its business.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	2018 RMB'000	2017 RMB'000 (Restated)[1]	2016 RMB'000 (Restated)[1]	2015 RMB'000 (Restated)[1]	2014 RMB'000
Continuing operations					
Revenue	**284,489**	309,677	328,153	352,450	506,193
Gross profit	**171,677**	168,095	189,094	220,694	347,738
Operating profit	**106,710**	12,611	29,202	57,610	199,852
Non-International Financial Reporting Standards ("IFRS") Measures					
— Adjusted Net Profit/(Loss)[2] (unaudited)	**112,721**	(22,613)	43,639	124,556	243,977
— Adjusted EBITDA[3] (unaudited)	**111,928**	(32,375)	21,415		

Notes:

(1) Due to the discontinuance of our retail business as part of our strategy, our retail business has been classified as discontinued operation, and the related revenue, expenses and tax are presented as a single amount in the consolidated income statement as "Loss for the year from discontinued operations". Comparative figures have been reclassified to conform with the new presentation.

(2) Adjusted net profit/(loss) consists of profit/(loss) for the year plus share-based compensation. Adjusted net profit/(loss) eliminates the effect on non-cash share-based compensation expenses. The term of adjusted net profit/(loss) is not defined under the IFRS. The use of adjusted net profit/(loss) has material limitations as an analytical tool, as adjusted net profit/(loss) does not include all items that impact our net profit/(loss) for the year.

(3) Adjusted EBITDA means adjusted net profit/(loss) less finance income-net, plus income tax, depreciation of property and equipment and amortization of intangible assets.

BALANCE SHEET HIGHLIGHT

	As at 31 December				
	2018 **RMB'000**	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Assets					
Non-current assets	**130,164**	48,256	414,407	464,519	19,654
Current assets	**1,529,229**	1,582,352	1,603,432	1,288,471	1,664,139
Total assets	**1,659,393**	1,630,608	2,017,839	1,752,990	1,683,793
Equity and liabilities					
Total equity	**1,530,801**	1,488,774	1,573,114	1,570,324	1,509,674
Non-current liabilities	**17,182**	7,278	16,764	16,865	3,305
Current liabilities	**111,410**	134,556	427,961	165,801	170,814
Total liabilities	**128,592**	141,834	444,725	182,666	174,119
Total equity and liabilities	**1,659,393**	1,630,608	2,017,839	1,752,990	1,683,793

Chairman Letter

Dear Shareholders,

Over the course of 2018, as a result of various economic and policy factors, China's gaming market started to slow down. Nevertheless, the mobile game segment was able to maintain relatively rapid year-over-year growth of 15.4%, and total user numbers surpassed 600 million.

As the gaming market continues to evolve, we are seeing greater diversity in user demand. Unlike hardcore gamers, teenagers, female players and anime fans are not particularly fond of playing popular MMORPG ("Massively multiplayer online role-playing game") or MOBA ("Multiplayer online battle arena") titles. They tend to prefer games with specific IP that features unique gaming universes and interactive storytelling.

This is the target market we are addressing. We have a clearly defined IP-centered strategy that allow us to differentiate ourselves. With our strong proprietary content creation capabilities, we are concentrating on three major niche game genres, namely female-oriented games, pet raising and collection games, and comic-adapted "nijigen" (「二次元」) games.

KEY MOBILE TITLES READY FOR RELEASE

We aim to become a leader in these specific niches by building up our proprietary IP. In an effort to achieve this goal, we plan to launch three major mobile games in 2019, namely Shiwuyu (「食物語」), a unique game that features traditional Chinese cuisine, Zaowufaze II (「造物法則2」), and Aola Star Mobile (「奧拉星手遊」), the latest mobile game adaption of our classic proprietary IP.

Although the launch of certain products has been delayed due to regulatory changes, we are still optimistic about the pan-entertainment market in China. For our three mobile games that are ready for launch, we completed most of the development work over the past year. We saw great results from our first-stage testing, and our pre-launch marketing has already drawn some attention from various gamer communities. Our operation team is in place and we have the capabilities to operate in both domestic and overseas markets. We believe we are well-prepared at this point, and now we are just waiting for the green light. Once we receive approvals from the authorities, we will be able to launch immediately and quickly capture the market opportunities.

GROWTH STRATEGIES

We are pleased to see more and more market segments value our unique original content development capabilities, from pan-entertainment segments such as amine, web games and mobile games, to new emerging technologies and mediums. This is what we call "Content is King". By concentrating on product and operational excellence, we have created a scalable business model that leaves us well positioned to capture new market opportunities.

ACKNOWLEDGEMENTS

On behalf of our management team, I would like to express my gratitude to our staff for their relentless effort. In addition, I would like to say thank you to our numerous users for their continuing support. It is our mission to keep bringing more fun to our users, everyday lives.

DAI Jian
Chairman, Chief Executive Officer and Executive Director
BAIOO Family Interactive Limited
28 March 2019

Definitions and Glossaries

DEFINITIONS

"AGM"	the annual general meeting of the Company to be convened and held in accordance with the Articles of Association
"Articles of Association"	the articles of association of the Company as amended, supplemented or revised from time to time
"associate"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	the audit committee of the Company
"Board" or "Board of Directors"	the board of Directors
"Chairman"	the chairman of the Board
"Company" or "us" or "Our Company"	BAIOO Family Interactive Limited (百奧家庭互動有限公司), (formerly known as Baitian Information Limited, Baitian Family Interactive Limited (百田家庭互動有限公司) and BYO Family Interactive Limited (百奧家庭互動有限公司)), an exempted company incorporated in the Cayman Islands with limited liability on 25 September 2009, and, except where the context otherwise requires, all of its subsidiaries and Guangzhou Baitian or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries and Guangzhou Baitian was engaged in and which was subsequently assumed by it
"Company Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Contractual Arrangements"	a series of agreements entered into among Guangzhou WFOE, Guangzhou Baitian and the Registered Shareholders on 4 December 2013 and amended on 20 March 2014
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, collectively refers to Mr. DAI Jian and Stmoritz Investment Limited
"Corporate Governance Code" or "CG Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules

"DAE Trust"	a discretionary trust set up by Mr. DAI Jian for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. DAI and his family members
"Director(s)" or "our Director(s)"	the director(s) of our Company or any one of them
"Group" or "our Group" or "BAIOO"	our Company, its subsidiaries and the PRC Operating Entity (the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements), or, where the context so requires, in respect of the period before our Company became the holding company of its current subsidiaries, our Company's current subsidiaries or the business operated by such subsidiaries or their predecessors (as the case may be)
"Guangzhou Baiman"	Guangzhou Baiman Culture Communications Company Limited* (廣州百漫文化傳播有限公司), a company with limited liability incorporated on 5 January 2016 under the laws of the PRC. As of 31 December 2018, Guangzhou Baitian held 47.4% equity interests in Guangzhou Baiman and independent third parties held 52.6%
"Guangzhou Baitian" or "PRC Operating Entity"	Guangzhou Baitian Information Technology Ltd.* (廣州百田信息科技有限公司), a Company incorporated on 2 June 2009 and existing under the laws of the PRC. As of the date hereof, Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming and Mr. WANG Xiaodong hold 46.92%, 28.37%, 12.9%, 7.08% and 4.73% equity interests in Guangzhou Baitian, respectively
"Guangzhou WFOE"	Baiduo (Guangzhou) Information Technology Limited* (百多(廣州)信息科技有限公司), a company incorporated on 29 October 2013 under the laws of the PRC, an indirect wholly-owned subsidiary of the Company
"independent third party"	any entity or party which is not connected (as defined in the Listing Rules) to our Directors, substantial shareholders or chief executives of our Company or its subsidiaries, or any of their respective associates
"IP"	intellectual property
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on 10 April 2014

Definitions and Glossaries

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"NEEQ"	The National Equities Exchange and Quotations (全國中小企業股份轉讓系統), also known as "The New Third Board" (新三板)
"Nomination Committee"	the nomination committee of the Company
"Option(s)"	an option or right to purchase Shares under the Pre-IPO Share Option Scheme
"Post-IPO RSU Scheme"	the post-IPO restricted share unit scheme adopted by the Company on 18 March 2014, which took effect on 10 April 2014 and was amended on 19 June 2015
"PC"	personal computer
"PRC"	the People's Republic of China
"Pre-IPO RSU Scheme"	the restricted share unit plan approved and adopted by the Company on 30 September 2013
"Pre-IPO Share Option Scheme"	the share option plan approved and adopted by the Company on 18 June 2010
"Prospectus"	the prospectus of the Company dated 28 March 2014
"Register of Members"	the register of members of the Company
"Registered Shareholders"	the registered shareholders of Guangzhou Baitian, namely Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming and Mr. WANG Xiaodong
"Remuneration Committee"	the remuneration committee of the Company
"RSU(s)"	restricted share unit(s), being a contingent right to receive Shares which is granted pursuant to the Pre-IPO RSU Scheme and/or the Post-IPO RSU Scheme

"SFO"	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s) or "Ordinary Share(s)"	ordinary share(s) in the share capital of our Company with par value US$0.0000005 each (or of such other nominal amount as shall result from capitalization, subdivision, consolidation, re-classification or re-construction of the share capital of the Company from time to time) with the rights ascribed in the Articles of Association
"Shareholder(s)"	holder(s) of our Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"The Zhen Family Trust"	a discretionary trust set up by Mr. LI Chong for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. LI and his family members
"WHZ Trust"	a discretionary trust set up by Mr. WU Lili for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. WU and his family members
"WSW Family Trust"	a discretionary trust set up by Mr. WANG Xiaodong for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. WANG and his family members

* English names are for identification purpose only

GLOSSARY

"ARQPA"	average revenue per QPA, which is revenue from our virtual worlds in a particular quarter divided by the number of quarterly paying accounts in that quarter
"average quarterly ARQPA"	average quarterly average revenue per QPA, which is revenue from our virtual worlds in a particular period divided by the total number of QPA in that period
"RPG"	role-playing game
"QAA"	quarterly active accounts, which is the number of active accounts for our virtual worlds in the relevant quarter. A quarterly active account is defined as a registered account that was accessed at least once during a quarter. An account that logged into two virtual worlds in the same quarter is counted as two QAA. Average QAA for a particular period is the average of the QAA in each quarter during that period
"QPA"	quarterly paying accounts, which is the number of paying accounts in the relevant quarter. An account that paid subscription fees or for virtual items in two virtual worlds in the same quarter is counted as two QPA. Average QPA for a particular period is the average of the QPA in each quarter during that period

Management Discussion and Analysis

BUSINESS OVERVIEW

In 2018 ("FY2018"), BAIOO continued to deliver steady operating metrics across the Company's products for PCs and mobile devices. The Company also effectively deployed its IP and original content creation-centered strategies to develop new products and expand its ongoing product pipeline.

In an effort to strengthen the Company's gaming IP, BAIOO continued to generate 'fun' content and maintain its focus on increasing audience engagement for popular titles, particularly the award-winning comic-adapted mobile game Zaowufaze (「造物法則」). During the year, Zaowufaze was well received in both China and overseas, and in particular, we saw rising user loyalty among the "nijigen" (「二次元」) communities.

For the Company's web-based virtual worlds, both Aola Star (「奧拉星」) and Legend of Aoqi (「奧奇傳說」) continued to enjoy a long life cycle with stable performance. The Company will continue to update the current virtual worlds by releasing new episodes every week in order to retain user loyalty. With a strong user base, the Company expects that PC users of Aola Star (「奧拉星」) will convert into mobile users once the mobile version is released.

Helix Waltz (「螺旋圓舞曲」), a new female dress-up drama game launched in the third quarter of 2018 quickly attracted many new users and became a hit among young women. To ensure smooth gameplay, the game's development team is now optimizing the game to further improve the user experience.

INDUSTRY TRENDS

Although China's gaming industry continued to grow, the growth rate has recently started to slow down. According to the latest China Gaming Industry Report released by the Game Publishers Association Publications Committee (GPC) of the China Audio-Video and Digital Publishing Association (中國音數協遊戲工委), the sales revenue generated by the gaming sector in China in 2018 grew by 5.3% year-over-year, which compared with a much faster pace of 23.0% in 2017. In particular, the growth rate of mobile game segment decreased to 15.4%. Overall, user numbers surpassed 600 million for the first time.

The report noted that the slowdown was caused by changing user preferences, challenging user acquisition, and less appealing new products. To overcome these challenges, BAIOO decided to leverage its strengths in IP-centered content creation and focus on several specific niche segments, namely female-oriented games, pet raising and collection games, and comic-adapted "nijigen" (「二次元」) games, that cater for the needs of certain user groups. BAIOO believes that there are significant market opportunities in these segments and that the Company is well positioned to address the user demand with a solid product pipeline.

OUTLOOK FOR 2019

Looking out to 2019, BAIOO will launch three major mobile titles that fall into three different genres to strengthen its market position. Among these games, Shiwuyu (「食物語」) is a highly-anticipated award-winning mobile game that is primarily designed for women and features traditional Chinese cuisine. The Company plans to market and distribute this game in collaboration with a top gaming company in China and should benefit from the strong support of its industry-leading distribution platform.

Zaowufaze II (「造物法則二」), a sequel title leveraging BAIOO's proprietary comic IP, will also be released in 2019 and is expected to leverage on the popularity of the original franchise. It will be run by the same operation team, which has deep user insights into the "nijigen" (「二次元」) communities and rich experiences in marketing and promotion.

The Company will also respond to the general trend of users migrating from PCs to mobile devices by releasing Aola Star Mobile (「奧拉星手遊」), the latest adaption of BAIOO's classic virtual world IP. The original web-based Aola Star has accumulated as many as 200 million registered users since its launch in 2010. In addition, the Company also released the comic Aola Star: Parallel Universe (「奧拉星 • 平行宇宙」) in mid-2018. This free-to-read online comic is gaining popularity among teenagers and recorded over 300,000 click-to-collection across different online comic platforms. Currently, over 4.1 million users are participating in the reservation of Aola Star Mobile (「奧拉星手遊」) without any promotion activities from the Company, and the Company is confident that it will become a hit mobile title that will be able to leverage Aola Star's (「奧拉星」) strong existing fan base.

With a strong and diversified mobile game pipeline, BAIOO is confident that it will be able to capture more opportunities over 2019 and the years ahead. The Company looks forward to creating more business synergies with its existing virtual worlds and comic segments with an even larger user base.

OPERATION INFORMATION

The following table sets out average QAA, average QPA and average quarterly ARQPA for our online virtual worlds for the years indicated below:

	For the Year Ended		
	31 December 2018[1]	31 December 2017	Year-over-year Change
	(QAA & QPA in millions, ARQPA in RMB)		
average QAA[2]	**15.5**	23.8	(34.9%)
average QPA[3]	**1.1**	1.4	(21.4%)
average quarterly ARQPA[4]	**60.8**	55.2	10.1%

Notes:

1. As of 31 December 2018, our online virtual worlds under commercial operation included Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, Magic Fighter, Super Badilong, Aoyi Alliance, Three Kingdoms, Zaowufaze, Tuntianji and Helix Waltz.

2. The average QAA for online virtual worlds was approximately 15.5 million for the year ended 31 December 2018, representing a decrease of approximately 34.9% compared with the year ended 31 December 2017. This was primarily due to the trend of users migrating from PCs to mobile devices.

3. The average QPA for online virtual worlds was approximately 1.1 million for the year ended 31 December 2018, representing a decrease of approximately 21.4% compared with the year ended 31 December 2017 as a result of a shift to mobile.

4. The average quarterly ARQPA for online virtual worlds was approximately RMB60.8 for the year ended 31 December 2018, representing an increase of approximately 10.1% compared with the year ended 31 December 2017. The increase was primarily due to the Company's mobile game products shifting to an older user base that has greater paying power.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our consolidated statements of comprehensive income/(loss) for the years ended 31 December 2018 and 2017, respectively:

	For the year ended			
	31 December 2018 RMB'000	**% of Revenue**	31 December 2017 RMB'000 (Restated)[1]	% of Revenue
Revenue	**284,489**	**100.0**	309,677	100.0
Online entertainment business	**282,115**	**99.2**	305,690	98.7
Other businesses	**2,374**	**0.8**	3,987	1.3
Cost of revenue	**(112,812)**	**(39.7)**	(141,582)	(45.7)
Gross profit	**171,677**	**60.3**	168,095	54.3
Selling and marketing expenses	**(69,249)**	**(24.3)**	(57,380)	(18.5)
Administrative expenses	**(50,450)**	**(17.7)**	(50,739)	(16.4)
Research and development expenses	**(81,386)**	**(28.6)**	(61,407)	(19.8)
Net impairment losses on financial assets	**(1,047)**	**(0.4)**	—	—
Other income	**6,576**	**2.3**	6,845	2.2
Other gains — net	**15,574**	**5.5**	7,197	2.3
Gain on disposal of a subsidiary	**115,015**	**40.4**	—	—
Operating profit	**106,710**	**37.5**	12,611	4.1
Finance income — net	**27,332**	**9.6**	19,619	6.3
Share of loss of an associate	**(7,087)**	**(2.5)**	—	—
Profit before income tax	**126,955**	**44.6**	32,230	10.4
Income tax expense	**(17,933)**	**(6.3)**	(5,775)	(1.9)
Profit for the year from continuing operations	**109,022**	**38.3**	26,455	8.5
Discontinued operations				
Loss for the year from discontinued operations	**(1,374)**	**(0.5)**	(56,864)	(18.3)
Profit/(loss) for the year	**107,648**	**37.8**	(30,409)	(9.8)

	For the year ended			
	31 December 2018 RMB'000	**% of Revenue**	31 December 2017 RMB'000 (Restated)[1]	% of Revenue
Other comprehensive income/(loss), net of tax	**276**	**0.1**	(374)	(0.1)
Total comprehensive income/(loss) for the year	**107,924**	**37.9**	(30,783)	(9.9)
Other financial data				
Adjusted net profit/(loss)[2] (unaudited)	**112,721**	**39.6**	(22,613)	(7.3)
Adjusted EBITDA[3] (unaudited)	**111,928**	**39.3**	(32,375)	(10.5)

Notes:

1. Due to the discontinuance of our retail business as part of our strategy, our retail business has been classified as discontinued operation, and the related revenue, expenses and tax are presented as a single amount in the consolidated income statement as "Loss for the year from discontinued operations". Comparative figures have been reclassified to conform with the new presentation.

2. Adjusted net profit/(loss) consists of profit/(loss) for the year plus share-based compensation. Adjusted net profit/(loss) eliminates the effect on non-cash share-based compensation expenses. The term of adjusted net profit/(loss) is not defined under the IFRS. The use of adjusted net profit/(loss) has material limitations as an analytical tool, as adjusted net profit/(loss) does not include all items that impact our net profit/(loss) for the year.

3. Adjusted EBITDA consists of adjusted net profit/(loss) less finance income-net, plus income tax, depreciation of property and equipment and amortization of intangible assets.

Revenue

Our revenue for the year ended 31 December 2018 was RMB284.5 million, representing an 8.1% decrease from RMB309.7 million for the year ended 31 December 2017.

Online Entertainment Business: Our revenue from online entertainment business for the year ended 31 December 2018 was RMB282.1 million, representing a 7.7% decrease from RMB305.7 million for the year ended 31 December 2017. This was primarily due to users' preference shifting to mobile games. However, we believe our core users remained loyal to our key PC game titles.

Other Businesses: Our revenue from other businesses for the year ended 31 December 2018 was RMB2.4 million, representing a 40.0% decrease from RMB4.0 million for the year ended 31 December 2017. The decrease mainly reflected the decrease of the revenue generated from advertisement.

Cost of Revenue

Our cost of revenue for the year ended 31 December 2018 was RMB112.8 million, a 20.3% decrease from RMB141.6 million for the year ended 31 December 2017.

Online Entertainment Business: Our cost of online entertainment business cost for the year ended 31 December 2018 was RMB111.7 million, representing a 20.1% decrease from RMB139.8 million for the year ended 31 December 2017. The decrease was driven by a decrease in employee benefit expenses and staff cost, less in payment of third party revenue sharing as well as a decline in bandwidth and server custody fees.

Other Businesses: Our cost of other businesses for the year ended 31 December 2018 was RMB1.1 million, representing a 35.3% decrease from RMB1.7 million for the year ended 31 December 2017. The decrease primarily reflected a decline in employee benefit expenses.

Gross Profit

As a result of the foregoing, our gross profit for the year ended 31 December 2018 was RMB171.7 million, compared with RMB168.1 million for the year ended 31 December 2017. Gross profit margin was 60.3% for the year ended 31 December 2018, compared with 54.3% for the year ended 31 December 2017.

Selling and Marketing Expenses

Our selling and marketing expenses for the year ended 31 December 2018 were RMB69.2 million, representing a 20.6% increase from RMB57.4 million for the year ended 31 December 2017. This was primarily due to the increasing expenses from various marketing and promotional programs.

Administrative Expenses

Our administrative expenses for the year ended 31 December 2018 were RMB50.5 million, representing a 0.4% decrease from RMB50.7 million for the year ended 31 December 2017.

Research and Development Expenses

Our research and development expenses for the year ended 31 December 2018 were RMB81.4 million, a 32.6% increase from RMB61.4 million for the year ended 31 December 2017. This increase was primarily due to greater research and development expenses and staff cost because of more new mobile games under development.

Net Impairment Losses on Financial Assets

We recorded net impairment losses on financial assets of RMB1.0 million for the year ended 31 December 2018, which was primarily due to the expected credit losses for accounts receivable. This compares with nil for the year ended 31 December 2017.

Other Income

The Company recognized RMB6.6 million in other income for the year ended 31 December 2018, representing a 2.9% decrease from RMB6.8 million for the year ended 31 December 2017.

Other Gains — net

The Company recognized RMB15.6 million in fair value gains on financial assets at fair value through profit and loss for the year ended 31 December 2018, compared with RMB7.2 million for the year ended 31 December 2017. This mainly reflects the net increase in the fair value of our investment portfolio.

Gain on Disposal of a Subsidiary

We had a gain on disposal of a subsidiary of RMB115.0 million as investment income for the year ended 31 December 2018 compared with nil for the year ended 31 December 2017. This was mainly attributable to the gain on a disposal of a 7% equity interest in the Group's subsidiary, Guangzhou Baiman, and the re-measurement of the retained non-controlling investment.

Operating Profit

As a result of the foregoing, our operating profit for the year ended 31 December 2018 was RMB106.7 million, compared with RMB12.6 million for the year ended 31 December 2017.

Finance Income — net

We had net finance income of RMB27.3 million for the year ended 31 December 2018, compared with net finance income of RMB19.6 million for the year ended 31 December 2017. Finance income for the year ended 31 December 2018 was primarily attributable to (i) RMB23.8 million in interest income on bank deposits and other term deposits; and (ii) RMB2.8 million in exchange gain related to non-Renminbi bank deposit.

Share of Loss of an Associate

We recorded a share of loss of an associate of RMB7.1 million for the year ended 31 December 2018 due to a loss at the start-up period from an investee company. This compares with nil for the year ended 31 December 2017.

Profit before Income Tax

As a result of the foregoing, we had a profit of RMB127.0 million for the year ended 31 December 2018, compared with a profit of RMB32.2 million for the year ended 31 December 2017.

Income Tax Expense

Our income tax expense for the year ended 31 December 2018 was RMB17.9 million, representing a 208.6% increase from RMB5.8 million for the year ended 31 December 2017. This was primarily due to the increase in assessable profit.

Profit for the Year from Continuing Operations

We had a profit of RMB109.0 million for the year ended 31 December 2018, compared with a profit of RMB26.5 million for the year ended 31 December 2017.

Loss for the Year from Discontinued Operations

We had a loss of RMB1.4 million for the year ended 31 December 2018, compared with a loss of RMB56.9 million for the year ended 31 December 2017.

Profit/(loss) for the Year

As a result of the foregoing, we had a profit of RMB107.6 million for the year ended 31 December 2018, compared with a loss of RMB30.4 million for the year ended 31 December 2017.

Non-IFRS Measures — Adjusted Net Profit/EBITDA

Our adjusted net profit for the year ended 31 December 2018 was RMB112.7 million, compared with an adjusted net loss of RMB22.6 million for the year ended 31 December 2017. Our adjusted EBITDA for the year ended 31 December 2018 was RMB111.9 million, compared with a loss of RMB32.4 million for the year ended 31 December 2017.

The following table reconciles our adjusted net profit/(loss) and adjusted EBITDA for the years presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is net profit:

	Unaudited For the year ended 31 December	
	2018 RMB'000	2017 RMB'000
Profit/(loss) for the year	**107,648**	(30,409)
Add:		
Share-based compensation	**5,073**	7,796
Adjusted net profit/(loss)	**112,721**	(22,613)
Add:		
Depreciation and amortization	**8,888**	11,558
Finance income — net	**(27,614)**	(26,409)
Income tax	**17,933**	5,089
Adjusted EBITDA	**111,928**	(32,375)

LIQUIDITY AND CAPITAL RESOURCES

In FY2018, we met our working capital and other capital requirements principally from cash flow generated from our operating activities.

The Group's gearing ratios as of the dates below were as follows:

	As of 31 December 2018 RMB'000	As of 31 December 2017 RMB'000
Total liabilities	**128,592**	141,834
Total assets	**1,659,393**	1,630,608
Gearing ratio[1]	**8%**	9%

Note:

(1) Gearing ratio is calculated by dividing total liabilities by total assets.

Cash and Cash Equivalents, Short-Term Deposits, Long-Term Deposits and Structural Deposits Classified as "Financial Assets at Fair Value through Profit or Loss"

As of 31 December 2018, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB1,145.7 million, compared with RMB907.2 million as of 31 December 2017. We had short-term deposits of RMB222.5 million as of 31 December 2018, which are bank deposits we intend to hold for over three months but less than one year, compared with RMB634.0 million as of 31 December 2017. We also had structural deposit with embedded derivative of RMB100.0 million which was classified as "financial assets at fair value through profit or loss" due to the application of IFRS 9 since 1 January 2018.

As of 31 December 2018, the Group had no restricted cash.

The effective interest rate per annum for cash in bank balances and deposits as of 31 December 2018 was 1.8%, compared with 1.9% as of 31 December 2017. Our policy is to place our cash in interest-bearing principal-protected demand or deposits with reputable PRC or international banks.

Our cash and cash equivalents, short-term deposits, long-term deposits and structural deposits classified as "financial assets at fair value through profit or loss" are denominated in the following currencies:

Group	As of 31 December 2018 RMB'000	As of 31 December 2017 RMB'000
RMB	**1,404,412**	1,425,650
HK$	**39,423**	90,414
US$	**24,216**	25,091
Others	**100**	94
	1,468,151[(1)]	1,541,249

Note:

(1) The cash balance as of 31 December 2018 included the structural deposit with embedded derivative of RMB100.0 million which was classified as "financial assets at fair value through profit or loss" due to the application of IFRS 9 since 1 January 2018.

Bank Loans and Other Borrowings

The Group had no bank loans or other borrowings as of 31 December 2018.

Treasury Policies

As of 31 December 2018, the Group had conservative treasury policies in terms of cash and financial management. The Group does not use any financial instruments for hedging purposes.

Foreign Currency Risk

As of 31 December 2018, RMB63.7 million of our financial resources were held in deposits in non-RMB currencies. Since there are no cost-effective hedges against the fluctuations of the RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our cash in bank balances.

Capital Expenditures and Investments

Our capital expenditures consist of purchases of property and equipment such as servers and computers and intangible assets such as licenses. In the year ended 31 December 2018, our total capital expenditures were RMB12.6 million, compared with RMB4.6 million in the year ended 31 December 2017. The following table sets out our capital expenditures for the years indicated:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Capital Expenditures		
— Purchase of property and equipment	**8,445**	4,175
— Purchase of intangible assets	**4,133**	387
Total	**12,578**	4,562

Contingent Liabilities

As of 31 December 2018, the Group did not have any material contingent liabilities, guarantees or litigation against it.

Charges on Assets

As of 31 December 2018, there were no charges on the Group's assets.

Material Acquisitions and Future Plans for Major Investment

The Group currently has no specific plans for other major investments or acquisitions for significant capital assets or other businesses. However, the Group will continue to look for new opportunities for business development.

Employees and Staff Costs

As of 31 December 2018, the Group had 618 full-time employees. The following table sets forth the number of full-time employees by function as of 31 December 2018:

	As of 31 December 2018	
	Number of Employees	% of Total
Operations	245	39.6
Development and research	257	41.6
Sales and Marketing	56	9.1
General and administration	60	9.7
Total	618	100

In addition to salary, we also provide various incentives, including share-based awards, such as share options and RSUs granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by the PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity leave. We are required by the PRC law to make contributions to these social insurance plans at specified percentages of the compensation of each employee, up to a maximum amount as may be specified by the local government from time to time. Such social insurance plans include defined contribution retirement benefit plans organized by the relevant governmental authorities. Forfeited contributions by the Group to these plans may not be used by the Group to reduce the existing level of contributions. The total amount of contributions we made for employee social insurance plans in the year ended 31 December 2018 were approximately RMB31.7 million, compared with RMB30.7 million in the year ended 31 December 2017. We incurred staff costs of approximately RMB160.9 million and RMB163.9 million, for the year ended 31 December 2018 and 2017, representing 56.6% and 52.9% of our revenue for those periods respectively.

We also grant share options and RSUs to our employees to incentivize them to contribute to our growth. Pursuant to the Pre-IPO Share Option Scheme and the Pre-IPO RSU Scheme, there were a total of 1,344,000 Pre-IPO share options and no shares of Pre-IPO RSUs outstanding as of 31 December 2018.

We will continue to grant RSUs to our employees to incentivize them pursuant to the Post-IPO RSU Scheme. The maximum aggregate number of the Shares underlying all the RSUs which we may grant pursuant to the Post-IPO RSU Scheme is 57,025,280 shares, representing approximately 2.0% of our share capital as of the date of the AGM (as defined below). Pursuant to the Post-IPO RSU Scheme and there were a total of 6,371,500 RSUs outstanding as at 31 December 2018.

Dividend

At the Company's AGM on 29 June 2018, the then Shareholders approved the Board's recommendation to declare a special dividend of HK$0.021 (equivalent to approximately RMB0.017) per share for the year ended 31 December 2017. The special dividend was paid to Shareholders on 31 July 2018.

The Board is pleased to recommend the payment of a special dividend of HK$0.021 (equivalent to RMB0.018) per share for the year ended 31 December 2018 out of our share premium account, subject to the approval of the Shareholders at the forthcoming AGM to be held on Friday, 28 June 2019. The proposed dividend will be payable on Wednesday, 31 July 2019 to the Shareholders of whose names appear on the Register of Members on Wednesday, 10 July 2019.

CHANGES SINCE 31 DECEMBER 2018

There were no other significant changes in the Group's financial position or from the information disclosed under management discussion and analysis in this annual report for the year ended 31 December 2018.

Biographies of the Directors and Senior Management

DIRECTORS

Executive Directors

DAI Jian (戴堅), aged 51, is a co-founder of our Group and was appointed as our Chairman in November 2011, Executive Director in April 2012 and Chief Executive Officer in mid-October 2016. He is responsible for the overall management, corporate development and strategic planning of our Group.

Mr. DAI has more than 18 years of experience in the information and technology industry. From March 2013 to present, he has served as the chairman of the board of Altratek Guangdong, a wireless telecommunication product and service provider, where he is responsible for overall management, resources integration and strategic planning. From December 2004 to March 2013, he was the executive director and chief executive officer of Altratek Guangdong. Prior to that, he co-founded and was the chairman of Guangzhou Elite Enterprise Management Corporation* (廣州市伊萊哲企業管理有限公司) ("**Guangzhou Elite**") from November 1999 to November 2004, where he was responsible for overall management, resources integration and strategic planning.

Mr. DAI received his bachelor's degree in computer application from Hunan University (湖南大學) in July 1990.

WU Lili (吳立立), aged 51, is a co-founder of our Group and was appointed as Executive Director in September 2009. Mr. WU was appointed as our Chief Executive Officer in March 2010 and relinquished such position in March 2015. He is responsible for overseeing the Company's growth strategies, mergers and acquisitions and other business opportunities.

Mr. WU has more than 18 years of experience in the information technology industry. From March 2013 to present, he has served as the director of Altratek Guangdong. From September 2007 to June 2009, he was the deputy director of marketing of Altratek Guangdong, where he was responsible for resources integration and capital operation, as well as strategic planning and new project development, including the overall management of the company's new Internet business and the integration of the telecom value added services. Prior to that, he was the vice chairman of marketing of Guangzhou Elite from November 1999 to August 2007, where he managed the company's various production lines and marketing agencies in the PRC, and was responsible for the implementation of the company's marketing strategies.

Mr. WU received his MBA degree from the China Europe International Business School (中歐國際工商學院) in September 2004. He also received his master's degree in computer application and bachelor's degree in computer communications from Beijing University of Posts and Telecommunications (北京郵電大學), formerly known as (北京郵電學院) in April 1992 and July 1989, respectively.

LI Chong (李沖), aged 50, is a co-founder of our Group and was appointed as our Chief Operating Officer in September 2009 and Executive Director in September 2009. He is responsible for the overall operations of our Group and the marketing and distribution of our products.

Mr. LI has more than 18 years of experience in the information technology industry. From March 2013 to present, he has served as the chairman of the supervisory board of Altratek Guangdong. From January 2008 to July 2009, he was one of the new project leaders of Altratek Guangdong, where he was responsible for the design and operation of the company's products. In particular, he was a key participant in the feasibility study and development of Aobi Island. Prior to that, he was the President of Guangzhou Aochuang Information Technology Co., Ltd.* (廣州市奧創信息技術有限公司) from October 2000 to December 2008, where he was responsible for the overall operation and management of the company.

Mr. LI received his master's degree in business management from Jinan University (暨南大學) in June 2000. He also received his master's degree in communications and electric systems and bachelor's degree in telecommunications engineering from Beijing University of Posts and Telecommunications (北京郵電大學) in April 1992 and July 1989, respectively.

WANG Xiaodong (王曉東), aged 53, is a co-founder of our Group and was appointed as our Executive Director in December 2013 and Executive Vice President in September 2009. Mr. WANG was also appointed as our Executive Director between September 2009 and March 2010. He is in charge of the overall management of the human resources, user services, public affairs and business cooperation of our Group.

Mr. WANG has more than 20 years of experience in the information technology industry, as well as extensive experience in the education industry. Prior to joining the Group, he was one of the new project leaders of Altratek Guangdong from September 2007 to July 2009, where he was a key participant in the feasibility study and development of Aobi Island. He was specifically responsible for managing human resources, administration and the cooperation with primary schools and other education agencies for the product. He was the Director of Human Resources and Vice President of Guangzhou Elite from August 2001 to December 2008, where he was in charge of the company's operations in northern China, as well as the management and development of the company's human resources department.

From April 2001 to August 2001, he was the Associate Dean of Hunan University College of Civil Engineering (湖南大學土木工程學院), where he was responsible for overall student education and management. Prior to that, he was the Associate Director of the department of mechanical engineering of Hunan University (湖南大學) from February 1997 to January 1998, where he was responsible for the overall management of the department.

Mr. WANG received his master's degree in industrial international trade and bachelor's degree in machine design and manufacturing from Hunan University (湖南大學) in December 1998 and July 1988, respectively.

Independent Non-Executive Directors

LIU Qianli (劉千里), aged 43, was appointed as our Independent Non-Executive Director on 18 March 2014.

Ms. LIU has over 15 years of experience in investment banking and corporate finance. From December 2010 to July 2013, Ms. LIU served as the Chief Financial Officer of Phoenix New Media, a media company in China listed on the New York Stock Exchange. Prior to that, she served as the Chief Financial Officer of ChinaEDU Corp., an education services provider in China listed on NASDAQ, from October 2008 to November 2010. From July 2007 to August 2008, she served as Chief Financial Officer of MainOne Inc., an information technology company. Ms. LIU was a Vice President at Lehman Brothers investment banking in Hong Kong and an Associate at Lehman Brothers investment banking in New York from July 2003 to June 2007.

Ms. LIU has been an Independent Non-Executive Director of Feiyu technology International Company Limited since November 2014, a HK-listed developer and operator of mobile games and web games. In addition, she has been appointed as an independent director of North Oakridge Capital, an investment management firm that manages North Oakridge Investment Fund, a long-biased equity longshort fund focusing China TMT and consumer sectors since June 2017.

Ms. LIU received her MBA degree from MIT Sloan School of Management in June 2003 and her bachelor of arts from Dartmouth College, U.S., in June 1997.

WANG Qing (王慶), aged 50, was appointed as our Independent Non-Executive Director on 18 March 2014.

Dr. WANG has over 18 years of experience in investment banking and corporate finance. Dr. WANG is President and Partner of Shanghai Chongyang Investment Management Co., Ltd, a privately managed fund in China. Before joining Chongyang Investment in April 2013, Dr. WANG was Deputy Head of Investment banking department at China International Capital Corporation ("**CICC**") from June 2011 to April 2013. Dr. WANG joined CICC from Morgan Stanley, where he served as Managing Director and chief economist for Greater China in the research division in Hong Kong from May 2007 to June 2011. Prior to that, Dr. WANG spent 6 years, from June 1999 to October 2005, in Washington, D.C. as an economist with the International Monetary Fund.

Dr. WANG received his Ph.D. in economics from the University of Maryland at College Park, U.S. in August 2000. He received his bachelor's degree and master's degree in economics from Renmin University of China (中國人民大學) in July 1991 and January 1994, respectively.

MA Xiaofeng (馬肖風), aged 55, was appointed as our Independent Non-Executive Director on 18 March 2014.

Mr. MA is the co-founder, chairman and Chief Executive Officer of ATA Inc., a professional services provider for testing, assessment and related services in China, and a public company listed on NASDAQ. Since July 2015, Mr. MA has served as Chairman of the board of directors of ATA Online (Beijing) Education Technology Co., Ltd.* (全美在線(北京)教育科技股份有限公司) whose shares were listed on the NEEQ since 21 December 2015 and were delisted since 11 October 2017.

Save as disclosed above, all the above Directors are not and have not been a director of any other listed companies in Hong Kong or overseas in the past three years.

SENIOR MANAGEMENT

DAI Jian (戴堅), aged 51, is our Chairman, Executive Director and Chief Executive Officer. Please refer to the section headed "— Executive Directors — DAI Jian" for his biography.

LI Chong (李沖), aged 50, is our Executive Director and Chief Operating Officer. Please refer to the section headed "— Executive Directors — LI Chong" for his biography.

WANG Xiaodong (王曉東), aged 53, is our Executive Director and Executive Vice President. Please refer to the section headed "— Executive Directors — WANG Xiaodong" for his biography.

DENG Linghua (鄧淩華), aged 43, was appointed as our Chief Technology officer in November 2014. He is responsible for the design, development and testing of our products, as well as the operation, maintenance and upgrade of our network infrastructure and information technology system.

Mr. DENG has more than 19 years of experiences in the information and technology industry. Prior to joining the Group, he was a system structure engineer of Altratek Guangdong, a wireless telecommunication product and service provider from May 2007 to July 2009, where he was a key participant in the technology development of Aobi Island at the early stage, and was responsible for the system structure design, technology team recruitment and research management. Prior to that, Mr. DENG worked with Zhongxing Telecommunication Equipment Corporation (ZTE Corporation) and Shenzhen Sysway Information & Technology Co., Ltd.

Mr. DENG received his bachelor degree in computer science and technology from Jilin University of Technology (吉林工業大學) (now a part of Jilin University (吉林大學)) in July 1999.

CHEN Xiao Hong (陳小紅), aged 52, was appointed as Acting Chief Financial Officer of the Company in October 2016. Ms. CHEN was appointed as the Financial Controller of the Company in September 2009 and Vice President of Finance of the Company in July 2014. Ms. CHEN is responsible for corporate finance, investor relations and financial management of our Group. She has over 10 years of experience in finance management.

Ms. CHEN has accepted Certified General Accountants Association of Canada (CGA) course study and professional manager training in Peking University (北京大學). Ms. CHEN received her bachelor's degree in meteorology from Beijing Institute of Meteorology (北京氣象學院).

COMPANY SECRETARY

LAU Yee Wa (劉綺華), aged 46, has been appointed as our Company Secretary since August 2018.

Ms. LAU is a Senior Manager of the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated Business, Corporate and Investor Services. Ms. LAU has over 20 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies.

Ms. LAU is a Chartered Secretary and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

She holds a bachelor's degree in business administrative management from University of South Australia.

Directors' Report

The Board is pleased to present its report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the development and operation of children's online entertainment destination and other businesses in the PRC. Details of the principal activities of the Group are set out in note 14 to the section headed "Notes to the Financial Statements" of this annual report. The analysis of the Group's revenues and contribution to results by business segments are set out in note 5 to the section headed "Notes to the Financial Statements" of this annual report. There were no other significant changes in the nature of the Group's principal activities during the year ended 31 December 2018.

BUSINESS REVIEW AND KEY FINANCIAL PERFORMANCE INDICATORS

A review of the business of the Group during the year ended 31 December 2018 (including particulars of important events affecting the Company that have occurred during the year ended 31 December 2018, an analysis of the Group's performance during the year ended 31 December 2018 using financial key performance indicators and a discussion on the Group's future business development) is provided in the sections headed "Chairman Letter" and "Management Discussion and Analysis" of this annual report. A description of the principal risks and uncertainties that the Group may be facing and compliance with relevant laws and regulations which have a significant impact on the Group can be found in this directors' report. In addition, the financial risk management objectives and policies of the Group are available in note 3 to the section headed "Notes to the Financial Statements" of this annual report. These discussions form part of this directors' report.

Considering the principal activities of the Group, less destruction has been made directly to the environment, but protecting the environment has always been essential to the Group and has guided our actions to minimize the impact of the Group. Going forward, continuous efforts will be made by the Group and our employees in promoting sustainability in environment, social and corporate governance.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the sections headed "Consolidated Income Statement", "Consolidated Statement of Comprehensive Income", "Consolidated Balance Sheet", "Consolidated Statement of Changes in Equity" and "Consolidated Statement of Cash Flows" of this annual report.

DIVIDENDS

The Board recommended the payment of a special dividend of HK$0.021 (equivalent to approximately RMB0.018) per Share for the year ended 31 December 2018, subject to the approval of the Shareholders at the AGM to be held on Friday, 28 June 2019. The proposed dividend is expected to be payable on Wednesday, 31 July 2019 to the Shareholders whose names appear on the Register of Members as of Wednesday, 10 July 2019.

DIVIDEND POLICY

The Group adopted a dividend policy (the "**Dividend Policy**") on 20 December 2018. A summary of this policy is disclosed below.

In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value.

The Company does not have any pre-determined dividend payout ratio. The Board has the discretion to declare and distribute dividends to the Shareholders subject to the Articles of Association and all applicable laws and regulations and factors, including, inter alia, the Group's financial results, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of Shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant.

The Dividend Policy will be reviewed by the Board as appropriate from time to time.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the upcoming AGM, the Register of Members will be closed from Tuesday, 25 June 2019 to Friday, 28 June 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 June 2019.

In addition, subject to the Shareholders' approval of the proposed special dividend at the AGM, the Register of Members will be closed from Monday, 8 July 2019 to Wednesday, 10 July 2019, both days inclusive, for the purpose of ascertaining the Shareholders' entitlement to the proposed special dividend. In order to qualify for the proposed special dividend, all transfers documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, no later than 4:30 p.m. on Friday, 5 July 2019.

USE OF PROCEEDS FROM THE COMPANY'S GLOBAL OFFERING

The Shares of the Company were listed on the main board of the Stock Exchange on 10 April 2014 with net proceeds from the initial public offering of approximately RMB1,121.2 million, after deducting underwriting fees and commissions and other expenses paid by the Company in connection with the initial public offering.

As of 31 December 2017, unutilised proceeds from the abovementioned issuances amounted to RMB428.1 million. During the year ended 31 December 2018, a total of RMB16.3 million had been utilised in accordance with the intended use as disclosed in the Prospectus, in particular, approximately RMB8.0 million had been utilised to fund our further expansion into the online education and e-learning market on both PC and mobile and approximately RMB8.3 million had been utilised to fund the expansion of our offline product offerings. Unutilised proceeds from the aforementioned issuances as of 31 December 2018, being RMB411.8 million are intended to be applied in the manner consistent with the intended use as disclosed in the Prospectus in the coming financial year.

FINANCIAL SUMMARY

The Company has been listed on the Main Board of the Stock Exchange since 10 April 2014. A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in the section headed "Financial Summary" of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY AND EQUIPMENT

Detail of movements in the property and equipment of the Group during the year ended 31 December 2018 are set out in note 18 to the section headed "Notes to the Financial Statements" of this annual report.

SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

Details of movements in the Company's share capital and share incentive schemes are set out in notes 26 and 28 to the section headed "Notes to the Financial Statements" of this annual report and the below paragraph headed "Equity-linked Agreements/Share Incentive Schemes", respectively.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders, under the Articles of Association, although there are no restrictions against such rights under the laws in the Cayman Islands being the jurisdiction in which the Company is incorporated.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2018, the Company repurchased a total of 67,806,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$34,049,490. All the repurchased Shares were subsequently cancelled. Particulars of the repurchases during the year ended 31 December 2018 are as follows:

Month	Number of Shares repurchased	Purchase price per share Highest (HK$)	Lowest (HK$)	Aggregate consideration (before expenses) (HK$)
January	7,000,000	0.530	0.500	3,644,240
March	1,756,000	0.470	0.455	820,930
May	7,368,000	0.600	0.520	4,224,860
June	13,070,000	0.590	0.550	7,557,680
August	2,200,000	0.490	0.465	1,056,520
September	11,692,000	0.490	0.460	5,605,880
October	16,654,000	0.475	0.425	7,545,720
November	5,800,000	0.460	0.435	2,583,800
December	2,266,000	0.460	0.435	1,009,860
Total	67,806,000			34,049,490

The Directors believe that the repurchases of Shares are in the best interests of the Company and its Shareholders and would lead to an enhancement of the earnings per Share. Save as disclosed above, neither the Company nor any member of the Group has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in note 27 to the sections headed "Notes to the Financial Statements" and "Consolidated Statement of Changes in Equity" of this annual report, respectively.

DISTRIBUTABLE RESERVES

For the year ended 31 December 2018, the Company had no distributable reserves.

CHARITABLE CONTRIBUTIONS

The Group had no charitable contributions during the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group consisted of end users/customers from online entertainment business and other businesses of the Group.

For the year ended 31 December 2018, the top five sources of cash proceeds from sales of physical and virtual prepaid cards and sales of AoCoins through other payment channels accounted for 91.1% of our total cash proceeds from these sales.

The top source of cash proceeds from these sales for the year ended 31 December 2018 was our online payment channel and accounted for 75.1% of our total cash proceeds from these sales.

None of the Directors, their close associates or any Shareholders that, to the knowledge of the Directors, own more than 5% of the Company's issued share capital had any interest in any of the five largest revenue contributors during the year ended 31 December 2018.

For the year ended 31 December 2018, charges from the five largest suppliers accounted for 23.3% of our cost of revenues.

The charges from the largest supplier accounted for 6.5% of our cost of revenues.

None of the Directors, any of their close associates or any Shareholders that, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers during the year ended 31 December 2018.

For the year ended 31 December 2018, there was no material dispute between the Group and its suppliers and/or customers.

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this annual report are:

Executive Directors

Mr. DAI Jian *(Chairman and Chief Executive Officer)*
Mr. WU Lili
Mr. LI Chong
Mr. WANG Xiaodong

Independent non-executive Directors

Ms. LIU Qianli
Dr. WANG Qing
Mr. MA Xiaofeng

The Board has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and as at the date of this annual report still considers them to be independent.

ROTATION AND RE-ELECTION OF DIRECTORS

In accordance with article 84(1) of the Articles of Association, Mr. DAI Jian, Mr. LI Chong and Ms. LIU Qianli will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

The Board recommended the re-appointment of the Directors standing for re-election at the AGM.

CHANGES IN DIRECTORS' INFORMATION

The Company is not aware of any changes in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules for the year ended 31 December 2018.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management members of the Group are set out in the section headed "Biographies of the Directors and Senior Management" of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the aforesaid retiring Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any member of the Group within one year without payment of compensation, other than under normal statutory obligations.

Save as disclosed in note 41 to the section headed "Notes to the Financial Statements" of this annual report, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors which are required to be disclosed under the Listing Rules, or section 383 of the Companies Ordinance or the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 622G, Laws of Hong Kong). Save as disclosed above, none of the Directors has a service contract with the Company or any member of the Group which is not determinable within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any member of the Group was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2018.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

None of the Controlling Shareholders or his/its subsidiary has or had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which any member of the Group was a party during the year ended 31 December 2018.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors and those of the five highest paid individuals for the year ended 31 December 2018 are set out in note 41 and note 9 to the section headed "Notes to the Financial Statements" of this annual report, respectively. The remunerations of the Directors are determined based on the market price and contribution made by such Directors to the Company. There has been no arrangement under which any Director has waived or agreed to waive any emoluments during the year ended 31 December 2018.

PERMITTED INDEMNITY

Permitted indemnity provisions (as defined in section 469 of the Companies Ordinance) for the benefit of the Directors are currently in force and were in force during the year ended 31 December 2018. Pursuant to article 164(1) of the Articles of Association, each Director and the officers of the Company shall be entitled to be indemnified by the Company out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur or about the execution and discharge of his/her duties or in relation thereto.

The Company has maintained appropriate Directors' and officers' liability insurance coverage for the Directors in respect of any legal actions which may be taken against the Directors in the execution and discharge of their duties or in relation thereto during the year ended 31 December 2018.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2018.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name	Position	Relevant company (including associated corporation)	Capacity/Nature of interest	Number of Shares/ underlying Shares held	Approximate percentage of shareholding[9]
DAI Jian (戴堅)[1]	Chairman, executive Director and Chief Executive Officer	The Company	Founder of a discretionary trust Interest of controlled corporation	769,460,000(L)[8]	27.40%(L)
		The Company	Beneficial owner	10,000,000(L)	0.36%(L)
WU Lili (吳立立)[2]	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	447,112,000(L)	15.92%(L)
LI Chong (李沖)[3]	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.24%(L)
WANG Xiaodong (王曉東)[4]	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	74,544,000(L)	2.65%(L)
LIU Qianli (劉千里)[5]	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
WANG Qing (王慶)[6]	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
MA Xiaofeng (馬肖風)[7]	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)

Notes:

(1) Mr. DAI established DAE Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of DAE Trust is TMF (Cayman) Ltd., and independent third party and sole shareholder of DAE Holding Investments Limited, a trust holding company owns 100% of equity interest in Stmoritz Investment Limited. In addition, 10,000,000 RSUs were granted to Mr. DAI under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares and subject to vesting. As at 31 December 2018, all the RSUs granted to Mr. DAI were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme.

(2) Mr. WU established WHZ Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WHZ Trust is TMF (Cayman) Ltd., and independent third party and sole shareholder of WHEZ Holding Ltd., a trust holding company owns 100% of equity interest in Bright Stream Holding Limited.

(3) Mr. LI established The Zhen Family Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of The Zhen Family Trust is TMF (Cayman) Ltd., and independent third party and sole shareholder of Golden Water Management Limited, a trust holding company owns 100% of equity interest in LNZ Holding Limited.

(4) Mr. WANG established WSW Family Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WSW Family Trust is TMF (Cayman) Ltd., and independent third party and sole shareholder of Charlotte Holding Limited, a trust holding company owns 100% of equity interest in Angel Wang Holding Limited.

(5) Ms. LIU was interested in 200,000 RSUs granted to her under the Pre-IPO RSU Scheme entitling her to receive 200,000 Shares subject to vesting. As at 31 December 2018, all the RSUs granted to Ms. LIU were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme.

(6) Dr. WANG was interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As at 31 December 2018, all the RSUs granted to Dr. WANG were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme.

(7) Mr. MA was interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As at 31 December 2018, all the RSUs granted to Mr. MA were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme.

(8) The Letter "L" denotes the person's Long position in such Shares.

(9) These percentages are calculated on the basis of 2,808,452,000 Shares in issue as at 31 December 2018, since the 500,000 Shares repurchased on 20 December 2018 and the 800,000 Shares repurchased on 21 December 2018 were not cancelled until 2 January 2019.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company and their respective associates had registered an interest or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that are required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2018, the following persons have interests or short positions in the Shares or underlying Shares or debentures of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding in the total issued share capital of the Company[8]
TMF (Cayman) Ltd.[1]	Trustee of trusts	1,519,888,000(L)[7]	54.12%(L)
DAE Holding Investments Limited[2]	Trust holding company	769,460,000(L)	27.40%(L)
Stmoritz Investment Limited[2]	Registered owner	769,460,000(L)	27.40%(L)
DAI Jian (戴堅)[2][5]	Founder of a discretionary trust Interest of controlled corporation	769,460,000(L)	27.40%(L)
	Beneficial owner	10,000,000(L)	0.36%(L)
Bright Stream Holding Limited[3]	Registered owner	447,112,000(L)	15.92%(L)
WHEZ Holding Ltd.[3]	Trust holding company	447,112,000(L)	15.92%(L)
WU Lili (吳立立)[3]	Founder of a discretionary trust	447,112,000(L)	15.92%(L)
LNZ Holding Limited[4]	Registered owner	203,304,000(L)	7.24%(L)
Golden Water Management Limited[4]	Trust holding company	203,304,000(L)	7.24%(L)
LI Chong (李沖)[4]	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.24%(L)
The Core Trust Company Limited[6]	Trustee of a trust	186,068,000(L)	6.63%(L)

Notes:

(1) TMF (Cayman) Ltd. is the trustee of DAE Trust, WHZ Trust, The Zhen Family Trust and WSW Family Trust.

(2) The entire share capital of Stmoritz Investment Limited is wholly-owned by DAE Holding Investments Limited and ultimately owned by TMF (Cayman) Ltd. As the trustee of the DAE Trust, which is a discretionary trust set up by Mr. DAI on 27 December 2013 for the benefit of himself and his family members, and Mr. DAI is a settlor and protector. Mr. DAI (as founder of the DAE Trust), DAE Holding Investments Limited and TMF (Cayman) Ltd. are taken to be interested in 769,460,000 Shares held by Stmoritz Investment Limited (without taking into account any Shares to be issued upon exercise of any share options and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or Post-IPO RSU Scheme) pursuant to Part XV of the SFO.

(3) The entire share capital of Bright Stream Holding Limited is wholly-owned by WHEZ Holding Ltd. and ultimately owned by TMF (Cayman) Ltd. as the trustee of the WHZ Trust, which is a discretionary trust set up by Mr. WU on 27 December 2013 for the benefit of himself and his family members, and Mr. WU is a settlor and protector. Mr. WU (as founder of the WHZ Trust), WHEZ Holding Ltd. and TMF (Cayman) Ltd. are taken to be interested in 447,112,000 Shares held by Bright Stream Holding Limited (without taking into account any Shares to be issued upon exercise of any share options and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or Post-IPO RSU Scheme) pursuant to Part XV of the SFO.

(4) The entire share capital of LNZ Holding Limited is owned by Golden Water Management Limited, which is wholly-owned by TMF (Cayman) Ltd. as the trustee of The Zhen Family Trust, which is a discretionary trust set up by Mr. LI on 27 December 2013 for the benefit of himself and his family members, and Mr. LI is a settlor and protector. Mr. LI (as founder of The Zhen Family Trust), Golden Water Management Limited and TMF (Cayman) Ltd. are taken to be interested in 203,304,000 Shares held by LNZ Holding Limited (without taking into account any Shares to be issued upon exercise of any share options and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or Post-IPO RSU Scheme) pursuant to Part XV of the SFO.

(5) 10,000,000 RSUs were granted to Mr. DAI under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares subject to vesting. As at 31 December 2018, all the RSUs granted to Mr. DAI were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme.

(6) The Core Trust Company Limited is the trustee to administer the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme.

(7) The Letter "L" denotes the person's Long position in such Shares.

(8) These percentages are calculated on the basis of 2,808,452,000 Shares in issue as at 31 December 2018, since the 500,000 Shares repurchased on 20 December 2018 and the 800,000 Shares repurchased on 21 December 2018 were not cancelled until 2 January 2019.

Save as disclosed above, as at 31 December 2018, the Directors and the Chief Executive of the Company are not aware of any other person who had an interest or short position in the Shares or underlying Shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

EQUITY-LINKED AGREEMENTS/SHARE INCENTIVE SCHEMES

In order to incentivize the Directors, senior management and other employees of the Group for their contribution to the Group and to attract and retain suitable personnel of our Group, the Company adopted the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme, respectively.

Summaries of the terms of the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme have been disclosed in the sections headed "Statutory and General Information — Pre-IPO Share Option Scheme", "Statutory and General Information — Pre-IPO RSU Scheme" and "Statutory and General Information — Post-IPO RSU Scheme" in Appendix IV to the Prospectus, the annual reports of the Company of the past four years, the circular of the Company dated 24 April 2015 and the supplementary circular of the Company dated 14 May 2015.

Outstanding Share Options

During the year ended 31 December 2018, 40,000 options has been lapsed and no option has been cancelled. As at 31 December 2018, there were a total of 1,344,000 Options outstanding. If all the outstanding Options are exercised, there would be a dilution effect on the issued share capital of the Company of approximately 0.05% as at 31 December 2018. Save as set out above, no further Options have been or would be granted by the Company after the Listing pursuant to the Pre-IPO Share Option Scheme.

The Company appointed The Core Trust Company Limited as the trustee and Duoduo Holding Limited, a company incorporated in the BVI and an independent third party, as the nominee to administer the Pre-IPO Share Option Scheme pursuant to its scheme rules. As at 31 December 2018, 16,000 Shares underlying the Options had been allotted and issued to Duoduo Holding Limited.

Movements of the Options under the Pre-IPO Share Option Scheme during the year ended 31 December 2018

Name of Grantees	Nature	Number of Shares represented by Options as at 1 January 2018	Date of grant	Exercise price (US$)	Exercised during the year	Lapsed during the year	Number of Shares represented by Options as at 31 December 2018	Vesting Period	Exercise period	Approximate percentage of issued Shares of the Company(3)
Directors	—	—	—	—	—	—	—	—	—	—
Senior management member of the Company	—	—	—	—	—	—	—	—	—	—
Other employees of the Group										
15 employees	Options	962,000	20 June 2010	0.0090	—	40,000	922,000	Note 1	Note 2	0.03%
2 employees	Options	422,000	15 January 2011	0.0090	—	—	422,000	Note 1	Note 2	0.02%
	Sub-total	1,384,000			—	40,000	1,344,000			0.05%
Total	Options	1,384,000			—	40,000	1,344,000			0.05%

Notes:

(1) The vesting period of the Options under the Pre-IPO Share Option Scheme is 36 months from the date of grant of such Options.

(2) The exercise period of the Options under the Pre-IPO Share Option Scheme is 10 years after the date of grant of such Options.

(3) Approximate percentage of issued Shares of the Company is calculated by dividing the Options held by the relevant grantees by the issued and outstanding Shares of the Company (as enlarged by the exercise in full of all the Options granted under the Pre-IPO Share Option Scheme) as at 31 December 2018.

As disclosed in the section headed "Waivers from Strict Compliance with the Listing Rules and Exemption from Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver and Exemption in relation to the Pre-IPO Share Option Scheme" in the Prospectus, the Company had applied for, and had been granted, an exemption from the SFC from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous) Ordinance, and a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules in connection with the particulars of the grantees under the Pre-IPO Share Option Scheme.

Further details of the Pre-IPO Share Option Scheme are set out in note 28 to the section headed "Notes to the Financial Statements" of this annual report and the Prospectus.

Outstanding RSUs

1) Pre-IPO RSU Scheme

As at 31 December 2018, there were no outstanding RSU under the Pre-IPO RSU Scheme.

Prior to the Listing on 10 April 2014, the Company appointed The Core Trust Company Limited as the trustee (the "**Pre-IPO RSU Trustee**") and Peto Holding Limited, a company incorporated in the BVI and an independent third party, as its nominee (the "**Pre-IPO RSU Nominee**") to administer the Pre-IPO RSU Scheme. To increase the public float, the Company further engaged The Core Services Limited, as the new trustee (the "**New RSU Trustee**"), and ZEA Holding Limited, a company incorporated in the BVI and an independent third party, as the new nominee (the "**New RSU Nominee**"), to administer certain RSUs granted to the Directors and the senior management under our Pre-IPO RSU Scheme on 10 June 2014. As at 31 December 2018, IPO RSU Nominee and the Pre-IPO RSU Nominee holds 92,000,000 Shares and the New RSU Nominee hold 24,098,000 Shares respectively, underlying the RSUs granted under the Pre-IPO RSU Scheme for the benefit of eligible participants pursuant to the Pre-IPO RSU Scheme.

2) Post-IPO RSU Scheme

As at 31 December 2018, there were a total of 6,371,500 RSUs outstanding under the Post-IPO RSU Scheme. If all the outstanding RSUs under the Post-IPO RSU Scheme are vested according to the relevant vesting schedules, there would be a dilution effect on the issued share capital of the Company of approximately 0.2% as at 31 December 2018.

The Company appointed The Core Trust Company Limited as the trustee and Baiduo Investment Holding Limited, a company incorporated in the BVI and an independent third party, as the nominee to administer the Post-IPO RSU Scheme pursuant to its scheme rules. As at 31 December 2018, Baiduo Investment Holding Limited holds 94,052,000 Shares underlying the RSUs granted under the Post-IPO RSU Scheme for the benefit of eligible participants pursuant to the Post-IPO RSU Scheme.

Movements of the RSUs under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme during the year ended 31 December 2018

Name of Grantees	Nature	Number of Shares underlying the RSUs as at 31 December 2017	Granted during the year	Date of grant	Consideration (US$)	Vested during the year	Lapsed during the year	Number of Shares underlying the RSUs as at 31 December 2018	Vesting Schedule	Approximate percentage of issued Shares of the Company[6]
(1) Pre-IPO RSU scheme										
(a) Directors										
DAI Jian (戴堅)	RSUs	750,000	–	18 February 2014	–	750,000	–	–	Note 1	–
	Sub-total	750,000	–		–	750,000	–			–
(b) Senior Management										
CHEN Xiao Hong (陳小紅)	RSUs	60,000	–	18 February 2014	–	60,000	–	–	Note 1	–
	Sub-total	60,000	–		–	60,000	–	–		–
(c) Other grantees (other than the grantees disclosed in paragraphs 1a and 1b above)										
4 employees	RSUs	78,000	–	18 February 2014	–	78,000	–	–	Note 1	–
	Sub-total	78,000	–		–	78,000	–	–		–
	Total	888,000	–		–	888,000	–	–		–
(2) Post-IPO RSU Scheme										
(a) Senior management member(s) of the Company										
DENG Ling Hua (鄧凌華)	RSUs	3,000,000	–	10 July 2015	–	3,000,000	–	–	Note 3	–
CHEN Xiao Hong (陳小紅)	RSUs	1,050,000	–	10 July 2015	–	600,000	–	450,000	Note 4	0.02%
	Sub-total	4,050,000	–		–	3,600,000	–	450,000		0.02%
(b) Other grantees (other than the grantees disclosed in paragraph 2a above)										
70 employees	RSUs	16,044,000	–	10 July 2015	–	9,323,250	959,250	5,761,500	Note 4	0.21%
6 employees	RSUs	6,100,000	–	10 November 2017	–	4,340,000	1,600,000	160,000	Note 5	0.01%
	Sub-total	22,144,000	–		–	13,663,250	2,559,250	5,921,500		0.22%
	Total	26,194,000	–		–	17,263,250	2,559,250	6,371,500		0.24%

Notes:

(1) The RSUs granted to the subjected RSU grantees under the Pre-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:

- 20% of the RSUs at 12 months after the date of grant;
- 20% of the RSUs at 24 months after the date of grant;
- 30% of the RSUs at 36 months after the date of grant; and
- 30% of the RSUs at 48 months after the date of grant.

(2) The RSUs granted to the subjected RSU grantees under the Pre-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:

- 30% of the RSUs at 12 months after the date of grant;
- 30% of the RSUs at 24 months after the date of grant; and
- 40% of the RSUs at 36 months after the date of grant.

(3) The RSUs granted to the subjected RSU grantee under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:

- 20% of the RSUs on 21 November 2015;
- 20% of the RSUs on 21 November 2016; and
- 7.50% of the RSUs shall vest over 8 three consecutive months periods starting at the end of 3 month period after 21 November 2016 until 100% is vested.

(4) For details of the vesting schedules for the RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme, please refer to the announcement of the Company dated 10 July 2015.

(5) For details of the vesting schedules for the RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme, please refer to the announcement of the Company dated 10 November 2017.

(6) Approximate percentage of issued Shares of the Company is calculated by dividing the RSUs held by the relevant grantees by the issued and outstanding Shares of the Company (as enlarged by the vest in full of all the RSUs granted under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme) as at 31 December 2018.

Further details of the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme are set out in note 28 to the section headed "Notes to the Financial Statements" of this annual report and the Prospectus.

Equity-linked Agreements

On 20 April 2016, the Company entered into a consultancy agreement (the "**Consultancy Agreement**") with Hong Kong Zhixin Financial News Agency Limited (香港智信財經通訊社有限公司) (the "**Consultant**"), pursuant to which, the Company engaged the Consultant to provide the investor relations services. As a consideration for such services, the Company has agreed to (i) pay a monthly fee of HK$30,000 (equivalent to a total amount of HK$1,080,000) during the term of the Consultancy Agreement to the Consultant and (ii) grant options (the "**Consultant Options**") to the Consultant to subscribe for an aggregate of 10,000,000 Shares at the exercise price of HK$0.70 per Share during the three years ending on 19 April 2019 (the "**Consultant Option Period**").

The Consultant will be entitled to exercise the Consultant Options (or part thereof) by serving an option exercise notice to the Company together with the exercise price payable in respect of the number of Shares to be issued upon exercise of such Consultant Options (or such part thereof), upon the following conditions are met:

(a) up to 30% of the Consultant Options become exercisable, if at any time during the Consultant Option Period, the market capitalization of the Company exceeds HK$2.6 billion;

(b) up to 60% of the Consultant Options become exercisable, if at any time during the Consultant Option Period, the market capitalization of the Company exceeds HK$3.1 billion; and

(c) up to 100% of the Consultant Options become exercisable, if at any time during the Consultant Option Period, the market capitalization of the Company exceeds HK$3.7 billion.

As at 31 December 2018, none of the above conditions has been met and no Consultant Option was exercised. In accordance with the terms of the Consultancy Agreement, the Consultancy Agreement has been terminated with effect from 20 January 2018 and all the Consultant Options have lapsed on 20 April 2018.

Save as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2018.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above under the paragraphs headed "Equity-linked Agreements/Share Incentive Schemes" and "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company" above, at no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any of the Directors or chief executive of the Company or their respective associates, or were any such rights exercised by them; nor was the Company or a specified undertaking (within the meaning of the Companies Ordinance) of the Company, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

The Board confirmed that none of the related party transactions set out in note 38 to the section headed "Notes to the Financial Statements" of this annual report constituted connected transactions or continuing connected transaction under Chapter 14A of the Listing Rules during the year ended 31 December 2018. Further, save as disclosed below, the Group has not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this annual report pursuant to the Listing Rules during the year ended 31 December 2018. The Directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Non-exempt Continuing Connected Transactions

Reference is made to the Prospectus, pages 67 to 73 of the Company's interim report (the "**2015 Interim Report**") for the six months ended 30 June 2015, pages 48 to 54 of the Company's 2016 Annual Report, page 68 of the Company's interim report (the "**2017 Interim Report**") for the six months ended 30 June 2017, pages 50 to 53 of the Company's 2017 Annual Report and page 84 of the Company's interim report for the six months ended 30 June 2018 (the "**2018 Interim Report**") in relation to the Contractual Arrangements. The Company wishes to provide further information in relation to the Contractual Arrangements for the year ended 31 December 2018.

1) **Reasons for using the Contractual Arrangements**

   Details of the reasons for using the Contractual Arrangements are set out in sections headed "Contractual Arrangements" and "Connected Transactions — Non-exempt Continuing Connected Transactions" in the Prospectus.

2) **Operating entity of the Group controlled through the Contractual Arrangements**

   The online children's interactive entertainment and e-learning services provided by the Group are respectively prohibited and restricted to foreign investment in the PRC pursuant to the applicable PRC laws and regulations. Accordingly, the Group has entered into the Contractual Arrangements narrowly tailored to provide the Group with supervision and control over Guangzhou Baitian which holds the licenses and regulatory approvals that are essential to the Group's business operations.

During the year ended 31 December 2018, the following entity was controlled by the Group through the Contractual Arrangements:

Name of the PRC Operating Entities	Kind of legal entity/place of establishment and operation	Registered owners	Business activities
As at 31 December 2018			
Guangzhou Baitian Information Technology Ltd.* (廣州百田信息科技有限公司)	Limited liability company/ the PRC	46.92% by Mr. DAI Jian 28.37% by Mr. WU Lili 12.90% by Mr. LI Chong 7.08% by Mr. CHEN Ziming 4.73% by Mr. WANG Xiaodong	Operating the virtual worlds and e-learning products of the Group

On 9 July 2015, Guangzhou Baitian established Guangzhou Tianti which is principally engaged in providing software and information technology services to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

On 5 January 2016, Guangzhou Baitian established Guangzhou Baiman which is principally engaged in providing animation creation and production services to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

On 15 June 2017, Guangzhou Baitian established Xiaoyunxiong which is principally engaged in providing education service for children to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

On 20 September 2016, Guangzhou Baiman acquired the whole equity interest in Beijing Xingmen which is principally engaged in providing animation creation and production services to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

On 7 August 2015 and 11 August 2015, Beijing Xingmen acquired the whole equity interest in Beijing Guli and Beijing Fenghuo Tianyuan, respectively, both of which are principally engaged in providing animation creation and production services to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

On 28 July 2017, Guangzhou Baiman established Huoerguosi Baiman which is principally engaged in TV, film and other media production to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

None of Guangzhou Tianti, Guangzhou Baiman, Xiaoyunxiong, Beijing Xingmen, Beijing Guli, Beijing Fenghuo Tianyuan or Huoerguosi Baiman is a party to any of the Contractual Arrangements. For details, please see note 14 to the section headed "Notes to the Financial Statements" of this annual report.

3) **Revenue and Assets subject to the Contractual Arrangements**

The revenue, profit and total assets subject to the Contractual Arrangements are set out as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Revenue	**238,208**	274,482
Profit for the year	**131,294**	39,601

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Total assets	**1,029,303**	896,531

For the year ended 31 December 2018, the revenue and profit subject to the Contractual Arrangements amounted to approximately 83.7% (2017: 88.6%) and 120.4% (2017: 149.7%) of the revenue and profit from continuing operations for the year of the Group, respectively.

As at 31 December 2018, the total assets subject to the Contractual Arrangements amounted to approximately 62.0% (2017: 55.0%) of the total assets of the Group.

Transactions carried out during the year ended 31 December 2018, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

- For the year ended 31 December 2018, the service fees provided by Guangzhou WFOE to Guangzhou Baitian pursuant to the Contractual Arrangements amounted to RMB4,660,194 (2017: RMB3,883,495).

4) **Contractual Arrangements in place**

For the year ended 31 December 2018, the Contractual Arrangements consist of four agreements: (a) the exclusive business consultation and service agreement, (b) the proxy agreement, (c) the share pledge agreement and (d) the exclusive option agreement. For the year ended 31 December 2018, there were no new Contractual Arrangements entered into, renewed or reproduced among Guangzhou Baitian, its shareholders and Guangzhou WFOE. There was no material change in the Contractual Arrangements under which they were adopted for the year ended 31 December 2018.

Further details of the major terms of the Contractual Arrangements have been set out in the sections headed "Connected Transactions" and "Contractual Arrangements" in the Prospectus, "Directors' Report — Connected Transactions" in the 2016 Annual Report and "Other Information — Compliance with the Qualification Requirement" in the 2017 Interim Report, respectively.

5) **Risks associated with the Contractual Arrangements and actions taken by the Company to mitigate the risks associated with the Contractual Arrangements**

Details of the risks associated with the Contractual Arrangements and actions taken by the Company to mitigate the risks associated with the Contractual Arrangements are set out in section headed "Other Information — Requirements related to Contractual Arrangements (other than Relevant Foreign Ownership Restrictions)" in the 2015 Interim Report.

6) **The extent to which the Contractual Arrangements relating to requirements other than the foreign ownership restriction (the "Qualification Requirements")**

As at 31 December 2018, the Company has no update to disclose in relation to the Qualification Requirements as required under the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008 and 6 February 2016. Despite the lack of clear guidance or interpretation on the Qualification Requirements, the Group has been gradually building up its track record of overseas business operations to comply with the Qualification Requirements. Details of the extent to which the Contractual Arrangements relating to requirements other than the foreign ownership restriction are set out in section headed "Other Information — Requirements related to Contractual Arrangements (other than Relevant Foreign Ownership Restrictions)" in the 2015 Interim Report.

The Group has worked closely and will continue to work closely with our external legal advisors and the management of the PRC Operating Entity to monitor the regulatory environment and developments in PRC laws and regulations to mitigate the risks associated with the Contractual Arrangements. If our corporate and contractual structures were deemed by the competent authorities to be illegal, either in whole or in part, the Company will modify such structures to comply with regulatory requirements.

7) **Unwinding of the Contractual Arrangements**

Up to the date of this annual report, there has not been any unwinding of any Contractual Arrangements, nor has there been any failure to unwind any Contractual Arrangements when the restrictions that led to the adoption of the Contractual Arrangements are removed.

8) Waiver from the Stock Exchange

As disclosed in the sections headed "Waivers from Strict Compliance with the Listing Rules and Exemption from Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver in respect of Non-exempt Connected Transactions" and "Connected Transactions" in the Prospectus, the Company had applied for, and had been granted a specific waiver to the Company from strict compliance with the continuing connected transactions requirements of Chapter 14A of the Listing Rules in respect of the Contractual Arrangements.

9) Directors' view

The Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the Group's legal structure and business operations, that such transactions are on normal commercial terms and are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

The independent non-executive Directors reviewed the Contractual Arrangements and confirmed that (i) the continuing connected transactions carried out during the year ended 31 December 2018 (the "**Continuing Connected Transactions**") have been entered into in the ordinary and usual course of business of the Group, (ii) the Continuing Connected Transactions have been entered into on normal commercial terms or better, (iii) the Continuing Connected Transactions have been entered into according to the Contractual Arrangements governing each of the Continuing Connected Transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole, (iv) no new agreements within the Group have been entered into from the Listing Date till the end of the year ended 31 December 2018, and (v) no dividends or other distributions have been made by Guangzhou Baitian to the relevant holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.

10) Auditor's view

Further, the Company's external auditor, PricewaterhouseCoopers ("**PwC**"), was engaged to report on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. PwC has issued its unqualified letter containing its findings and conclusions in respect of the Continuing Connected Transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules.

A copy of PwC's letter on the Continuing Connected Transactions of the Group for the year ended 31 December 2018 has been provided by the Company to the Stock Exchange.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company has identified principal risks and uncertainties that the Group faces with respect to economic risks, operational risks, regulatory risks, financial risks, and specific risks related to the Group's corporate structure. The Group's business, future results of operations and prospects could be materially and adversely affected by those risks and uncertainties. The following highlights the principal risks and uncertainties of the Group and it is not meant to be exhaustive. There may be other risks and uncertainties which are not known to the Group or which may not be material now but turn out to be material in the future.

Economic Risks

— A severe or prolonged downturn of the PRC economy.

— Negative effect on the operational, financing or investing activities of the Group due to fluctuations in foreign currency exchange rates, inflation, fluctuations of interest rates and other measures relating to financial policies in the PRC.

Operational Risks

— Failure to compete in the competitive environment which the Group operates in or to keep up with technological developments.

— If the Group fails to continuously strengthen its existing games and launch new games, or if its top games lose their popularity, the Group may not be able to retain existing players and attract new players, which will adversely affect the business and results of the operation of the Group.

Regulatory Risks

— Failure to adhere to laws, regulations and rules, or to obtain or maintain all applicable permits and approvals.

— Adverse effects arising from change in laws and regulations affecting the businesses of the Group.

Financial Risks

— Details of financial risks are set out in note 3 to the section headed "Notes to the Financial Statements" of this annual report.

Risks related to the Contractual Arrangements

— Details of risks related to the corporate structure of the Group are set out in the above paragraph headed "Risks associated with the Contractual Arrangements and actions taken by the Company to mitigate the risks associated with the Contractual Arrangements" above under the paragraph headed "Connected Transactions".

RELATED PARTY TRANSACTIONS

Details of related party transactions during the year ended 31 December 2018 are set out in note 38 to the section headed "Notes to the Financial Statements" of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Board confirms that the Company has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 31 December 2018, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

RETIREMENT BENEFIT SCHEME

Details of retirement benefit scheme of the Group are set out in note 9 to the section headed "Notes to the Financial Statements" of this annual report.

IMPORTANT EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2018

There were no other significant changes in the Group's financial position or from the information disclosed under management discussion and analysis in this annual report for the year ended 31 December 2018.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of this annual report.

MATERIAL LITIGATION AND COMPLIANCE MATTERS

For the year ended 31 December 2018, the Company was not involved in any material litigation or arbitration and the Directors were not aware of any material litigation or claims that were pending or threatened against the Company.

For the year ended 31 December 2018 and up to the date of this report, to the best knowledge of the Directors, the Group complied with applicable laws, rules and regulations in all material respects.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As one of the top online entertainment destinations designed for young teens in China, the Group's businesses do not involve in production-related air, water and land pollutions which are regulated by the applicable laws and regulations in the PRC. No hazardous waste was produced by the Group in its course of business in the year ended 31 December 2018.

The Group complies with the relevant laws and regulations in environmental protection and impact on the environment has always been a major focus of the Group. The Group adheres to the principle and practice of recycling and conservation. The Group encourages all employees to be eco-friendly and participate in energy and resources saving, such as encouraging two-sided printing and the use of scratch papers, saving water and electricity to reduce energy consumption. The Group will continually make efforts to put emphasis on environmental protection and sustainable development.

For details, please see the section headed "Environmental, Social and Governance Report" of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended 31 December 2018, as far as the Directors are aware, the Group has complied with all relevant laws and regulations that have significant impact on the Group. For details of such laws and regulations, please refer to the section headed "Change in the Contractual Arrangements and/or Circumstances and Latest Regulatory Development in Using Contractual Arrangements" of this annual report.

STAFF RELATIONSHIP AND HUMAN RESOURCES

The Company views employees as our most valuable asset. The Company recognizes that the skill, dedication and enthusiasm of our team are critical to our success in the face of ever-evolving market challenges. The Company strives to build an energetic working environment and to offer competitive remuneration packages, various incentives, promotion opportunities and training courses to its staff.

Workplace Quality

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics. The Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behavior, employees' rights and benefits. The Group has established and implemented policies that promote a harmony and respectful workplace.

The Group believes that employees are the valuable assets of an enterprise and regards human resources as its corporate wealth. We provide on-the-job training and development opportunities to enhance our employees' career progression. Through different training, staff's professional knowledge in corporate operations, occupational and management skills are enhanced.

Health and Safety

The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, training and guidelines are implemented to ensure the working environment is healthy and safe. The Group provides health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues.

The Group values the health and well-being of staff. In order to provide employees with health coverage, staffs are entitled to medical insurance benefits as well as other health awareness programs.

For details, please see the section headed "Environmental, Social and Governance Report" of this annual report.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's auditing, internal controls and financial reporting matters with the management. The Audit Committee has also reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the Shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to, the Shares, they are advised to consult an expert.

APPRECIATION

The Group would like to express its appreciation to all the staff for their outstanding contribution towards the Group's development. The Board wishes to sincerely thank the management for their dedication and diligence, and they are the key factors for the Group to continue its success in future. Also, the Group wishes to extend its gratitude for the continued support from its Shareholders, customers, and business partners. The Group will continue to deliver sustainable business development, so as to meet its business objectives for 2019 and realize higher values for its Shareholders and other stakeholders.

AUDITOR

PricewaterhouseCoopers retired and a resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming AGM. There have been no other changes of auditor in the past three years.

ON BEHALF OF THE BOARD
DAI JIAN
Chairman, Chief Executive Officer and Executive Director

Hong Kong
28 March 2019

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board is committed to achieving high corporate governance standards.

Throughout the year ended 31 December 2018 (the "**Review Period**"), the Company has applied the principles and complied with all the code provision as set out in the Corporate Governance Code, save and except for code provision A.2.1 with details set out below.

Code provision A.2.1

Code provision A.2.1 of the CG Code provides that the responsibilities between the chairman and chief executive officer should be segregated and should not be performed by the same individual. Mr. DAI Jian currently acts as the chief executive officer ("**CEO**") and chairman of the Company ("**Chairman**"). Mr. DAI, as one of the founders of the Group, is instrumental to the Group's growth and business expansion since 2009. The Board believes that vesting the roles of both Chairman and CEO in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board further believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by the current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

The Company will continue to enhance its corporate governance practices to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the Corporate Governance Code and align with the latest development.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own securities dealing code to regulate Directors' dealings in the Company's securities and other matters covered by the Model Code.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the Review Period.

The Company has also established written guidelines no less exacting than the Model Code (the "**Employees Written Guidelines**") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the Review Period.

BOARD OF DIRECTORS

The Board of the Company comprises the following directors:

Executive Directors:

Mr. DAI Jian *(Chairman of the Board, Chief Executive Officer and Chairman of Nomination Committee)*
Mr. WU Lili *(Member of Remuneration Committee)*
Mr. LI Chong
Mr. WANG Xiaodong

Independent Non-executive Directors:

Ms. LIU Qianli *(Chairperson of Audit Committee and Member of Nomination Committee)*
Dr. WANG Qing *(Chairperson of Remuneration Committee and Member of Audit Committee)*
Mr. MA Xiaofeng *(Member of Audit Committee, Remuneration Committee and Nomination Committee)*

The biographical information of the Directors are set out in the section headed "Biographies of the Directors and Senior Management" of this annual report.

To the knowledge of the Directors, the Board members have no financial, business, family or other material relationship with each other.

Independent Non-executive Directors

During the Review Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Each of the three independent non-executive Directors has confirmed his/her independence and the Company considers each of them to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the Corporate Governance Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors is appointed for a specific term of three years and subject always to re-election as and when required under the Articles of Association. The Articles of Association requires that at each annual general meeting one-third of the directors for the time being (or, if the number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at an annual general meeting at least once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including independent non-executive Directors, shall bring a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors shall have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors shall keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

In accordance with A.6.5 of the Corporate Governance Code with regards to continuous professional development, directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

Records of training received by each of the existing Directors during the Review Period is summarized below:

Directors	Types of training
Executive Directors	
Mr. DAI Jian	C
Mr. WU Lili	C
Mr. LI Chong	C
Mr. WANG Xiaodong	B
Independent Non-Executive Directors	
Ms. LIU Qianli	B
Dr. WANG Qing	B, C
Mr. MA Xiaofeng	A, B, C

A Attending in-house briefing(s)

B Attending seminar(s) and training(s)

C Reading materials relating to directors' roles, functions and duties

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" of this annual report.

Audit Committee

The Company established the Audit Committee on 19 March 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code. The Audit Committee currently comprises three members namely, Ms. LIU Qianli (as Chairperson), Dr. WANG Qing and Mr. MA Xiaofeng (including one independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise). The primary duties of the Audit Committee are to assist the Board by providing an independent view of effectiveness of the financial reporting system, risk management and internal control systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

The Audit Committee held two meetings to review interim and annual financial results and reports in respect of the Review Period and significant issues on the financial reporting and compliance procedures, risk management and internal control systems, scope of work and appointment of external auditor, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the executive Directors during the Review Period.

Remuneration Committee

The Company established the Remuneration Committee on 19 March 2014 with written terms of reference in compliance with paragraph B1 of the Corporate Governance Code. The Remuneration Committee comprises three members, namely Dr. WANG Qing (as Chairperson), Mr. MA Xiaofeng and Mr. WU Lili. The primary duties of the Remuneration Committee include, but not limited to, the following (i) making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration; (ii) determining the specific remuneration package of all directors and senior management; and (iii) reviewing and approving performance based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of all the Directors and senior management of the Company during the Review Period.

Details of the remuneration of each Director of the Company for the year ended 31 December 2018 are set out in note 41 to the Consolidated Financial Statements contained in this Annual Report.

Nomination Committee

The Company established the Nomination Committee on 19 March 2014 with written terms of reference in compliance with paragraph A5 of the Corporate Governance Code. The Nomination Committee comprises three members namely, Mr. DAI Jian (as Chairperson), Mr. MA Xiaofeng and Ms. LIU Qianli. The primary functions of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive directors and making recommendations to the Board on matters relating to the appointment of directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates to become a member of the Board, the ultimate decision will be based on merit and contribution that the selected candidates to the Board.

The Nomination Committee met once to review the independence of the independent non-executive Directors and structure, size and composition of the Board during the Review Period.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the Corporate Governance Code and disclosure in its corporate governance report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance records of each Director at the Board and Board committee meetings and the annual general meeting of the Company held during the Review Period is set out in the table below:

	Board	Nomination Committee	Remuneration Committee	Audit Committee	AGM
Executive Directors					
Mr. DAI Jian	4/4	1/1	–	–	1/1
Mr. WU Lili	3/4	–	1/1	–	1/1
Mr. LI Chong	4/4	–	–	–	1/1
Mr. WANG Xiaodong	3/4	–	–	–	1/1
Independent Non-Executive Directors					
Ms. LIU Qianli	4/4	1/1	–	2/2	0/1
Dr. WANG Qing	4/4	–	1/1	2/2	1/1
Mr. MA Xiaofeng	4/4	1/1	1/1	2/2	1/1

Apart from regular Board Meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of executive Directors during the Review Period.

RISK MANAGEMENT AND INTERNAL CONTROLS

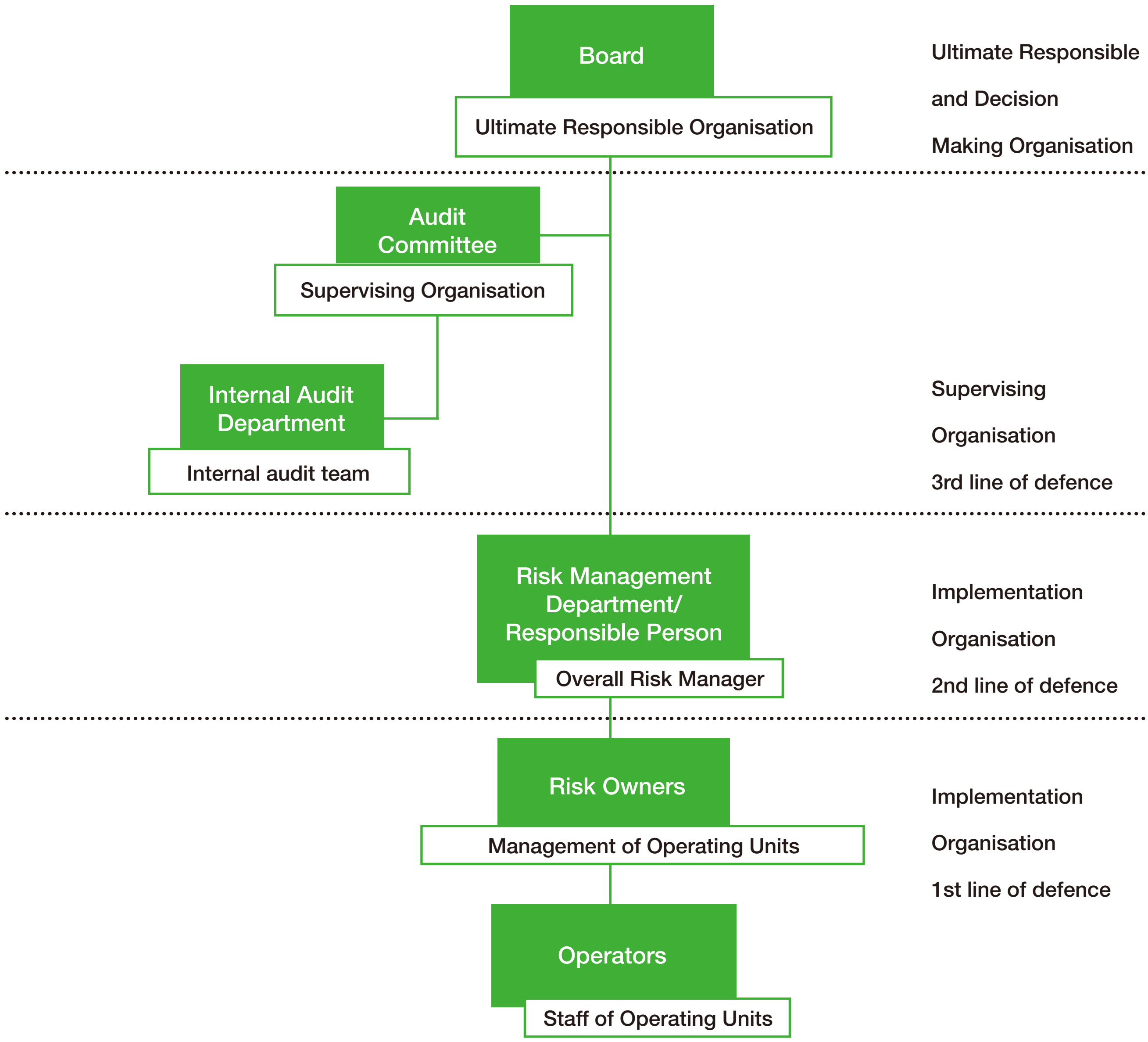
The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee and the Internal Audit Department established under the supervision of the Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted a Risk Management Policy with defined principles, procedures, roles and responsibility of each level in the risk management framework (see below diagram) and implementation details.

RISK MANAGEMENT FRAMEWORK



The Company's risk management and internal control systems have been developed with the following features and process:

Features

1) facilitates risk identification and escalation whilst providing assurance to the Board;

2) assigns clear roles and responsibilities and facilitates implementation with guidelines and tools; and

3) adopts a "Three Lines of Defence" model, with oversight and directions from the Board.

Process

1) the operating units of the Group, as risk owners, implement the risk management policy, identify, alert, evaluate, mitigate and monitor their own risks and the management of the operating units report such risk management activities to the Risk Management Department/Responsible Person;

2) the Risk Management Department/Responsible Person, in coordination with the management of the operating units, identify the internal/external risks of the Group at least annually and establish/update the risk database. At the same time, they assess the risk issues and put forward proposals to the Audit Committee/Board to mitigate and/or transfer the identified risks; and

3) the Audit Committee and the Internal Audit Department are responsible for providing guidance and performing independent review of the adequacy and effectiveness of the risk management and internal control systems of the Company, and reporting to the Board in a timely manner. Their duties and responsibilities include persistently monitoring the operation of the risk management system to ensure the system is able to identify, assess, respond, trace and monitor corporate risks; reviewing the risk management framework; making regular discussion with the senior management on the Group's risk management and internal control systems so as to ensure effective internal control system being established; reviewing and/or preparing annual report of risk management for review by the Board. Special reviews are also performed at management's request.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2018.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2018, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Arrangements are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

Disclosure of Inside Information

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group:

- has conducted its affairs with close regard to the disclosure requirement under the Listing Rules as well as the Guidelines on Disclosure of Inside Information published by the Securities and Future Commission in June 2012 in company with Part XIVA of the SFO;

- has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcement and its website;

- has included in its code of conduct a strict prohibition on unauthorized use of confidential or inside information;

- has established and implemented procedures for responding to external enquiries about the Group's affairs so that only the executive Directors and corporate communications and investor relations general manager are authorized to communicate with parties outside the Group.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Pursuant to the code provision C.1.1 of the CG Code, the management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report of this annual report.

AUDITORS' REMUNERATION

The remuneration paid/payable to the external auditor of the Company, PricewaterhouseCoopers, was RMB3,800,000 and RMB127,000 in respect of audit services and non-audit services for the Review Period. The non-audit services for the Review Period included providing professional service on ESG reporting.

COMPANY SECRETARY

During the period from 1 January 2018 to 27 August 2018, Ms. NGAI Kit Fong ("Ms. NGAI") of Tricor Services Limited, an external service provider, was the Company Secretary of the Company.

Following the resignation of Ms. NGAI, Ms. LAU Yee Wa ("Ms. LAU") of Tricor Services Limited has been appointed as the Company Secretary of the Company since 28 August 2018.

Ms. CHEN Xiao Hong, the Acting Chief Financial Officer of the Company, is Ms. NGAI's and Ms. LAU's primary contact person at the Company.

During the Review Period, both Ms. NGAI and Ms. LAU has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting ("EGM") and Putting Forward Proposals at EGM

Pursuant to article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

The requisitionists who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the requisitionist(s) concerned to the head office of the Company at 34 Floor, Goldchi Building, 120 Huangpu W Ave, Tianhe, Guangzhou, Guangdong, China 510623 or at the office of Tricor Investor Services Limited, the Hong Kong Share Registrar of the Company, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for the attention of the Company Secretary.

The Requisition must state clearly the name of the requisitionist(s) concerned, his (their) shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included the details of the business(es) proposed to be transacted in the EGM, signed by the requisitionist(s) concerned.

The Company will check the Requisition and the identity and the shareholding of the requisitionist(s) will be verified with the Company's Hong Kong Share Registrar. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the requsitionist(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the requisitionist(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal or the resolution proposed by the requistionist(s) at the EGM.

If within 21 days of the deposit of the Requisition the Board has not advised the requisitionist(s) of any outcome to the contrary and fails to proceed to convene such EGM, the requisitionist(s) himself (themselves) may do so in accordance with the Articles of Association, and all reasonable expenses incurred by the requisitionist(s) concerned as a result of the failure of the Board shall be reimbursed to the requisitionist(s) concerned by the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: (Head Office) 34 Floor, Goldchi Building, 120 Huangpu W Ave, Tianhe, Guangzhou, Guangdong, China 510623
or
(Hong Kong Share Registrar) the office of Tricor Investor Services Limited at Level 22, Hopewell Centre,
183 Queen's Road East, Hong Kong
(For the attention of the Company Secretary)
Fax: (852) 2117 0869
Email: Baioo@ChristensenIR.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the 2018 AGM of the Company held on 29 June 2018, the directors (or their delegates as appropriate) are available to meet shareholders and answer their enquires.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the Review Period, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

2018 Environmental, Social and Governance Report

Contents

2018 Environmental, Social and Governance Report

I. ABOUT THE REPORT

1. Information on the Report

This report is the third environmental, social and governance report (the "**Report**") issued by the Group. The Report elaborates the system construction and work performance of the Group in the areas of environment, society and governance (the "**ESG**") in 2018. The purpose of the Report is to respond to the expectation of the stakeholders and the social public and demonstrates the management and effectiveness of the Group in its sustainable development in a more objective and comprehensive manner based on the previous environmental, social and governance reports.

2. Scope and boundary of the Report

The Report covers the period from 1 January 2018 to 31 December 2018, and some of its contents can be traced back to that in the previous years. The contents of the Report cover the principal businesses of the Group, including the business of the portal website platform and the interactive virtual world operated by Guangzhou Baitian, and the *Little Cloud Bay Bay Bear Parent-child Interaction* series of products operated by Xiaoyunxiong. For the details of the businesses of the Group, please refer to the 2018 annual financial report of the Group.

3. Standards for preparing the Report

The Report is prepared in strict compliance with the "Environmental, Social and Governance Reporting Guide" (the "**ESG Reporting Guide**") issued by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The last part of the Report elaborates on the content index of the ESG Reporting Guide.

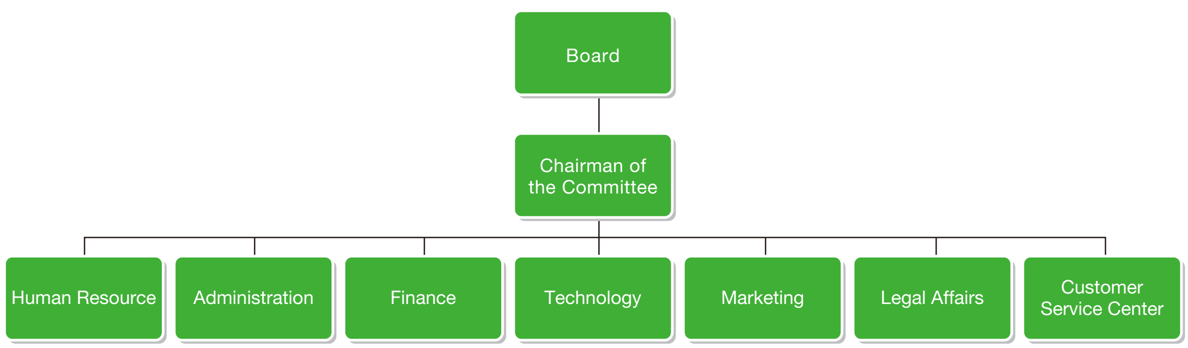
4. Source of the Report

The information and source of data in the Report are sourced from the internal formal documents, internal statistics and related public information of the Group.

II. THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRATEGY OF THE GROUP

In 2018, the Group continued to uphold the corporate vision of “fun entertainment, healthy interaction and joyful companion” and deploy the business development of children’s internet products and family interactive contents and services. While focusing on the performance, the Group has also proactively responded to the national initiative for the guidance on gaming enterprises’ products and the social responsibilities, helping children and adolescence to grow up in a healthy way and offering high-quality education as the top priorities of the development goal. The Group has also committed to researching and developing high-quality products for improving the learning ability of children and adolescence and has discharged the corporate responsibilities and obligations of exporting a healthy and progressive culture and values.

In order to meet the regulatory requirements of the Stock Exchange, respond to the public’s expectation and improve the management of its own sustainable development, the Group has formulated a series of systems and considered the sustainable development in the decision making process for the daily business operation. In addition, the Group has established the Environmental, Social and Governance Management Committee (the “ESG Management Committee”) during the year for coordinating the management of the sustainable development of the Group and conducting the preparation of sustainable development reports and relevant information disclosure work. The chairman of the ESG Management Committee is the Executive Director of the Group and the members of the committee comprise of the persons in charge of all of the function centers. The management and the ESG Management Committee of the Group review the relevant sustainable development policies and procedures, ensure the facilitation and implementation of relevant work, conduct the top-down planning, management and promotion of the sustainable development work, and comprehensively strengthen our environmental, social and governance work.



III. STAKEHOLDER ENGAGEMENT PLAN AND MATERIALITY ASSESSMENT

1. Communication with Stakeholders

The Group always values the exchange and communication with stakeholders and treasures the importance of timely understanding their opinions and expectations to the sustainable development of our businesses. In the day-to-day operation, the Group has established diversified communication channels to fully listen to the voice of stakeholders. The Group has established the investor relationship department to hold annual general meeting and communicate with shareholders by means of presentation, asking questions, etc.. The Group carries out technological communications and information sharing with industry associations by ways of visits, salons, annual meetings, etc.; meanwhile, the Group listens to the voice of the staff and maintains close and effective communication with them through Wechat groups and the labor union.

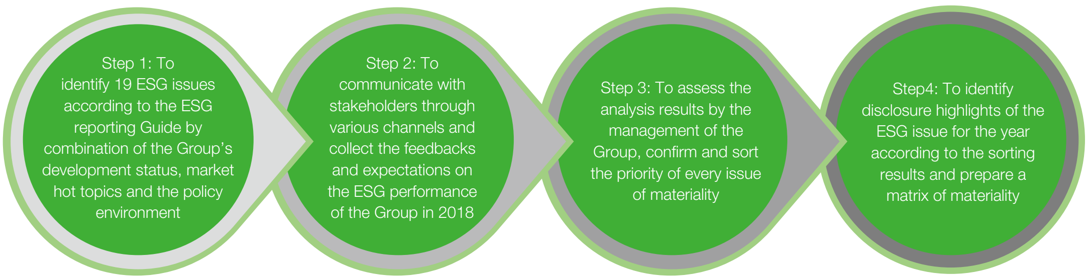
Stakeholders	Expectation and Proposition	Communication and Response
Customers	Pursuit of quality; privacy safety; business integrity; and users' demand	Enhancement of product and service quality; strengthening of risk management and control; optimization of internal control; and improvement of customer communication mechanism
Staff	Protection of legitimate rights and interests; smooth career development; remuneration and benefit protection; and good working environment	Compliance with laws and regulations; construction of a reasonable promotion mechanism; improvement of the remuneration and benefit system; and implementation of corporate culture
Suppliers and partners	Openness and fairness; cooperation and win-win solutions for all parties; and sharing of development benefits	Improvement of the procurement process; perfection of the communication mechanism; and establishment of a long-acting management model
Investors and shareholders	Business growth; scientific governance; compliance with applicable laws in operation; and information disclosure	Enhancement of the profitability; creation of long-term earnings; strengthening of risk management and control; and regular information disclosure

Stakeholders	Expectation and Proposition	Communication and Response
Government and regulatory authorities	Compliance with national policies; fulfilling tax payment obligations; strengthening the construction of clean governance; and creation of employment opportunities	Operation under laws and rules; timely and proactive tax payment; cooperation in government's supervision and examination; and participation in the regional common construction
Communities	Protection of the community environment; devotion to social welfare; and promotion of the development of the community	Comprehensive implementation of green operation; launch of public well-being projects; and provision of quality cultural resources
Industry association	Promotion of the growth of the industry; and fair competition	Participation in industry discussion and communication; and improvement of research and development capability

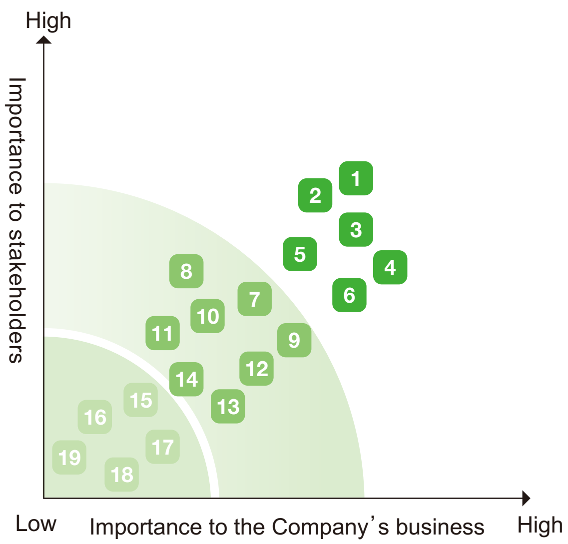
2. Materiality Assessment of the 2018 ESG Issues

In the preparation of the 2018 ESG report, the Group has comprehensively assessed and sorted the ESG issues through means of close contact with stakeholders, feedbacks and industry analysis with reference to its own development status, the industry characteristics and the policy environment with the expectations of stakeholders.

The steps of materiality assessment are as follows:



Results of materiality assessment:



	No.	Issue
Very important	1	Create a green and healthy internet environment
	2	Concern about users' needs and improve users' experience
	3	User information and privacy protection
	4	Maintenance and protection of intellectual property rights
	5	Staff recruitment and performance-based remuneration
	6	Staff training and development
Important	7	Product contents and product responsibility
	8	Staff's occupational health and safety
	9	Regulatory compliance in the business operation and anti-corruption
	10	Reasonable marketing and promotion
	11	Protection of labor interests
	12	Contribution and dedication to communities
	13	Management of the sustainable development of suppliers
	14	Customers' satisfaction and handling of complaints
Less important	15	Green office and environmental protection promotion
	16	Energy consumption and resource utilization
	17	Energy conservation and emission reduction and environmental protection measures
	18	Emission of greenhouse gases and exhaust gases
	19	Management of hazardous and non-hazardous wastes

The results of the materiality assessment for 2018 indicate that the ESG issues that stakeholders most concern are a healthy internet environment, users' needs and privacy, etc. The Group has fully respected the opinions of both internal and external stakeholders and proactively responded to the propositions of all parties concerned. In 2018, we have strengthened the management of the examination work on the contents of games and the postings on our online platforms to ensure the compliance in the business operation and to create a cleaner and healthy internet environment for users. We have proactively conducted market surveys to understand users' needs, interacted with users through multiple channels and taken proactive exploration and innovation initiatives. Meanwhile, we have a stringent control over privacy information in terms of product design and application safety in order to comprehensively lower the risk of information leakage.

We deeply understand that the communication with stakeholders is a continuing and deepening process. We will continue to improve our communication mechanism, listen to the voice of all parties and give feedbacks as an important reference basis for our ongoing sustainable development.

IV. PRODUCT RESPONSIBILITY

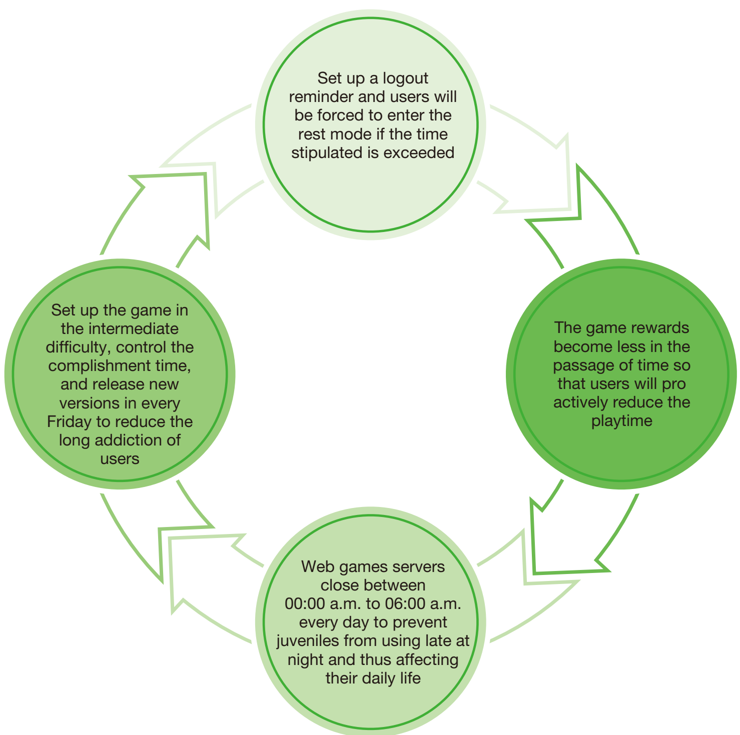
In 2018, the Group has continued to view the strengthening of game IPs, the development of comic IPs and the incubation of new IPs as its core development strategy, and has developed new products and expanded the existing product line with IPs and its original content creation as core. The Group has captured market share and strengthened the market competitiveness of its products under the business model of incubating the same IPs, developing comics and operating mobile games with a view to achieving long-term development in the pan-entertainment industry.

1. Create a Green and Healthy Internet Environment

The Group has adopted a series of measures to provide guidance for users in strict compliance with the "Law of the Protection of Juveniles of the People's Republic of China", the "Provisions on the Administration of Online Publishing Services", the "Interim Measures for the Administration of Online Games", the "Interim Provisions on the Administration of Internet Culture" and other rules and systems, and has committed to advocate happy and positive networking models and create a green and healthy internet environment.

1) Juvenile anti-addiction system

The Group has set up a juvenile anti-addiction system in its products to strictly restrict the daily login time of juvenile users.



2) Parent monitoring program

The Group has proactively responded to the call of the Ministry of Culture of the People's Republic of China to establish a parent monitoring program for juveniles and set up the page of "Important Notes for Parents" on its official website to strengthen the parents' monitoring on juveniles' participation in online games. The Group has expressly listed out the application conditions and methods for guardianship services on its official website. Upon confirmation of the guardianship after passing the information review process, the customer service department will provide guardianship solutions, such as provision of the account guardianship right, provision of the login records of accounts and suspension or termination of accounts, to help parents to correctly identify and understand the internet, guide their children in using the internet in a healthy way and eliminate the addiction behaviors.

3) Review and monitoring of the contents and information

The Group has screened the online community information through the automated sensitive word screening system, pre-approval and post-review processes as well as external supervision to strictly manage the comments of users and therefore ensure that the contents of all of the online information are free from eroticism, gambling, drugs and other lawbreaking contents.

4) Automated sensitive word screening system

The Group has established a large sensitive word database through which the information published by users will be automatically screened. More particularly, sensitive words of material violation will not be permitted from publishing.

- **Pre-approval:** Most of the column contents that are screened through the sensitive word database may be published only after the strict review by customer service staff. In the review process, our customer service staff will screen all the contents and remove the lawbreaking contents if there is any, and ban the accounts that have published such lawbreaking contents or even have them frozen according to the extent of violation.

- **Post-review:** For the contents of chatrooms which have higher requirements for timely management and actions, our customer service staff will conduct post checks on the online contents after such contents are screened though the sensitive word database for release. If there are any contents identified as lawbreaking, they will be removed from the chatroom immediately and the accounts that posted such contents will be banned or frozen.

- **External supervision:** All platforms or game communities will provide channels in the striking place on the web pages for users to report irregularities, so that our customer service staff can carefully handle them in a fast fashion and to ensure a harmonious and healthy online community.

2. Product Research and Development and Innovation

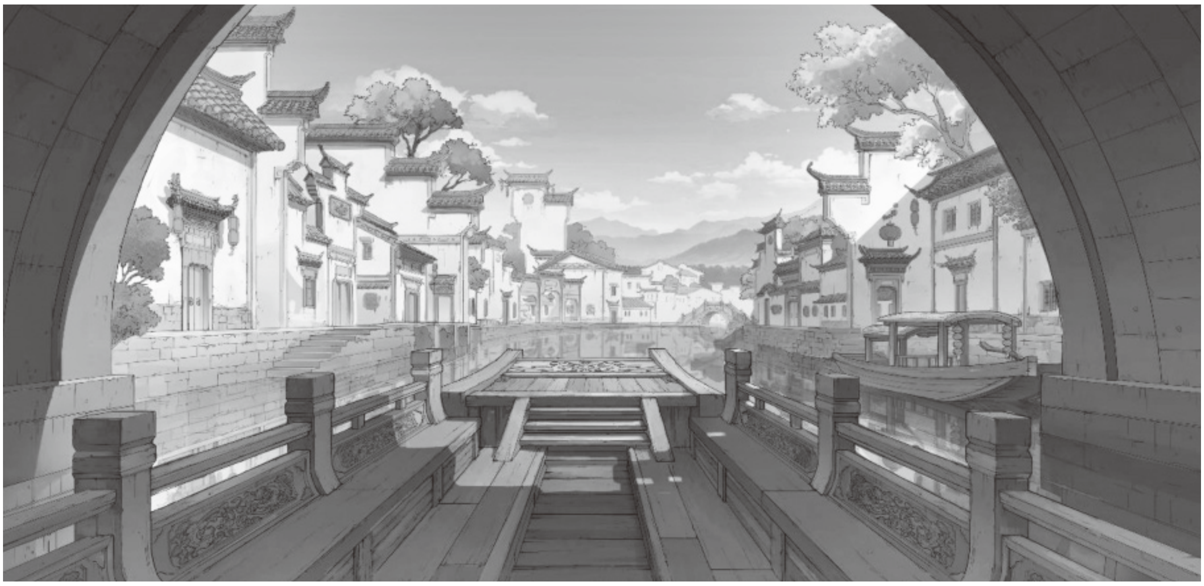
Improving the product quality, continuous research and development and innovation serve as the base on which an enterprise achieves long-term progress and continuous development. We have set up a stringent process for product research and development as well as inspection, acceptance and testing. and we have also formulated a series of internal criterions to ensure our product quality. It takes the following four steps for our products to go from research and development to launch in the market:

Product approval	DEMO development	Functional research and development stage	Testing stage
• The responsible person for products to put forward the basic worldview, storyline, artistic style and game rules of products and to present to the product assessment and approval committee for review.	• To establish a basic configuration team to develop DEMO according to the product concept after obtaining the project approval, which DEMO displays the core game play and the artistic style, and to preliminarily establish the technical and artiste norms.	• To enlarge the team scale to conduct massive functional research and development. To organize the product assessment and review committee and the product core players to meet together at irregular intervals for review according to the product progress.	• To conduct the elite test, the retention test, the paying test, etc. according to the In-Project Inspection and Acceptance Regulations before the launch of products and then to enter the process of product release once all the indicators are qualified.

In 2018, with the continuous development and expansion of the pan-entertainment market, the Group has pinpointed the great potential of excellent IPs, well articulated the IP-centered strategy to capture myriad development opportunities under the IP incubation business model with the support of the strong original content creation capability of our teams, and discharged the mission and duties as an internet enterprise by integration of the brilliant culture into products in innovative ways.

Case analysis: "Shiwuyu" – to spread traditional Chinese culture

Shiwuyu is a brand-new masterpiece launched by the Group this year, a RPG game primarily designed for female that features traditional Chinese cuisine. New and interesting in concept, this game gives unique images and personalities to traditional Chinese cuisine based on literary quotations of food, and enables users to contact with local customs and the historical background through guiding users in exploring the sources of stories on food, so as to understand the uniqueness and charm of Chinese culture. Shiwuyu integrates humanistic feelings into products in the opposite direction to inspire users to love, promote and spread the splendid Chinese civilization, thus receiving an enthusiastic response from the general public. Shiwuyu has been rewarded "The Most Anticipated New Game of the Year" (年度最具期待新遊戲) at the Golden Gyros Prize (金陀螺獎), a grand meeting of the game industry held in January 2018.



Case analysis: TYPOMAN – to enhance the logical thinking ability of juveniles and convey positive values

TYPOMAN, a fresh puzzle and adventure game which the Group released this year, has creatively configured a bizarre and hazy unique game world with letters and combination of words. Players solve a series of ingenious yet challenging puzzles and obstacles through the correct selection and combination of letters. With this easy and interesting method, the game enables players to not only firmly remember the words which are difficult to master, but also enhance their logical thinking ability. Meanwhile, this game can achieve the deeper functional meaning and pass on the core values of courage and growth through the setting of various ingenious puzzle-solving levels and the unremitting pursuit.

3. Intellectual Property Management

We highly value the management and protection of intellectual properties and continue to raise the awareness of intellectual properties of our staff so as to enhance our core competitiveness. The reporting and management of intellectual properties of the Group is the responsibility of our legal affairs department. We have specified the procedures of application, management and infringement handling of intellectual properties through stipulating internal systems such as “Guidelines for Legal Affairs of Baioo”.

In 2018, the Group has delegated the full authority to the legal affairs department in the entire process of application for registration of the copyrights of works, especially the copyrights of the unreleased products, which has further strengthened the protection of intellectual properties and trade secrets. As of 31 December 2018, the Group had a total of 53 certificates for registration of the copyrights of computer software and 129 certificates for registration of the copyrights of works.

For the launched products, we have maintained infringement reporting channels in every game and on every webpage to ensure the protection of the rights and interests of the Group.

4. User Privacy and Data Safety

The Group highly values the protection of the information and privacy of users. In order to mitigate the risk of leakage of users' information and privacy, we have improved our management system, optimize our operational process and implemented the management and control measures to ensure the overall safety of our information assets.

1) The Group has formulated and strictly complies with the User Information Security and Privacy Protection System, which stipulates the access and operation authority of the staff and expressly sets out the control measures and division of responsibilities and the punishment measures against the lawbreaking behaviors;

2) The Group has employed long-term anti-attack technologies on the network gateway of IT rooms and cooperated with domestic top cloud service providers to take the remote backups for disaster recovery of core data on cloud service providers so as to enhance the operational reliability of the information servers;

3) The Group has introduced the penetration testing service from well-know domestic third party security companies and repaired and re-tested the security bugs spotted in the penetration test to lower the risk of attacks on servers and therefore ensure the normal operation of our businesses.

5. User Satisfaction and Handling of Complaints

Users' feedbacks, complaints and suggestions are of vital importance to the sustainable development of our businesses. We have formulated a series of internal bylaws including the "Business Process and Work Specification of the Customer Service Centre" to improve the quality of our customer services and ensure that the voice of users can be heard. Users can provide their opinions and complaints through various channels, such as telephone hotline, email, the real-time communication system within the game community, user feedback platform, fax, mail box and personal visit. Compliant cases are divided into three levels by the customer service staff and will be fed back and handled according to the specified procedures and time limit. The customer service staff provides 365-day online services from 08:00 a.m. to 22:00 p.m. every day to meet customers' needs. Users can comment on the services of the customer service staff via the telephone service-evaluating system and the online platform. According to the data for 2018, the user satisfaction scores of the customer service center and the complaint resolving rate of the Group for the year were 97.5% and 100%, respectively.

V. EMPLOYMENT MANAGEMENT

Talents are our foundation and the driving force of our sustainable development. We have strictly complied with laws and regulations, such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Employment Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Law of the People's Republic of China on Employment Promotion (《中華人民共和國就業促進法》). We have attracted elite talents through multiple channels, concerned about the physical and mental health of our employees, and established a good career development platform to help our employees to realize their personal values.

1. Talent Team Development

1) Staff Recruitment Management

The Group has established internal policies such as the Employee Handbook (《員工手冊》) and the Administration Measures on Recruitment (《招聘管理辦法》) to standardize the employee recruitment process and improve the talent selection mechanism. The Group bases itself upon the principles of open recruitment, fair competition, recruitment on merits, staffing management, and the recruitment work will not be affected by factors such as citizenship, ethnicity, marital status, age, and religious belief.

Talents of the Group are introduced in several forms, such as on-campus recruitment, social recruitment and internal recommendation, and the candidates-to-be are determined through processes such as computer test, written test and interview. The on-campus recruitment is conducted in two forms, namely the on-campus information session and the open day. The on-campus information session is helpful for the Group to enter into universities to recruit outstanding talents, while the open day helps candidates to feel the innovative, passionate, active and open corporate culture of the Group through inviting students in schools to visit the internal environment of the Group.

Case sharing: the 2019 On-Campus Recruitment Information Session

In July 2018, the Group held an on-campus information session with the theme of "Young Baioo, Proud of You" (百Young青春，奥驕有你), which lasted for four months with good results. The information session covered a total of 12 universities in six cities, namely Guangzhou, Changsha, Wuhan, Xi'an, Chengdu and Chongqing. Our staff introduced our company profile and answered questions for the college students present in a warm atmosphere.

As of 31 December 2018, the Group had a total of 666 employees and interns.

Type		Number of staff	Total number of employees and interns of the Group
Gender	Male	385	666
	Female	281	
Employment type	Full-time	618	
	Intern	48	

2) Performance Appraisal and Compensation and Benefits

The Group has established and carefully implemented the "Personnel Management System of the Baioo Group (2018)" and conducted the performance appraisal on work performance of employees under the principles of openness, fairness and impartiality. The appraisal is in the forms of probation appraisal, quarterly appraisal and annual appraisal in terms of their work performance, capability and quality, moral code, etc. The results of the appraisal serve as an important basis for recruitment, employment, salary increase and promotion of employees. We will communicate with employees in connection with the results of appraisal to achieve the purpose of fostering advantages, avoiding shortcomings and making continuous progress, thus motivating employees to enhance their personal ability continuously.

The Group provides compensation packages with market competitiveness for employees and makes adjustments regularly based on industry research results to attract and motivate excellent talents. Meanwhile, the Group has established a sound employee welfare system, including five social insurance and one housing funds, commercial insurance, annual physical examination, festival activities and gift packages, paid annual leave, cash gifts for weddings and babies, employee meal benefits and the system for settlement of registered permanent residence. The welfare system covers various aspects of basic necessities in life, including clothing, food, residence and travel, showing our concern about the vital interests of our employees.

3) Management of Younger Team

The Group comprises of younger teams with a relaxed and open atmosphere. We lead our harmonious development in a corporate culture of focusing on innovation, passion, curiosity, initiative, results and efficiency. The Group has adopted the self-developed OA system, covering multiple segments such as personnel management, system announcement, staff activities, contract approval, and vacation application to simplify workflow and realize paperless office. The Group has created its internal official account "Baioo Space" and established several segments such as Baioo School, Dynamic Community and Intimate Assistants to provide information about latest training report, surrounding facility, dining guide and administrative guidance, thus facilitating the work and life of employees.

In addition, the Group has also founded a unique bimonthly publication "Baioo @ You" (《百奥@你》) as the bridge of communication between employees and the Group. During the three years since the inception of "Baioo @ You", it has adhered to the original faith of staff orientation and speaking for staff, and has continuously delivered dynamics of the Group, expressed the voice of the Group as well as demonstrated expectations of employees in a most fashionable and intimate manner. "Baioo @ You" also acts as the role of recording the history of the Group, upholds the spirit of Baioo, demonstrates the humanitic style of the Baioo people and enriches the corporate culture of Baioo. It undertakes the dual mission of the internal cultural transmission and the external penetration for brand name.

2. Occupational Health and Safety and Humanistic Care

The Group has strictly complied with laws and regulations such as the Law of the People' Republic of China on Prevention and Control of Occupational Disease (《中華人民共和國職業病防治法》) and the Production Safety Law of the People' Republic of China (《中華人民共和國安全生產法》) and continuously improved various internal systems of safety management, committing to create a healthy, safe and comfortable work environment for the staff. During this reporting period, the Group has no casualty event due to work and the working hour lost due to occupational injuries is 0.

1) Occupational Disease Prevention and Fitness Facilities

We have paid great attention to the physical and mental health of our employees. In addition to providing annual health examination and purchasing additional commercial insurance for the staff, the Group has also provided diversified welfare facilities to meet the needs of the staff. Our businesses do not involve in any occupational hazards of high dangerousness or risks, and the Group has built a spacious and comfortable working environment against occupational diseases such as damaged cervical vertebra and painful waist and legs arising from long-term working at a desk in the office, and encouraged the staff to take more stretching exercises. The Group has provided free fitness rooms and yoga rooms equipped with various fitness facilities to meet the needs of the staff for exercise. We have also hired external teachers to provide various courses such as yoga, aerobics and taekwondo at each weeknight. The staff can make course reservation through the OA system to balance the physical and mental health after work.

The Group provides spacious and bright canteen and café with beautiful environment to the staff with catering services, and offers catering subsidies to them. We exercise strict control over food safety and have posted tips on allergies in the cafeteria and café. At each distinctive festival, the canteen and café will offer special meals, such as Laba porridge, sweet dumplings and moon cakes, organize the activity of making rice dumplings at the Dragon Boat Festival and introduce dark cuisine with festival features on Halloween, in order to enhance the festive atmosphere. We have also placed various facilities such as sofa, high stools, swings and game machine in the recreational area of the café so that the staff can enjoy at their leisure time and relax their minds.

2) Care for Female Groups

The Group attaches great importance to the welfare of female employees and focuses on the special needs of female groups. The Group has redecorated the original women's restroom of the office building and relocated them to the office area of the Group to increase the access control security and ensure the safety and convenience for female employees. The Group has provided lactation rooms with all necessary facilities including door curtains, desks and chairs, bathrooms and refrigerators to fully respect and protect the privacy of the staff, thus receiving the unanimous affirmation and praise from many new mothers of the Group. In addition, considering the special conditions of mothers-to-be who are also our staff, the Group has also opened the "Channel for Mothers-to-be" in restaurants for separate food taking without waiting in line. This can prevent mothers-to-be from being bumped in a crowded situation while there are more people at mealtimes, thus enhancing the experience of work and life of the pregnant female employees in the Group.

3) Staff Activities and Humanistic Care

We actively advocate work-life balance and hold various recreation and leisure activities for the employees regularly. The Group has set up various internal staff clubs for sports, photography and video games and the persons-in-charge organize various themed activities; the Group distributes monthly and quarterly team building allowances to each business department to encourage the divergent and creative thinking of the employees and organize many activities; and we offer annual travels at the expense of the Group and the employees may choose routes and arrange journeys by themselves. At festivals, the Group will also dispatch festival gifts to the homes of the employees to show our care. At the Mid-Autumn Festival in 2018, the Group customized the "Baioo Gift Box" for the staff, which means the reunion of the Baioo family. This Box is decorated with a beautiful multi-prism kaleidoscope, which expresses the expectation that the employees can keep their childlike innocence and play in the world interestingly.

Case sharing: the Celebration Activity for the Ninth Anniversary of Baioo

In June 2018, in order to celebrate the ninth anniversary of Baioo which coincided with the Children's Day, the Group held an anniversary ceremony with the theme of "Innocence Remains with Baioo at the Ninth Anniversary" (百奧週年，童真依9) and invited all the employees and their children to participate in. We prepared abundant and interesting games and activities and lucky draws in the celebration party, designed a funny garden tour for children, and offered delicious catering of afternoon tea for everyone to enjoy in the cheers and laughter, enhancing the friendship of colleagues and promoting their harmonious relationship.

4) Fire Drill

The Group highly values the fire safety, strictly complies with laws and regulations including the Fire Prevention Law of the People's Republic of China (《中華人民共和國消防法》) and the Emergency Response Law of the People's Republic of China (《中華人民共和國突發事件應對法》), conducts fire safety inspection regularly, organizes lectures and trainings of fire-fighting knowledge and coordinates with the property management office to conduct fire drills. On 12 September 2018, the Group organized employees to participate in the publicity activity of fire safety knowledge titled "Four Abilities to Understand and Master Firefighting" (四個能力之四懂、四會) held by the property management office. Through this publicity activity of fire safety knowledge, the employees studied the basic knowledge of emergency relief and further strengthened their fire safety awareness of "Hidden Dangers are More Hazardous Than Open Fire and Prevention is Superior to Disaster Relief" (隱患險於明火，防範勝於救災). On 21 November 2018, the Group organized the employees to participate in the fire evacuation drill organized by the property management office of the office building. Through this fire drill, the employees have mastered correct process of reporting fires, fighting against early-rising fires, the fire escape routes of the office building and the standard escape process, and learned how to use firefighting facilities to enhance their first aid skills.

3. Professional Training and Development Mechanism to Help Employees Grow

1) "Double-ladder" Promotion Mechanism

The Group offers a clear path of development and promotion for employees. The official rank system of the Group is divided into five levels: product level, technology level, art level, function level and management level. Each series of the corresponding ranks have corresponding competency standards. Therefore, the employees can not only be promoted vertically in the ranks, but also develop horizontally across the series. The Group has established an internal "Double-ladder" talent development mechanism to help them to realize development and promotion in the "Profession Ladder" of technical talents or the "Management Ladder" of management talents based on the employees' own conditions and career planning. The Group allocates the same resources, pays the same attention and shows the same respect to both mechanisms.

Case sharing: the 2018 Annual Originality Contest

In order to motivate the innovation awareness of employees, encourage creative behaviors, strengthen the corporate culture concepts of passion, curiosity and innovation of the Group, establish a continuous innovation mechanism with the participation of all staff and provide a platform of demonstration and development for employees, the Group held a originality contest in 2018 to look for the most valuable ideas for products. The employees propose project schemes through building teams and participate in the selection in the form of answering questions raised. Once selected, they may conduct the research and development of the project schemes, promote and implement the ideas and become the leaders of the projects through this platform to step into a new stage of career development.

2) Trainings by Group Classification

The Group advocates continuous learning and progress and has established an improved cultivation system aiming at meeting the development needs of different types of employees to continuously provide valuable opportunities for employees. The Group offers off-job intensified trainings and specialized courses for new comers, which cover relevant aspects such as corporate culture, rules and regulations, occupational safety and business skills, and assigns a mentor for an employee to conduct tutoring to help them integrate into the team and determine personal development direction. For employees in office, the Group regularly organizes trainings on position knowledge and skills, trainings tailored for candidate cadres and trainings designed for the management, and the human resource department is responsible for the overall arrangements on monthly and annual training plans of each department and the preparation of training courses and materials. Each department reports the status of organization and implementation of trainings to the human resource department regularly. The employees can also apply for fund subsidies provided by the Group to attend external courses which are helpful for the business development related to the positions of employees to realize self-learning and improvement.

In addition, the Group has also established a work shift mechanism and employees may apply for position transfers within the Group based on the conditions of their departments and the status of projects and their own career planning to horizontally broaden their business skills, increase their business knowledge and enhance their own core competitiveness and that of the Group.

Training Systems

Management	Middle-and high-level training/team building	**Demand**
	Training programs for the frontline management	|
Employees in office	Internal trainings/sharing (based on position series)	**Planning**
	External trainings/sharing (based on position series)	|
New employees	Trainings of new comers recruited from the society	**Implementation**
	Intensified trainings, professional courses and tutoring for new comers recruited from campuses	|
Self-learning and improvement plans		**Assessment**
Training programs for in-house trainers		

Lecturers/teaching materials/training management of students

3) In-house Trainer Systems

We attach great importance to our internal sharing mechanism, advocate that the employees should conduct internal sharing, learning and communication on a regular basis, and are committed to establishing an in-house trainer team. The Group has formulated the Management Measures of In-house trainers in 2018 to establish the in-house trainer systems. Employees can become in-house trainers through a series of certification process and is entitled to corresponding interest, while their teaching and training work is subject to the assessment standards of the in-house trainer systems. The in-house trainer systems have not only contributed to the internal communication and sharing of experience among the employees, but also developed a new platform for the employees who became in-house trainers to show and improve themselves. The Group will also set up training courses for in-house trainers on a regular basis, including courseware development and teaching skills to enhance the teaching ability of in-house trainers.

Gender	Percentage of the trained employees in 2018 (%)	Per capita training hours in 2018
Male	24%	9.81
Female	21%	7.05

4. Labor Rights and Interests

1) Satisfaction and Complaints of the Employees

The Group attaches great importance to listening to the voice of the employees, encourages the employees to bring forward opinions and feedbacks and commits to establishing humanized and diversified communication channels for the employees. The Group collects and listens to the opinions from the employees by the following methods:

- To maintain an online suggestion box on the OA system, allowing the employees to bring forward opinions and feedbacks at any time;
- To create a WeChat group for the employees to directly provide opinions through WeChat, which is timely and efficient;
- To issue questionnaires regularly to understand the degree of satisfaction and demands of the employees, in order to improve our own management and operation.

2) No Child Labor and Forced Labor

The Group strictly complies with laws and regulations such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Employment Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Law of the People's Republic of China on Protection of Minors (《中華人民共和國未成年人保護法》), and strongly prohibits hiring child labor and forced labor. The Group implements flexible working hours and does not encourage the employees to work overtime. The employees who need to work overtime should make application in advance and the Group will grant paid leave or overtime compensation according to regulations after the application is approved. During this reporting period, no child labor or forced labor has been employed or conducted by the Group.

VI. COMPLIANCE OPERATION AND ANTI-CORRUPTION

1. Compliance Operation

The Group strictly complies with the national laws and regulations, and obtained relevant qualification certificates such as the Network Culture Operation License (《網絡文化經營許可證》), the Online Publishing Service License (《網絡出版服務許可證》), and the Publication Operation License of the People's Republic of China (《中華人民共和國出版物經營許可證》). Meanwhile, the Group has established an overseas distribution team with extensive experience in independent distribution in Europe, America and Southeast Asia, which coordinates with the Legal Department and related business units to ensure the operation of the Group's overseas business complies with relevant requirements.

In May 2018, the Legal Department of the Group worked with various business departments to sort out various work processes, and issued the "Guidelines for Legal Affairs of Baioo" (《百奧法律事務工作指引》), which clarified operating specifications for matters such as review and approval of contracts, review of legal documents, protection of intellectual property rights and complaints of infringement. It not only protects the legitimate interests of the Group, but also helps all employees to establish a good legal awareness.

Case Sharing: Training organized by the Legal Department in September 2018

In order to protect the legitimate interests of the Group and strengthen employees' awareness of protecting the Group's trade secrets, the legal department organized and carried out training on confidentiality agreement together with the human resources department in September 2018. This training was organized for all employees of the Group, and clarified the confidentiality obligations of employees on the Group's trade secrets during and after their employment with the Group, and provided clear instructions and guidance on the scope, content, term and responsibility of confidentiality. Upon the training, all participants signed the Memorandum of Understanding on the Confidentiality Agreement (《保密協議培訓備忘》) to clarify their confidentiality obligations.

2. Anti-corruption

The Group attaches great importance to anti-corruption work and strictly complies with relevant laws and regulations such as the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》)，the Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) and the Anti-Monopoly Law of the People's Republic of China (《中華人民共和國反壟斷法》)，and has formulated internal standards such as the anti-fraud and report management system and introduced a series of measures for the prevention, control and feedback of anti-corruption. Through the release of relevant systems, organization of special lectures and training activities, the Group helps employees to identify illegal and unethical behaviors；for each process of daily business operations, the Group has established internal control measures to reduce fraud risks；and has established diversified reporting channels such as E-mail, report by phone, report by letter, etc., and has also published on both internal and external networks.

For the fraudulent reporting incidents received, the Group has established clear procedures, rewards and punishments, and remedial measures, to ensure the compliance and order within the Group's internal operations.

In 2018, the Group was not involved in any corruption lawsuits and did not receive any relevant reporting incidents.

VII. GIVING BACK TO THE SOCIETY

In addition to focusing on building high-quality products and service, the Group strives to contribute its own meager strength to social welfare. The Group has established the "Baioo Volunteer Union" and has recruited 54 volunteers in total since its establishment, and it actively carried out social welfare activities in current year to discharge its corporate social responsibility and make contribution to the community integration.

Case Sharing: Care for the Elderly and Devotion of Love – Visiting Activities at the Home for the Aged in Guangzhou

On 23 June 2018, the Baioo Volunteer Union arranged 8 volunteers to visit the Home for the Aged Guangzhou. Through the active interaction among the volunteers and the elderly, they spent a happy day with each other. The volunteers presented well-prepared gifts to bring the blessings of the Company to every lonely elderly before leaving, hoping to bring warmth to them with sincerity and love. Meanwhile, the activities also enabled the accompanying volunteers to have a deeper feeling for the spirit of "Mutual Help and Selfless Dedication" of Baioo employees, which motivated them to encourage the people around them to pay more attention to and accompany the elderly.

Case Sharing: Focus on Children, Guidance on Health – Social Practice Activities for Primary School Students

The Group has always attached great importance to guiding young people to use the internet platform correctly and to the performance of its duties of serving the society. On 10 July 2018, the Group invited 30 primary school students to the headquarter, enabled the students who visited the headquarter to experience the unique intellectual and scientific nature of the Baioo game through carefully prepared games and ingeniously designed interactions, and guided the students to actively exert their own logical thinking ability in the process of game experience. At the end of such experience, the Group explained to the students who visited the headquarter how to choose the right game and control their own game behavior, hoping to cultivate the habit of healthy and reasonable use of the online platform.

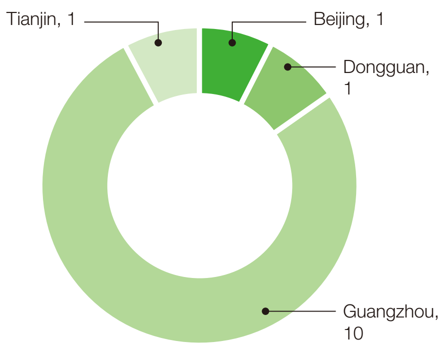
Case Sharing: Turn "Messy" into Tidy, Feel the Literary Atmosphere - Library Volunteer Activities

On 1 September 2018, 10 volunteers from the Baioo Volunteer Union visited the Baiyun District Library in Guangzhou to carry out the volunteer activities. Volunteers are dedicated to their work with high enthusiasm, helping the library to sort out the returned books, guiding the visiting readers and keeping the library clean and tidy. The volunteers benefited greatly from such activities which enabled Baioo volunteers to get away from daily work to serve the public, and immersed themselves in the sea of books to feel the rich cultural atmosphere of the library. The volunteers have won high praise from the staff of the library for their dedicated attitude and meticulous services.

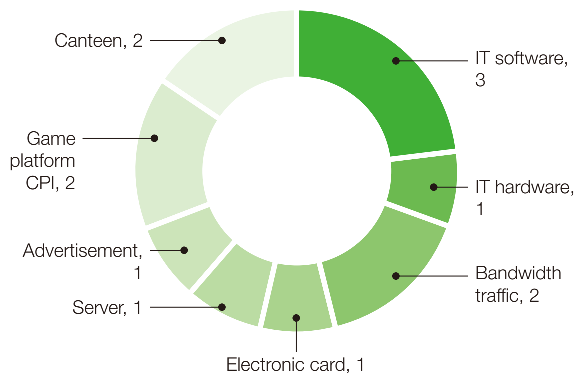
VIII. RESPONSIBILITY OF THE SUPPLY CHAIN

The Group earnestly fulfills its commitment to users and society, and attaches great importance to the management of suppliers, and strictly abides by the "Supplier Selection Management System" formulated within the Group, and regulates the selection, evaluation and management of suppliers. In 2018, the Group has a total of 13 suppliers.

Number of suppliers by region



Number of suppliers by category



1. Supplier Selection

The Group divides the existing suppliers into three categories: card suppliers, other procurement suppliers and major contract suppliers, and formulates the corresponding supplier selection rules for each category. The Group has set up an internal assessment team to understand and select suppliers with good reputation through multiple channels, organize site visits, and compare and score the management and manufacturing capability, technical level, quality, delivery ability, price, after-sales service and other indicators of suppliers by adhering to the principles of openness, impartiality and merit, and determine the final list of suppliers based on the scoring results.

2. Supplier assessment

For the suppliers that the Group chooses to cooperate with, the finance department and relevant departments shall be responsible for the annual supplier assessment. The assessment criteria include the business scale, quality, delivery ability, price, service quality and other aspects of the supplier, and sets weights for each indicator, and the assessment team will score according to the performance of the supplier. The assessment results are divided into three levels, the highest level is A-level suppliers, to whom we will give priority in future procurement transactions; the intermediate level is B-level suppliers, with whom we will maintain normal transactions; the lowest-level is C-level suppliers, with whom we will terminate the partnership and replace them with new suppliers. The results of the assessment will be recorded in the Annual Supplier Assessment Form, which will be kept by the finance department. After the completion of the annual assessment, the finance dpartment will update the List of Major Suppliers based on such assessment.

3. Supplier communication and management

We attach great importance to the continuous communication and exchange with suppliers to ensure that the demands of both sides are responded in a timely manner, and strive to build a sound cooperative relationship featuring mutual benefit, mutual trust and common progress.

Case Study: Canteen Supplier Management

The Group currently introduces two catering suppliers with sufficient qualifications and extensive experience in the industry. By introducing two unique catering suppliers, we aim to create an atmosphere of mutual learning and healthy competition, and encourage the suppliers to provide better services.

The Group has developed a series of quality control measures for canteen suppliers:

- We irregularly visit the supplier’s central kitchen to conduct spot inspections every month, which includes warehouse inventory, food preservation and production process, environmental sanitation, etc.;

- The administrative staff will check the restaurant’s environmental sanitation and food products every day to ensure the comfort of the restaurant environment and the punctuality of the food supply;

- For the complaints against the suppliers in the supply process, the Group has established a clear punishment system, which has been incorporated into the contract terms to reduce the frequency of complaints and improve the service quality.

In order to strengthen the communication with suppliers and implement the feedback of employees in a timely manner, the Group has established the Diet Committee composed of administrative staff, representatives from various departments and representatives from suppliers. In 2018, the Group held a total of five Diet Committee meetings, handled and solved approximately 140 pieces of issues and opinions, and adopted the staff's suggestion to introduce more than 30 new canteen products, which were highly praised and recommended by the staff.

IX. ENVIRONMENTAL RESPONSIBILITY

1. Green operation

The Group always adheres to the concept of green development and conducts daily operation management based on the principle of "green office, energy saving".

1) Energy saving and consumption reduction system construction and measures

The Group has compiled the internal Office 5S Management Regulations (《辦公室5S管理規定》) with Seiri, Seition, Seiso, Setketsu and Shitsuke as the core, which aims to create an energy-saving, environmental-friendly, clean and comfortable working environment, and shall be supervised and implemented by the Administrative Department within the Group.

- LED energy-saving lamps are uniformly installed in the office building of the Group and lights are turned off during the lunch break, and personnel are scheduled to inspect and turn off the power before leaving the office and holidays;

- The office area of the Group is decorated with environmental-friendly materials and the air quality is tested; the split-type air conditioner is installed uniformly, the indoor temperature is controlled at 26 degrees Celsius, and the 24-hour fresh air system is installed to maintain air circulation purification;

- The Group promotes the green behavior of using products, encourages and advocates the use of reusable office stationery, and all of the electronic office equipment are products with energy-saving certification marks; the Group has set up water-saving faucets and energy-saving hand dryers in the restrooms to advocate paper saving;

- The Group realizes online paperless office through the internal OA system, and strictly implements the "green printing" policy, setting monthly caps of paper consumption for employees, and advocates the reuse of secondary environmental-friendly papers, placing storage cabinet for environmental-friendly papers in the file printing area.

2) Waste management

Based on the business characteristics of the Group, our waste discharge mainly consists of waste gas produced by the use of official vehicles, greenhouse gas, office waste and a small amount of waste electronic equipment, and there is no direct discharge of waste to water and land. The garbage is classified and recycled within the Group, and then is packed and transported to the centralized processing unit by the cleaning staff, which will be uniformly handled by the property management company. For the discarded ink cartridges and toner cartridges, the relevant responsible persons will collect them uniformly and regularly deliver them to suppliers for recycling. For the old servers and switches that are no longer in use, the Group transfers them to companies in need for continuous use based on the principle of resource recycling; for the instruments and equipment that cannot be reused, the Group will hand them over to professional organizations for recycling to avoid waste of resources.

2. Promotion of Green Operation

The Group actively promotes environmental protection and cultivates employees' green behavior habits. The Group posts resource-saving marks in the water and electricity consumption area of the office; besides, the Group promotes green travel, encourages employees to choose public transportation, and strives to embed green concept in the hearts of employees.

Case Sharing: Save Food, "Empty Your Plate"

The Group advocates saving and cherishing food and ordering meals on demand, and opposes extravagance and waste. Therefore, the Group has specially produced the "Empty Your Plate, Reduce Waste" slogan, which is posted on the dining tables in the staff restaurant to help employees adhere to table manner and realize the inheritance of the traditional virtue of diligence and thrift.

3. Environmental protection education for Youth

We know that games are closely connected with people's intelligence and imagination, and affect people's inner world with the unique forms of expression, especially for the group of teenagers who are still in the stage of mental development. To this end, the Group resolutely shoulders the responsibility of cultivating the healthy values of teenagers, explores the function of teaching through lively activities in products, and integrates environmental protection education into gaming design.

Case Sharing: Aola Star

The Aola Star is an important flagship product of the Group, which is committed to providing children with healthy and green internet services, enabling children to fully utilize their imagination in the virtual world and develop a more healthy and positive outlook on life and the world. The game has embedded a lot of environmental protection knowledge properly, including garbage sorting, resource recycling, etc., hoping to cultivate the users' awareness of environmental protection.

Key Environmental Performance Data for 2018

ESG Key performance indicators	Unit	Consumption/Emission
SOx	Kg	0.07
NOx	Kg	37.10
Particulate matter	Kg	3.55
Greenhouse gas emissions (Scope I)	Tonnes	12.08
Greenhouse gas emissions (Scope II)	Tonnes	1,254.05
Total greenhouse gas emissions (Scopes I and II)	Tonnes	1,266.13
Total greenhouse gas emissions intensity	Tonne/person	1.90
Waste electronic products (recycled)	Tonnes	7.55
Waste battery (recycled)	Tonnes	0.00324
Ink cartridge/toner cartridge consumption (recycled)	Tonnes	0.0015497
Office garbage	Tonnes	6.50
Office paper consumption (recycled)	Tonnes	0.76
Gasoline consumption	Liter	4,462.81
Electricity consumption	kWh	1,498,800
Direct energy consumption	GJ	139.35
Indirect energy consumption	GJ	5,395.68
Total energy consumption	GJ	5,535.03
Energy consumption intensity	GJ/person	8.31
Water consumption	m^3	1,665
Water consumption intensity	m^3/person	2.50

Description of environmental data:

- The collection time of environmental data covers from 1 January 2018 to 31 December 2018; the scope of collection includes the Group's office premises in Guangzhou and official vehicles.

- Emissions are generated from the gasoline consumption of the Group's official vehicles. The main source of Greenhouse gas emissions (Scope I) is the above-mentioned consumption of gasoline; Greenhouse gas emissions (Scope II) come from the purchased electricity. The relevant emission factors are referenced from the Reporting Guidance on Environmental KPIs of the Stock Exchange, the greenhouse gas emission coefficient of purchased electricity refers to the Ministry of Ecology and Environment's "China Regional Grid Baseline Emission Factor for Emission Reduction Project for 2017 (《2017年度減排項目中國區域電網基準線排放因子》)".

- The types of energy consumed by the Group in 2018 include purchased electricity and gasoline used in official vehicles; the energy consumption factors are referenced from the national GB2589-2008T General Principles of Comprehensive Energy Consumption Calculation.

X. MAJOR HONORS AND AWARDS IN 2018

As of 31 December 2018, the awards obtained by the Group are as follows:

No.	Award	Awarded By	Date of Award
1	The Most Influential Enterprise	Guangdong Game Industry Association	January 2018
2	Outstanding Contribution Award	Guangdong Game Industry Association	January 2018
3	Excellent Bronze Award of The 11th Japanese International MANGA Award *(XiXingJi)*	Japanese International MANGA Exhibition	23 February 2018
4	Jade Monkey Prize – 2018 Top Ten New Animation IP *(XiXingJi)*	China IP Licensing Conference Committee	August 2018
5	"Best Arts Finalist in Bangumi Animation Series" of the First AniSpark Domestic Original Animation Gala *(XiXingJi)* (第一屆AniSpark國產原創動畫盛典動畫番劇類最佳美術入圍獎(《西行紀》))	Sanwen Entertainment	8 September 2018
6	Best Animation Series-Bronze Medal of the 15th China Animation & Comic Competition Golden Dragon Award *(XiXingJi)*	The Organizing Committee of Golden Dragon Award of China International Comics Festival	28 September 2018
7	Best Animated Cartoon Screenplay of the 15th China Animation & Comic Competition Golden Dragon Award *(XiXingJi)*	The Organizing Committee of Golden Dragon Award of China International Comics Festival	28 September 2018
8	First Prize in the 2018 JD.com Alpha Developer Competition *(Boyfriend and Girlfriend Factory)*	JD.com	October 2018
9	Third Prize in the 2018 JD.com Alpha Developer Competition *(Brain Competition)*	JD.com	October 2018
10	Top 50 Guangzhou Cultural Enterprises	Nanfang Daily, Guangzhou Academy of Social Sciences, Guangzhou Cultural Creative Industry Association	30 November 2018
11	Best Screenless Experience Prize & Best Creative Prize of AI Skills Competition by Dialog Mode in Baidu DUEROS 2018 *(Manual of Dating Girl)(百度DUEROS 2018對話式AI技能大賽最佳無屏體驗獎&最佳創意獎(《女神追求手冊》)*	Baidu	November 2018

XI. INDUSTRY ASSOCIATIONS PARTICIPATED BY THE GROUP

As of 31 December 2018, the industry associations in which the Group participated and its memberships are as follows:

No.	Name of Association	Membership Level
1	Copyright Society of China	Director
2	China Audio-video and Digital Publishing Association	Member of Working Committee on Game Publications
3	Guangzhou Software Industry Association	Member
4	Internet Society of China	Member
5	Guangdong Software Industry Association	Director (Baiduo)
6	Guangdong Entertainment & Game Industry Association	Director
7	Guangdong Animation and Cartoon Association	Director
8	Game Culture Industry Alliance of Tianhe Intelligent City in Guangzhou	Director
9	Guangdong Digital Publishing Association	Head Unit of Professional Committee of Online Games Animation
10	Guangzhou Industry Alliance of Cultural Listed Company	Member
11	Guangdong New Social Stratum Association	Member
12	Software and Information Industry Association of Tianhe District of Guangzhou	Vice president
13	Guangzhou Game Industry Association	Executive vice president

APPENDIX I CONTENT INDEX OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE STOCK EXCHANGE

ESG Indicators		Status of Disclosure	Corresponding section
A1 General disclosure	Policies on emissions of exhaust gas and greenhouse gas, discharges into water and land, and generation of hazardous and non-hazardous waste, and information on compliance with relevant laws and regulations that have a significant impact on the issuer.	Disclosed	9. Environmental responsibility
A1.1	The types of emissions and respective emissions data.	Disclosed	9. Environmental responsibility
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	Disclosed	9. Environmental responsibility
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Disclosed	9. Environmental responsibility
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Disclosed	9. Environmental responsibility
A1.5	Description of measures to mitigate emissions and results achieved.	Disclosed	9. Environmental responsibility
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Disclosed	9. Environmental responsibility
A2 General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Disclosed	9. Environmental responsibility
A2.1	Direct and/or indirect energy consumption and intensity by type.	Disclosed	9. Environmental responsibility
A2.2	Water consumption and intensity.	Disclosed	9. Environmental responsibility
A2.3	Description of the energy use efficiency initiatives and results achieved.	Disclosed	9. Environmental responsibility
A2.4	Description of whether there is any issue in sourcing water that is fit for purposes, water efficiency initiatives and results achieved.	Disclosed	9. Environmental responsibility

ESG Indicators		Status of Disclosure	Corresponding section
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A	
A3 General disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Disclosed	9. Environmental responsibility
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Disclosed	9. Environmental responsibility
B1 General disclosure	Policies on remuneration and dismissal, recruitment and promotion, hours of work, holidays, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.	Disclosed	5. Employment management
B1.1	Total workforce by gender, employment type, age group and geographical region.	Partly disclosed	5. Employment management
B1.2	Employee turnover rate by gender, age group and geographical region.	Undisclosed	
B2 General disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relatingto providing a safe working environment and protecting employees from occupational hazards.	Disclosed	5. Employment management
B2.1	Number and rate of work-related fatalities.	Disclosed	5. Employment management
B2.2	Lost days due to work injury.	Disclosed	5. Employment management
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Disclosed	5. Employment management
B3 General disclosure	Policies on improving employees' knowledge and skills or discharging duties at work. Description of training activities.	Disclosed	5. Employment management

	ESG Indicators	Status of Disclosure	Corresponding section
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Partly disclosed	5. Employment management
B3.2	The average training hours completed per employee by gender and employee category.	Partly disclosed	5. Employment management
B4 General disclosure	Information on the policies and compliance with relevant laws and regulations which have a significant impact on issuer relating to preventing child labor and forced labor.	Disclosed	5. Employment management
B4.1	Description of measures to review employment practices to avoid child labor and forced labor.	Disclosed	5. Employment management
B4.2	Description of steps taken to eliminate such practices when discovered.	Undisclosed	
B5 General disclosure	Policies on managing environmental and social risks of the supply chain.	Disclosed	8. Responsibility of the Supply Chain
B5.1	Number of suppliers by geographical region.	Disclosed	8. Responsibility of the Supply Chain
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Disclosed	8. Responsibility of the Supply Chain
B6 General disclosure	information on the policies and compliance with relevant laws and regulations which have a significant impact on issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Disclosed	4. Product responsibility
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A	
B6.2	The number of products and services related complaints received and how they are dealt with.	Partly disclosed	4. Product responsibility
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Disclosed	4. Product responsibility
B6.4	Description of quality assurance process and product recall procedures.	Disclosed	4. Product responsibility
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Disclosed	4. Product responsibility

	ESG Indicators	Status of Disclosure	Corresponding section
B7 General disclosure	Information on policies and compliance with relevant laws and regulations which have a significant impact on issuer relating to prevention of bribery, extortion, fraud and money laundering.	Disclosed	6. Compliance operations and anti-corruption
B7.1	Number of conducted legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Disclosed	6. Compliance operations and anti-corruption
B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	Disclosed	6. Compliance operations and anti-corruption
B8 General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Disclosed	7. Giving Back to the Society
B8.1	Focus areas of contribution (for example, education, environmental matters, labour needs, health, culture, sports).	Disclosed	7. Giving Back to the Society
B8.2	Resources contributed (e.g. money or time) to the focus areas.	Disclosed	7. Giving Back to the Society

APPENDIX II LIST OF INTERNAL POLICIES, LAWS AND REGULATIONS

ESG Indicators	Internal Policies	Compliance with Regulations and Rules
A1 Emissions	Office 5S Management Regulations	Law of the PRC on Environmental Protection Directory of National Hazardous Wastes Law of the PRC on the Prevention and Control of Atmospheric Pollution Law of the PRC on the Prevention and Control of Water Pollution Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste Law of the PRC on the Prevention and Control of Pollution From Environmental Noise
A2 Use of Resources	Office 5S Management Regulations	Law of the PRC on Energy Conservation Law of the PRC on Environmental Protection Recycling Economy Promotion Law of the PRC
A3 Environment and Natural Resources	Office 5S Management Regulations	Law of the PRC on Energy Conservation Law of the PRC on Environmental Protection Law of the PRC on the Prevention and Control of Atmospheric Pollution
B1 Employment	Employee Handbooks Management System for Interns Management Measures for Recruitment Human Resource Management System System of Prohibition of Discrimination and Sexual Harassment	Labor Law of the PRC Labor Contract Law of the PRC Employment Promotion Law of the PRC Social Insurance Law of the PRC Provisions on Minimum Wages Law of the PRC on the Protection of Disabled Persons

ESG Indicators	Internal Policies	Compliance with Regulations and Rules
B2 Health and Safety	Office 5S Management Regulations	Labor Law of the PRC
	Conference Room Management System	Prevention and Control of Occupational Diseases Law of the PRC
	Regulations on Administration of Staff Restaurant	Production Safety Law of the PRC
	Regulations on Administration of Staff Café	Law of the PRC on Fire Prevention
	Regulations on Administration of Fitness Room	Emergency Response Law of the PRC
	Regulations on Administration of Identification Cards	Regulations on the Safety Administration of Hazardous Chemicals
	Regulations on Administration of Keys	
	System of Prohibition of Discrimination and Sexual Harassment	Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents
		Interim Regulations on Investigation and Administration of Hidden Danger in Production Safety
		Regulation of Insurance for Labor Injury
		Provisions on the Supervision and Management of Occupational Health at Work Sites
		Occupational Disease Classification and Catalog
B3 Development and Training	Training Management System of Baioo	
	Administrative Measures for the In-house trainer	
	Human Resource Management System	
	Promotion and Management System of On-job Education for Staff	

ESG Indicators	Internal Policies	Compliance with Regulations and Rules
B4 Labour Standards	Employee Handbooks	Provisions on the Prohibition of the Use of Child Labour
	Human Resource Management System	Labor Law of the PRC
		Labour Contract Law of the PRC
		Regulation on Public Holidays for National Annual Festivals and Memorial Days
		Implementation Measures for Paid Annual Lease for Employees of Enterprises
		Provisions on the Medical Treatment Period of Employees Suffering from Illness or Non-work Related Injuries
		Measures on Administration and Implementation of the Medical Treatment Period of Employees Suffering from Illness or Non-work Related Injuries in Guangzhou
B5 Supply Chain Management	Management System on Choosing Suppliers	Bidding Law of the PRC
	Code of Ethics and Business Conduct System	Copyright Law of the PRC
		General Provisions of the Civil Law of the PRC
		Tort Law of the PRC

ESG Indicators	Internal Policies	Compliance with Regulations and Rules
B6 Product Responsibility	User Information Security and Privacy Protection System	Copyright Law of the PRC
	Regulations on Product and Technical Review Process	Regulation for the Implementation of the Copyright Law of the PRC
	Regulations on Product Launch and Publishing Process	General Provisions of the Civil Law of the PRC
	SDK Access Guidelines	Tort Law of the PRC
	Functional Backstage Access Guidelines	Advertising Law of the PRC
	Elimination and Removal Process	Anti-unfair Competition Law of the PRC
	Emergency Treatment Procedures	Law of the PRC on Protection of Minors
	Process Requirements of Game Updating and Maintenance	The Provisions on the Administration of Online Publishing Services
	Process Requirements of Website Production and Publishing	The Interim Measures for the Administration of Online Games
	Process Requirements of Content Production and Publishing	The Interim Provisions on the Administration of Internet Culture
	Process Requirements of Material Production	
	Treatment Scheme of Operation Accidents	
	Specification for Internal Test and Acceptance of Project	
	Information Disclosure System	
	Relevant Standards for Cloud Testing	
	Guidelines for Legal Affairs of Baioo	

ESG Indicators	Internal Policies	Compliance with Regulations and Rules
B7 Anti-corruption	Anti-fraud and Reporting Corruption Management System Conflict of Interests Management System Code of Ethics and Business Conduct System Inside Information Disclosure Management System Financial Management System	Interim Provisions on Banning Commercial Bribery Anti-money Laundering Law of the PRC Anti-monopoly Law of the PRC Anti-unfair Competition Law of the PRC
	—	—

Independent Auditor's Report

羅兵咸永道

To the Shareholders of BAIOO Family Interactive Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of BAIOO Family Interactive Limited (the "Company") and its subsidiaries (the "Group") set out on pages 118 to 210, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is summarised as follows:

- Revenue recognition — provision of virtual items in online virtual world

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition — provision of virtual items in online virtual world	
Refer to notes 2.20(a) and 4.1(a) to the consolidated financial statements. Revenue from online virtual world for the year ended 31 December 2018 amounted to RMB282,115,000, representing 97% of the Group's total revenue. Out of the total revenue from online virtual world, an amount of RMB228,150,000 is related to the provision of virtual consumable and durable items. Consumable items represent items that will be extinguished shortly after consumption by a specific player action. Therefore, revenue from consumable items is recognized when the items are consumed.	Our procedures, carried out on a sample basis, in relation to management's revenue recognition of provision of virtual items in online virtual world included: • Understood and evaluated the internal control of revenue cycle; and validated the identified key controls with respect to the timing of consumption of consumable and durable virtual items. We determined that we could rely on these controls for the purposes of our audit; • Tested the classification of consumable and durable items by comparing to the features of the corresponding virtual items in revenue recognition;

Key Audit Matter	How our audit addressed the Key Audit Matter
Durable items represent virtual items that are accessible and available to a player over an extended period of time, and the relating revenue is deferred and recognized in contract liabilities and amortized over the life of the durable items. The Group has used paying players' relationship with the Group on an individual virtual world basis ("Player Relationship Period"), as the best estimate, to approximate the period during which paying players use, and thus the life of, durable virtual items. Revenue from durable virtual items of a specific virtual world is recognized on a time-proportion basis over the Player Relationship Period of that online virtual world. The determination of the Player Relationship Period for relevant online virtual world requires significant judgement and estimates. It is made taking into account all known and relevant information available to the Group at the time of assessment. Thus, specific audit focus was placed in this area.	• Evaluated management's judgements and estimations in deriving the Player Relationship Period by comparing to historical patterns; and • Recalculated the revenue recognition of different virtual items generated directly from the Group's information system based on the respective Player Relationship Period. Based on the above, we found that the judgement and estimates applied by management were supported by the evidence we obtained.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Zee, Ho Sum.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2019

Consolidated Income Statement

		Year ended 31 December	
		2018	2017
	Note	**RMB'000**	RMB'000
			(Restated)
Continuing operations			
Revenue	5	**284,489**	309,677
Cost of revenue	6	**(112,812)**	(141,582)
Gross profit		**171,677**	168,095
Selling and marketing expenses	6	**(69,249)**	(57,380)
Administrative expenses	6	**(50,450)**	(50,739)
Research and development expenses	6	**(81,386)**	(61,407)
Net impairment losses on financial assets		**(1,047)**	—
Other income	7	**6,576**	6,845
Other gains — net	8	**15,574**	7,197
Gain on disposal of a subsidiary	16	**115,015**	—
Operating profit		**106,710**	12,611
Finance income	10	**27,399**	28,503
Finance costs	10	**(67)**	(8,884)
Finance income — net	10	**27,332**	19,619
Share of loss of an associate	17	**(7,087)**	—
Profit before income tax		**126,955**	32,230
Income tax expense	11	**(17,933)**	(5,775)
Profit for the year from continuing operations		**109,022**	26,455
Discontinued operations			
Loss for the year from discontinued operations	15	**(1,374)**	(56,864)
Profit/(loss) for the year		**107,648**	(30,409)

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000 (Restated)
Attributable to:			
— Shareholders of the Company			
Continuing operations		**113,052**	31,899
Discontinued operations		**(977)**	(46,293)
		112,075	(14,394)
— Non-controlling interests			
Continuing operations		**(4,030)**	(5,444)
Discontinued operations		**(397)**	(10,571)
		(4,427)	(16,015)
		107,648	(30,409)
Earnings per share for profit from continuing operations attributable to shareholders of the Company (expressed in RMB per share)	12		
Basic earnings per share		**0.0413**	0.0116
Diluted earnings per share		**0.0411**	0.0115
Earnings/(losses) per share for profit attributable to shareholders of the Company (expressed in RMB per share)	12		
Basic earnings/(losses) per share		**0.0409**	(0.0052)
Diluted earnings/(losses) per share		**0.0408**	(0.0052)

The notes on pages 126 to 210 are integral parts of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Profit/(loss) for the year	**107,648**	(30,409)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences of discontinued operation	**276**	(374)
Total comprehensive income for the year	**107,924**	(30,783)
Attributable to:		
— Shareholders of the Company	**112,268**	(14,654)
— Non-controlling interests	**(4,344)**	(16,129)
	107,924	(30,783)
Total comprehensive income/(loss) attributable to Shareholders of the Company arising from:		
— Continuing operations	**113,055**	31,899
— Discontinued operations	**(787)**	(46,553)
	112,268	(14,654)

The notes on pages 126 to 210 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

		As at 31 December	
		2018	2017
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property and equipment	18	**28,230**	30,096
Intangible assets	19	**3,934**	3,825
Investment in an associate	17	**87,780**	—
Prepayments and other receivables	23	**3,266**	3,200
Deferred income tax assets	34	**—**	4,579
Financial assets at fair value through profit or loss	24	**6,954**	6,556
		130,164	48,256
Current assets			
Inventories	21	**2,265**	9,618
Contract costs	31	**1,135**	—
Trade receivables	22	**16,977**	10,546
Prepayments and other receivables	23	**18,043**	20,639
Amount due from a related party	38	**22,168**	—
Financial assets at fair value through profit or loss	24	**100,490**	300
Short-term deposits	25	**222,465**	634,000
Cash and cash equivalents	25	**1,145,686**	907,249
		1,529,229	1,582,352
Total assets		**1,659,393**	1,630,608
EQUITY			
Share capital	26	**9**	9
Share premium	26	**1,457,324**	1,525,596
Reserves	27	**11,350**	18,161
Retained earnings/(accumulated losses)	29	**55,154**	(56,843)
Capital and reserves attributable to Shareholders of the Company		**1,523,837**	1,486,923
Non-controlling interests		**6,964**	1,851
Total equity		**1,530,801**	1,488,774

Consolidated Balance Sheet (Continued)

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Contract liabilities	31	**7,954**	—
Deferred revenue		**—**	6,674
Deferred income tax liabilities	34	**9,228**	526
Advances under government grants	30	**—**	78
		17,182	7,278
Current liabilities			
Trade payables	32	**11,065**	8,491
Other payables and accruals	33	**38,874**	46,625
Advances from customers and distributors		**16,338**	36,026
Advances under government grants	30	**78**	600
Contract liabilities	31	**44,098**	—
Deferred revenue		**—**	38,979
Income tax liabilities		**918**	2,954
Bank overdrafts		**39**	881
		111,410	134,556
Total liabilities		**128,592**	141,834
Total equity and liabilities		**1,659,393**	1,630,608

The notes on pages 126 to 210 are integral parts of these consolidated financial statements.

These consolidated financial statements on pages 118 to 210 were approved by the board of directors of the Company (the "Board") on 28 March 2019 and were signed on its behalf.

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Dai Jian

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Li Chong

Consolidated Statement of Changes in Equity

		Attributable to shareholders of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017		9	1,567,040	30,857	(42,449)	1,555,457	17,657	1,573,114
Comprehensive loss								
Loss for the year		–	–	–	(14,394)	(14,394)	(16,015)	(30,409)
Other comprehensive loss		–	–	(260)	–	(260)	(114)	(374)
Total comprehensive loss		–	–	(260)	(14,394)	(14,654)	(16,129)	(30,783)
Transactions with owners, recognized directly in equity								
Share Option Scheme:								
– Exercise of share options		–	18	(8)	–	10	–	10
– Forfeiture of options to a vendor		–	–	(151)	–	(151)	–	(151)
Restricted share unit ("RSU") Scheme:								
– Value of employee services	27	–	–	7,237	–	7,237	–	7,237
– Vesting of RSUs		–	19,901	(19,901)	–	–	–	–
Value of employee services for restricted shares of a subsidiary	27	–	–	387	–	387	323	710
Final dividend of 2016		–	(43,087)	–	–	(43,087)	–	(43,087)
Buy-back and cancellation of shares	26	–	(18,276)	–	–	(18,276)	–	(18,276)
Total transactions with owners, recognized directly in equity		–	(41,444)	(12,436)	–	(53,880)	323	(53,557)
Balance at 31 December 2017		9	1,525,596	18,161	(56,843)	1,486,923	1,851	1,488,774

Consolidated Statement of Changes in Equity (Continued)

		Attributable to shareholders of the Company						
					(Accumulated losses)/		Non-	
			Share		retained		controlling	
		Share Capital	premium	Reserves	earnings	Total	interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018		9	1,525,596	18,161	(56,843)	1,486,923	1,851	1,488,774
Comprehensive income								
Profit for the year		–	–	–	112,075	112,075	(4,427)	107,648
Other comprehensive income		–	–	193	–	193	83	276
Total comprehensive income		–	–	193	112,075	112,268	(4,344)	107,924
Transactions with owners, recognized directly in equity								
RSU Scheme:								
– Value of employee services	27	–	–	2,413	–	2,413	–	2,413
– Vesting of RSUs		–	9,199	(9,199)	–	–	–	–
Value of employee services for restricted shares of a subsidiary	27	–	–	1,445	–	1,445	1,215	2,660
Final dividend of 2017		–	(48,472)	–	–	(48,472)	–	(48,472)
Buy-back and cancellation of shares	26	–	(28,999)	–	–	(28,999)	–	(28,999)
Disposal of Guangzhou Baiman Culture Communications Company Limited ("Guangzhou Baiman")	16	–	–	–	–	–	6,252	6,252
Winding up of Bumps to Babes Limited ("Bumps")	15	–	–	(1,741)	–	(1,741)	1,990	249
Profit appropriations to statutory reserves	27	–	–	78	(78)	–	–	–
Total transactions with owners, recognized directly in equity		–	(68,272)	(7,004)	(78)	(75,354)	9,457	(65,897)
Balance at 31 December 2018		9	1,457,324	11,350	55,154	1,523,837	6,964	1,530,801

The notes on pages 126 to 210 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	36	**(27,876)**	5,723
Interest received		**14,587**	13,212
Income tax paid		**(6,224)**	(5,243)
Net cash (used in)/generated from operating activities		**(19,513)**	13,692
Cash flows from investing activities			
Proceeds from disposals of subsidiaries	15,16	**12,958**	—
Purchase of property and equipment and intangible assets		**(12,578)**	(4,562)
Proceeds from disposals of fixed assets		**1,279**	—
Interest received from bank deposits		**25,230**	44,860
Investment in bank deposits		**(2,271,465)**	(334,000)
Maturity from bank deposits		**2,583,000**	1,041,427
Decrease in restricted cash		**—**	279,556
Loans to a related party		**(6,000)**	—
Repayment from a related party		**1,000**	—
Net cash generated from investing activities		**333,424**	1,027,281
Cash flows from financing activities			
Repayment of short-term borrowing		**—**	(278,056)
Buy-back and cancellation of ordinary shares		**(28,999)**	(18,276)
Exercise of share options		**—**	10
Interest paid		**(105)**	(41)
Dividend paid to the Company's shareholders		**(48,472)**	(43,087)
Net cash used in financing activities		**(77,576)**	(339,450)
Net increase in cash and cash equivalents		**236,335**	701,523
Cash and cash equivalents at beginning of the year		**906,368**	213,364
Foreign exchange gains/(losses) on cash and cash equivalents		**2,944**	(8,519)
Cash and cash equivalents at end of the year		**1,145,647**	906,368
Cash and cash equivalents comprises:			
Bank overdrafts		**(39)**	(881)
Cash and banks	25	**1,145,686**	907,249
Cash and cash equivalents		**1,145,647**	906,368

The notes on pages 126 to 210 are integral parts of these consolidated financial statements.

Notes to the Financial Statements

1 General information

BAIOO Family Interactive Limited (the "Company" or "Baioo") was incorporated in the Cayman Islands on 25 September 2009 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Hutchins Drive, Cricket Square, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, British West Indies.

The Company and its subsidiaries (collectively the "Group") are principally engaged in the development and operation of online virtual world business for children in the People's Republic of China (the "PRC"), a chain of retail outlets for selling baby and maternity products in Hong Kong together with its associated e-commerce business, as well as some other off-line businesses.

Due to the discontinuance of retail business as part of the Company's strategy, the retail business has been classified as discontinued operations in 2018. The related revenue, expenses and tax are presented as a single amount in the consolidated income statement as "loss for the year from discontinued operations". Comparative figures have been reclassified to conform with the new presentation. For details, please refer to Note 15.

The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since 10 April 2014.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board of the Company on 28 March 2019.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 below.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) ***New standards, amendments to existing standards and interpretations adopted by the Group***

The Group has applied the following new standards, amendments to existing standards and interpretations for the first time for its annual reporting period commencing 1 January 2018:

IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IAS 28 (Amendment)	Investments in Associates and Joint Ventures
Annual Improvements to IFRSs 2014-2016 cycles	Improvements to IFRSs

Save for the impact of adoption of IFRS 9 and IFRS 15 set out in Note 2.2, the adoption of other new and amended standards and interpretations did not have material impact on the consolidated financial statements of the Group.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) New standards, amendments to existing standards and interpretations that have been issued and are relevant to the Group but are not effective and have not been early adopted by the Group

		Effective for annual periods beginning on or after
IAS 19 (Amendments)	Employee Benefits	1 January 2019
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Note
IFRS 16	Leases	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle	Improvements to IFRSs	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

Note: The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

None of above new standards and amendments to standards and interpretations is expected to have a significant effect on the consolidated financial statements of the Group, except for the following:

<u>IFRS 16, 'Leases'</u>

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the consolidated balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) ***New standards, amendments to existing standards and interpretations that have been issued and are relevant to the Group but are not effective and have not been early adopted by the Group (continued)***

IFRS 16, 'Leases' (continued)

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB126,793,000, see Note 37. Of these commitments, approximately RMB520,000 relate to short-term leases which will both be recognized on a straight-line basis as expense in the consolidated income statement.

For the remaining lease commitments the Group expects to recognize right-of-use assets of approximately RMB111,757,000 and lease liabilities of the same amount on 1 January 2019. Net current assets will be RMB15,971,000 lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit after tax will decrease by approximately RMB548,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows will decrease by approximately RMB11,683,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) ***New standards, amendments to existing standards and interpretations that have been issued and are relevant to the Group but are not effective and have not been early adopted by the Group (continued)***

IFRS 16, 'Leases' (continued)

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial information.

(a) ***Impact on the financial information***

The Group applied the modified retrospective approach to adopt IFRS 9 and IFRS 15 without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognized in the opening consolidated balance sheet on 1 January 2018.

The following tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more details by standard below.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

(a) Impact on the financial information (continued)

	31 December 2017 RMB'000	IFRS 9 RMB'000	IFRS 15 RMB'000	**1 January 2018 RMB'000 (Restated)**
Consolidated balance sheet (extract)				
Current assets				
Contract costs	—	—	2,908	**2,908**
Financial assets at fair value through profit or loss	300	100,000	—	**100,300**
Short-term deposits	634,000	(100,000)	—	**534,000**
Total assets	1,630,608	—	2,908	**1,633,516**
Non-current liabilities				
Contract liabilities	—	—	6,674	**6,674**
Deferred revenue	6,674	—	(6,674)	**—**
Current liabilities				
Contract liabilities	—	—	50,196	**50,196**
Advance from customers and distributors	36,026	—	(8,309)	**27,717**
Deferred revenue	38,979	—	(38,979)	**—**
Total liabilities	141,834	—	2,908	**144,742**
Net assets	1,488,774	—	—	**1,488,774**

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

(b) Adoption of IFRS 9, 'Financial Instruments'

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies in the financial information. The new accounting policies are set out in Note 2.11 below.

Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 measurement categories.

The Group classified the structural deposits with embedded derivative as financial assets at fair value through profit or loss ("FVPL"). The structural deposits do not meet the IFRS 9 criteria for classification at amortized cost and should be recognized at financial asset at FVPL, because their cash flows do not represent solely payments of principal and interest.

In addition, in accordance with IFRS 9, financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. The principal of the structural deposits was reclassified from short-term deposit to financial assets at FVPL.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

(b) Adoption of IFRS 9, 'Financial Instruments' (continued)

Impairment of financial assets

The Group has four types of financial assets measured at amortized cost that are subject to IFRS 9's new expected credit loss ("ECL") model:

- Trade receivables
- Contract costs
- Other receivables
- Amount due from a related party

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The Group's management considers that there is no material impact of the change in impairment methodology on the Group's retained earnings and equity.

While cash and cash equivalents and short-term deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

(c) Adoption of IFRS 15, 'Revenue from Contracts with Customers'

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the financial information. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules modified retrospectively and the comparative figures have not been restated. Based on the Group's assessment, the accumulated losses as of 1 January 2018 were not adjusted upon the adoption of IFRS 15. In summary, the deferred distribution costs, which were offset against in deferred revenue in net amount in prior year, were classified as contract costs in the consolidated balance sheet at 1 January 2018. The advances from customers and deferred revenue were classified as contract liabilities in the consolidated balance sheet at 1 January 2018.

2 Summary of significant accounting policies (continued)

2.3 Subsidiaries

2.3.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement in the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interests in the acquiree on an acquisition-by-acquisition basis. The non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of the non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in the consolidated income statement.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 in the consolidated income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 Summary of significant accounting policies (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(a) ***Business combinations (continued)***

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, the non-controlling interests recognized and previously held interest measured is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) ***Changes in ownership interests in subsidiaries***

Transactions with the non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to the non-controlling interests are also recorded in equity.

(c) ***Disposal of subsidiaries***

When the Group ceases to have control over a subsidiary, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income ("OCI") in relation to that entity are accounted for on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. This means if a gain or loss previously recognized in OCI would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss and if a revaluation surplus previously recognized in OCI would be transferred directly to retained earnings on the disposal of the asset, the Group transfers the revaluation surplus directly to retained earnings.

2 Summary of significant accounting policies (continued)

2.3 Subsidiaries (continued)

2.3.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in OCI is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in OCI is recognized in OCI with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to "share of loss of an associate" in the consolidated income statement.

2 Summary of significant accounting policies (continued)

2.4 Associate (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of an associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in an associate are recognized in the consolidated income statement.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"), who are responsible for allocating resources and assessing performance of the operating segments. The CODM has been identified as the executive directors that make strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or of the valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income" or "finance costs". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains — net".

2 Summary of significant accounting policies (continued)

2.6 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii. income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

iii. all resulting currency translation differences are recognized in OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in OCI.

2.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2 Summary of significant accounting policies (continued)

2.7 Property and equipment (continued)

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values of zero over their estimated useful lives, as follows:

Servers	3 years
Office equipment	3 years
Motor vehicles	5 years
Leasehold improvements	Shorter of remaining term of the lease and the estimated useful lives of the assets

The depreciation method, residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains — net" in the consolidated income statement.

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

2 Summary of significant accounting policies (continued)

2.8 Intangible assets (continued)

(b) Trademarks

Trademarks acquired in a business combination are recognized at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortization and impairment. Amortization is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 5 to 15 years.

(c) Intellectual properties

Intellectual properties mainly include animation contents. They are initially recognized and measured at cost. Intellectual properties are amortized using the straight-line method over 5 years which reflects the estimated consumption patterns.

(d) Licenses

The licensed online contents mainly include mobile game operating rights. They are initially recognized and measured at cost. Licensed online contents are amortized using a straight-line method over their estimated useful lives of 3 years.

(e) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved online virtual worlds) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the online virtual world products so that it will be available for use or sale; (2) management intends to complete the online virtual world products and use or sell it; (3) there is an ability to use or sell the online virtual world products; (4) it can be demonstrated how the online virtual world products will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the online virtual world products are available; and (6) the expenditure attributable to the online virtual world products during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred. The Group could not determine whether it was technically feasible to complete the online virtual world products so that it would be available for use or sale and could not determine whether the online virtual world products would generate probable future economic benefit or not during the development phase of an online virtual world. In addition, the Group could not reliably measure the expenditure attributable to each online virtual worlds during its development phase. Therefore, there were no development costs meeting these criteria and capitalized as intangible assets.

Development costs previously recognized as expenses are not recognized as assets in subsequent periods.

2 Summary of significant accounting policies (continued)

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested at least annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each of the reporting dates.

2.10 Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated income statement and the consolidated statement of comprehensive income.

2.11 Investments and other financial assets

2.11.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

2.11.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2 Summary of significant accounting policies (continued)

2.11 Investments and other financial assets (continued)

2.11.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in the consolidated income statement and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the consolidated income statement.

- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in the consolidated income statement. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in the consolidated income statement and presented net within other gains/(losses) in the period in which it arises.

2 Summary of significant accounting policies (continued)

2.11 Investments and other financial assets (continued)

2.11.3 Measurement (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in the consolidated income statement as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.11.4 Impairment of financial assets

The Group assesses on a forward looking basis the ECL associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

Impairment on other receivables and amounts due from related parties is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group applies the simplified approach permitted by IFRS 9, which uses expected lifetime losses to be recognized from initial recognition of trade receivables.

2.11.5 Accounting policies applied until 31 December 2017

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2 Summary of significant accounting policies (continued)

2.11 Investments and other financial assets (continued)

2.11.5 Accounting policies applied until 31 December 2017 (continued)

(a) Classification (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables", "other receivables", "cash and cash equivalents", "short-term deposits", "restricted cash" and "long-term deposits" in the consolidated balance sheet.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

2 Summary of significant accounting policies (continued)

2.11 Investments and other financial assets (continued)

2.11.5 Accounting policies applied until 31 December 2017 (continued)

(c) Impairment of financial assets

Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

2 Summary of significant accounting policies (continued)

2.12 Inventories

Inventories comprising merchandise held for direct sales and low value consumables are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade receivables and other receivables

Trade receivables are amounts due from online payment channels and platforms for services performed to customers in the ordinary course of business. If collection of trade receivables and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See Note 2.11 for further information about the Group's accounting for trade receivables and the description of the Group's impairment policies.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and short-term highly liquid investments with original maturity of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown in current liabilities.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2 Summary of significant accounting policies (continued)

2.17 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognized in the consolidated income statement except to the extent that it relates to items recognized in OCI or directly in equity. In this case, the income tax is also recognized in OCI or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws, enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and the associate, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and the associate only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

2 Summary of significant accounting policies (continued)

2.17 Current and deferred income tax (continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee benefits

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

2.19 Share-based payments

(a) Equity-settled share-based payments transactions

The Group operates various equity-settled share-based compensation plans, including the Share Option Scheme and RSU Scheme, under which the Group receives services from employees as consideration for equity instruments (options or RSUs) of the Company. The fair value of the services received in exchange for the grant of the equity instruments is recognized as expense.

For share options and RSUs awarded to employees, the total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

— including any market performance conditions;

— excluding the impact of any service and non-market performance vesting conditions; and

— including the impact of any non-vesting conditions.

2 Summary of significant accounting policies (continued)

2.19 Share-based payments (continued)

(a) Equity-settled share-based payments transactions (continued)

Non-market performance and service conditions are included in assumptions about the quantum of share options and RSUs that are expected to vest. The total expense is recognized over the vesting period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares under the share options and the number of RSUs that are expected to vest based on the non-market performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

When the share options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) Share-based payments transactions among group entities

The grant by the Company of share options and/or RSUs to the employees or other service providers of the subsidiaries is treated as a capital contribution. The fair value of services received by the subsidiaries, measured by reference to the grant date fair value of the equity instruments issued, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the separate financial statements of the Company.

2.20 Revenue

Online entertainment business

The Group earns revenue primarily through development, operation and exclusive distribution of online virtual world business through its own web-based platform, third party web-based platforms and mobile platforms. Third party web-based platforms and mobile platforms are collectively referred to the “Third Party Platforms” thereafter. For self-developed online virtual worlds, the Group is responsible for hosting them, providing on-going updates of additional online virtual worlds, activity and storyline, sales of virtual items and services, technical support for the operations of the online virtual worlds, etc. Third Party Platforms are responsible for distribution, marketing, payer authentication and payment collections related to the online virtual worlds. For online virtural worlds exclusively licensed by the third party game developers, the Group is responsible for distribution, marketing and operations.

2 Summary of significant accounting policies (continued)

2.20 Revenue (continued)

Online entertainment business (continued)

(a) ***Revenue from operation of online virtual worlds***

The Group's online virtual worlds are free-to-play and players can pay for virtual items for better in-game experience, through its own web-based platform and Third Party Platforms. Players purchase the Group's virtual currency (namely, Aocoin) and online virtual world tokens ("Paying Players") through various payment channels or Third Party Platform's own charging system, and use them to exchange for virtual items. The Group hosts self-developed online virtual worlds which sell virtual items. Paying Players usually exchange their online virtual world tokens for the virtual items shortly after purchases. The monetary value of the virtual items sold is shared between the Group and Third Party Platforms for those online virtual worlds operated in Third Party Platforms, which is pre-determined in individual revenue sharing arrangements ("Revenue Sharing Arrangements"). Third Party Platforms collect the payments made by Paying Players and remit the cash to the Group according to the Revenue Sharing Arrangements.

The Group provides such services to players via its own platforms and Third Party platforms pursuant to time-based revenue model and item-based revenue model.

For online services using the time-based model, Paying Players pay a membership subscription fee for a certain number of calendar days ("Subscription Period") and enjoy a certain range of privileges during the Subscription Period. Subscription fee income is recognized over the Subscription Period on a straight-line basis.

Revenue earned from the sale of virtual items is recognized by applying the item-based model, based on the different features of virtual items. Under the item-based model, revenue is recognized over the estimated lives of the virtual items purchased or consumed. Upon the sales of virtual items, the Group typically has an implied obligation to provide the service which enables the virtual items to be displayed and used in the respective online virtual worlds. As a result, the proceeds from the sales of virtual items are initially recorded in deferred revenue and are recognized as revenue subsequently only when the services have been rendered. For the purposes of determining when services have been rendered to the respective Paying Players, the Group has determined the following:

— Consumable virtual items represent items that will be extinguished shortly after consumption by a specific player action. Paying Players will not continue to benefit from the virtual items thereafter. Revenue is recognized upon consumption.

— Durable virtual items represent virtual items that are accessible to a player over an extended period of time. The life of a durable virtual item approximately equals the period during which Paying Players use it. For the revenue derived from durable items, the Group has adopted a policy of using the period of Paying Players' relationship with the Group on an individual virtual world basis ("Player Relationship Period") to approximate the period during which Paying Players use durable virtual items. Revenue from sales of durable virtual items of a specific online virtual world is recognized ratably over the Player Relationship Period of that online virtual worlds.

2 Summary of significant accounting policies (continued)

2.20 Revenue (continued)

Online entertainment business (continued)

(a) ***Revenue from operation of online virtual worlds (continued)***

For the exclusively licensed online virtual worlds, the Group takes primary responsibilities of game operations, including determining distribution and payment channels, providing customer services, and controlling game and services specifications and pricing. Distribution cost incurred to distribution channels and payments channels are recorded as cost of revenue.

(b) ***Other key accounting policies in relation to revenue from online entertainment business***

In determining the Player Relationship Period related to the recognition of revenue from sales of durable virtual items of the Group's self-developed online virtual worlds, the Group tracks the Paying Players' data, such as log-in data and purchase records. The Group re-assesses such periods semi-annually based on data gathered from paying users up to the date of reassessment and applies the most updated estimated user relationship period for each virtual world for revenue recognition prospectively.

When the Group launches a new virtual world on its platform, it estimates the Player Relationship Period based on other similar types of virtual worlds of the Group or third party developers, taking into account the virtual world profile, target audience and its appeal to Paying Players of different demographic groups, until the new virtual worlds establish their own history, which is normally up to 6 months after launch.

Prepaid cards expire on the expiration date pre-printed thereon, which is generally two years after the date of card production. The Group will estimate the expired rate of prepaid cards and recognizes the revenue from expired prepaid cards together with the sales of virtual items.

The cost of providing free virtual items as a result of promotional activities was insignificant.

The Group allows Paying Players to make payments either by way of purchasing prepaid cards sold through a number of distributors or through online payment channels for those virtual worlds The Group has evaluated the roles and responsibilities for delivering game experience to the Paying Players and concluded that the Group takes the primary responsibilities in the sales of prepaid cards and collection of payments from Paying Players.

2 Summary of significant accounting policies (continued)

2.20 Revenue (continued)

Other businesses

Revenues from the Group's other businesses mainly include advertising revenue and licensing income from licensing the Group's proprietary cartoon images to merchandisers and book publishers.

(a) Advertising revenue

Advertising revenues are derived principally from advertising arrangements where the advertisers pay to place their advertisements inside the online virtual worlds hosted by the Group over a particular period of time. Advertisements inside the Group's online virtual worlds are generally charged on the basis of duration, and advertising contracts are signed to establish the fixed price and the advertising services to be provided. Where collectability is reasonably assured, advertising revenues from advertising contracts are recognized ratably over the contract period of display.

The Group enters into advertising contracts with third party advertising agencies that represent advertisers. Contract terms generally range from 1 to 3 months. Third party advertising agencies are generally billed at the end of the display period and payments are due usually within 3 months.

(b) Licensing fees

Revenues generated under merchandise licensing are calculated and recognized based on the volume of the merchandise products determined in the agreement (such as sales volume) and the agreed rate of licensing fees as set out in the licensing contracts. The sales of the licensed products are derived from the sales reports provided by the licensees, the evidence of which is readily available for verification by the Group. In case where the licensing fee is charged based on the period of usage by the licensees, the Group recognizes the revenue from licensing fee ratably over the usage period.

Contract costs and contract liabilities

Contract liabilities primarily consists of the unamortized revenue from sales of virtual items for online virtual worlds, where there is still an implied obligation to be fulfilled by the Group over time.

Contract costs are mainly related to the distribution costs charged by Third Party Platforms.

2 Summary of significant accounting policies (continued)

2.21 Cost of revenue

Amounts recorded as cost of revenue relate to direct expenses incurred in order to generate revenue from online business and other businesses. Such costs are recorded as incurred. Cost of revenues consists primarily of (i) employee benefit expenses, (ii) distribution costs and payment handling fees, (iii) depreciation and amortization of property and equipment and intangible assets, (iv) bandwidth and server custody fees; etc.

2.22 Interest income

Interest income mainly represents interest income from bank deposits and is recognized using the effective interest method.

2.23 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to costs are included in current or non-current liabilities as advances from government grants and are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants related to property and equipment are included in non-current liabilities as advances from government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group approved by the Board.

(a) Market risk

(i) Foreign exchange risk

The Group's foreign exchange risk primarily arose from the cash and cash equivalents denominated in Hong Kong Dollar (HK$) and US dollar (US$). If RMB had strengthened/weakened by 100 basis points against HK$ and US$ with all other variables held constant, the post-tax profit for the year ended 31 December 2018 would have been approximately lower/higher by RMB569,000 (2017: approximately lower/higher by RMB1,071,000).

The Group does not hedge against any fluctuation in foreign currency.

(ii) Interest rate risk

For the years ended 31 December 2018 and 2017, management of the Group is of the opinion that interest rate risk (such as interest rate risk on bank deposits) was not material to the Group.

(b) Credit risk

The carrying amounts of deposits placed with cash and cash equivalents, trade receivables, contract costs, other receivables and amount due from a related party included in the financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

As at 31 December 2018, substantially all the Group's bank deposits included in cash and bank balances were deposited with major financial institutions incorporated in the PRC, which management believes are of high credit quality without significant credit risk.

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime expected loss allowance for all trade receivables.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

In view of the history of cooperation with the platforms and payment channels and the collection history, trade receivables have been grouped based on shared credit risk characteristics and the days past due to measure ECL. Therefore, trade receivables have been divided into two groups: Group A (low credit risk), and Group B (others).

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. In assessing the shared credit risk characteristics of the trade receivables, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

On that basis, the loss allowance for trade receivables as at 31 December 2018 was determined as follows:

	Group A RMB'000	Group B RMB'000	Total RMB'000
31 December 2018			
Expected loss rate	0%	30%	
Gross carrying amount – trade receivables	14,589	3,435	18,024
Loss allowance	—	1,047	1,047

There was no change of the loss allowance on 1 January 2018 for trade receivables.

For contract costs, other receivables and amount due from a related party, the Group assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. The Group's management believes that there is no material credit risk inherent in the outstanding balance of other receivables and amount due from a related party.

The entity is also exposed to credit risk in relation to debt investments that are measured at fair value through profit or loss. The maximum exposure as at 31 December 2018 is the carrying amount of these investments.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents for daily operations. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyzes the Group's financial liabilities into the relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000
At 31 December 2018	
Trade payables	**11,065**
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	**21,330**
Bank overdrafts	**39**
At 31 December 2017	
Trade payables	8,491
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	21,572
Bank overdrafts	881

3 Financial risk management (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital by regularly reviewing the capital structure and gearing ratio. This ratio is calculated as total liabilities divided by total assets. As part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. Besides, the Group's strategy was to maintain the gearing ratio within 40%.

The gearing ratios were as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Total liabilities	**128,592**	141,834
Total assets	**1,659,393**	1,630,608
Gearing ratio	**8%**	9%

3.3 Fair value estimation

Financial instruments are carried at fair value within a fair value hierarchy that categorizes, into three levels, inputs to valuation techniques used to measure the fair value. The three different levels are as follows:

— Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

— Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

— Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2018.

	Level 3 RMB'000
Recurring fair value measurements:	
Assets:	
Financial assets at fair value through profit or loss	**107,444**

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017.

	Level 3 RMB'000
Recurring fair value measurements:	
Assets:	
Financial assets at fair value through profit or loss	6,856

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

Specific valuation techniques used to value financial instruments include:

— Quoted market prices or dealer quotes for similar instruments

— Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate

— A combination of observable inputs and unobservable inputs, including discount rate, risk-free interest rate, expected volatility and market multiples

There were no changes in valuation techniques.

The following table presents the changes in level 3 instruments for the year ended 31 December 2018.

	Financial assets at fair value through profit or loss RMB'000
At 31 December 2017	**6,856**
Change in accounting policy (Note 2.2)	**100,000**
Restated at 1 January 2018	**106,856**
Gains recognized in profit or loss (Note 8)	**15,493**
Addition	**1,380,000**
Repayment of structural deposits	**(1,394,905)**
At 31 December 2018	**107,444**
Unrealised gains recognized in profit or loss for the year	**887**

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2017.

	Financial assets at fair value through profit or loss RMB'000
At 1 January 2017	5,861
Gains recognized in profit or loss (Note 8)	7,142
Disposal of a derivative	(6,147)
At 31 December 2017	6,856
Unrealised gains recognized in profit or loss for the year	4,162

The Group determines the fair value of the Group's level 3 financial instrument carried at fair value at each of the reporting dates.

Level 3 instruments mainly included an unlisted equity investment and derivatives. During the year ended 31 December 2018, fair value gain of RMB15,096,000 (2017: RMB3,280,000) related to derivatives and RMB397,000 (2017: RMB3,862,000) related to the unlisted investment were recognized. The Group invested in short-term structural deposits that contained derivatives. Such structural deposits are recognized as financial assets at fair value through profit or loss. The fair value gain related to the structural deposits for the year ended 31 December 2018 comprised realized gain of RMB14,606,000 (2017: RMB2,980,000) and unrealized gain of RMB490,000 (2017: RMB300,000). The fair value gain related to the unlisted equity investment for the year ended 31 December 2018 were unrealized (2017: same).

As these structural deposits were not traded in an active market, their fair value have been determined using various applicable valuation techniques, including comparable transactions approaches, equity allocation model and other option pricing models etc. As at 31 December 2018, major assumptions used in the valuation for the structural deposits include risk free rate of 3.74% and other exposure etc. The unlisted equity instruments were valued with reference to comparable transactions.

The carrying amounts of financial assets including cash and cash equivalents, short-term deposits, long-term deposits, restricted cash, trade and other receivables; and financial liabilities including trade payables and other payables and accruals, approximated their respective fair value at each of the reporting dates.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimates of Player Relationship Period for online business

As described in Note 2.20, the Group recognizes revenue from durable virtual items in self-developed online virtual worlds ratably over Player Relationship Period. The determination of Player Relationship Period for the relevant online virtual worlds are made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in Player Relationship Period as a result of new information will be accounted for as a change in accounting estimates.

(b) Current income tax and deferred tax

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

4 Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(b) Current income tax and deferred tax (continued)

Deferred income tax is provided on temporary differences arising on distributions of retained earnings by subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Specifically, for the potential timing differences arising from the distribution of retained earnings of the Company's subsidiaries in the PRC to the Company, management has assessed the availability of distributable revenues (see Note 11(d)) and funds held by the Company and concluded that the PRC subsidiaries are unlikely to be required to distribute their retained earnings in the foreseeable future. As a result, no deferred tax liability on PRC withholding tax ("WHT") has been provided as at 31 December 2018 and 2017.

(c) Recognition of share-based compensation expenses

As mentioned in Note 28, the Group has granted share options and RSUs to its employees. The directors have used the binomial option-pricing model and discounted cash flow method to determine the total fair value of the share options and Pre-IPO RSUs granted, respectively, which is to be expensed over the vesting period. Significant estimates on assumptions, such as vesting period, underlying equity value, risk-free interest rate, expected volatility and dividend yield, are required to be made by the directors in applying the binomial option-pricing model and discounted cash flow method.

4.2 Critical judgements in applying the Group's accounting policies

(a) Subsidiaries arising from contractual arrangements

The Company's wholly-owned subsidiary, Baiduo (Guangzhou) Information Technology Limited ("Guangzhou WFOE"), has entered into a series of contractual arrangements (the "Contractual Arrangements") with Guangzhou Baitian Information Technology Limited ("Guangzhou Baitian") and its equity holders.

The Contractual Arrangements are irrevocable and enable Guangzhou WFOE, and ultimately the Group, to:

— exercise effective financial and operational control over Guangzhou Baitian;

— exercise equity holders' voting rights over Guangzhou Baitian;

— receive substantially all of the economic interest and returns generated by Guangzhou Baitian in consideration for the business support, technical and consulting services provided by Guangzhou WFOE, at Guangzhou WFOE's discretion;

— obtain an irrevocable and exclusive right to purchase the entire equity interest in Guangzhou Baitian from the equity holders;

— obtain a pledge over the entire equity interest in Guangzhou Baitian from its equity holders as collateral security for all of Guangzhou Baitian's payments due to Guangzhou WFOE and to secure performance of Guangzhou Baitian's obligations under the Contractual Arrangements, respectively.

4 Critical accounting estimates and judgements (continued)

4.2 Critical judgements in applying the Group's accounting policies (continued)

(a) Subsidiaries arising from contractual arrangements (continued)

The Company does not hold equity shares directly or indirectly in Guangzhou Baitian. However, as a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with Guangzhou Baitian and the ability to affect those returns through its power over Guangzhou Baitian and is considered to have control over Guangzhou Baitian. Consequently, the Company regards Guangzhou Baitian as an indirect subsidiary under IFRSs. The Group has included the financial position and results of Guangzhou Baitian in the consolidated financial statements.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Guangzhou Baitian and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights to the results, assets and liabilities of Guangzhou Baitian. The Group believes that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

5 Segment information

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the chief operating decision maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company that make strategic decisions.

The Group determined that it has operating segments as follows:

— Online entertainment business

— Other businesses

The Group's other businesses mainly include advertising, licensing and other services.

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses, research and development expenses, other income, other gains — net, finance income — net, and income tax expense are not included in the measure of the segments' performance.

The retail segment has been wound up from 22 March 2018. Information about this discontinued segment is provided in Note 15.

There were no material inter-segment sales during years ended 31 December 2018 and 2017, respectively. The revenues from external customers reported to CODM are measured as segment revenue.

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these financial statements. There was no separate segment assets and segment liabilities information provided to the CODM.

5 Segment information (continued)

The segment information provided to the Group's CODM for the reportable segments for the years ended 31 December 2018 and 2017 are as follows:

	Year ended 31 December 2018				
	Online entertainment business RMB'000	Other businesses RMB'000	Subtotal RMB'000	Discontinued operations* RMB'000	Total RMB'000
Segment revenue	**282,115**	**2,374**	**284,489**	**5,248**	**289,737**
Timing of revenue recognition					
At a point in time	**150,460**	**—**	**150,460**	**5,248**	**155,708**
Over time	**131,655**	**2,374**	**134,029**	**—**	**134,029**
Gross profit	**170,378**	**1,299**	**171,677**	**2,504**	**174,181**
Depreciation	**7,582**	**121**	**7,703**	**127**	**7,830**
Amortization	**780**	**271**	**1,051**	**7**	**1,058**
Share of loss of an associate	**—**	**(7,087)**	**(7,087)**	**—**	**(7,087)**

	Year ended 31 December 2017				
	Online entertainment business RMB'000	Other businesses RMB'000	Subtotal RMB'000	Discontinued operations* RMB'000	Total RMB'000
Segment revenue	305,690	3,987	309,677	40,853	350,530
Timing of revenue recognition					
At a point in time	146,381	—	146,381	40,853	187,234
Over time	159,309	3,987	163,296	—	163,296
Gross profit	165,843	2,252	168,095	18,704	186,799
Depreciation	7,444	136	7,580	1,777	9,357
Amortization	205	335	540	1,661	2,201

* The retail business has been classified as discontinued operations, and the related revenue, expenses and tax are presented as a single amount in the consolidated income statement as "loss for the year from discontinued operations".

5 Segment information (continued)

The reconciliation of gross profit to profit before income tax for the continuing operations is shown in the consolidated income statement.

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC and Hong Kong. For the years ended 31 December 2018 and 2017, the geographical information on the total revenues is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Continuing operations		
— Mainland China	**268,677**	309,677
— Hong Kong	**15,812**	—
Revenue from continuing operations	**284,489**	309,677
Discontinued operations		
— Mainland China	**—**	1,182
— Hong Kong	**5,248**	39,671
Revenue from discontinued operations	**5,248**	40,853
Total	**289,737**	350,530

5 Segment information (continued)

There is no concentration risk in terms of customers (which include end users from online business and customers from other businesses) as no single external customer contributed more than 10% of the Group's total revenue for the years ended 31 December 2018 and 2017. However, revenue of the Group is mainly derived from self-developed online virtual worlds operations and the Group depends on the success of a limited number of online virtual worlds to generate revenue. As summarized in the table below, the online virtual worlds contributing more than 10% of the Group's total revenue account for 78.9% and 72.2% of the total revenue for the years ended 31 December 2018 and 2017, respectively. The percentage of revenue contributed by the following online virtual worlds is not presented for the years when such amount is less than 10% of the Group's total revenue in a particular period.

	Year ended 31 December	
	2018	2017
Legend of Aoqi	**32.8%**	28.6%
Aola Star	**30.7%**	25.9%
Zaowufaze	**15.4%**	17.7%

As at 31 December 2018, the total non-current assets, other than financial assets and deferred tax assets, located in Mainland China and Hong Kong were RMB119,914,000 (31 December 2017: RMB33,522,000) and RMB30,000 (31 December 2017: RMB399,000), respectively.

6 Expenses by nature

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Employee benefit expenses (Note 9)	**158,708**	153,034
Promotion and advertising expenses	**53,173**	40,483
Distribution costs and payment handling fees	**35,122**	52,455
Operating lease rentals	**18,556**	18,030
Content expenses	**9,897**	5,228
Depreciation of property and equipment and amortization of intangible assets (Note 5)	**8,754**	8,120
Bandwidth and server custody fees	**7,597**	9,897
Professional fees	**7,506**	6,943
Travelling and entertainment expenses	**4,604**	4,867
Auditor's remuneration	**3,927**	3,800
Utilities and office expenses	**1,948**	2,044
Others	**4,105**	6,207
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**313,897**	311,108

7 Other income

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Government grants	**6,000**	6,548
Others	**576**	297
	6,576	6,845

8 Other gains — net

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Financial assets at fair value through profit or loss:		
— Fair value gains (Note 3.3)	**15,493**	7,142
Others	**81**	55
	15,574	7,197

9 Employee benefit expenses

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Wages, salaries and discretionary bonuses	**121,128**	112,788
Pension costs — defined contribution plans (Note (a))	**11,311**	10,890
Other social security costs, housing benefits and other employee benefits	**21,196**	21,409
Share-based compensation expenses	**5,073**	7,947
	158,708	153,034

(a) Pension costs — defined contribution plans

Employees of the Group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. For the year ended 31 December 2018, the Group contributes funds which are calculated on a fixed percentage of 14% (2017: 14%) of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

9 Employee benefit expenses (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year include three (2017: three) directors whose emoluments are reflected in the analysis shown in Note 41. The emoluments paid and payable to the remaining two (2017: two) individuals during the year are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages and salaries	**1,620**	1,620
Discretionary bonuses	**275**	170
Pension costs — defined contribution plans	**64**	58
Other social security costs, housing benefits and other employee benefits	**73**	67
Share-based compensation expenses	**179**	1,005
	2,211	2,920

The emoluments fell within the following bands:

	Year ended 31 December	
	2018	2017
HK$1,000,000 to HK$1,500,000	**2**	1
HK$1,500,000 to HK$2,000,000	**—**	1

10 Finance income – net

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Finance income:		
— Interest income from bank deposits and other term deposits	**23,823**	28,503
— Net foreign exchange gains	**2,810**	—
— Interest income on loans to Guangzhou Baiman	**766**	—
	27,399	28,503
Finance costs:		
— Net foreign exchange loss	**—**	(8,884)
— Interest expense	**(67)**	—
	(67)	(8,884)
Finance income — net	**27,332**	19,619

11 Income tax expense

The income tax expense of the Group for the years ended 31 December 2018 and 2017 is analyzed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Current income tax	**4,188**	6,040
Deferred income tax (Note 34)	**13,745**	(951)
Income tax expense	**17,933**	5,089
Income tax expense is attributable to:		
Profit from continuing operations	**17,933**	5,775
Loss from discontinued operations	**—**	(686)
	17,933	5,089

11 Income tax expense (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit from continuing operations before income tax expense	**126,955**	32,230
Loss from discontinued operations before income tax expense	**(1,374)**	(57,550)
Profit/(loss) before income tax	**125,581**	(25,320)
Share of loss of an associate	**(7,087)**	—
	118,494	(25,320)
Tax calculated at income tax rates applicable to profits/(losses) of the consolidated entities in their respective jurisdictions (Notes (a), (b), (c))	**15,732**	(5,786)
Tax effects of:		
Tax losses for which no deferred income tax asset was recognized	**7,925**	6,067
Super deduction for research and development expenses (Note (c))	**(5,743)**	(2,374)
Income not subject to tax	**(1,182)**	(13)
Expenses not deductible for income tax purposes:		
— Share-based compensation	**1,172**	1,288
— Goodwill impairment	**—**	5,496
— Others	**29**	411
Income tax expense	**17,933**	5,089

(a) Cayman Islands income tax

The Company was 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.

(b) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the years ended 31 December 2018 and 2017.

11 Income tax expense (continued)

(c) PRC corporate income tax

The Group's subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except Guangzhou Baitian and Baiduo. Guangzhou Baitian was qualified as "High and New Technology Enterprise" in 2011, 2014 and 2017 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the years ended 31 December 2018 and 2017. Baiduo was qualified as "Small Low-Profit Enterprise" in 2018 and was entitled to a preferential income tax rate of 10% on its estimated assessable profits for the year ended 31 December 2018 (2017: 25%).

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The additional tax deducting amount of the qualified research and development expenses has been increased from 150% to 175%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018. The Group has considered the Super Deduction to be claimed for the group entities in ascertaining their assessable profits for the years ended 31 December 2018 and 2017.

(d) 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%.

For the years ended 31 December 2018 and 2017, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings to the Company. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period (Note 34).

12 Earnings/(losses) per share

(a) Basic

(i) Basic earnings per share for profit from continuing operations attributable to shareholders of the Company

Basic earnings per share is calculated by dividing the profit from continuing operations attributable to shareholders of the Company by the weighted average number of ordinary shares in issue less shares held for RSU Scheme during the year.

	Year ended 31 December	
	2018	2017
Profit from continuing operations attributable to shareholders of the Company (RMB'000)	**113,052**	31,899
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,738,003,867**	2,755,781,015
Basic earnings per share (in RMB/share)	**0.0413**	0.0116

(ii) Basic earnings/(losses) per share for profit attributable to shareholders of the Company

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue less shares held for RSU Scheme during the year.

	Year ended 31 December	
	2018	2017
Profit/(loss) attributable to shareholders of the Company (RMB'000)	**112,075**	(14,394)
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,738,003,867**	2,755,781,015
Basic earnings/(losses) per share (in RMB/share)	**0.0409**	(0.0052)

12 Earnings/(losses) per share (continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended 31 December 2018, the Company had two categories of potential ordinary shares, the share options and the RSUs, which had to be considered for calculating diluted earnings per share. A calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the year) based on the total proceeds receivable upon exercising the outstanding share options and RSUs. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and RSUs. The difference is added to the denominator as the number of shares issued for no consideration.

For the year ended 31 December 2017, the Company had two categories of potential ordinary shares, the share options and the RSUs, which had to be considered for calculating diluted losses per share. No adjustment was made to basic losses per share to derive the diluted losses per share for the year ended 31 December 2017 as each type of potential ordinary shares was anti-dilutive.

(i) Diluted earnings per share for profit from continuing operations attributable to shareholders of the Company

	Year ended 31 December	
	2018	2017
Earnings		
Profit from continuing operations attributable to shareholders of the Company and profit used to determine diluted earnings per share (RMB'000)	**113,052**	31,899
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,738,003,867**	2,755,781,015
Adjustments for:		
— RSUs	**8,860,616**	28,699,433
— Share options	**1,148,237**	1,334,622
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,748,012,720**	2,785,815,070
Diluted earnings per share (in RMB/share)	**0.0411**	0.0115

12 Earnings/(losses) per share (continued)

(b) Diluted (continued)

(ii) Diluted earnings per share for profit attributable to shareholders of the Company

	Year ended 31 December 2018
Earnings	
Profit attributable to shareholders of the Company and profit used to determine diluted earnings per share (RMB'000)	**112,075**
Weighted average number of ordinary shares	
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,738,003,867**
Adjustments for:	
— RSUs	**8,860,616**
— Share options	**1,148,237**
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,748,012,720**
Diluted earnings per share (in RMB/share)	**0.0408**

13 Net foreign exchange gains/(losses)

The exchange differences credited/(charged) to the consolidated income statement are included as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Finance income/(costs) — net (Note 10)	**2,810**	(8,884)
Other gains/(losses) — net	**167**	(346)
	2,977	(9,230)

14 Subsidiaries

The following is a list of the principal subsidiaries as at 31 December 2018:

Name of the company	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Group (%)		Proportion of equity interest held by the non-controlling interests (%)		Principal activities and place of operation
			2018	2017	2018	2017	
Directly held by the Company							
Baitian Technology Limited ("Baitian Hong Kong")	Hong Kong, Limited liability company	HK$10,000	100%	100%	–	–	Investment holding, Hong Kong
Baioo Technology Limited ("Baitian BVI")	British Virgin Islands, Limited liability company	US$ 50,000	100%	100%	–	–	Investment holding, British Virgin Islands
Babábaobei Commerce Limited ("BCL")	British Virgin Islands, Limited liability company	US$ 50,000	92.5%	92.5%	7.5%	7.5%	Investment holding, British Virgin Islands
Indirectly held by the Company							
廣州百田信息科技有限公司 ("Guangzhou Baitian")	The PRC, Limited liability company	RMB10,010,000	100%	100%	–	–	Online interactive entertainment and education service for children, the PRC
百多(廣州)信息科技有限公司 ("Guangzhou WFOE")	The PRC, Limited liability company	US$ 500,000	100%	100%	–	–	Research and development of computer software, the PRC
廣州天梯網絡科技有限公司 ("Guangzhou Tianti")	The PRC, Limited liability company	RMB2,000,000	100%	100%	–	–	Software and information technology services, the PRC
廣州小雲熊家庭互動教育有限公司 ("Xiaoyunxiong")	The PRC, Limited liability company	RMB20,000,000	100%	100%	–	–	Education service for children, The PRC

(a) The directors of the Company considered that the non-controlling interests of any non-wholly owned subsidiaries are not significant to the Group. Therefore, no summarized financial information of the relevant subsidiaries is presented separately.

(b) Significant restrictions

Cash and cash equivalents and short-term deposits of subsidiaires established in the PRC amounting to RMB1,242,012,000 are held in China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

15 Discontinued operations

(a) Description

On 22 March 2018, the Group initiated winding up of Bumps, an indirect non-wholly owned subsidiary. Due to the insolvency of Bumps, the voluntary winding up was converted to creditors' winding up. Therefore, the Group lost the control of Bumps.

In light of this, the Group also discontinued the whole retail business and associated e-commerce in its entirety.

Financial information relating to retail business for the three months ended 31 March 2018 is set out below (2017: year ended 31 December 2017).

(b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the three months ended 31 March 2018 and the year ended 31 December 2017.

		Year ended 31 December	
		2018	2017
		RMB'000	RMB'000
Revenue	5	**5,248**	40,853
Expenses		**(15,322)**	(104,901)
Other income		**—**	118
Other losses		**(123)**	(410)
Finance income — net		**282**	6,790
Loss before income tax from discontinued operations		**(9,915)**	(57,550)
Income tax expense		**—**	686
Loss after income tax from discontinued operations		**(9,915)**	(56,864)
Gain on winding up of Bumps after income tax	(c)	**8,541**	—
Loss from discontinued operations		**(1,374)**	(56,864)
Loss from discontinued operations attributable to:			
— Shareholders of the Company		**(977)**	(46,293)
— Non-controlling interests		**(397)**	(10,571)
		(1,374)	(56,864)
Currency translation differences of discontinued operations		**276**	(374)
Other comprehensive income/(loss) of discontinued operations		**276**	(374)
Total comprehensive loss of discontinued operations		**(1,098)**	(57,238)

15 Discontinued operations (continued)

(b) Financial performance and cash flow information (continued)

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash outflow from operating activities	**(991)**	(64,590)
Net cash outflow from investing activities	**(27)**	(251)
Net cash outflow from financing activities	**(38)**	(42)
Net decrease in cash generated by the subsidiaries	**(1,056)**	(64,883)
	RMB	RMB
Basic losses per share from discontinued operations attributable to shareholders of the Company	**(0.0004)**	(0.0168)
Diluted losses per share from discontinued operations attributable to shareholders of the Company	**(0.0004)**	(0.0168)

(c) Details of winding up of Bumps

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Consideration received or receivable	**—**	—
Carrying amount of net liabilities disposed	**6,800**	—
Reclassification of foreign currency translation reserve (Note 27)	**1,741**	—
Gain on winding up of Bumps after income tax	**8,541**	—

Outflow of cash arising from winding up of Bumps:

	Year ended 31 December 2018 RMB'000
Cash and cash equivalents disposed	**(47)**
Net cash outflow from winding up of Bumps	**(47)**

16 Disposal of a subsidiary

On 4 May 2018, the Group disposed of 7% equity interest in of Guangzhou Baiman to Xiamen Geecap Equity Investment Co., Ltd., a third party, for a consideration of RMB14,000,000. After the disposal, the Group retained 47.4% equity interest in Guangzhou Baiman. As a result, Guangzhou Baiman ceased to be a subsidiary and became an associate of the Group, which was recognized at fair value.

Details of the net liabilities disposed and the gain on disposal are as follows:

	Year ended 31 December 2018 RMB'000
Assets and liabilities disposed of	
Total assets	**8,895**
Total liabilities	**(21,295)**
Less: non-controlling interest	**6,252**
Net liabilities disposed of	**(6,148)**
Consideration received	**14,000**
Recognition of investment in an associate at fair value	**94,867**
Net liabilities disposed of	**6,148**
Gain on disposal of a subsidiary	**115,015**
Inflow of cash arising from disposal of a subsidiary:	
Cash received	**14,000**
Cash and cash equivalents disposed of	**(995)**
Net cash inflow from disposal of a subsidiary	**13,005**

The gain on disposal of the subsidiary was mainly attributable to a valuable proprietary intellectual property owned by Guangzhou Baiman, which is anticipated to generate economic benefits in the future through production of comic and animation products, games and souvenirs.

The Group's remaining interest in Guangzhou Baiman at the date of disposal was determined by reference to the consideration and the valuation performed by a professional valuer, Avista Business Consulting (Shanghai) Co., Ltd.. The key assumptions used for the valuation, over a ten-year forecast period, are set out below. They are estimated based on the historical sales and margin level, and management's expectation of the business and market development in future.

Average annual sales revenue (RMB'000)	120,998
Average gross profit margin (% of revenue)	45.7%
Post-tax discount rate	20%
Long-term growth rate	3%

17 Investment in an associate

	Year ended 31 December 2018 RMB'000
As at 1 January 2018	**—**
Addition (Note 16)	**94,867**
Share of loss for the year	**(7,087)**
As at 31 December 2018	**87,780**

18 Property and equipment

	Servers RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2017					
Cost	27,194	7,110	3,245	40,066	77,615
Accumulated depreciation	(24,029)	(3,918)	(2,203)	(8,592)	(38,742)
Net book amount	3,165	3,192	1,042	31,474	38,873
Year ended 31 December 2017					
Opening net book amount	3,165	3,192	1,042	31,474	38,873
Additions	—	1,110	—	573	1,683
Depreciation charge	(1,765)	(1,763)	(367)	(5,462)	(9,357)
Disposals	—	(57)	—	—	(57)
Impairment loss	—	(253)	—	(671)	(924)
Currency translation differences	—	(34)	(35)	(53)	(122)
Closing net book amount	1,400	2,195	640	25,861	30,096
At 31 December 2017					
Cost	21,777	7,607	3,026	27,544	59,954
Accumulated depreciation	(20,377)	(5,159)	(2,386)	(1,012)	(28,934)
Accumulated impairment	—	(253)	—	(671)	(924)
Net book amount	1,400	2,195	640	25,861	30,096

18 Property and equipment (continued)

	Servers RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
Year ended 31 December 2018					
Opening net book amount	1,400	2,195	640	25,861	30,096
Additions	296	636	—	7,285	8,217
Depreciation charge	(1,028)	(1,099)	(243)	(5,460)	(7,830)
Disposals	(34)	(29)	(169)	(662)	(894)
Disposal of subsidiaries	—	(965)	(165)	(197)	(1,327)
Currency translation differences	—	—	(32)	—	(32)
Closing net book amount	634	738	31	26,827	28,230
At 31 December 2018					
Cost					
Accumulated depreciation	11,935	5,236	633	32,271	50,075
Accumulated impairment	(11,301)	(4,498)	(602)	(5,444)	(21,845)
Net book amount	634	738	31	26,827	28,230

Depreciation charge was included in the following categories in the consolidated income statement:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Cost of revenue	2,736	3,152
Administrative expenses	2,177	3,633
Research and development expenses	2,348	1,768
Selling and marketing expenses	569	804
	7,830	9,357

19 Intangible assets

	Goodwill RMB'000	Trademark RMB'000	Intellectual properties RMB'000	Licenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017						
Cost	33,306	19,988	1,674	—	1,679	56,647
Accumulated amortization	—	(2,105)	(251)	—	(442)	(2,798)
Net book amount	33,306	17,883	1,423	—	1,237	53,849
Year ended 31 December 2017						
Opening net book amount	33,306	17,883	1,423	—	1,237	53,849
Additions	—	—	—	—	387	387
Amortization charge	—	(1,548)	(335)	—	(318)	(2,201)
Currency translation differences	—	(527)	—	—	—	(527)
Impairment loss	(33,306)	(14,377)	—	—	—	(47,683)
Closing net book amount	—	1,431	1,088	—	1,306	3,825
At 31 December 2017						
Cost	33,306	18,709	1,674	—	2,066	55,755
Accumulated amortization	—	(2,901)	(586)	—	(760)	(4,247)
Accumulated impairment	(33,306)	(14,377)	—	—	—	(47,683)
Net book amount	—	1,431	1,088	—	1,306	3,825
Year ended 31 December 2018						
Opening net book amount	**—**	**1,431**	**1,088**	**—**	**1,306**	**3,825**
Additions	**—**	**—**	**—**	**3,380**	**753**	**4,133**
Amortization charge	**—**	**(125)**	**(112)**	**(389)**	**(432)**	**(1,058)**
Disposal	**—**	**—**	**—**	**—**	**(36)**	**(36)**
Disposal of subsidiaries	**—**	**(1,306)**	**(976)**	**—**	**(648)**	**(2,930)**
Closing net book amount	**—**	**—**	**—**	**2,991**	**943**	**3,934**
At 31 December 2018						
Cost	**—**	**—**	**—**	**3,380**	**2,043**	**5,423**
Accumulated amortization	**—**	**—**	**—**	**(389)**	**(1,100)**	**(1,489)**
Net book amount	**—**	**—**	**—**	**2,991**	**943**	**3,934**

19 Intangible assets (continued)

Amortization charge was included in the following categories in the consolidated income statement:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Selling and marketing expenses	**163**	1,975
Research and development expenses	**228**	138
Cost of revenue	**445**	43
Administrative expenses	**222**	45
	1,058	2,201

20 Financial instruments by category

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Assets as per consolidated balance sheet		
Financial assets at amortized assets		
— Trade receivables (Note 22)	**16,977**	10,546
— Other receivables (excluding prepayments) (Note 23)	**18,347**	17,699
— Amount due from a related party	**22,168**	—
— Short-term deposits (Note 25)	**222,465**	634,000
— Cash and cash equivalents (Note 25)	**1,145,686**	907,249
	1,425,643	1,569,494
Assets at fair value through the profit or loss:		
— Financial assets at fair value through profit or loss (Note 24)	**107,444**	6,856
	1,533,087	1,576,350
Liabilities as per consolidated balance sheet		
Financial liabilities at amortized cost:		
— Trade payables (Note 32)	**11,065**	8,491
— Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals) (Note 33)	**21,330**	21,572
— Bank overdrafts	**39**	881
	32,434	30,944

21 Inventories

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Finished goods — cost	**2,265**	16,255
Less: allowance for impairment	**—**	(6,637)
	2,265	9,618

The inventories are mainly children education products for the Group's other businesses of Xiaoyunxiong.

22 Trade receivables

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Receivables from third parties	**18,024**	10,546
Less: allowance for impairment	**(1,047)**	—
	16,977	10,546

As at 31 December 2018 and 2017, the fair values of trade receivables approximate their carrying amounts.

(a) Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
0–30 days	**9,087**	4,406
31–60 days	**1,640**	1,454
61–90 days	**2,765**	992
91–180 days	**850**	1,533
181–365 days	**3,682**	2,161
	18,024	10,546

(b) The receivables are due from online payment agencies and Third Party Platforms with whom the Group had not experienced any recoverability difficulties. The Group can call for collection on demand.

(c) The Group applies the simplified approach to provide for ECL prescribed by IFRS 9. As at 31 December 2018, a provision of RMB1,047,000 was made against the gross amounts of trade receivables (2017: nil) (Note 3.1(b)).

(d) As at 31 December 2018 and 2017, trade receivables were denominated in RMB and their fair value approximated their carrying amounts.

(e) The maximum exposure to credit risk is the carrying amount of the net receivable balance. The Group does not hold any collateral as security.

(f) There was no concentration risk with respect to trade receivables as at 31 December 2018.

23 Prepayments and other receivables

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Included in non-current assets		
Rental and other deposits	**3,266**	6,486
Less: allowance for impairment	**—**	(3,286)
	3,266	3,200
Included in current assets		
Interests receivable	**5,789**	5,967
Prepayments	**2,962**	6,140
Receivables for disabled people security funds	**1,183**	—
Rental and other deposits	**15**	849
Receivables from sale of an online virtual world	**—**	2,000
Others	**8,094**	6,194
	18,043	21,150
Less: allowance for impairment	**—**	(511)
	18,043	20,639
	21,309	23,839

As at 31 December 2018 and 2017, the carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximated their fair values.

No allowance for impairment was made for the year ended 31 December 2018. As at 31 December 2017, an allowance for impairment on rental deposit of RMB3,797,000 was made, which has been disposed with winding up of Bumps in 2018.

The maximum exposure to credit risk at each of the reporting dates is the carrying amount of each class of other receivables mentioned above. The Group does not hold any collateral as security.

24 Financial assets at fair value through profit or loss

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Included in non-current assets		
Unlisted equity security	**6,954**	6,556
Included in current assets		
Structural deposits	**100,000**	—
Derivatives	**490**	300
	107,444	6,856

Changes in fair values of financial assets at fair value through profit or loss are recorded in "other gains — net" in the consolidated income statement (Note 8).

25 Cash and cash equivalents and short-term deposits

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Short-term deposits (Note (a))	**222,465**	634,000
Cash and cash equivalents		
— Cash at banks and on hand (Note (b))	**1,145,686**	907,249
	1,368,151	1,541,249
Maximum exposure to credit risk (Note (d))	**1,367,986**	1,540,985

(a) Short-term deposits represent the Group's deposit placed in banks with an expected maturity of over three months but less than one year.

(b) All cash in bank balances as at 31 December 2018 and 2017 were demand deposits in nature.

(c) The effective interest rate per annum for all bank balances and term deposits as at 31 December 2018 was approximately 1.8% (2017: 1.9%).

(d) To manage the credit risk, bank deposits are mainly placed with state-owned or reputable listed financial institutions in the PRC and reputable international financial institutions outside the PRC. There has been no recent history of default in relation to these financial institutions.

25 Cash and cash equivalents and short-term deposits (continued)

Cash and cash equivalents and short-term deposits are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**1,304,412**	1,425,650
HK$	**39,423**	90,414
US$	**24,216**	25,091
Others	**100**	94
	1,368,151	1,541,249

26 Share capital and share premium

As at 31 December 2018, the total number of ordinary shares of the Company was 2,807,152,000 (2017: 2,874,958,000) shares which included 101,709,350 (2017: 119,860,600) shares held under the RSU Scheme.

	Number of shares	Nominal value of shares US$'000	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
Issued and fully paid:					
As at 1 January 2017	2,900,676,000	2	9	1,567,040	1,567,049
Share Option Scheme:					
— Exercise of share options	160,000	–	–	18	18
RSU Scheme:					
— Issuance of shares held for RSU Scheme	6,100,000	–	–	–	–
— Vesting of RSUs	–	–	–	19,901	19,901
2016 final dividend paid to equity holders of the Company (Note 35)	–	–	–	(43,087)	(43,087)
Buy-back and cancellation of shares	(31,978,000)	–	–	(18,276)	(18,276)
As at 31 December 2017	2,874,958,000	2	9	1,525,596	1,525,605

26 Share capital and share premium (continued)

	Number of shares	Nominal value of shares US$'000	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
Issued and fully paid:					
As at 1 January 2018	2,874,958,000	2	9	1,525,596	1,525,605
RSU Scheme:					
— Vesting of RSUs	–	–	–	9,199	9,199
2017 final dividend paid to equity holders of the Company (Note 35)	–	–	–	(48,472)	(48,472)
Buy-back and cancellation of shares	(67,806,000)	–	–	(28,999)	(28,999)
As at 31 December 2018	2,807,152,000	2	9	1,457,324	1,457,333

(a) The Company acquired 67,806,000 of its own shares through purchases from the stock market during the year ended 31 December 2018 for cash totalling HK$34,049,000 (equivalent to RMB28,999,000) and which was deducted from the share premium account. The shares were cancelled after the repurchase.

27 Reserves

	Other reserves RMB'000 (Note (a))	Statutory reserves RMB'000 (Note (b))	Share-based compensation reserve RMB'000 (Note 28)	Translation RMB'000	Total RMB'000
As at 1 January 2017	2,069	5,005	21,975	1,808	30,857
Value of employee services for restricted shares of a subsidiary	—	—	387	—	387
Share Option Scheme:					
— Exercise of share options	—	—	(8)	—	(8)
— Forfeiture of options to a vendor	—	—	(151)	—	(151)
RSU Scheme:					
— Value of employee services	—	—	7,237	—	7,237
— Vesting of RSUs	—	—	(19,901)	—	(19,901)
Currency translation difference	—	—	—	(260)	(260)
As at 31 December 2017	2,069	5,005	9,539	1,548	18,161
As at 1 January 2018	**2,069**	**5,005**	**9,539**	**1,548**	**18,161**
Value of employee services for restricted shares of a subsidiary	**—**	**—**	**1,445**	**—**	**1,445**
RSU Scheme:					
— Value of employee services	**—**	**—**	**2,413**	**—**	**2,413**
— Vesting of RSUs	**—**	**—**	**(9,199)**	**—**	**(9,199)**
Profit appropriations to statutory reserves	**—**	**78**	**—**	**—**	**78**
Currency translation difference	**—**	**—**	**—**	**193**	**193**
Winding up of Bumps	**—**	**—**	**—**	**(1,741)**	**(1,741)**
As at 31 December 2018	**2,069**	**5,083**	**4,198**	**—**	**11,350**

(a) The reserves represent capital contribution injected by Guangzhou Baitian's shareholders into Guangzhou Baitian upon its establishment.

(b) In accordance with the relevant laws and regulations in the PRC and the Articles of Association of subsidiaries with limited liabilities incorporated in the PRC now comprising the Group, it is required to appropriate 10% of the annual net profits of the companies incorporated in the PRC now comprising the Group, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital of the companies, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be capitalized as capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve funds. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer need not be made.

28 Share-based payments

(a) Share Option Scheme

On 18 June 2010, the Board of the Company approved the establishment of the Pre-IPO Share Option Scheme with the objective to recognize and reward the contribution of eligible officers, employees, directors and other persons to the growth and development of the Group.

The options shall not become exercisable until after (i) the closing of an Initial Public Offering or a Change in Control Event (as defined below), whichever occurs first, and (ii) the relevant option holder shall have fully performed his or her reporting and registration obligations under the State Administration of Foreign Exchange in the People's Republic of China with respect to his or her holding of the Options or any Ordinary Shares.

Under this Share Option Scheme, IPO and Change in Control Event shall have the meaning as follows:

(i) IPO means the first firm commitment underwritten public offering of the Ordinary Shares of the Company on a recognized national or regional securities exchange.

(ii) Change in Control Event ("Change in Control Event") means:

(a) Approval by the board and the shareholders of the Company of the dissolution or liquidation of the Company; or

(b) Consummation of either (i) any consolidation, amalgamation, scheme of arrangement or merger of the Company with or into any other person or other corporate reorganization, in which the current shareholders of the Company will own less than 50% of the surviving company's or companies' voting power, or any transaction to which the Company is a party in which in excess of 50% of the Company's voting power is transferred, (ii) any transaction related to a sale, transfer, lease or other disposition of all or substantially all of the assets of the Company, (iii) any transaction related to the sale, pledge, transfer or other disposition of all or substantially all of the Company's outstanding shares, in which the current shareholders of the Company will own less than 50% of the surviving company's or companies' voting power, or (iv) the exclusive licensing of all or substantially all of the Company's intellectual property to a third party.

28 Share-based payments (continued)

(a) Share Option Scheme (continued)

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

Movements in the number of shares under the options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price in US$ per share under the option	Number of shares under the option
As at 1 January 2017	0.009	1,544,000
Exercised	0.007	(160,000)
Forfeited	0.005	—
As at 31 December 2017	0.009	1,384,000
As at 1 January 2018	**0.009**	**1,384,000**
Forfeited	**0.009**	**(40,000)**
As at 31 December 2018	**0.009**	**1,344,000**

On 10 April 2014, upon the completion of the IPO, the share options became exercisable.

No options exercised in 2018 resulted in shares (2017: 160,000 shares) being issued (a weighted average price in 2017: HK$0.55 per share).

As at 31 December 2018, options granted over 922,000 and 422,000 shares will expire in 2020 and 2021 with exercise price of US$0.009 per share.

28 Share-based payments (continued)

(b) RSU Scheme(s)

On 30 September 2013, the Board of the Company resolved and adopted the Pre-IPO RSU Scheme with the objective of recognizing the contributions by employees and giving incentives thereto in order to retain them for the continuing operation and development of the Group and attract suitable personnel for further development of the Group.

Pursuant to the resolution above, unless otherwise duly approved by the shareholders of the Company, the ordinary shares in aggregate underlying all RSUs under the Pre-IPO RSU Scheme shall not exceed 188,733,600 ordinary shares.

The Board of the Company or the compensation committee of the Board of the Company (the "Compensation Committee") has the sole discretion to determine the vesting schedule and vesting criteria (if any) for any grant of RSUs to any grantees.

The Company granted 142,004,000 RSUs to certain employees and 600,000 RSUs to the Company's Independent Non-Executive Directors under the Pre-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

On 18 March 2014, the Board of the Company resolved and conditionally adopted the Post-IPO RSU Scheme, which took effect on 10 April 2014, pursuant to which, the total number of shares underlying the RSUs that may be granted under the Post-IPO RSU Scheme was 2% of the total number of shares in issue on the listing date of 10 April 2014 which is subject to annual refreshment by shareholder approval.

The Post-IPO RSU Scheme is the share-based incentive scheme that the Company has in place to motivate its employees after its listing.

On 19 June 2015, at the annual general meeting of the Company, the shareholders approved an amendment to the Post-IPO RSU Scheme to increase the limit from 2% of the number of shares of the Company in issue on 10 April 2014 to 4% of the Company's issued share capital as of the approval date.

On 10 July 2015, the Company granted RSUs representing an aggregate of 95,780,000 shares to certain grantees pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

On 10 November 2017, the Company granted RSUs representing an aggregate of 6,100,000 shares to 6 grantees, pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

28 Share-based payments (continued)

(b) RSU Scheme(s) (continued)

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As at 1 January 2017	57,542,400
Granted	6,100,000
Forfeited	(3,877,050)
Vested	(32,683,350)
As at 31 December 2017	27,082,000
As at 1 January 2018	**27,082,000**
Forfeited	**(2,559,250)**
Vested	**(18,151,250)**
As at 31 December 2018	**6,371,500**

For the RSUs granted before the IPO, the directors used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted an equity allocation method to determine the fair value of the RSUs as at the grant date.

The weighted average share price at the time of the conversion of RSUs into ordinary shares during the year ended 31 December 2018 was HK$0.48 (2017: HK$0.55) per share.

29 Retained earnings/(accumulated losses)

	RMB'000
As at 1 January 2017	(42,449)
Loss for the year	(14,394)
As at 31 December 2017	(56,843)
As at 1 January 2018	**(56,843)**
Profit for the year	**112,075**
Profit appropriations to statutory reserves	**(78)**
As at 31 December 2018	**55,154**

30 Advances under government grants

This balance represented the government grants related to property and equipment to be credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

31 Contract costs and contract liabilities

The Group has recognized the following assets and liabilities related to contracts with customers:

	As at 31 December 2018 RMB'000
Current contract costs relating to online virtual worlds	**1,135**
Non-current contract liabilities	
— Memberships	**2,114**
— Online virtual worlds (Note (a))	**5,840**
Total non-current contract liabilities	**7,954**
Current contract liabilities	
— Advances from customers	**7,218**
— Memberships	**14,013**
— Online virtual worlds (Note (a))	**22,867**
Total current contract liabilities	**44,098**

(a) Contract liabilities of virtual worlds primarily consist of the unamortized memberships and durable virtual items, and online virtual world tokens held by Paying Players which have not yet been used to purchase virtual items. Contract liabilities will be recognized as revenue when all of the revenue recognition criteria are met. Revenue related to online virtual worlds, amounting to RMB228,150,000, was recognized in 2018 (2017: RMB233,037,000).

31 Contract costs and contract liabilities (continued)

The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward contract liabilities:

	Year ended 31 December 2018 RMB'000
Revenue recognized that was included in the contract liability balance at the beginning of the year	
— Advances from customers	**8,309**
— Memberships	**17,748**
— Online virtual worlds	**24,139**
	50,196

Unsatisfied contracts related to memberships and online virtual worlds are expected to be recognized in 1 to 2 years, as of 31 December 2018.

32 Trade payables

Trade payables primarily relate to the purchase of services for server custody, distribution costs and the revenue sharing collected by the Group's own platforms which is payable to cooperated game developers according to the respective cooperation agreements.

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
0–30 days	**5,499**	1,830
31–60 days	**3,762**	2,189
61–180 days	**974**	3,351
181–365 days	**830**	1,121
	11,065	8,491

(a) As at 31 December 2018 and 2017, the fair value of trade payables approximated their carrying amounts.

33 Other payables and accruals

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Staff costs and welfare accruals	**16,433**	24,673
Accruals for rental expenses	**12,974**	14,468
Professional service fees payable	**5,566**	4,277
Payables on leasehold improvements	**1,725**	1,497
Other tax liabilities (Note (b))	**1,111**	380
Commission payable to distributors	**354**	857
Others	**711**	473
	38,874	46,625

(a) As at 31 December 2018 and 2017, the fair value of other payables and accruals approximated their carrying amounts.

(b) The balances represent liabilities relating to value-add tax and other related taxes in the PRC.

34 Deferred income tax

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	**2,225**	2,504
— to be recovered within 12 months	**2,635**	2,075
Set-off deferred tax assets pursuant to set-off provisions	**(4,860)**	—
	—	4,579

34 Deferred income tax (continued)

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Deferred income tax liabilities:		
— to be recovered after 12 months	**14,088**	397
— to be recovered within 12 months	**—**	129
Set-off of deferred tax assets pursuant to set-off provisions	**(4,860)**	—
	9,228	526

The gross movement on the deferred income tax account is as follows:

	Deferred income tax assets RMB'000	Deferred income tax liabilities RMB'000
As at 1 January 2018	**4,579**	**526**
Recognized in profit or loss (Note 11)	**281**	**14,026**
Disposal of a subsidiary	**—**	**(464)**
Set-off of deferred tax assets	**(4,860)**	**(4,860)**
As at 31 December 2018	**—**	**9,228**
As at 1 January 2017	6,375	3,296
Recognized in profit or loss (Note 11)	(1,732)	(2,683)
Currency translation differences	(64)	(87)
As at 31 December 2017	4,579	526

34 Deferred income tax (continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets	Contract costs and contract liabilities RMB'000	Advances under government grants RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2017	3,188	252	1,817	1,118	6,375
Recognized in profit or loss	(429)	(150)	(1,790)	637	(1,732)
Currency translation differences	—	—	(27)	(37)	(64)
As at 31 December 2017	2,759	102	—	1,718	4,579
Recognized in profit or loss	165	(90)	—	206	281
Set-off of deferred tax liabilities	(2,924)	(12)	—	(1,924)	(4,860)
As at 31 December 2018	**—**	**—**	**—**	**—**	**—**

Deferred income tax liabilities	Intangible assets acquired in business combination at fair value RMB'000	Investment changed from a subsidiary to an associate at fair value RMB'000	Total RMB'000
As at 1 January 2017	3,296	—	3,296
Recognized in profit or loss	(2,683)	—	(2,683)
Currency translation differences	(87)	—	(87)
As at 31 December 2017	526	—	526
Recognized in profit or loss	(62)	14,088	14,026
Disposal of a subsidiary	(464)	—	(464)
Set-off of deferred tax liabilities	—	(4,860)	(4,860)
As at 31 December 2018	**—**	**9,228**	**9,228**

34 Deferred income tax (continued)

Deferred income tax assets are recognized for tax losses carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB7,092,000 and RMB13,655,000 in respect of losses amounting to RMB32,472,000 and RMB61,797,000 that can be carried forward against future taxable income for the years ended 31 December 2018 and 2017, respectively, as it is uncertain that future taxable income will be available in those subsidiaries against which the tax losses can be utilized. Tax losses amounting to RMB339,000, and RMB20,064,000 will expire in 2022 and 2023, respectively. The remaining tax losses have no expiry date.

As at 31 December 2018 and 2017, no deferred income tax liability had been provided for in respect of the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB810,044,000 and RMB678,812,000, respectively. Such earnings are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

35 Dividend

The dividends paid in 2018 and 2017 were RMB48,472,000 and RMB43,087,000 respectively. The Board of Directors of the Company proposed a special dividend of HK$0.021 (equivalent to approximately RMB0.018) per ordinary share out of the share premium account, totalling approximately RMB48,487,000. Such dividend is to be approved by the shareholders at the annual general meeting ("AGM") on 28 June 2019. These financial statements do not reflect this dividend payable as a liability as at 31 December 2018.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Proposed special dividend of HK$0.021 equivalent to approximately RMB0.018 (2017: HK$0.021) per ordinary share	**50,309**	48,976
Less: Dividend for shares held for the RSU Schemes	**(1,822)**	(2,039)
	48,487	46,937

36 Cash flow information

(a) Cash generated from operations

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit/(loss) after income tax	**107,648**	(30,409)
Adjustments for:		
— Income tax expense (Note 11)	**17,933**	5,089
— Winding up of Bumps (Note 15)	**(8,541)**	—
— Depreciation of property and equipment (Note 18)	**7,830**	9,357
— Amortization of intangible assets (Note 19)	**1,058**	2,201
— Impairment charge of property and equipment and intangible assets (Notes 18 and 19)	**—**	48,607
— Impairment charge of other receivables	**—**	3,797
— Share-based compensation expenses	**5,073**	7,796
— Finance income — net	**(27,614)**	(26,409)
— Gains on disposal of fixed assets and intangible assets	**(349)**	—
— Share of loss of an associate (Note 17)	**7,087**	—
— Gain on disposal of a subsidiary (Note 16)	**(115,015)**	—
— Fair value gains on financial assets at fair value through profit or loss (Note 8)	**(15,493)**	(7,142)
— Net impairment losses on financial assets (Note 22)	**1,047**	—
— Foreign exchange losses on operating activities (Note 13)	**(167)**	406
Changes in working capital (excluding the currency translation differences on consolidation):		
— Inventories	**2,423**	3,533
— Trade receivables	**(7,791)**	(669)
— Prepayments and other receivables	**(1,171)**	3,852
— Trade payables	**7,635**	(1,127)
— Other payables and accruals	**4,048**	4,800
— Advances from customers and distributors	**(18,181)**	(6,537)
— Advances under government grants	**(600)**	(1,000)
— Contract costs	**(1,135)**	—
— Contract liabilities and deferred revenue	**6,399**	(10,422)
Cash (used in)/generated from operations	**(27,876)**	5,723

During the year ended 31 December 2018, no changes in liabilities was from financing activities (2017: same).

37 Commitments

(a) Operating lease commitments — group company as leasee

The Group leases buildings for daily operations under non-cancellable operating leases. The lease expenditure charged to profit or loss for the years ended 31 December 2018 and 2017 is disclosed in Note 6.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Not later than 1 year	**16,039**	20,825
Later than 1 year and not later than 5 years	**70,181**	71,111
Over 5 years	**40,573**	59,148
	126,793	151,084

38 Related party transactions

The ultimate parent and the ultimate controlling party of the Group is TMF (Cayman) Ltd. (incorporated in the Cayman Islands).

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

(a) Name and relationship with related parties

The following entity is a related party of the Group that had balances and/or transactions with the Group for the years ended 31 December 2018:

Name	Relationship
Guangzhou Baiman*	An associate of the Group

* Guangzhou Baiman was a subsidiary of the Group and became an associate of the Group since 4 May 2018.

(b) Balances with a related party

(i) Amounts due from a related party

Name of a related party	As at 31 December	
	2018	2017
	RMB'000	RMB'000
—Guangzhou Baiman	**22,168**	—

The amounts due from a related party are unsecured, interest-free and repayable on demand.

(c) Transactions with a related party

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Loans to Guangzhou Baiman	**6,000**	—
Repayment of loans by Guangzhou Baiman	**(1,000)**	—
Interest income on loans from Guangzhou Baiman	**766**	—

38 Related party transactions (continued)

(d) Key management personnel compensations

The compensations paid or payable to key management personnel for employee services are shown below:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	**6,900**	6,945
Pension costs — defined contribution plans	**278**	235
Other social security costs, housing benefits and other employee benefits	**300**	318
Share-based compensation expenses	**207**	2,000
	7,685	9,498

39 Contingencies

The Group did not have any material contingent liabilities as at 31 December 2018 and 2017.

40 Balance sheet and reserve movement of the Company

Balance sheet of the Company	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries		**252,539**	250,124
Financial assets at fair value through profit or loss		**6,954**	6,556
		259,493	256,680
Current assets			
Prepayments and other receivables		**5,416**	5,458
Amounts due from subsidiaries		**31,145**	29,088
Short-term deposits		**207,465**	514,000
Cash and cash equivalents		**330,722**	156,703
		574,748	705,249
Total assets		**834,241**	961,929
EQUITY			
Share capital		**9**	9
Share premium		**1,457,324**	1,525,596
Reserves	(a)	**2,252**	9,038
Accumulated losses	(a)	**(644,124)**	(649,676)
Total equity		**815,461**	884,967
LIABILITIES			
Current liabilities			
Other payables and accruals		**2,726**	1,339
Amounts due to subsidiaries		**16,054**	75,623
		18,780	76,962
Total liabilities		**18,780**	76,962
Total equity and liabilities		**834,241**	961,929

40 Balance sheet and reserve movement of the Company (continued)

(a) Reserve movement of the Company

	Other reserve RMB'000	Accumulated losses RMB'000
At 1 January 2017	21,861	(652,334)
Profit for the year	—	2,658
Share Option Scheme:		
— Exercise of share options	(8)	—
— Forfeit of options to a vendor	(151)	—
RSU Scheme:		
— Value of employee services	7,237	—
— Vesting of RSUs	(19,901)	—
At 31 December 2017	9,038	(649,676)
At 1 January 2018	**9,038**	**(649,676)**
Profit for the year	**—**	**5,552**
RSU Scheme:		
— Value of employee services	**2,413**	**—**
— Vesting of RSUs	**(9,199)**	**—**
At 31 December 2018	**2,252**	**(644,124)**

41 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

(a) Directors' and chief executives' emoluments

The remunerations of the directors and the chief executive for each of the years ended 31 December 2018 and 2017 are set out below:

Year ended 31 December 2018:

Name	Fees	Salaries	Discretionary bonus	Employer's contribution to retirement benefit scheme	Other social security costs, housing benefits and other employee benefits	Estimated money value of share-based compensation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors							
Mr. Dai Jian (Chief Executive Officer ("CEO")) (i)	–	1,380	115	63	48	28	1,634
Mr. Wu Lili	–	600	50	87	83	–	820
Mr. Li Chong	–	1,440	120	32	48	–	1,640
Mr. Wang Xiaodong	–	1,200	100	32	48	–	1,380
Independent Non-Executive Directors							
Ms. Liu Qianli	333	–	–	–	–	–	333
Dr. Wang Qing	333	–	–	–	–	–	333
Mr. Ma Xiaofeng	333	–	–	–	–	–	333

41 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

(a) Directors' and chief executives' emoluments (continued)

Year ended 31 December 2017:

Name	Fees	Salaries	Discretionary bonus	Employer's contribution to retirement benefit scheme	Other social security costs, housing benefits and other employee benefits	Estimated money value of share-based compensation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors							
Mr. Dai Jian (Chief Executive Officer ("CEO")) (i)	–	1,380	115	29	44	738	2,306
Mr. Wu Lili	–	600	50	80	108	–	838
Mr. Li Chong	–	1,440	120	29	44	–	1,633
Mr. Wang Xiaodong	–	1,200	100	29	44	–	1,373
Dr. Xu Gang (i)	–	150	–	9	12	257	428
Independent Non-Executive Directors							
Ms. Liu Qianli	328	–	–	–	–	7	335
Dr. Wang Qing	328	–	–	–	–	7	335
Mr. Ma Xiaofeng	321	–	–	–	–	7	328

(i) Mr Dai Jian was appointed as the CEO of the Company and Dr. Xu Gang relinquished his position as the CEO (who was appointed on 5 March 2015) but would remain as an executive Director since 15 October 2016. Dr. Xu Gang subsequently resigned as an executive Director on 31 March 2017.

(b) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year.

(c) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted at the end of the year or at any time during the year.

41 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.