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 2019

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 *(Chairlady)*
Dr. Wang Qing
Mr. Ma Xiaofeng

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

Dr. Wang Qing *(Chairman)*
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 and Registered PIE Auditor
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 54, 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
25th Floor
Three Exchange Square
8 Connaught Place
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 leading internet content and service provider in China. BAIOO principally engages in developing and publishing PC and mobile games, producing comics and has recently expanded its footprint into AI technology. BAIOO strives to become a leading company in China's fast-growing pan-entertainment industry.

Since its establishment, BAIOO has been committed to the development and operation of various online content. The Company's key products have attracted nearly 300 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 gaming industry.

At present, BAIOO primarily focuses on the niche game genres in which it excels, namely female-oriented games, pet raising and collection games, and comic-adapted "nijigen" (「二次元」) games. Its key products include web-based virtual world Aobi Island (「奧比島」), Aola Star (「奧拉星」), Light of Aoya (「奧雅之光」) and Legend of Aoqi (「奧奇傳説」), as well as the mobile games Zaowufaze (「造物法則」, also known as "Law of Creation") and Helix Waltz (「螺旋圓舞曲」). In 2019, BAIOO successfully expanded its game titles from webpage platforms to mobile platforms: the launch of Shiwuyu (「食物語」) and Aola Star Mobile (「奧拉星手遊」) in September, followed by Zaowufaze II (「造物法則二: 先鋒英雄」) in October. To complement its gaming content, BAIOO also operates several online comic series such as Aola Star: Parallel Universe (「奧拉星•平行時空」) and Shiwuyu (「食物語」).

The Company's philosophy is that original content creation should always be a focal point for continuous improvement of the user experience, the expansion of product portfolio and facilitating the incubation of valuable IP. In achieving this aim, BAIOO will continue to pursue strategic cooperation with well-known comic IPs, leverage a well-incubated IP portfolio and pursue the development of fun and engaging products to drive improvement across its business.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	2019 RMB'000	2018 RMB'000	2017 RMB'000 (Restated)[1]	2016 RMB'000 (Restated)[1]	2015 RMB'000 (Restated)[1]
Continuing operations					
Revenue	**680,598**	284,489	309,677	328,153	352,450
Gross Profit	**362,146**	171,677	168,095	189,094	220,694
Operating Profit	**159,837**	106,710	12,611	29,202	57,610
Non-international Financial Reporting Standards ("IFRSs") Measures					
— Adjusted Net Profit/(Loss)[2] (unaudited)	**151,416**	112,721	(22,613)	43,639	124,556
— Adjusted EBITDA[3] (unaudited)	**164,193**	111,928	(32,375)	21,415	89,219

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 right-of-use assets and amortization of intangible assets.

	2019 RMB'000	2018 RMB'000	2017 RMB'000 (Restated)[1]	2016 RMB'000 (Restated)[1]	2015 RMB'000 (Restated)[1]
Continuing operations					
Revenue	**680,598**	284,489	309,677	328,153	352,450
Gross Profit	**362,146**	171,677	168,095	189,094	220,694
Non-international Financial Reporting Standards (excluding the one-off disposal gain related to the disposal of a 7% equity interest in a subsidiary, Guangzhou Baiman Culture Communications Company Limited, the "Disposal")					
— Operating Profit/(Loss)	**159,837**	(7,367)[2]	12,611	29,202	57,610
— Profit After Tax	**151,167**	6,721[2]	26,455	33,003	99,430
— Adjusted Net Profit/(Loss)[3] (unaudited)	**151,416**	11,794	(22,613)	43,639	124,556
— Adjusted EBITDA[4] (unaudited)	**164,193**	11,001	(32,375)	21,415	89,219

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) Operating profit/(loss) and profit after tax of 2018 eliminate the effect on the Disposal. They are unaudited and not defined under the IFRS.

(3) 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. For 2018, adjusted net profit eliminates the effect of the Disposal as well. 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.

(4) Adjusted EBITDA means adjusted net profit/(loss) less finance income-net, plus income tax, depreciation of property and equipment and right-of-use assets and amortization of intangible assets. For 2018, adjusted EBITDA eliminates the effect of the Disposal as well.

BALANCE SHEET HIGHLIGHT

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**220,573**	130,164	48,256	414,407	464,519
Current assets	**1,712,162**	1,529,229	1,582,352	1,603,432	1,288,471
Total assets	**1,932,735**	1,659,393	1,630,608	2,017,839	1,752,990
Equity and Liabilities					
Total equity	**1,550,441**	1,530,801	1,488,774	1,573,114	1,570,324
Non-current liabilities	**95,413**	17,182	7,278	16,764	16,865
Current liabilities	**286,881**	111,410	134,556	427,961	165,801
Total liabilities	**382,294**	128,592	141,834	444,725	182,666
Total Equity and Liabilities	**1,932,735**	1,659,393	1,630,608	2,017,839	1,752,990

Chairman Letter

Dear Shareholders,

In 2019, the gaming market in China steadily expanded with favorable momentum. As China gradually re-opened video game license approvals, the gaming industry as a whole maintained steady growth in terms of revenue and scale of users. The mobile game segment in particular sustained rapid growth.

The advent of 5G and cloud computing gaming technology has strengthened the growth potential of the mobile gaming market. BAIOO continues to capitalize on the rapid innovation within the industry and in addition to progressively consolidating core webpage game operations, BAIOO also expanded its business scope from PC games to mobile games.

Policies for the game industry continue to evolve, and the dynamic nature of the industry is also being marked by an increase in users' demands for differentiated and higher quality game content. Our strong capabilities in IP productization and content innovation allows us to target niches within the gaming market, including female-oriented games, pet raising and collection games, and comic-adapted "nijigen" (「二次元」) games. This differentiated strategy successfully positions BAIOO as the leader within the field of game segmentation in China and differentiates us from others amid fierce industry competition.

BREAKTHROUGHS IN DOMESTIC AND OVERSEAS MARKETS

In 2019, we prioritized providing innovative game content to global game users, and we did so with a particular focus on forming a virtuous cycle by balancing high quality entertainment and profit while increasing user stickiness. We paid keen attention to the latest trends in the game market and gained timely insight into user needs and preferences. As a result, we successfully attracted an increasing number of domestic and overseas users and we achieved numerous breakthroughs this year.

We launched three new major mobile games in China, including Aola Star Mobile (「奧拉星手遊」) and Shiwuyu (「食物語」) launched in September, and Zaowufaze II (「造物法則二：先鋒英雄」) in October. Although the launch of mobile games was delayed due to regulatory changes, we actively ran pre-launch campaigns to amplify exposure, which resulted in our games achieving standout rankings in terms of number of game rankings and winning multiple industry awards after launch. Market reception and user feedback were both overwhelmingly positive.

In recent years, we have been actively expanding into a number of overseas markets and have successfully established overseas distribution teams to manage game sales and operations in Southeast Asia, Japan, South Korea, Europe and the United States. With deepening knowledge of regional user demand and robust distribution capabilities, we successfully launched the mobile game Zaowufaze II (「造物法則二：先鋒英雄」) overseas in 2019. Due to its growing popularity, the game now frequently features as a recommended choice by Google Play.

OUTLOOK

As we look forward to progress in 2020, we will continue to consolidate core webpage game operations, enrich mobile game product lines, and further deepen our international footprint. We will continue to focus on niche markets and create differentiated and innovative products by capitalizing on our strong research & development and IP productization capabilities. Specifically, we will continue to run launched games over the long run in order to further consolidate our market position and expand our user base. At the same time, we will continue to use our classic IP and we expect to launch three to five new mobile games this year. We will continue to strategically convert a large number of webpage game users of the Company to mobile terminal users, thus maximizing the lifetime value of users.

As the video game value chain continues to evolve, we will focus on prioritizing product quality and exploring new technologies in order to seize emerging market opportunities, all while improving user experience. While we will continue to actively deploy games within the domestic market, we will also increase efforts to opportunistically expand into overseas markets, strive to develop more international games, and in so doing, uncover the right synergy between our domestic and international strategies.

ACKNOWLEDGEMENTS

On behalf of our management team, I would like to express my gratitude to our dedicated staff for their hard work, as well as to our numerous partners, users and investors for their long-term trust in and support for our Company. We are committed to meeting the entertainment needs of our users, as we provide them with more interesting and innovative games and we will continue to build a sustainable business that creates long term shareholder value.

DAI Jian
Chairman, Chief Executive Officer and Executive Director
BAIOO Family Interactive Limited
26 March 2020

Definitions and Glossaries

DEFINITIONS

"AGM"	the annual general meeting of the Company to be convened and held in accordance with the Articles of Association
"AI"	artificial intelligence
"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
"BVI"	the British Virgin Islands
"CEO"	the chief executive officer of the Company
"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

Definitions and Glossaries

"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 2019, Guangzhou Baitian held 31.2% equity interests in Guangzhou Baiman and independent third parties held 68.8%
"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 any of 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
"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
"PC(s)"	personal computer(s)
"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
"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
"R&D"	research and development

"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" or "Hong Kong 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
"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
"RPG"	role-playing game

Management Discussion and Analysis

BUSINESS OVERVIEW

For the year ended 31 December 2019, BAIOO continued to deliver steady operating metrics across the Company's products for PCs and mobile devices. The Company has effectively deployed its IP and original content creation-centered strategies to develop creative products and expand its existing product pipeline. The Company proactively developed mobile games and achieved multiple breakthroughs during the year.

BAIOO has always been committed to creating diversified and interesting game content for users, and is dedicated to developing a mobile game market segment, in order to satisfy the increasing needs of the users and enhance their engagement. Other than continuously enriching the PC game content, the Company, in recent years, also proactively expanded its mobile game business and diversified its product lines, in order to solidify its presence in the market segment.

In 2019, BAIOO's PC game division remained its stable performance while the mobile game division obtained groundbreaking achievement. During the year, BAIOO has successfully launched three mobile games, namely Shiwuyu (「食物語」) and Aola Star Mobile (「奧拉星手遊」) in September 2019, as well as Zaowufaze II (「造物法則二：先鋒英雄」) in October 2019. Performance of the Company in 2019 was greatly boosted as a result of a great vogue and the satisfactory performance that the above three games have experienced.

Shiwuyu (「食物語」) is primarily designed for women and features traditional Chinese cuisine to promote local culture. The game was well received during the promotion stage before launching and even ranked first on the "Top Free Games" category of the Apple App Store on the launch date, and was also recommended by the "New Games We Love" and the "TODAY" pages of the Apple App Store for several times. Besides, the game has also received many awards after its launch, including ranking ninth on Sina Games' "Value of Gaming Brand Chart" (遊戲品牌價值牌行榜), being named "The Best PRC Game of 2019" (2019年最佳國產遊戲) by the Guangdong Entertainment and Game Industry Association (廣東省遊戲產業協會) and the "Gold Tea Award 2019 Best Original Game" (金茶獎2019年度最佳原創遊戲) at the CEO Annual Conference (2019遊戲茶館CEO年會). At the moment, Shiwuyu remains as highly regarded and in a stable status in terms of the new user increment and game activeness.

Aola Star Mobile (「奧拉星手遊」), another game that launched in September 2019, is a mobile version of BAIOO's classic web game, featuring pet raising and fighting. Before the launch, the game has reached a record of over 8.5 million reservations, making it one of the most popular mobile games on major game platforms, and also topped multiple ranking lists during its debut. In January 2020, Aola Star Mobile (「奧拉星手遊」) was awarded "Best New Game of the Year Award" in the OPPO Developer Conference 2019. BAIOO managed to keep users to stay attracted to the game and improve their engagement through intensive updates, constant experience upgrades and product iteration.

Zaowufaze II (「造物法則二: 先鋒英雄」) is a sequel of Zaowufaze (「造物法則」), one of BAIOO's most successful original comic IPs. This game is operated by the same team as Zaowufaze (「造物法則」). It was launched in China and overseas markets in 2019, and was recommended by two major digital distribution service platforms after its launch, showing that BAIOO's internationalization policy has achieved initial results. Up to now, the performance of Zaowufaze II (「造物法則二: 先鋒英雄」) is steadily improving, users thereof are continuously growing, which has exceeded the Company's internal expectation.

To BAIOO, the successful launch of these three games has been a significant milestone in the transition of business focus from web game to mobile game, which emphasized the Company's determination to expand its business to mobile segment and fully highlighted the competitiveness of the Company in developing the market segment. Additionally, BAIOO constantly brings updates and produces innovation when it comes to entertainment content with an aim to increase users' loyalty and consolidate technical capabilities.

INDUSTRY TRENDS

In 2019, there was an overall steady expansion in China's gaming market, and continuous growth in mobile game market. According to the latest China Gaming Industry Report released by the Game Publishers Association Publications Committee of the China Audio-Video and Digital Publishing Association (中國音數協遊戲工委), the revenue generated by the gaming sector in China in 2019 amounted to RMB230.88 billion, representing an increase of 7.7% over 2018. In particular, the mobile game segment continued to top the industry with the largest market share, with revenue of RMB158.11 billion, accounting for 68.5% of the total revenue. Overall, the user number of Chinese gamers continued to grow, and increased by 2.5% to a total of 640 million as compared with 2018.

It is reported that during the year, the constant improvement in China's game industry ecology actively drove the development of cultural creativity to high-quality original games. Game companies increased their investment in the R&D of advanced technology and the application of key technology, integrating new technology to the R&D, operation and management of game products. In addition, an increasing number of game enterprises in China publicized and expanded business through acquisition of product copyrights and participation in exhibitions. By doing so, the global market share of Chinese games has increased.

Driven by the constant expansion of the mobile game segment and the game technology innovation, BAIOO took advantage of new market opportunities to focus on the development of games in niche segment, with an aim to meet the different requirements of a particular group of users and consolidate user loyalty.

OUTLOOK FOR 2020

Looking out to 2020, the Company will continue to expand mobile game business, and actively capture the development opportunities in domestic and overseas markets. With BAIOO's extensive experience in developing niche market, the Company will devote to improving user experience and scale up user base, thus bringing creative and diversified entertainment contents to users.

The Company will continue to operate the PC games and mobile games it launched in the long term, and will strive to expand mobile games to overseas market, in a bid to consolidate its market position and expand user base. Zaowufaze II (「造物法則二：先鋒英雄」) and Shiwuyu (「食物語」) have been launched outside China. Specifically, Shiwuyu (「食物語」) was launched in Hong Kong, Macau and Taiwan in February 2020. In order to cater to and attract more local game users, the Company has added new features to the games, including new characters and local cuisine. At the moment, the number of pre-registered game users from these three regions has exceeded 1 million. In this year, the Company will continue to bring Shiwuyu (「食物語」), Aola Star Mobile (「奧拉星手遊」) and other mobile games to more overseas regions, in an effort to further implement BAIOO's international strategy.

BAIOO will continue to develop new games using its proprietary IP. In 2020, the Company intends to launch three to five new major mobile games, including Aobi Island Mobile Game (「奧比島手遊」) and Legend of Aoqi Mobile Game (「奧奇傳説手遊」). These two games adopt the Company's classic virtual world IP, and each has accumulated more than 200 million pre-registered users. The Company expects that these mobile games will attract new users, which will further expand its income sources. Moreover, the Company also plans to explore and develop products in other fields, including stimulation games and action games.

In recent years, the Company has been proactively pushing ahead with its globalized development strategies. Currently, the Company has already established an office in New York, which will be used as the R&D and distribution center for the Company's overseas market as part of its globalization strategy. The Company believes that there is huge development potential in the overseas market, in particular, in the field of extracurricular activity. This will also be one of the directions for the Company's overseas market development. By virtue of the Company's extensive experience in game development and design, BAIOO will develop extracurricular activity materials suitable for primary and secondary school children to develop their interest in game development and design.

The outbreak of the Novel Coronavirus Diseases (the "**COVID-19**") in the PRC in early 2020, as well as the gradually mounting cases of infection reported in countries worldwide created threats and anxiety. The government of the PRC has implemented various large-scale contingency measures to mitigate the adverse impact of the COVID-19, however, there are uncertainties about when the COVID-19 epidemic might end and the PRC economy might fully rebound. The Company may face short-term challenges due to the current situation. Against such a background, the Company has taken active measures including telecommuting and strengthening the sanitation and epidemic prevention work, while steadily promoting the business development and consolidating its core competitiveness, with an aim to minimize the impact of COVID-19 on the Company. In light of the strong performance of the Company in 2019, the Board is confident that there will be no material adverse impact on the financial performance and operations of the Group brought about by COVID-19. BAIOO will continue to monitor and assess the situation and continue to adopt measures that are beneficial to the growth of business and improvement of operating performances.

The Company believes that technology and innovation are important elements for the development of game business. BAIOO will continue to expand its R&D and innovation teams, so as to boost the development and launch of mobile games. Amid fierce competition, tighter regulations and rapid development of the game market, the Company will continue to strengthen its core competitiveness and creativity, trying to create a sound and sustainable business model. BAIOO is confident that it will be able to capture new market opportunities to meet the expectations of market and users, thus further expanding user base and revenue growth points.

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 2019[1]	31 December 2018	Year-over-year Change
	(QAA & QPA in millions, ARQPA in RMB)		
average QAA[2]	**15.3**	15.5	(1.3%)
average QPA[3]	**1.7**	1.1	54.5%
average quarterly ARQPA[4]	**88.2**	60.8	45.1%

Notes:

1. As of 31 December 2019, our online virtual worlds under commercial operation included Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Magic Fighter, Super Badilong, Aoyi Alliance, Three Kingdoms, Zaowufaze, Helix Waltz, Shiwuyu (「食物語」), Aola Star Mobile (「奧拉星手遊」) and Zaowufaze II (「造物法則二: 先鋒英雄」).

2. The average QAA for online virtual worlds was approximately 15.3 million for the year ended 31 December 2019, representing a decrease of approximately 1.3% compared with the year ended 31 December 2018. This primarily due to the trend of users migrating from PCs to mobile devices and partly offset by new mobile games launched in the fourth quarter of 2019 ("**Q4 2019**").

3. The average QPA for online virtual worlds was approximately 1.7 million for the year ended 31 December 2019, representing an increase of approximately 54.5% compared with the year ended 31 December 2018. The increase was primarily due to the Company's new mobile games launched in Q4 2019.

4. The average quarterly ARQPA for online virtual worlds was approximately RMB88.2 for the year ended 31 December 2019, representing an increase of approximately 45.1% compared with the year ended 31 December 2018. The increase was primarily because the Company's mobile game products are shifting to an older user base that has greater paying power and the strong intention to pay for the new mobile games launched in Q4 2019.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our consolidated statements of comprehensive income for the years ended 31 December 2018 and 2019, respectively:

	For the year ended			
	31 December 2019 RMB'000	% of Revenue	31 December 2018 RMB'000	% of Revenue
Revenue	680,598	100.0	284,489	100.0
Online entertainment business	678,889	99.7	282,115	99.2
Other businesses	1,709	0.3	2,374	0.8
Cost of revenue	(318,452)	(46.8)	(112,812)	(39.7)
Gross profit	362,146	53.2	171,677	60.3
Selling and marketing expenses	(77,249)	(11.4)	(69,249)	(24.3)
Administrative expenses	(52,903)	(7.8)	(50,450)	(17.7)
Research and development expenses	(97,062)	(14.3)	(81,386)	(28.6)
Net impairment loss on financial assets	(2,669)	(0.4)	(1,047)	(0.4)
Other income	3,247	0.5	6,576	2.3
Other gains — net	17,053	2.5	15,574	5.5
Gain on partial disposal of an associate	7,274	1.1	—	—
Gain on disposal of a subsidiary	—	—	115,015	40.4
Operating profit	159,837	23.5	106,710	37.5
Finance income — net	14,557	2.1	27,332	9.6
Share of losses of an associate	(18,144)	(2.7)	(7,087)	(2.5)
Profit before income tax	156,250	23.0	126,955	44.6
Income tax expense	(5,083)	(0.7)	(17,933)	(6.3)
Profit for the year from continuing operations	151,167	22.2	109,022	38.3
Discontinued operations				
Loss for the year from discontinued operations	—	—	(1,374)	(0.5)
Profit for the year	151,167	22.2	107,648	37.8

	For the year ended			
	31 December 2019 RMB'000	**% of Revenue**	31 December 2018 RMB'000	% of Revenue
Other comprehensive income, net of tax	**–**	**–**	276	0.1
Total comprehensive income for the year	**151,167**	**22.2**	107,924	37.9
Other financial data				
Adjusted net profit[1] (unaudited)	**151,416**	**22.2**	112,721	39.6
Adjusted EBITDA[2] (unaudited)	**164,193**	**21.9**	111,928	39.3

Notes:

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

2. Adjusted EBITDA consists of adjusted net profit less finance income-net, plus income tax, depreciation of property and equipment and right-of-use assets and amortization of intangible assets.

Revenue

Our revenue for the year ended 31 December 2019 was RMB680.6 million, representing a 139.2% increase from RMB284.5 million for the year ended 31 December 2018.

Online Entertainment Business: Our revenue from online entertainment business for the year ended 31 December 2019 was RMB678.9 million, representing a 140.7% increase from RMB282.1 million for the year ended 31 December 2018. This was primarily due to the new mobile games launched in Q4 2019 and remarkable performance after launch.

Other Businesses: Revenue from other businesses for the year ended 31 December 2019 was RMB1.7 million, representing a 29.2% decrease from RMB2.4 million for the year ended 31 December 2018. The decrease mainly reflected decrease of the revenue generated from advertisement.

Cost of Revenue

Our cost of revenue for the year ended 31 December 2019 was 318.5 million, representing a 182.4% increase from RMB112.8 million for the year ended 31 December 2018.

Online Entertainment Business: Our cost of revenue on online entertainment business for the year ended 31 December 2019 was RMB316.3 million, representing a 183.2% increase from RMB111.7 million for the year ended 31 December 2018. The increase was driven by in payment of third-party revenue sharing along with the new mobile games launched in Q4 2019.

Other Businesses: Our cost of revenue on other businesses for the year ended 31 December 2019 was RMB2.2 million, representing a 100.0% increase from RMB1.1 million for the year ended 31 December 2018. The increase primarily reflected an increase in employee benefit expenses.

Gross Profit

As a result of the foregoing, our gross profit for the year ended 31 December 2019 was RMB362.1 million, compared with RMB171.7 million for the year ended 31 December 2018. Gross profit margin was 53.2% for the year ended 31 December 2019, compared with 60.3% for the year ended 31 December 2018. The decrease of gross profit margin was primarily due to the increase in payment of distribution cost along with the launch of new mobile games.

Selling and Marketing Expenses

Our selling and marketing expenses for the year ended 31 December 2019 were RMB77.2 million, representing a 11.6% increase from RMB69.2 million for the year ended 31 December 2018. This was primarily due to the increase in marketing and promotion expenses.

Administrative Expenses

Our administrative expenses for the year ended 31 December 2019 were RMB52.9 million, representing a 4.8% increase from RMB50.5 million for the year ended 31 December 2018.

Research and Development Expenses

Our research and development expenses for the year ended 31 December 2019 were RMB97.1 million, representing a 19.3% increase from RMB81.4 million for the year ended 31 December 2018. This increase primarily due to greater R&D expenses and staff costs because of more new mobile games under development.

Other Income

The Company recognized RMB3.2 million in other income for the year ended 31 December 2019, representing a decrease by 51.5% from RMB6.6 million for the year ended 31 December 2018.

Other Gains — net

The Company recognized RMB17.1 million in net other gain primarily due to the fair value gains on financial assets at fair value through profit and loss for the year ended 31 December 2019, compared with RMB15.5 million for the year ended 31 December 2018. This mainly reflects the net increase in the fair value of our investment portfolio.

Gain on Disposal of an associate

In 2019, the Group disposed equity interest of investment in Guangzhou Baiman to Shenzhen Litong Industrial Investment Fund Company Limited ("**Shenzhen Litong**"), a third party. Upon completion of the transaction, the disposal gain was around RMB7.3 million.

Operating Profit

As a result of the foregoing, our operating profit for the year ended 31 December 2019 was RMB159.8 million, compared with RMB106.7 million for the year ended 31 December 2018.

Finance Income — net

We had net finance income of RMB14.6 million for the year ended 31 December 2019, compared with net finance income of RMB27.3 million for the year ended December 2018. Finance income for the year ended 31 December 2019 was primarily attributable to (i) RMB18.7 million in interest income on bank deposits; (ii) RMB0.9 million in exchange gain related to non-Renminbi bank deposit; and (iii) RMB6.0 million interest expenses impact due to the application of IFRS16 since 1 January 2019.

Profit before Income Tax

As a result of the foregoing, we had a profit of RMB156.3 million for the year ended 31 December 2019, compared with a profit of RMB127.0 million for the year ended 31 December 2018.

Income Tax Expense

Our income tax expense for the year ended 31 December 2019 was RMB5.1 million, representing a 71.5% decrease from RMB17.9 million for the year ended 31 December 2018. This was primarily due to the utilisation of previously unrecognised tax losses and temporary timing differences and change of applicable tax rate.

Profit for the Year

As a result of the foregoing, we had a profit of RMB151.2 million for the year ended 31 December 2019, representing a 40.5% increase compared with a profit of RMB107.6 million for the year ended 31 December 2018, and which also represented an increase of 2,156.7% as compared to approximately RMB6.7 million for the year ended 31 December 2018 (excluding the one-off gain related to the disposal of a 7% equity interest in Guangzhou Baiman).

Non-IFRS Measure — Adjusted Net Profit/EBITDA

Our adjusted net profit for the year ended 31 December 2019 was RMB151.4 million, representing a 34.3% increase from RMB112.7 million for the year ended 31 December 2018. Our adjusted EBITDA for the year ended 31 December 2019 was RMB164.2 million, representing a 46.7% increase from profit of RMB111.9 million for the year ended 31 December 2018.

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

	Unaudited For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit for the year	**151,167**	107,648
Add:		
Share-based compensation	**249**	5,073
Adjusted net profit	**151,416**	112,721
Add:		
Depreciation and amortization	**22,251**	8,888
Finance income — net	**(14,557)**	(27,614)
Income tax	**5,083**	17,933
Adjusted EBITDA	**164,193**	111,928

LIQUIDITY AND CAPITAL RESOURCES

In 2019, 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 2019 RMB'000	As of 31 December 2018 RMB'000
Total liabilities	**382,294**	128,592
Total assets	**1,932,735**	1,659,393
Gearing ratio[1]	**20%**	8%

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 2019, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB1,274.0 million, compared with RMB1,145.7 million as of 31 December 2018. We had short-term deposits of RMB226.0 million as of 31 December 2019, which are bank deposits we intend to hold for over three months but less than one year, compared with RMB222.5 million as of 31 December 2018. We had no long-term deposits as of 31 December 2019.

As of 31 December 2019, the Group had no restricted cash.

The effective interest rate per annum for cash in bank balances and deposits as of 31 December 2019 was 1.9%, compared with 1.8% as of 31 December 2018. Our policy is to place our cash in interest-bearing principal-protected demand or deposits with reputable domestic 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 2019 RMB'000	As of 31 December 2018 RMB'000
RMB	**1,414,529**	1,404,412
HK$	**56,618**	39,423
US$	**28,801**	24,216
Others	**104**	100
	1,500,052[(2)]	1,468,151[(1)]

Notes:

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.

2. There was no structural deposits classified as "financial assets at fair value through profit or loss" as of 31 December 2019.

Bank Loans and Other Borrowings

The Group had no bank loans or other borrowings as of 31 December 2019.

Treasury Policies

As of 31 December 2019, 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 2019, RMB85.5 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 computer software. In the year ended 31 December 2019, our total capital expenditures were RMB4.3 million, compared with RMB12.6 million in the year ended 31 December 2018. The following table sets out our expenditures for the years indicated:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Capital Expenditures		
— Purchase of property and equipment	**3,568**	8,445
— Purchase of intangible assets	**697**	4,133
Total	**4,265**	12,578

Contingent Liabilities

As of 31 December 2019, the Group did not have any material contingent liabilities, guarantees or litigation against it.

Charges on Assets

As of 31 December 2019, 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 2019, the Group had 708 full-time employees. The following table sets forth the number of full-time employees by function as of 31 December 2019:

	As of 31 December 2019	
	Number of Employees	% of Total
Operations	280	39.5
Development and research	282	39.8
Sales and Marketing	64	9.0
General and administration	82	11.6
Total	708	100

In addition to salary, we also provide various incentives, including share-based awards, such as share options and restricted shares units ("**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 2019 were approximately RMB38.4 million, compared with RMB31.7 million in the year ended of 2018. We incurred staff costs of approximately RMB181.9 million and RMB160.9 million, for the year ended 31 December 2019 and 2018, representing 26.7% and 56.6% 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 526,000 Pre-IPO share options and no shares of Pre-IPO RSUs outstanding as of 31 December 2019.

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 55,858,080 shares, representing approximately 2.0% of our share capital as of the date of the AGM. Pursuant to the Post-IPO RSU Scheme and there were a total of 90,000 RSUs outstanding as of 31 December 2019.

Dividend

At the Company's AGM on 28 June 2019, the then shareholders of the Company (the "**Shareholders**") approved the Board's recommendation to declare a special final dividend of HK$0.021 (equivalent to approximately RMB0.018) per share for the year ended 31 December 2018. The special final dividend was paid to shareholders on 31 July 2019.

At the Company's extraordinary general meeting ("**EGM**") on 2 December 2019, the then Shareholders approved the Board's recommendation to declare a special dividend of HK$0.025 (equivalent to approximately RMB0.023) per share. The special dividend was paid to shareholders on 24 December 2019.

The Board is pleased to recommend the payment of a special final dividend of HK$0.025 (equivalent to approximately RMB0.022) per share for the year ended 31 December 2019 out of our share premium account, subject to the approval of the Shareholders at the forthcoming AGM to be held on Friday, 26 June 2020. The proposed dividend will be payable on Wednesday, 22 July 2020 to the Shareholders of whose names appear on the Register of Members on Friday, 10 July 2020.

CHANGES SINCE 31 DECEMBER 2019

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 2019.

Biographies of the Directors and Senior Management

DIRECTORS

Executive Directors

DAI Jian (戴堅), aged 52, 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 19 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 52, 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 19 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.

Biographies of the Directors and Senior Management

LI Chong (李冲), aged 51, is a co-founder of our Group and was appointed as our Chief Operating Officer 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 19 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 54, 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 21 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 January 1998 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 44, was appointed as our Independent Non-Executive Director on 18 March 2014.

Ms. LIU has over 16 years of experience in investment banking and corporate finance. Ms. LIU served 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 from June 2017 to December 2019. 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.

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 51, was appointed as our Independent Non-Executive Director on 18 March 2014.

Dr. WANG has over 19 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 has been appointed as an independent director of China Continent Property & Casualty Insurance Co., Ltd (中國大地財產保險股份有限公司) since March 2019. In addition, he has been appointed as an independent director of Ant Bank (Hong Kong) Limited (螞蟻銀行(香港)有限公司) since May 2019.

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 56, 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 52, 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 51, 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 54, 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 44, 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 20 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 53, 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 11 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 47, 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 21 years of experience in the corporate services field and has been providing professional corporate secretarial 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 2019.

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 15 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 2019.

BUSINESS REVIEW AND KEY FINANCIAL PERFORMANCE INDICATORS

A review of the business of the Group during the year ended 31 December 2019 (including particulars of important events affecting the Company that have occurred during the year ended 31 December 2019, an analysis of the Group's performance during the year ended 31 December 2019 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 2019 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 final dividend of HK$0.025 (equivalent to approximately RMB0.022) per Share for the year ended 31 December 2019, subject to the approval of the Shareholders at the AGM. The proposed dividend is expected to be payable on Wednesday, 22 July 2020 to the Shareholders whose names appear on the Register of Members as of Friday, 10 July 2020.

DIVIDEND POLICY

The Group adopted a dividend policy (the "**Dividend Policy**") on 20 December 2018. A summary of this policy is disclosed as 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 Monday, 22 June 2020 to Friday, 26 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 19 June 2020. In addition, subject to the Shareholders' approval of the proposed special final dividend at the AGM, the Register of Members will be closed from Wednesday, 8 July 2020 to Friday, 10 July 2020, both days inclusive, for the purpose of ascertaining the shareholders' entitlement to the proposed special final dividend. In order to qualify for the proposed special final 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 Tuesday, 7 July 2020.

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 2018, unutilised proceeds from the above mentioned issuances amounted to RMB411.8 million. During the reporting period, a total of RMB1.2 million had been utilised in accordance with the intended use as disclosed in the Prospectus. Unutilised proceeds from the aforementioned issuances as of 31 December 2019, being RMB410.5 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 2019 are set out in note 17 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 "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, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2019, the Company repurchased a total of 37,076,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$26,464,410. All the repurchased Shares were subsequently cancelled. Particulars of the repurchases during the year ended 31 December 2019 are as follows:

Month	Number of Shares repurchased	Purchase price per share Highest (HK$)	Purchase price per share Lowest (HK$)	Aggregate consideration (before expenses) (HK$)
January	2,500,000	0.450	0.430	1,096,600
April	1,278,000	0.520	0.495	652,800
May	6,248,000	0.500	0.460	3,021,750
June	4,250,000	0.450	0.405	1,843,740
July	3,206,000	0.440	0.410	1,364,400
October	2,402,000	1.040	0.970	2,378,280
November	15,292,000	1.080	0.780	14,568,360
December	1,900,000	0.820	0.780	1,538,480
Total	37,076,000			26,464,410

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 2019.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2019 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 2019, the Company had no distributable reserves.

CHARITABLE CONTRIBUTIONS

The Group had no charitable contributions during the year ended 31 December 2019.

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 2019, the top five sources of cash proceeds from sales of physical prepaid cards and online virtual items accounted for 91.2% of our total cash proceeds from these sales.

The top source of cash proceeds from these sales for the year ended 31 December 2019 was our online payment channel and accounted for 57.5% 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 2019.

For the year ended 31 December 2019, charges from the five largest suppliers accounted for 65.1% of our cost of revenues.

The charges from the largest supplier accounted for 52.0% 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 2019.

For the year ended 31 December 2019, there was no material dispute between the Group and its suppliers and/or customers.

DIRECTORS

The Directors during the year ended 31 December 2019 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 annual confirmations 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. WU Lili, Dr. WANG Qing and Mr. MA Xiaofeng 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

Certain changes in Directors' information are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Name of Director		
Mr. WANG Xiaodong	—	the annual basic salary of Mr. WANG has been adjusted to RMB1,440,000 per annum since 1 April 2020.
Mr. Wu Lili	—	the annual basic salary of Mr. WU has been adjusted to RMB840,000 per annum since 1 April 2020.

Name of Director		
Ms. LIU Qianli	—	She has ceased to be 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 in December 2019.
	—	the director fee of Ms. LIU has been adjusted to USD60,000 per annum since 1 April 2020.
Dr. WANG Qing	—	He has been appointed as an independent director of China Continent Property & Casualty Insurance Co., Ltd (中國大地財產保險股份有限公司) since March 2019.
	—	He has been appointed as an independent director of Ant Bank (Hong Kong) Limited (螞蟻銀行(香港)有限公司) since May 2019.
	—	the director fee of Dr. WANG has been adjusted to USD60,000 per annum since 1 April 2020.
Mr. MA Xiaofeng	—	the director fee of Mr. MA has been adjusted to USD60,000 per annum since 1 April 2020.

Save as the information disclosed above and in published announcements of the Company, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 2019.

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 2019.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors and those of the five highest paid individuals for the year ended 31 December 2019 are set out in note 9 and note 41 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 2019.

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 2019. 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 2019.

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 2019.

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

As at 31 December 2019, 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
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]	27.77%(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)	16.14%(L)
LI Chong (李沖)[3]	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.34%(L)
WANG Xiaodong (王曉東)[4]	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	74,544,000(L)	2.69%(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 2019, 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 2019, 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 2019, 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 2019, 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 2,770,894,000 Shares in issue as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, 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 2019, 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]	54.85%(L)
DAE Holding Investments Limited[2]	Trust holding company	769,460,000(L)	27.77%(L)
Stmoritz Investment Limited[2]	Registered owner	769,460,000(L)	27.77%(L)
DAI Jian (戴堅)[2][5]	Founder of a discretionary trust Interest of controlled corporation	769,460,000(L)	27.77%(L)
	Beneficial owner	10,000,000(L)	0.36%(L)
Bright Stream Holding Limited[3]	Registered owner	447,112,000(L)	16.14%(L)
WHEZ Holding Ltd.[3]	Trust holding company	447,112,000(L)	16.14%(L)
WU Lili (吳立立)[3]	Founder of a discretionary trust	447,112,000(L)	16.14%(L)
LNZ Holding Limited[4]	Registered owner	203,304,000(L)	7.34%(L)
Golden Water Management Limited[4]	Trust holding company	203,304,000(L)	7.34%(L)
LI Chong (李沖)[4]	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.34%(L)
The Core Trust Company Limited[6]	Trustee of a trust	161,886,733(L)	5.84%(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 2019, 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 2,770,894,000 Shares in issue as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, 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.

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 2019, no option has been cancelled. As at 31 December 2019, there were a total of 526,000 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 0.019% as at 31 December 2019. 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 2019, 18,000 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 2019

Name of Grantees	Nature	Number of Shares represented by Options as at 1 January 2019	Date of grant	Exercise price (US$)	Exercised during the year	Lapsed during the year	Number of Shares represented by Options as at 31 December 2019	Vesting Period	Exercise period	Approximate percentage of issued Shares of the Company(3)
Other employees of the Group										
13 employees	Options	922,000	20 June 2010	0.0090	718,000	—	204,000	Note 1	Note 2	0.007%
2 employees	Options	422,000	15 January 2011	0.0090	100,000	—	322,000	Note 1	Note 2	0.012%
Total	Options	1,344,000			818,000	—	526,000			0.019%

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 2019.

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 Provisions) 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 2019, 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 2019, IPO RSU Nominee and the Pre-IPO RSU Nominee holds 84,452,000 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 2019, there were a total of 90,000 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 0.003% as at 31 December 2019.

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 2019, Baiduo Investment Holding Limited holds 77,416,733 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 2019

Name of Grantees	Nature	Number of Shares underlying the RSUs as at 31 December 2018	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 2019	Vesting Schedule	Approximate percentage of issued Shares of the Company(3)
Post-IPO RSU Scheme										
(a) Senior management member(s) of the Company										
CHEN Xiao Hong (陳小紅)	RSUs	450,000	–	10 July 2015	–	450,000	–	–	Note 1	–
	Sub-total	450,000	–		–	450,000	–	–		–
(b) Other grantees (other than the grantees disclosed in paragraph a above)										
60 employees	RSUs	5,761,500	–	10 July 2015	–	5,594,250	167,250	–	Note 1	–
1 employee	RSUs	160,000	–	10 November 2017	–	70,000	–	90,000	Note 2	0.003%
	Sub-total	5,921,500	–		–	5,664,250	167,250	90,000		0.003%
	Total	6,371,500	–		–	6,114,250	167,250	90,000		0.003%

Notes:

(1) 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.

(2) 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.

(3) 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 2019.

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.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above under the paragraphs headed "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 2019 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 37 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 2019. 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 2019. The Directors confirm they have 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**"), pages 49 to 53 of the Company's 2018 Annual Report and page 74 of the Company's 2019 interim report for six months ended 30 June 2019 (the "**2019 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 2019.

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 2019, 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 2019			
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 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.

Neither Guangzhou Tianti nor Xiaoyunxiong is a party to any of the Contractual Arrangements. For details, please see note 15 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 2019 RMB'000	Year ended 31 December 2018 RMB'000
Revenue	**357,966**	238,208
Profit for the year	**132,005**	131,294

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Total assets	**1,246,980**	1,029,303

For the year ended 31 December 2019, the revenue and profit subject to the Contractual Arrangements amounted to approximately 52.6% (2018: 83.7%) and 87.3% (2018: 120.4%) of the revenue and profit for the year of the Group, respectively.

As at 31 December 2019, the total assets subject to the Contractual Arrangements amounted to approximately 64.5% (2018: 62.0%) of the total assets of the Group.

Transactions carried out during the year ended 31 December 2019, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

- For the year ended 31 December 2019, the service fees provided by Guangzhou WFOE to Guangzhou Baitian pursuant to the Contractual Arrangements amounted to RMB4,660,194 (2018: RMB4,660,194).

4) Contractual Arrangements in place

For the year ended 31 December 2019, 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. The PRC legal advisers of the Company have advised that the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties and are enforceable under applicable PRC laws and regulations. For the year ended 31 December 2019, there were no new Contractual Arrangements entered into, renewed or reproduced among Guangzhou Baitian, its shareholders and Guangzhou WFOE. There was no change in the Contractual Arrangements under which they were adopted for the year ended 31 December 2019.

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.

Change in the Contractual Arrangements and/or Circumstances and Latest Regulatory Development in Using Contractual Arrangements

There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended 31 December 2019.

Foreign Investment Law

On 15 March 2019, the Foreign Investment Law of the PRC (中華人民共和國外商投資法) (the "**Foreign Investment Law**") was formally passed by the 13th National People's Congress of the PRC and took effect on 1 January 2020. The Foreign Investment Law replaced the Law on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), the Law on Sino-Foreign Contractual Joint Ventures (《中華人民共和國中外合作經營企業法》) and the Law on Foreign Capital Enterprises (《中華人民共和國外資企業法》) to become the legal foundation for foreign investment in the PRC.

The Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. Since contractual arrangements are not specified as foreign investment under the Foreign Investment Law, and if the future laws, administrative regulations and provisions of the State Council of the PRC do not incorporate contractual arrangements as a form of foreign investment, then the Foreign Investment Law would not apply to, or have any impact on, the Contractual Arrangements, and it would not substantially change the identification of foreign investors in the context of foreign investment and the principle of recognition and treatment of Contractual Arrangements compared with the current PRC laws and regulations, therefore the Contractual Arrangement as a whole and each of the agreements comprising the Contractual Arrangement will not be affected and will continue to be legal, valid and binding on the parties.

As at the date of this annual report, the Company is not aware of any non-compliance with the Foreign Investment Law.

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 2019, 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.

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) **Unwinding of the Contractual Arrangements**

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 2019 (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 2019, 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 2019 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 2019 are set out in note 37 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 2019.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 31 December 2019, 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 41 to the section headed "Notes to the Financial Statements" of this annual report.

IMPORTANT EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2019

After the outbreak of the COVID-19 in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of the COVID-19 outbreak and evaluated its impact on the financial position and operating results of the Group. As at the date on which the publication of this annual report is approved, the Board was not aware of any material adverse impact on the financial statement as a result of the COVID-19 outbreak.

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 2019, 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 2019 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 2019.

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 2019, 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 2019.

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 2020 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
26 March 2020

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 2019 (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 CEO should be segregated and should not be performed by the same individual. Mr. DAI Jian currently acts as the CEO and the 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 for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules 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 *(Chairlady of Audit Committee and Member of Nomination Committee)*
Dr. WANG Qing *(Chairman 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/relevant 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	C
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 Chairlady), 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 Chairman), 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 2019 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 Chairman), 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 charter and integrity, qualification including professional qualifications, skills, knowledge and experience and diversity aspects. 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.

The Company has adopted a director nomination policy (the "**Director Nomination Policy**") on 20 December 2018 setting out the criteria and process in the nomination and appointment of directors of the Company. In identifying and selecting suitable candidates to become a member of the Board, the ultimate decision will be based on, include but not limited to, the potential contributions that the selected candidates can bring to the Board in terms of qualifications, skills, experience, independence, gender and cultural diversity and such other perspectives that are appropriate to the Company's business and succession plan with reference to the Board Diversity Policy and the Director Nomination Policy.

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 general meetings of the Company held during the Review Period is set out in the table below:

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

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

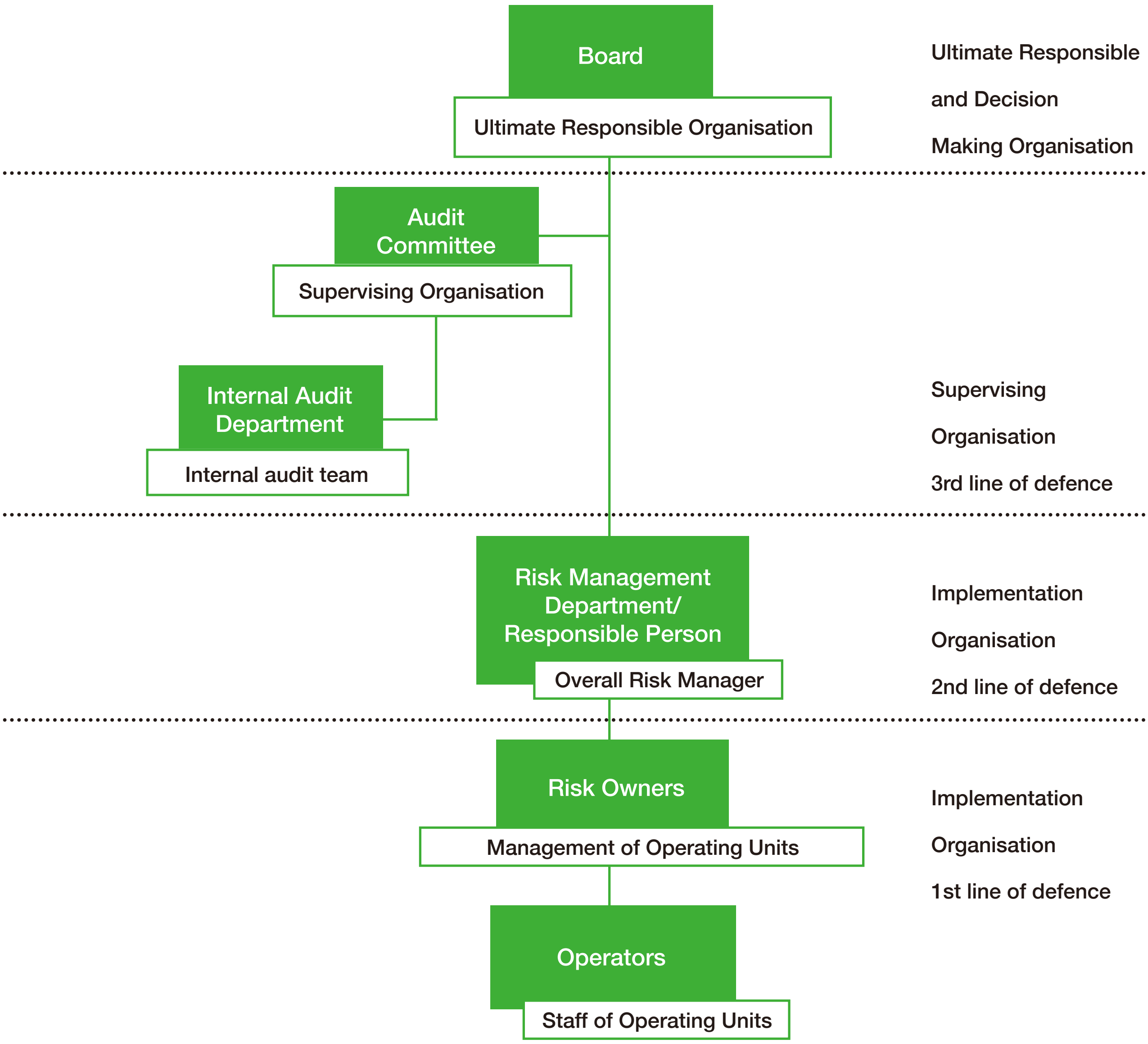
The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against 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 2019.

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 2019, 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; and

- 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 2019.

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 RMB132,000 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

Ms. LAU Yee Wa of Tricor Services Limited, an external service provider, is the Company Secretary. Ms. CHEN Xiao Hong, the Acting Chief Financial Officer of the Company, is Ms. LAU's primary contact person at the Company.

During the Review Period, Ms. LAU Yee Wa 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 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 54, 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 requisitionist(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 requisitionist(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 54, 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 2019 AGM of the Company held on 28 June 2019, 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.

2019 Environmental, Social and Governance Report

I. ABOUT THE REPORT

1. Report summary

This report is the fourth environmental, social and governance report (the "**Report**") issued by the Group. The Report contains information on the Group's system construction operations and work performance with respect to the Environment, Society and Governance ("**ESG**") in 2019. 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 2019 to 31 December 2019, and some of its contents can be traced back to previous years. The contents of the Report cover the principal businesses of the Group, including the provision and distribution of internet content services. For the details of the businesses of the Group, please refer to the 2019 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 contains detailed information about the index of the ESG Reporting Guide, which will help readers to find and retrieve relevant information more efficiently.

4. Sources of the Report

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

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

This year, the Group continued to focus on the development and operation of juvenile internet products and deployed the business development in juvenile web games, mobile games ("**Mobile Games**"), online education products, and comic intellectual property ("**IP**"). While focusing on our performance, the Group has proactively responded to the national initiatives for the guidance on gaming enterprises' products and social responsibilities, rigorously complied with the laws, regulations and policies such as the "Notice on Preventing Minors' Addiction to Online Games", and will help children and minors to grow up in a healthy way and offer high-quality education as the top priorities of the development goal. Furthermore, the Group is committed to researching and developing high-quality products for improving the learning ability of children and minors and has fulfilled the corporate responsibilities and obligations of exporting a healthy and progressive culture and values. In the future, we will continue to uphold our corporate vision of "Fun Entertainment, Healthy Interaction and Joyful Companion", deliver our healthy and positive values by creating personalized and charming IP figures and valuable native contents and the storylines that demonstrate humane sentiments and be committed to becoming the leading company in the fast growing pan-entertainment industry domestically.

In order to meet the regulatory requirements of the Stock Exchange, respond to the public's expectations and improve internal management to achieve 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. The chairman of the ESG Management Committee is the Executive Director of the Group and the members of the committee comprise of people 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 related work.

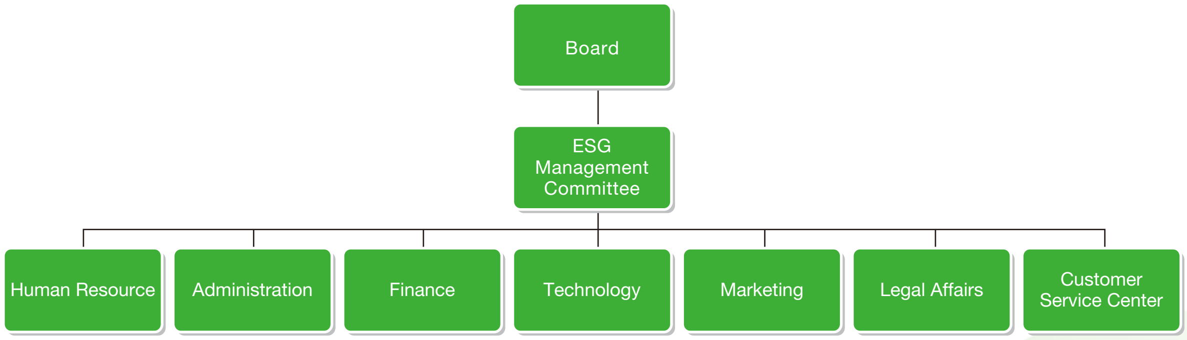


Chart of the Composition Structure of the ESG Management Committee of the Group

III. STAKEHOLDER ENGAGEMENT PLAN AND MATERIALITY ASSESSMENT

1. Communication with Stakeholders

The Group attaches considerable emphasis on exchanges and communications with stakeholders and is fully aware of the importance of timely understanding their opinions and expectations to the sustainable development of our businesses. During day-to-day operations, the Group has established diversified communication channels to ensure the openness and transparency of the information of the Group and to fully listen to the voice of stakeholders. The Group has established the investor relationship department to hold annual general meetings and performance sharing meetings, and thoroughly communicates with shareholders by means of presentation, asking questions, etc. Meanwhile, investors may also understand the relevant dynamics about the Company through the investor hotline and email, the Company's official website, offline investor exchange and other various channels and methods. In addition, the Group carries out technological communications and information sharing with industry associations by ways of visits, salons, annual meetings, etc. 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
Investors and shareholders	Business growth Scientific governance Compliance in operation Information disclosure	Improvement in profitability Creation of long-term earnings Strengthened risk management and control Regular information disclosure
Government and regulatory authorities	Compliance with national policies Fulfilling tax payment obligations Strengthening the construction of clean governance Creation of employment opportunities	Regulatory compliance in business operations Timely and proactive tax payment Cooperation in government's supervision and examination Participation in the regional common construction
Customers	Pursuit of quality Privacy safety Business integrity Users' demand	Enhancement of product and service quality Strengthening of risk management and control Optimization of internal control Improvement of customer communication mechanism
Staff	Protection of legitimate rights and interests Smooth career development Remuneration and benefit protection Good working environment	Compliance with laws and regulations Construction of a reasonable promotion mechanism Improvement of the remuneration and benefit system Implementation of corporate culture

Stakeholders	Expectation and Proposition	Communication and Response
Suppliers and partners	Openness and fairness Cooperation and win-win solutions for all parties Sharing of development benefits	Improved procurement process Perfection of communication mechanisms Establishment of a long-acting management model
Communities	Protection of the community environment Devotion to social welfare Promotion of the development of the community	Comprehensive implementation of green operation Launch of public wellbeing projects Provision of quality cultural resources
Industry association	Promotion of growth in the industry Fair competition	Participation in industry discussions and communications Improved R&D capabilities

Case Sharing: 2019 Investor Communication Day

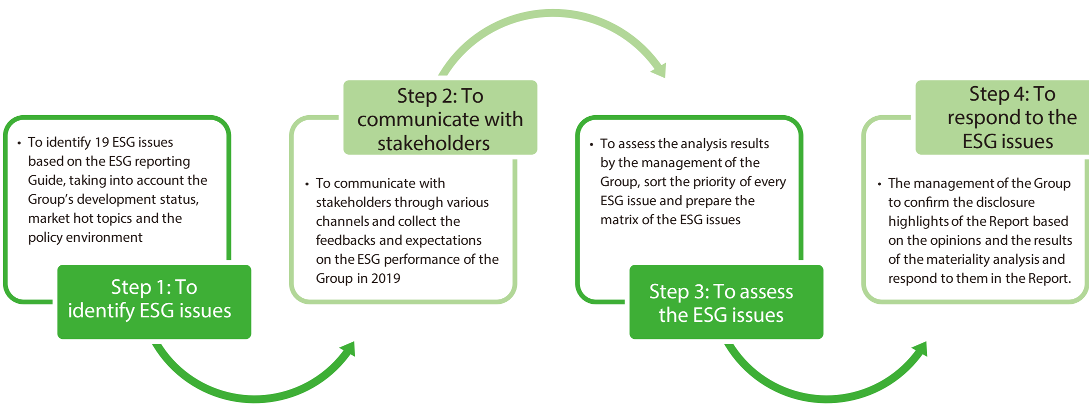
On 12 April and 15 October 2019, we held two major investor communication events in the Group's headquarters in Guangzhou, which were well attended by many investors and the chief executive officer, the chief operations officer and the chief financial officer, etc. During the event, the chief executive officer of the Group explained in detail the business development and future strategic plan of the Group for all investors involved. At the time of asking questions, all officers proactively answered and responded to the questions raised by investors. By holding such offline investor exchange events, we have established a more smooth and transparent channel between the Group and investors which allows investors to acquire a thorough and clear understanding of the development and planning of the Group with high recognition from investors.

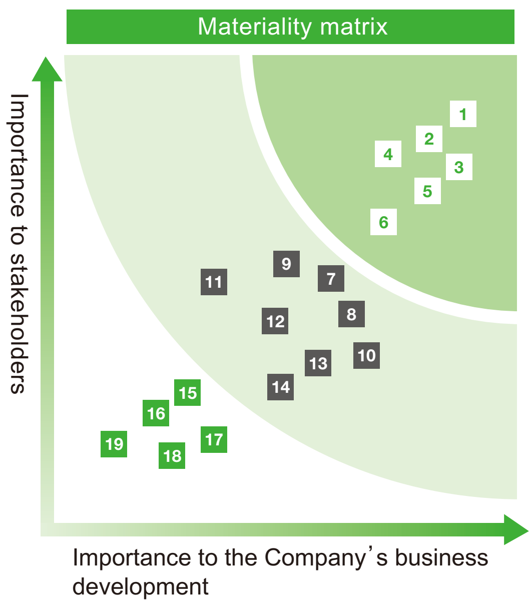
Live Investor Communication Day Event

2. Materiality Assessment of the 2019 ESG Issues

This year, we strictly followed the procedures for analyzing and assessing ESG issues and comprehensively assessed and determined the sequence of the ESG issues through means of close contact with stakeholders, feedback and industry analysis, taking into account our own development status, the industry characteristics and the national policy environment with the expectations of stakeholders.

The steps of materiality assessment adopted this year are as follows:





	No.	ESG Issue
Very important	1	Create a green and healthy internet environment
	2	Focus on users' needs and improve user experience
	3	User information and privacy protection
	4	Compliance in business operation and anti-corruption
	5	Maintenance and protection of intellectual property rights
	6	Staff recruitment and performance-based remuneration
Important	7	Staff training and development
	8	Product contents and product responsibility
	9	Staff's occupational health and safety
	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 2019 ranking of the ESG issues indicate that the ESG issues that are most concerned among stakeholders are still centered on a healthy internet environment, users' needs and privacy, etc. with higher attention to compliance in operation and anti-corruption. The Group has fully respected the opinions of both internal and external stakeholders and proactively responded to the propositions of all parties concerned. In 2019, we strictly followed the requirements of the latest laws and regulations such as the "Notice on Preventing Minors' Addiction to Online Games" and the "Regulations on the Cyber Protection of Children's Personal Information", streamlined our business contents and procedures, and strengthened our management efforts in reviewing the game contents and the remarks on platforms. We have also set up the public affairs department during the year, and kept track of national policies and relevant industry regulations to ensure the compliance of the Group in operation with an aim to create a cleaner and healthy internet environment for users. We are committed to enhancing users' satisfaction and experience, and 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 users' privacy information and comprehensively lower the risk of information leakage by monitoring the equipment room environment, clarifying the access authority of our staff, applying safety protection technologies, strengthening the sense of confidentiality of our customer service staff, etc.

We fully understand that communications with stakeholders are a continuous and progressive process. In the future, we will continue to improve our communication mechanism, listen to the voice of all parties and place the feedback of stakeholders as an important reference basis for our ongoing sustainable development and management.

IV. PRODUCT RESPONSIBILITY

In 2019, the Group focused on the development and operation of various online user contents and developed new products in the three major niche game genres, i.e. female-oriented games, pet raising and collection games, and comic-adapted "nijigen" (二次元) games, under the core development strategy of game IP adaption, comics IP shaping and IP incubation with IP and native contents as core to expand the existing product lines, capture market share and strengthen the market competitiveness of our products, with view to achieving long-term development in the pan-entertainment industry.

1. Create a Green and Healthy Internet Environment

In strict compliance with the "Law of the People's Republic of China on Protection of Juveniles", 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", the "Notice on Preventing Minors' Addiction to Online Games" and other rules and systems, the Group has adopted a series of measures to provide guidance for users and promotes happy and positive networking models, with the commitment to creating a green and healthy internet environment.

1) Anti-addiction system for jueveniles

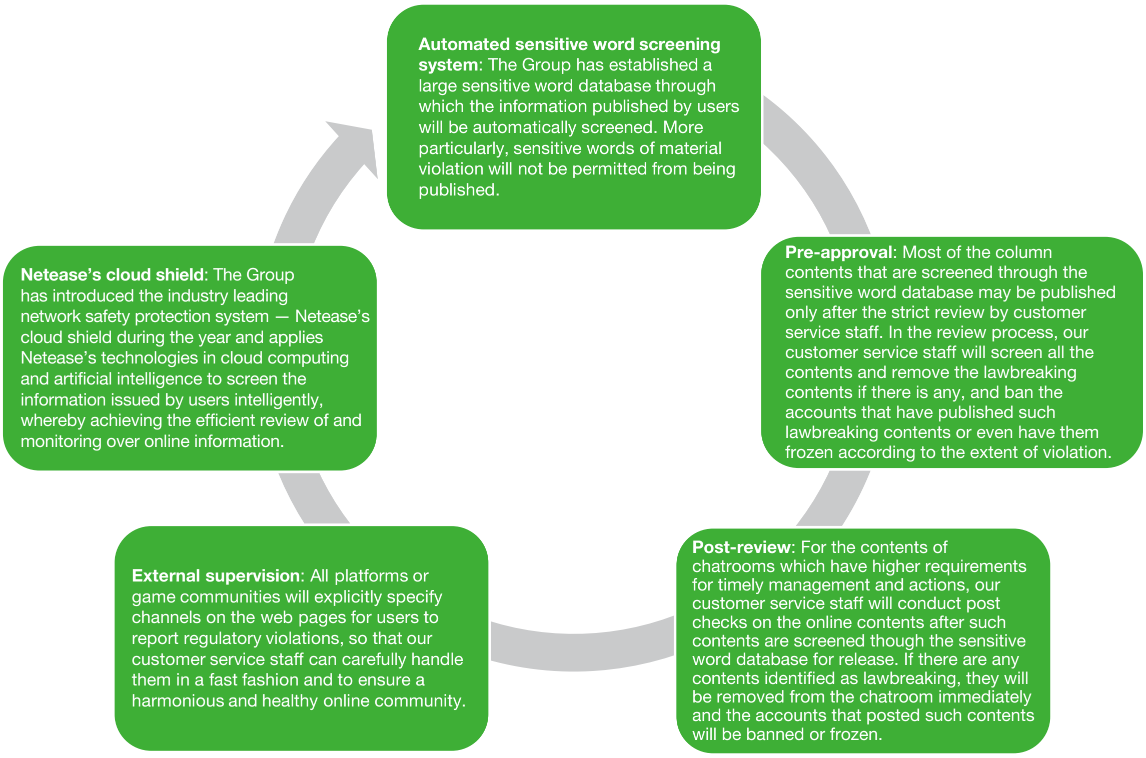
The Group has set up a juvenile anti-addiction system in its game products to strictly restrict the daily login time of juvenile users, provide guidance for user to surf the internet in a healthy way and prevent juvenile from addition to the internet.

2) Parent monitoring program

The Group has established a parent monitoring program for juveniles in line with the requirements of the Ministry of Culture, 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 the information review process is passed, our customer service department will provide the account guardianship service and offer guardianship solutions, such as the login details of the persons under guardianship, suspension or termination of accounts of the persons under guardianship, explain to parents how to correctly identify and understand the internet, guide their children in using the internet in a healthy way and eliminate addiction behaviors.

3) **Review and monitoring of contents and information**

The Group has screened the online community information through its automated sensitive word screening system, pre-approval and post-review processes as well as external supervision and Netease's cloud shield 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.



2. Product Research and Development and Innovation

We firmly believe that product quality and continuous R&D and innovation serve as the base on which an enterprise achieves long-term progress and continuous development. This year, our R&D work mainly focused on PC-based (personal computer) and mobile phone-based online entertainment products. We have implemented a strict product R&D process and quality control mechanism and are committed to develop funny and attractive quality products to enhance user experience.

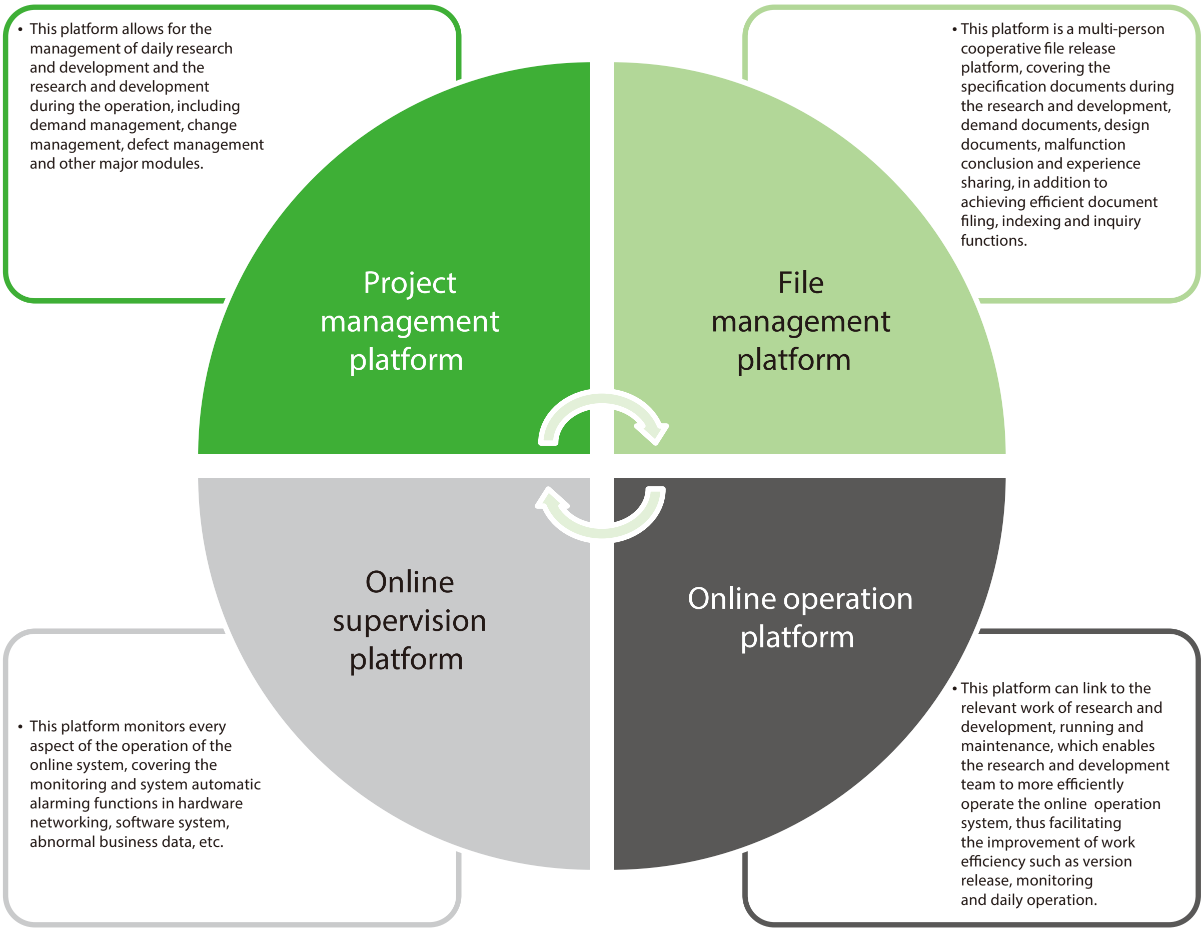
1) Product R&D and testing process

We have formulated a series of internal systems such as the "In-Project Inspection and Acceptance Regulations" and the "Table of Server Technology Risk Assessment" and set up stringent product R&D and acceptance testing process to ensure product quality. The process of R&D and marketing of our products covers the following four steps:

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 amed 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.

2) **Product quality control mechanism**

We have developed our main management platform systems, including the project management platform, the file management platform, the online operation platform and the online supervision platform. The coordination of these four main management platforms can help regulate the workflow of R&D, ensure the quality of the products under R&D and operation and effectively enhance the R&D efficiency.



3. Positive Culture Transmission

The Group disseminates the positive culture of "Fun Entertainment, Healthy Interaction and Joyful Companion" by creating personalized and charming IP characters in games, demonstrating the storylines with humane sentiments, achieving the cross integration of education and entertainment and helping users develop their healthy values in a subtle way.

1) "Shiwuyu" — to spread traditional Chinese cuisine culture

Our "Shiwuyu" mobile game was officially launched this year and gained warm response from the public. "Shiwuyu" is an RPG (role play game) game primarily designed for female that personates 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 understand local customs and the historical background through proactively 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 and explore the traditional Chinese cuisines, thus playing a proactive role in spreading the traditional Chinese cuisine culture.

Promotional poster of "Shiwuyu"

Case Sharing: "Empower the Love" | To search the endangered recipes

In order to spread the endangered the traditional Chinese cuisines to users, the "Shiwuyu" project team of the Group has initiated a promotion event called "Empower the Love" on the community platform to encourage users to share the endangered cuisine soul roles in games on the community platform so as to let more people understand and value the loss of Chinese cuisines. This promotional event has allowed users to re-discover the provenance of stories about and how to make the traditional Chinese cuisines such as "stuffed orange with crab", "asparagus crisp" and "peach blossom porridge", so as to promote them to cognize and value the traditional Chinese cuisines and inherit the time-honored traditional Chinese cuisines with games as carriers.

The endangered recipe — "stuffed orange with crab"

2) **"先鋒英雄": to transmit the braveness and equality concept**

The Group released "先鋒英雄" (or Zaowufaze II) in oversea markets during the year to boost its brand image therein. With the concept of "I heard you fought against fate ever", "先鋒英雄" has tactically created a mysterious magical world called "The Stars" for users. At the time when all the things in the world are held to be destroyed, users need to uphold the truth in their hearts and bravely fight against the unfair fate so as to feel the core values of braveness and equality during the accomplishment of commissions in games. "先鋒英雄" has gained continuous attention in oversea markets with an increasing number of registered users and has appeared in the new game recommendation list of Google Play.

Snapshot of the interface of the Magic World game in "先鋒英雄"

3) Legend of Aoqi: To transmit the partnership and team spirit

Legend of Aoqi is a pet feeding for battle game themed with alien world exploration and spirit collection. In the gameplay, in order to maintain the ecological balance of the Aoqi world and protect the proliferation of spirits, users need to partner with various spirits and continuously fight against the evil forces with the assistance of the spirits and finally harvest the precious friendship with the spirits after surviving rounds of difficulties. Legend of Aoqi aims to transmit the power of partnership and the spirit of cooperation and guide minors in learning and living the life in a healthy way.

Promotional poster of "Legend of Aoqi"

Case Sharing: "ICE GIRLS"| the virtual idol group of "Legend of Aoqi"

In July 2019, the Group successively launched the virtual idol girl group "ICE GIRLS" at bilibili.com, douyin.com and other community platforms to create positive virtual idols for minors. The virtual idol girl group "ICE GIRLS" comprises of five spirit girls from the nijigen world of "Legend of Aoqi", who maintain timely communication and interaction with users by means of online release of dances, songs and storytelling, discuss daily life themes with users, such as girlfriends, schoolmates and life on campus, guide minors in building right values and accompany minors in growing up joyfully and healthily.

The virtual idol girl group "ICE GIRLS"

4. Industry Communication Events

The Group proactively participates in industry communication events, works with internet peers to jointly build a green network ecosystem, conscientiously assumes the social responsibilities of protecting minors and promotes the healthy development of the gaming industry.

Case Sharing: "Never Forget Why We Start and Have It Done Together" | Offline teach-in event on reminder for right gameplay ages

On 26 September 2019, the Group participated in the offline teach-in event on reminder for right gameplay ages — "Never Forget Why We Start and Have It Done Together" guided by people.com.cn and co-sponsored by various agencies including Guangdong Game Industry Association. During the event, the Group shared its practices and experience in the protection of minors with many other peers, warmly discussed the issues with the enterprises present such as "How to develop the greater values for game enterprises", and "How to effectively implement the protection of minors", and jointly explored how to promote the healthy development of the gaming industry through continuous optimization and implementation of the protection of minors mechanism.

Live teach-in event on reminder for right gameplay ages

Case Sharing: "2019 CICF x AGF" | Grand Ceremony of Comics and Games in Guangzhou

From 2 October to 6 October 2019, the Guangzhou "2019 CICF x AGF" (China International Comics Festival (CICF) and Asia Game Festival (AGF)) was held in Guangzhou, at which an unprecedented warm on-site ceremony was felt. As a game participant for five years, the Group displayed three different types of game products, i.e. "Aola Star", "Shiwuyu" and "先鋒英雄" and set up interactive gameplay area for game enthusiasts to understand the positive design concept behind every type of our games so as to guild the gaming industry in exploring positive social values. During this event, we received warm feedback from game enthusiasts and our exhibition booths recorded 10,000 visits.

Live event at the interactive gameplay area of the booths of the Group

5. Intellectual Property Management

We highly value the management and protection of intellectual property rights (IPRs), strictly comply with the Patent Law of the People's Republic of China, the Trademark Law of the People's Republic of China, the Copyright Law of the People's Republic of China and other laws and regulations, and proactively conduct the IPR reporting work. The intellectual property reporting and management is the responsibility of our Legal Affairs Department, and the Group has formulated the internal systems such as the "Guidelines for Legal Affairs of Baioo" which clearly sets out the procedures of application, management and handling IPR infringement cases.

In 2019, the Group changed the original centralized copyright registration method to the timely application and registration of the copyright of individual works and further strengthened IPR protection and trade secrets. Meanwhile, the Group continuously raises the staff's sense of IPR protection in the daily operation so as to improve the core corporate competitiveness. As of 31 December 2019, the Group had a total of 342 certificates for registration of copyrights of works, 64 certificates for registration of copyrights of software, 650 registered mainland trademarks and 39 registered oversea trademarks.

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

6. User Privacy and Data Safety

The Group highly values user privacy and data safety. We have formulated and implemented the “IDC Machine Room Management System”, the “Machine Room Patrol Inspection System”, the “Remote Access System”, the “Cloud Management System”, the “Customer Information Safety and Privacy Protection System” and other internal systems, continuously improved the information safety and management system and lowers the risk of user information and privacy leakage.

Monitor the environment of the machine room

- The Group has set out detailed requirements for the access authority, use of equipment, system maintenance, etc, arranges the patrol inspection of the machine room every day, and inspects the physical environment of the machine room and running status of servers, network equipment, firefighting system and other equipment to ensure the safety of the environment of the machine room.

Restrict the access authority

- The Group restricts and records the staff’s access to user information, defines the classification and authority of their access to information and data, and takes punishment measures for irregularities; meanwhile, we manage the staff’s cloud platform accounts, and avoid the circumstances that the staff and others use a same account. Besides, when the staff becomes a regular one or leaves office, his or her account will be added or deleted automatically.

Apply safety technologies

- The Group implements long-term anti-attack technologies at the exit of the machine room network and works with domestic leading cloud service providers to place core data at cloud service providers for remote disaster recovery. In addition, the Group will regularly scan loopholes and update packs to lower the risk that the servers are attacked and improve the running stability of information servers.

Enhance the sense of confidentiality

- The Group requires all customer service staff to sign a confidentiality agreement and regularly arranges the staff for network information safety training to enhance the customer service staff’s sense of confidentiality so as to prevent the customer information from being maliciously stolen.standards

7. User Satisfaction and Handling of Complaints

Users’ feedback, 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” and the “Customer Representative Assessment and Performance Management System” to ensure that the voice of users can be heard and improve the quality of customer services.

1) User satisfaction survey

Our customer service staff provides 365-day online services from 08:00 a.m. to 22:00 p.m. every day to meet customers' needs in time. This year, we have adopted a series of measures below to improve our customer satisfaction:

Standard explanation

- When new products are launched or the business is adjusted according to the relevant policy,the customer service center will produce an FAQ document for explanation from the customer service staff according to the standard procedures, and timely update the contents of FAQ in the practice according to the feedback from users and the customer services taff to help the customer service staff to answer users' questions in a faster and accurate way and to enhance user service experience.

Training management

- The customer service center proactively conducts the pre-job training and daily business promotion training for the customer service staff. covering the courses such as Telephone Communication Skills, Online Reply Skills, Skills for Reply to Users' Feedbacks, Sentiment Management, Proactive Service Sense, Sentiment Management, which will help improve the service skills of the customer service staff.

Performance assessment

- The customer service center wiill give a quantitative score from the four dimensions, namely the actual workload, quality of the work, professional skill and operation of the system of the customer service staff and make comprehensive and objective assessment and appraisal on the overall work status and performance of the customer service staff to encourage the customer service staff to continuously improve the level of customer service.

Quality monitoring

- The customer service center has been equipped with professional quality inspection staff who are responsible for the quality inspection of telephone-call recording, online chart, users' feedback and emails, and evaluate, the service language, service attitude. professional knowledge, reply skills and operation of the system of the customer service staff in the course of servicing so as to ensure that the customer service staff can provide a higher level of services.

Our users can comment on the services provided by customer service staff via the telephone service-evaluating system and the online platform. During the reporting period, some 85,340 people participated in the user satisfaction survey of the customer service center of the Group and the user satisfaction result was 97.81%.

2) Handling of users' complaints

Users can comment on and make a complaint about the services of the customer service staff via the telephone hotline, email, the in-community real-time communication system, the user feedback platform, fax, mail box and personal visits. The compliant cases are classified into three levels, i.e. common, relatively serious and very severe, by our customer service staff according to the severity of matters and are given timely feedback and handled pursuant to the prescribed procedures. During the reporting period, the customer service center of the Group received 13,913 complaints, and the customer complaint resolving rate was 100%.

V. EMPLOYMENT MANAGEMENT

Talents are the foundation and the driving force of our sustainable development. The Group attracts fully qualified professionals through multiple channels, strives to protect the legitimate rights and interest of its employees, establishes a good career development platform, pays due attention to the physical and mental health of the staff, and creates comfortable and healthy working environment to build a virtuous cycle for achieving both the personal values and the corporate development.

1. Human Resources

The Group strictly follows the "Labor Law of the People's Republic of China", the "Labor Contract Law of the People's Republic of China", the "Employment Promotion Laws of the People's Republic of China" and other laws and regulations, upholds the principle of equality and justice, and continues to optimize the management measures regarding recruitment, performance assessment, remuneration and benefits, etc., so as to achieve the shared growth of the staff and the Group.

1) Staff Recruitment Management

The Group has established internal policies such as the Employee Handbook and the Administration Measures on Recruitment 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, so as to ensure that recruitment operations are affected by factors such as nationality, ethnicity, marital status, age, and religious belief.

Channels of HR acquisition at the Group include 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.

As of 31 December 2019, the Group had a total of 708 full-time employees.

		2019
By gender	Male	429
	Female	279
Total		**708**

Case Sharing: "Young Baioo, Proud of You" | the 2020 On-Campus Recruitment Information Session

From June through November 2019, the Group held an on-campus information session with the theme of "Young Baioo, Proud of You" (百Young青春，奧驕有你) and conducted the offline presentation tour campaign covering 10 universities in Guangzhou, Changsha, Wuhan and Chongqing. Meanwhile, the Group set up additional air presentation during the year to answer questions online for students participating in the offline presentation with good activity results and warm response. The number of visitors online exceeded 24,000 persons, which is helpful for the Group to attract more fresh blood to enrich our talent team.

Site of the on-campus presentation in the Central South University

Poster of the air presentation

Case Sharing: Baioo's "Open Day" activity

On 9 July 2019, the Group held an "Open Day" event and invited the students from the School of Arts and Design of Guangdong University of Technology to visit our Company and also invited the persons-in-charge and the director of the public affairs department to share their career insights with the students. This "Open Day" helped the students from the School of Art and Design of Guangdong University of Technology to deeply understand the development milestone and corporate culture of the Group, but also laid a talent foundation for the future business development of the Group.

A presentation of the development milestones by the director of the public affairs department

A group photo taken at the "Open Day" event

2) Performance Appraisal and Compensation and Benefits

The Group has formulated and consistently implemented the "Human Resource Management System of the Baioo Group" and conducted the performance appraisal on work performance of employees under the principles of openness, fairness and impartiality. The appraisal is conducted in two forms, namely the quarterly appraisal and the annual appraisal in terms of their work performance, capability and quality, moral code, etc. The results of the appraisal are classified into five levels, i.e. brilliant, excellent, satisfactory, qualified and disqualified, and serve as an important basis for recruitment, employment, salary increase and promotion of employees. We will communicate with employees regarding the results of their performance appraisal to achieve the purpose of fostering advantages while avoiding shortcomings and making continuous progress, thus motivating employees to enhance their personal ability continuously.

The Group has formulated and consistently implemented the "Baioo's Staff Remuneration Management System" and has established a multi-layer remuneration system of "fixed salary + floating wage + stock" to formulate a competitive remuneration package for the staff at different levels and the functional departments. Meanwhile, in March and September every year, the Group will review and appraise the remuneration of the heads of the departments and the human resource department, and the staff meeting the standards may apply for a pay rise with the head of the department he or she works, and submit the same to the human resource department and the relevant heads for appraisal, so as to help the staff to obtain the ideal remuneration. In addition, the Group has established a sound staff benefits system, including five social insurances and one housing provident fund, 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 staff benefits 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.

Case Sharing: "Seniors at Baioo, Be with You" | the incentive plan for seniors

In order to appreciate your accompany in the growth of Baioo and for the benefits of those who made contribution to Baioo, the Group has introduced the incentive plan for seniors — "Seniors at Baioo, Be with You" to give special customized seniority-related gifts to the staff with seniority of 1, 3, 5, 7 and 9 years at Baioo, which in turn shows our concern, recognition and encouragement towards the staff, so as to motivate their sense of honour and responsibility.

The "Tree" gift for three-year-old seniors

The "Flower" gift for five-year-old seniors

3) Management of Younger Teams

The Group comprises of younger teams with a relaxed and open atmosphere. We lead our harmonious development in a corporate culture focusing on innovation, passion, curiosity, initiative, results and efficiency. The Group proactively provides guidance in building a dynamic and orderly office environment and reminds the staff to pay attention to the meeting time and to keep the meeting room clean by placing the hourglass and the guiding placards and other creative items. The Group has developed and adopted an 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.

The Group has also founded a bimonthly publication "Baioo @ You" (《百奥@你》) as the platform for communication between employees and the Group. Since the inception of "Baioo @ You" in 2015, the Group has released 40 issues in total as of December 2019 and has always adhered to the original faith of staff orientation and speaking for staff for four years. It has continuously delivered dynamics of the Group, expressed the voice of the Group, and demonstrated expectations of employees in a most fashionable and intimate manner. "Baioo @ You" also records the history of the Group, upholds the spirit of Baioo, demonstrates the humanistic style of the Baioo people and enriches the corporate culture of Baioo. Its functions are two twofold: internal dissemination of the corporate culture and facilitation of external branding activities.

The covers of "Baioo @ You" 2019 issues

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 and the Production Safety Law of the People' Republic of China 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 had no casualty event due to work and the working hour loss due to occupational injuries was 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 various welfare facilities to meet the needs of the staff. Our businesses do not involve any occupational hazards of high dangerousness or risks, and the Group has built a spacious and comfortable working environment to ward off 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 gyms and yoga rooms equipped with treadmills, elliptical trainers, upright bicycles, rowing machine, press, stretchers and other fitness machine, to meet the needs of the staff for exercise. We have also hired external teachers to provide various courses such as yoga, fitness training, and kickboxing at each weeknight. The staff can make course reservation through the OA system to balance the physical and mental health after work.

Various fitness equipment in a gym

Lecturing of the kickboxing course

The Group has built spacious, bright, exquisite restaurants and café to provide the staff with catering service and grants food subsidies to the staff. Rigorous food safety measures are in place, with allergy warning labels used in the restaurants. At every featured festival, our restaurants introduce seasonal specialty food, such as Laba porridge, glue puddings and moon cakes. In addition, we also held the rice dumpling making activity at the Dragon Boat Festival, the DIY moon cake making activity in the Middle Autumn Day, the DIY pumpkin lamp making activity at the All Saint's Day, and other diversified festival activities, so as to let our workmates to make traditional cuisines or festival items personally and to create a festival atmosphere.

The group photo of the rice dumplings making activity at the Dragon Boat Festival

The group photo of the pumpkin lamp making activity at the All Saints' Day

In addition to the mini golf, mini billiards, table football, basketball shooting machine, darts, etc., we also set up sofa, stools, swings and other facilities in the café lounge area, available for entertainment, recreation and relaxation of mind.

Coffee lounge and cultural and entertainment facilities

Case Sharing: the Voluntary Oral Diagnosis Activity

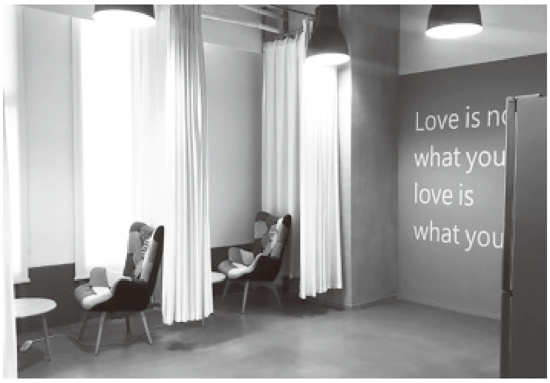
On 23 August 2019, the Group invited doctors from a professional dental clinic to give a lecture on dental health and examine dental problems for the staff. During the event, the doctors explained the classification of decayed teeth and the types and prevention methods of gum diseases, and provided one-to-one oral examination and treatment suggestions for the staff present. There were a total of 30 staff participated in the voluntary oral diagnosis activity, which raised the employees' awareness of the importance of oral health and helped the them to take care of their teeth.

Doctor's lecture on oral health knowledge for the staff

Oral examination by doctors to the staff

2) Care for Females

The Group attaches great importance to the well-being of female employees, and pays particular attention to their special needs. The Group has redecorated the original women's restroom of the office building and relocated it to the office area of the Group with additional access control security and provided the female staff with menstrual hygiene products to the safety and convenience for female employees when using the restroom. The Group has also provided baby care 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 our pregnant female staff to take food separately 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.



Self-contained baby care room

"Channel for mothers-to-be" in the dining hall

3) Staff Activities and Humanistic Care

We are an advocate of work-life balance and hold various recreational and leisure activities for the employees regularly through our established trade union committee. The Group has also established internal sports, photography and video games clubs for employees, 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. The Group will also offer gifts to the staff and hold celebration activities to enhance the staff's sense of belonging.

Case Sharing: "Building the Dream with Ten Years of Efforts"| the Celebration Activity for the Tenth Anniversary of Baioo

On 31 May 2019, to celebrate the tenth anniversary of Baioo, the Group held the tenth anniversary ceremony with the theme of "Building the Dream with Ten Years of Efforts", to which all the employees were invited. We prepared rich and interesting games and lucky draws at the celebration party, and offered delicious catering of afternoon tea for everyone. The Group also prepared commemorative gifts for those who have accompanied the Company for ten anniversaries, shared the Group's achievements with them and created a harmonious working atmosphere for them.

Staff's handprints in memory of the tenth anniversary of Baioo

Site of the tenth anniversary party of Baioo

The group photo of the tenth anniversary party of Baioo

Case Sharing: "Be with You, Exchange Christmas Day's Gifts " | the Christmas Day Celebration Activity

On 25 December 2019, the Group organized all the staff to proactively participate in the Christmas Day Celebration — "Be with You, Exchange Christmas Day's Gifts". During the activity, there was the time for gift exchange and blind box draws so as to allow all the staff to harvest warmth and the surprise from the blind box, to comprehensively improve their life quality and to enhance the vitality and sense of happiness.

The group photo of the Christmas gift exchange activity

Gift bags for Christmas Day and the New Year prepared by Baioo for the staff

4) **Fire Drill**

The Group attaches great emphasis on fire safety, strictly complies with relevant laws and regulations including the Fire Prevention Law of the People's Republic of China and the Emergency Response Law of the People's Republic of China, conducts fire safety inspection regularly, organizes lectures and training on fire-fighting knowledge and coordinates with the property management office to conduct fire drills. On 27 June and 18 December 2019, the Group organized the employees to participate in the fire evacuation drills organized by the property management office. Through the exercises, 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, learned how to use firefighting facilities, enhanced their first aid skills and strengthened the overall awareness of firefighting of the Group.

Spot coverage of the fire drill activity

Firefighters showing how to use the extinguishers

3. Promotion Blueprint and Training Mechanism

The Group prioritizes staff development, builds and regulates a transparent blueprint for the staff from the aspect of the staff's needs and provides the staff with valuable training courses and abundant intern opportunities so as to release the vitality of staff members and help them and the Company to grow up together.

1) "Double-ladder" Promotion Blueprint

The Group offers a clear path towards 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 employees 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 equal amounts of resources, pays the same attention and shows the same respect to both mechanisms. In addition, the promotion of those who have made greatest contribution to the Group will be implemented beyond the rule, so as to optimally unlock the full potential of staff members.

Case Sharing: "Baioo C Plan" | the 2019 Staff Originality Contest

In order to motivate the innovation awareness of employees, to strengthen the corporate culture concepts of passion, curiosity and innovation of the Group, and to establish a continuous innovation mechanism to engage all employees, the Group holds regular originality contests with different themes every year to provide a platform for employees to demonstrate their talents and promote career development. The purpose of the 2019 originality contest themed with "Baioo C Plan" (C is the capital of the word "Creative") is to explore innovative and differential product innovation plans. This contest lasted two months with 22 innovation proposals received. The staff may participate in the assessment and selection to promote and implement the excellent innovations and become the leaders of the projects through this platform to step into a new stage of career development.

Propaganda poster of the "Baioo C Plan"

2) Diversified training system

With a view to ensuring the staff's continuous learning and progress, the Group has formulated and implemented the "Baioo Training Management System", set up perfect training system meeting the development needs of different types of staff and continued to provide staff with value creation opportunities. The human resource department of the Group is responsible for coordinating the preparation of annual and monthly training plans, training courses and training education materials for all departments. Meanwhile, each department reports the status of organization and implementation of trainings to the human resource department regularly. The staff may also apply with the Group for fund subsidies, and attend external courses that are helpful for the business development related to their positions of employees so as to strengthen self-development abilities through self-learning.

Training program for new staff

- The training contents cover corporate culture, regutions and systems, occupational safety, business skills and other aspects, and one tutor is arranged for one staff for mentoring to help new staff to fast join in the team and have a specific personal development direction.

Training program for the new staff at management positions

- The conducting of the training program focuses on the workflow and system of the management position, covering the training on human resouce, finance, administration and other systems, which comprises of offline intensified training and online tests, with a view to help the newly promoted managers to fast understand the work position.

Professional skill training program

- The training contents cover the promotion of the office efficiency, the promotion of professional skills, the professionalism, self-management and other aspects, which has effectively improved the working efficienc of the staff, and the lecturing satisfaction rate was above 95%.

Online "Wiki" learning platform

- In order to improve the training efficiency, the Company has provided the staff with the online "Wiki" learning platform to share valuable training files and audio and vedio information. Currently, there are nearly 300 files, which has effectively improved the learning experience of the staff.

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 expertise and enhance their own core competitiveness and that of the Group.

Case Sharing: the 2019 on-campus training program for fresh graduates

In order to help university graduates understand the Company's business operations and expedite the onboarding process, the Group provided a three-month training program for 55 graduates recruited on campus in 2019. By providing outdoor development, sand-table exercise, game creative contest and other activities, the Group had fully mobilized the team cohesiveness of the staff recruited on campus. By the offline course learning and the one-to-one mentoring of the professional tutors, the Group had helped the staff recruited on campus master the relevant knowledge and skills so as to improve their actual working efficiency.

Site of the game creative contest during the training program

The group photo of the on-campus training program

Case Sharing: the training program for new staff at management positions in 2019

In December 2019, the Group adopted the combination of "centralized lecturing + review after class + test after class" to provide the new management staff with training on management skills. The contents of the centralized courses include presentations related to human resources management, finance, administration systems and workflow management. The staff may review the knowledge through the online "Wiki" learning platform of the Company after training and further understand the level of mastering such knowledge after passing the tests, so as to continuously increase the skills in their own reserves. This activity improved the trans-department communication efficiency and helped the new staff at management positions to fast address various issues in the future workflow.

Site of the centralized lecturing of the training program for new staff at management positions

3) In-house Trainer Systems

The Group has formulated and implemented the Management Measures of In-house Trainers, encourages the staff to share, learn and exchange ideas each other on a regular basis, and are committed to establishing an in-house trainer team. Employees can become in-house trainers after passing a series of certification tests. In-house trainers are entitled to the corresponding interest, while their teaching and training work is subject to the relevant assessment. 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 covering courseware development and teaching skills to enhance their competence as trainers. As of the end of 2019, the Group had 80 in-house trainers.

In 2019, the Group conducted 200-hour trainings with a total of 3,000 participants involved.

By gender	Percentage of the trained employees 2019	Per capita trained hours 2019
Male	66%	7.24
Female	63%	6.16

4. Labor Rights and Interests

The Group carefully implements the systematic rules of the Employee Handbook, understands the staff's needs by establishing diversified communication and complaint channels, continues to improve the human resource management-related work and protects the immediate interests of the staff.

1) Staff Satisfaction and Complaints

The Group attaches great importance to staff's opinions, encourages them to share thei opinions and feedback, and is committed 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 feedback at any time;

- To create a WeChat group for the employees to directly provide opinions through WeChat, a timely and efficient tool;

- To conduct face-to-fact interviews at the different stages including career entry, promotion and resignation so as to discover the defects of the human resource management;

- To issue questionnaires regularly to understand the degree of satisfaction and demands of the employees and to pay due attention to the protection of the staff's rights and interests.

2) No Child Labor and Forced Labor

The Group strictly complies with relevant laws and regulations such as the "Labor Law of the People's Republic of China", the "Employment Contract Law of the People's Republic of China" and the "Law of the People's Republic of China on Protection of Minors", and strongly prohibits hiring child labor or forced labor. We strictly prohibit hiring child labor by verifying the age and other identification information of job applicants. The Group implements flexible working hours and is opposed to working overtime. The employees who need to work overtime should apply in advance and the Group will grant paid leave or overtime compensation according to regulations after the application is approved. During the reporting period, no child labor or forced labor has been employed by or occurred in the Group.

3) Diversity and anti-discrimination

The Group has formulated and implemented the "Prohibition of Discrimination and Sexual Harassment System", strives to create an equal and healthy employment environment, ensures that the staff will not be subject to discrimination by reasons of gender, age, nationality, religious beliefs, family and health status, pregnancy, sexual orientation and other factors, objects to any forms of discrimination and harassment behaviors. During the reporting period, we received no complaint cases about the infringement of the staff's rights and interests.

VI. COMPLIANCE IN OPERATION AND ANTI-CORRUPTION

The Group proactively assumes the responsibility of compliance in operation, continues to improve the anti-fraud system, supervises and urges all the staff to abide by laws and to act honestly and uprightly, and creates a business environment with honesty, integrity, cleanness and uprightness.

1. Compliance in Operation

The Group strictly complies with the national laws and regulations, and obtained relevant official qualifications such as the "Network Culture Operation License", the "Online Publishing Service License", and the "Publication Operation License of the People's Republic of China". 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 Affairs Department and related business units to ensure the operation of the Group's overseas business complies with relevant requirements.

With a view to further enhancing the compliance management standards, we have established our public affairs department during the year to maintain the timely tracing, response and feedback of the national policies and relevant industry regulations. In accordance with the requirements of the policies including the "Rules on Online Protection of the Personal Information of Children" and the "Notice on Preventing Minors' Addition to Online Games", the Group has taken timely measures to continuously regulate the online game service and provided guidance for parents, schools and all other social forces to jointly discharge the responsibility of protecting minors through the improvement of the rules on protecting the personal information of children and the user agreement. In addition, the legal affairs department of the Group has carefully implemented the "Guidelines for the Legal Affairs of Baioo", and carried out the contract approval, the examination of legal files, the protection of intelligent property rights, the infringement complaints and other legal affairs according to the standard operating regulations, whereby protecting the legitimate rights and interests of the Group.

Case Sharing: the training on the sense of protecting trade secrets in 2019

In order to protect the legitimate rights and interests of the Group and to raise the staff's awareness of the importance of trade secret protection, the legal affairs department and the human resource department jointly organized and held the relevant training on confidentiality agreement in October 2019. This training was designed for all the staff of the Group, elaborated the staff's obligations to keep confidential the trade secrets of the Group during and after the working with the Group and provided express explanation and guidance for the scope, contents, term, responsibility, etc. of confidentiality. After the training, all participants had signed the "Confidentiality Undertaking" which provides for the confidentiality obligations they shall assume.

2. Anti-corruption

The Group attaches great importance to anti-corruption and strictly complies with relevant laws and regulations such as the "Anti-Unfair Competition Law of the People's Republic of China", the "Interim Provisions on Banning Commercial Bribery" and the "Anti-Monopoly Law of the People's Republic of China", and has formulated internal policies such as the "Anti-Fraud and Report Management System" and expressly provides for the specific requirements of the anti-corruption, anti-bribery and anti-money laundering work during the prevention, control and feedback links. For each process of daily business operations, the Group has established internal control measures to reduce fraud risks. Meanwhile, the Group has set up diversified reporting channels such as e-mail, phone reporting by phone, reporting in the form of 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 addition, the Group has established the party branch to regularly hold special integrity seminars and training activities, so as to help staff identify illegal and unethical behaviors.

During the reporting period, the Group was not involved in any corruption lawsuits, and received no relevant reporting incidents.

Case Sharing: "Never Forget Why We Start and Keep Our Mission in Mind" — Walk the Routes of the Red Army again in Zunyi

On 19 July 2019, in response to the state-wide public education campaign dubbed "Never Forget Why We Start and Keep Our Mission in Mind", a group of party members of the Group came to Zunyi, Guangzhou to conduct the visiting and learning activity at the Red Education Base. The party members followed the commentator and visited the memorial hall of Zunyi Meeting and revived the strenuous revolution history of the Red Army. This themed education activity showed that Baioo's staff had built correct ideals and beliefs and strengthened everyone's spirits of seeking truth from facts, independence, daring to embark new roads, democracy and unity in the work.

The group photo of the party branch of Baioo before the memorial hall of Zunyi Meeting

Case Sharing: celebrating the 70th birthday of the motherland, the viewing activity of "I and My Motherland"

On 8 October 2019, the party branch of the Group, the party branch of Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) and the party branch of Guangdong Game Industry Association jointly organized party members to watch the tribute of the 70th anniversary of the founding the Nation — I and My Motherland to celebrate the birthday of the motherland. The film selected the stories about the ordinary Chinese people and the motherland in the seven historic significant events since the founding of the New China to rouse the memories of the times that belong to every Chinese people, to motivate Baioo people to fulfill their own duties in the construction of the motherland and to promote the spirit of devotion and diligence.

The group photo of the viewing activity of I and My Motherland

VII. GIVING BACK TO THE SOCIETY

In addition to offering high-quality products and service, the Group strives to make humble contributions to social welfare and charitable causes. The Group has established the "Baioo Volunteer Union" and has recruited a total of 80 volunteers since its establishment, and it actively carried out social welfare activities in the current year to discharge its corporate social responsibility and make contribution to the community union.

Case Sharing: "Serve Readers and Feel the Charm of Books" — the Book Rearrangement Activity in the library

Baioo volunteer union regularly organizes volunteers to carry out book rearrangement activities in libraries every year. On 2 November 2019, Baioo volunteer union travelled to Baiyun District Library in Guangzhou to assist the library in rearranging various books in the reading area. The administrator of the library had thoroughly explained how to sort out books for the volunteers who were deployed to each area to sort out books after the careful learning. This activity not only allowed the volunteers of Baioo to feel the strong humanistic atmosphere of the library, but also helped them practice their patience of sorting out books and serving readers. The volunteers had received the high praise from the staff of the library for their meticulous attitudes and the careful and heartfelt services.

The group photo of the volunteers in the library

Case Sharing: "Start for Love and Walk Together with You" — the Baioo Public Hiking Activity

On 7 December 2019, Baioo volunteer union organized a public hiking activity at Baiyunshan Mountain in Guangzhou. The length of the public hiking activity was eight kilometers, with a charitable fund of RMB5 produced for every one kilometer walked per person. The charitable fund produced in the public hiking activity was paid by the Group and could be used for purchasing supplies for the people in need. A total of 29 employees participated in the public hiking event, and the three-hour journey with 223.64 kilometers walked produced a total of RMB1,118.2 in charitable donations, which not only allowed our staff to do physical exercise, but also contributed their love to the society.

Baioo volunteer union hiking at Baiyunshan Mountain

The group photo the public hiking group

Case Sharing: "Care for Children, Love Donation" — Visiting the children with special needs

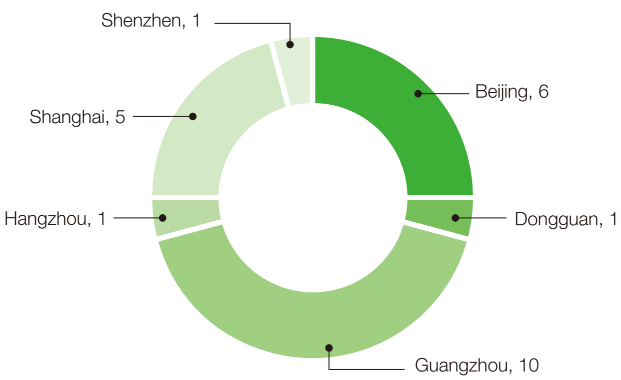
On 28 December 2019, Baioo volunteer union and Jinsidai Exceptional Children-Parent Mutual Assistance Center partnered up to hold the New Year's Evening Party for the hospitalized children suffering from blood disease at the People's Hospital of Guangzhou Province. During the evening party, volunteers used their best efforts to give a performance for them and dispatched the lavish New Year's gifts to express their happiness and the New Year's greetings and blessings for the kids suffering from blood disease. During the year, Baioo volunteer union also conducted donation of supplies activities for kindergartens, special schools and mountainous schools with a total of 21,837 batches of supplies and a total of RMB68,319 donated. Besides, by interaction with kids, Baioo volunteer union proactively led them in building a correct outlook on life.

Donation of supplies to kindergartens in Guangzhou

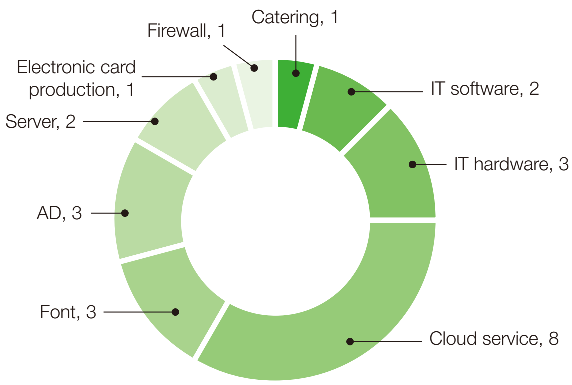
VIII. RESPONSIBILITY OF THE SUPPLY CHAIN

The Group has effectively fulfilled commitments that it made to users and the society, and attaches great importance to the management of suppliers, and strictly abides by the "Commerce Management System" and the "Supplier Selection Management System" formulated within the Group, and regulates the selection, evaluation and management of suppliers. In 2019, the Group had a total of 24 suppliers.

Number of suppliers by region



Number of suppliers by category



1. Supplier Acceptance

The Group divides existing suppliers into three categories: card suppliers, other procurement suppliers and major contract suppliers, and formulates the corresponding supplier entry 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. For catering suppliers, we will focus on the source and quality of food, the distribution sites and other relevant information to ensure the quality and safety of food.

2. Supplier Assessment

The finance department and relevant departments are responsible for conducting annual assessments of suppliers selected by the Group. 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 deals; 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 department 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 parties are addressed in a timely manner, and strive to build a sound cooperative relationship featuring mutual benefit, mutual trust and common progress. The finance department requires the existing suppliers to update their qualification information at the beginning of each year to ensure the completeness and accuracy of the suppliers' information. For the canteen suppliers, the Group has also developed a series of daily management monitoring measures, including:

- We conducts spot checks at the suppliers' "central kitchens" on an ad hoc basis every month, which includes warehouse inventory, food preservation and production process, environmental sanitation, etc., and maintain the records of the checks;

- We regularly organize the canteen staff to conduct the general cleaning every week and arrange professional deinsectization companies for door-to-door quarterly treatment to ensure the sanitation of the restaurant environment;

- 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. Meanwhile, the dressing and the health certificates of the canteen staff will be checked regularly;

- 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.

Case Sharing: the diet management committee's activity in 2019

In order to improve communications with suppliers and implement the feedback of employees in a timely manner, the Group has established the Diet Committee comprising of administrative staff, representatives from various departments and representatives from suppliers. In 2019, the Group held a total of four Diet Committee meetings, handled and solved approximately 108 issues and opinions, and adopted the staff's suggestion to introduce more than 39 new canteen products, which were highly praised and recommended by the staff.

Display of the new canteen offerings during the year

IX. ENVIRONMENTAL RESPONSIBILITY

The Group incorporates environmental protection into its routine operations and management, proactively reduces the impact of its own operating activities on environment, improves the energy and resource utilization efficiency, provides and promotes green training for the staff and jointly discharges the responsibility of environmental protection.

1. Green Operation

The Group always adheres to the concept of green development, conducts daily operation management under the principle of "green office, energy saving", focuses on details and trifles, and calls for all the staff to build a green and energy-saving office environment together.

1) Energy saving and consumption reduction system construction and measures

The Group has compiled the internal Office 5S Management Regulations (Office 5S Management Regulations) 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 meet the purposes of water saving, electricity saving and 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 Group has adopted a series of measures to manage wastes, including the following aspects:

- 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;

- The discarded ink cartridges and toner cartridges will all be collected by the administrator who will regularly deliver them to suppliers for recycling;

- For old servers and switches that are no longer in use, the Group transfers them to companies in need for continuous use under the principle of resource recycling;

- For instruments and equipment that cannot be reused, the Group will hand them over to professional organizations for recycling to avoid waste of resources;

During the reporting period, the Group had no difficulty in sourcing suitable water.

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: Staff canteen's "Empty Your Plate" initiative

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.

The publicity slogan of the "Empty Your Plate" initiative

Case Sharing: The tree planting activity in the Nansha Wetland Park

On 23 March 2019, the Baioo volunteer union travelled to the Nansha Wetland Park in Guangzhou to conduct the tree planting activity with a view to doing their bit to building a green environment. At the same day, it was raining but it could not cool down the love and passion of Baioo's staff. Wearing the raincoats, everyone present carefully dug holes, planted trees, backfilled the holes and watered trees according the professional standards. This activity not only spread green life in the Nansha Wetland Park, but also encouraged the staff to reduce the use of wooden products in their daily life and to proactively build a green ecosystem starting from the little things.

The "Love Forest" planted by Baioo's staff

The group photo of Baioo volunteer union in the Nansha Wetland Park

3. Environmental protection education for Youth

We understand 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, and the influence is far reaching. 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: The environmental protection elements in the Aola Star

The Aola Star is an important flagship product of the Group released by the Group during the year, 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. In December 2019, the Aola Star was honored the "Best New Games of the Year" prize by OPPO at the OPPO Developer's Meeting and was awarded the "Popular IP-based Games for 2019" prize at the Future Commerce Eco-connection Meeting (未來商業生態連結大會).

Key Environmental Performance Data for 2019

ESG Key performance indicators	Unit	Consumption/Emission
SOx	Kg	0.05
NOx	Kg	2.43
Particulate matter	Kg	0.18
Greenhouse gas emissions (Scope I)	Tonnes	9.29
Greenhouse gas emissions (Scope II)	Tonnes	1,438.89
Total greenhouse gas emissions (Scopes I and II)	Tonnes	1,448.18
Waste electronic products (recycled)	Tonnes	0.14
Waste battery	Tonnes	0.02
Ink cartridge/toner cartridge consumption (recycled)	Tonnes	0.01
Total hazardous wastes	Tonnes	0.17
Total non-hazardous wastes	Tonnes	7.10
Gasoline consumption	Liter	3,430.98
Electricity consumption	kWh	1,719,720.00
Direct energy consumption	GJ	107.13
Indirect energy consumption	GJ	6,190.99
Total energy consumption	GJ	6,298.13
Energy consumption intensity	GJ/person	8.18
Office paper consumption	Tonnes	0.80
Water consumption	m^3	1,772.00
Water consumption intensity	m^3/person	2.30

Notes of the environmental data:

- The collection time of environmental data in 2019 covers from 1 January 2019 to 31 December 2019; the scope of collection includes the Group's office building in Guangzhou and official vehicles.

- Air emissions in 2019 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 2019 included 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.

- Total hazardous wastes included the generation volume of the waste electronic products, waste batteries and waste ink cartridges/toner cartridges; waste electronic products are recycled by professional electronic product recyclers, and waste ink cartridges/toner cartridges are recycled by suppliers so as to reduce the Group's own environmental impact.

- Non-hazardous waste refers to the office garbage generated from office areas.

- Direct energy consumption refers to the use of gasoline.

- Indirect energy consumption refers to the use of the purchased electricity.

- Relevant density values are calculated by the total number of employees.

X. MAJOR HONORS AND AWARDS IN 2019

As of 31 December 2019, the awards obtained by the Group are as follows:

No.	Award	Granted by	Granting Date
1	The Most Influential Enterprise	Guangdong Game Industry Association	15 January 2019
2	Outstanding Contribution Award	Guangdong Game Industry Association	15 January 2019
3	2019–2020 National Key Culture Exporters	MOC, CCCPC, MOF, MOCT, NRTA	8 October 2019
4	Top 50 Culture Enterprises in Guangzhou	Nanfang Daily, Guangzhou Academy of Social Sciences, Guangzhou Cultural Creative Industry Association	5 November 2019
5	Key Cultivation Enterprises in Service Trade in Guangzhou	Guangzhou Municipal Commerce Bureau	28 November 2019
6	The Fourth Golden Gyros Awards for 2019 — the Popular IP-based Games Prize (Aola Star)	youxituoluo.com	5 December 2019
7	The 2019 OPPO Developer's Meeting — the "Best New Games of the Year" prize for the Aola Star by OPPO	OPPO	19 December 2019

XI. INDUSTRY ASSOCIATIONS PARTICIPATED BY THE GROUP

As of 31 December 2019, the industry associations in which the Group had 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 the 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 the 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
14	Guangzhou Internet Culture Association	Director
15	Guangdong Provincial Internet Federation	Member

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	IX Environmental responsibility
A1.1	The types of emissions and respective emissions data.	Disclosed	IX Environmental responsibility
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	Disclosed	IX Environmental responsibility
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Disclosed	IX Environmental responsibility
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Disclosed	IX Environmental responsibility
A1.5	Description of measures to mitigate emissions and results achieved.	Disclosed	IX Environmental responsibility
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Disclosed	IX Environmental responsibility
A2 General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Disclosed	IX Environmental responsibility
A2.1	Direct and/or indirect energy consumption and intensity by type.	Disclosed	IX Environmental responsibility
A2.2	Total water consumption and intensity.	Disclosed	IX Environmental responsibility
A2.3	Description of the energy use efficiency initiatives and results achieved.	Disclosed	IX 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	IX Environmental responsibility
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	IX Environmental responsibility

	ESG Indicators	Status of Disclosure	Corresponding Section
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Disclosed	IX 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	V Employment management
B1.1	Total workforce by gender, employment type, age group and geographical region.	Partly disclosed	V 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 relating to providing a safe working environment and protecting employees from occupational hazards.	Disclosed	V Employment management
B2.1	Number and rate of work-related fatalities.	Disclosed	V Employment management
B2.2	Lost days due to work injury.	Disclosed	V Employment management
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Disclosed	V Employment management
B3 General disclosure	Policies on improving employees' knowledge and skills or discharging duties at work. Description of training activities.	Disclosed	V Employment management
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Partly disclosed	V Employment management
B3.2	The average training hours completed per employee by gender and employee category.	Partly disclosed	V 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	V Employment management
B4.1	Description of measures to review employment practices to avoid child labor and forced labor.	Disclosed	V Employment management
B4.2	Description of steps taken to eliminate such practices when discovered.	Disclosed	V Employment management
B5 General disclosure	Policies on managing environmental and social risks of the supply chain.	Disclosed	VIII Responsibility of the Supply
B5.1	Number of suppliers by geographical region.	Disclosed	VIII Responsibility of the Supply

ESG Indicators		Status of Disclosure	Corresponding Section
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	VIII Responsibility of the Supply
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	IV 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.	Disclosed	IV Product responsibility
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Disclosed	IV Product responsibility
B6.4	Description of quality assurance process and product recall procedures.	Disclosed	IV Product responsibility
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Disclosed	IV Product responsibility
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	VI Compliance in operation 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	VI Compliance in operation and anti-corruption
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Disclosed	VI Compliance in operation 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	VII Giving back to the society
B8.1	Focus areas of contribution (for example, education, environmental matters, labor needs, health, culture, sports).	Disclosed	VII Giving back to the society
B8.2	Resources contributed (e.g. money or time) to the focus areas.	Disclosed	VII 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 Fixed Asset Management System	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

ESG Indicators	Internal Policies	Compliance with Regulations and Rules
B1 Employment	Employees' Handbooks	Labor Law of the PRC
	Management System for Interns	Labor Contract Law of the PRC
	Management Measures for Recruitment	Employment Promotion Law of the PRC
	Human Resource Management System	Social Insurance Law of the PRC
	System of Prohibition of Discrimination and Sexual Harassment	Provisions on Minimum Wages
		Law of the PRC on the Protection of Disabled Persons
	Remuneration Management System	
	Customer Service Assessment and Performance Management System	
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	Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents
	System of Prohibition of Discrimination and Sexual Harassment	Interim Regulations on Investigation and Administration of Hidden Danger in Production Safety
	Employees' Handbook	Regulation of Insurance for Labor Injury
		Provisions on the Supervision and Management of Occupational Health at Work Sites
		Occupational Disease Classification and Catalog

ESG Indicators	Internal Policies	Compliance with Regulations and Rules
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	
B4 Labour Standards	Employees' Handbook Human Resource Management System	Provisions on the Prohibition of the Use of Child Labour 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	Commerce Management System Management System on Choosing Suppliers Code of Ethics and Business Conduct System	Bidding Law of the PRC 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 IDC Machine Room Management System Machine Room Patrol Inspection System Remote Access System Cloud Management System Regulations on Product and Technical Review Process Regulations on Product Launch and Publishing Process SDK Access Guidelines Functional Backstage Access Guidelines Elimination and Removal Process Emergency Treatment Procedures Process Requirements of Game Updating and Maintenance Process Requirements of Website Production and Publishing Process Requirements of Content Production and Publishing 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 Business Process and Workflow Regulation of the Customer Service Center	Copyright Law of the PRC Regulation for the Implementation of the Copyright Law of the PRC Patent Law of the PRC Trademark Law of the PRC General Provisions of the Civil Law of the PRC Tort Law of the PRC Advertising Law of the PRC Anti-unfair Competition Law of the PRC Law of the PRC on Protection of Minors Provisions on the Administration of Online Publishing Services Interim Measures for the Administration of Online Games Interim Provisions on the Administration of Internet Culture Notice on Preventing Minors' Addition to Online Games Rules on Online Protection of the Personal Information of Children

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
B8 Community Investment		Charity Law of the PRC

Independent Auditor's Report

pwc

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 132 to 228, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, 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 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 2019 amounted to RMB678,889,000, representing 99.7% of the Group's total revenue. Out of the total revenue from online virtual world, an amount of RMB635,496,000 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 and Registered PIE Auditor

Hong Kong, 26 March 2020

Consolidated Income Statement

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Continuing operations			
Revenue	5	**680,598**	284,489
Cost of revenue	6	**(318,452)**	(112,812)
Gross profit		**362,146**	171,677
Selling and marketing expenses	6	**(77,249)**	(69,249)
Administrative expenses	6	**(52,903)**	(50,450)
Research and development expenses	6	**(97,062)**	(81,386)
Net impairment losses on financial assets		**(2,669)**	(1,047)
Other income	7	**3,247**	6,576
Other gains — net	8	**17,053**	15,574
Gain on partial disposal of an associate	16	**7,274**	—
Gain on disposal of a subsidiary	10	**—**	115,015
Operating profit		**159,837**	106,710
Finance income	11	**20,558**	27,399
Finance costs	11	**(6,001)**	(67)
Finance income — net	11	**14,557**	27,332
Share of losses of an associate		**(18,144)**	(7,087)
Profit before income tax		**156,250**	126,955
Income tax expense	12	**(5,083)**	(17,933)
Profit for the year from continuing operations		**151,167**	109,022
Discontinued operations			
Loss for the year from discontinued operations		**—**	(1,374)
Profit for the year		**151,167**	107,648

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Attributable to:			
— Shareholders of the Company			
Continuing operations		**151,625**	113,052
Discontinued operations		**—**	(977)
		151,625	112,075
— Non-controlling interests			
Continuing operations		**(458)**	(4,030)
Discontinued operations		**—**	(397)
		(458)	(4,427)
		151,167	107,648
Earnings per share for profit from continuing operations attributable to shareholders of the Company (expressed in RMB per share)	13		
Basic earnings per share		**0.0566**	0.0413
Diluted earnings per share		**0.0566**	0.0411
Earnings per share for profit attributable to shareholders of the Company (expressed in RMB per share)	13		
Basic earnings per share		**0.0566**	0.0409
Diluted earnings per share		**0.0566**	0.0408

The notes on pages 140 to 228 are integral parts of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit for the year	**151,167**	107,648
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences of discontinued operations	**—**	276
Total comprehensive income for the year	**151,167**	107,924
Attributable to:		
— Shareholders of the Company	**151,625**	112,268
— Non-controlling interests	**(458)**	(4,344)
	151,167	107,924
Total comprehensive income attributable to Shareholders of the Company arising from:		
— Continuing operations	**151,625**	113,055
— Discontinued operations	**—**	(787)
	151,625	112,268

The notes on pages 140 to 228 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

		As at 31 December	
		2019	2018
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property and equipment	17	**26,631**	28,230
Right-of-use assets	18	**84,905**	—
Intangible assets	19	**2,796**	3,934
Investment in an associate	16	**60,910**	87,780
Prepayments and other receivables	23	**6,766**	3,266
Loans to a related party	37	**20,000**	—
Deferred income tax assets	33	**13,494**	—
Financial assets at fair value through profit or loss	24	**5,071**	6,954
		220,573	130,164
Current assets			
Inventories	21	**—**	2,265
Contract costs	30	**63,694**	1,135
Trade receivables	22	**134,533**	16,977
Prepayments and other receivables	23	**13,883**	20,211
Loans to a related party	37	**—**	20,000
Financial assets at fair value through profit or loss	24	**—**	100,490
Short-term deposits	25	**226,008**	222,465
Cash and cash equivalents (excluding bank overdrafts)	25	**1,274,044**	1,145,686
		1,712,162	1,529,229
Total assets		**1,932,735**	1,659,393
EQUITY			
Share capital	26	**8**	9
Share premium	26	**1,326,987**	1,457,324
Reserves	27	**10,302**	11,350
Retained earnings	29	**205,638**	55,154
Capital and reserves attributable to Shareholders of the Company		**1,542,935**	1,523,837
Non-controlling interests		**7,506**	6,964
Total equity		**1,550,441**	1,530,801

Consolidated Balance Sheet (Continued)

		As at 31 December	
		2019	2018
	Note	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Contract liabilities	30	**8,613**	7,954
Lease liabilities	18	**83,161**	—
Deferred income tax liabilities	33	**3,639**	9,228
		95,413	17,182
Current liabilities			
Trade payables	31	**16,195**	11,065
Other payables and accruals	32	**53,209**	38,874
Advances from customers and distributors		**17,871**	16,338
Contract liabilities	30	**159,234**	44,098
Income tax liabilities		**22,519**	918
Lease liabilities	18	**17,807**	—
Advances under government grants		**—**	78
Bank overdrafts		**46**	39
		286,881	111,410
Total liabilities		**382,294**	128,592
Total equity and liabilities		**1,932,735**	1,659,393

The notes on pages 140 to 228 are integral parts of these consolidated financial statements.

These consolidated financial statements on pages 132 to 228 were approved by the board of directors of the Company (the "Board") on 26 March 2020 and were signed on its behalf.

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Li Chong

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Wang Xiaodong

Consolidated Statement of Changes in Equity

		Attributable to shareholders of the Company						
		Share capital	Share premium	Reserves	(Accumulated losses)/ retained earnings	Total	Non-controlling 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	26	–	(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")		–	–	–	–	–	6,252	6,252
Winding up of Bumps to Babes Limited ("Bumps")		–	–	(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

Consolidated Statement of Changes in Equity (Continued)

		Attributable to shareholders of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2019		9	1,457,324	11,350	55,154	1,523,837	6,964	1,530,801
Comprehensive income								
Profit/(loss) for the year		–	–	–	151,625	151,625	(458)	151,167
Total comprehensive income/(loss)		–	–	–	151,625	151,625	(458)	151,167
Transactions with owners, recognized directly in equity								
RSU Scheme:								
– Value of employee services	27	–	–	249	–	249	–	249
– Vesting of RSUs	27	–	2,403	(2,403)	–	–	–	–
Share Option Scheme:								
– Exercise of share options	27	–	87	(35)	–	52	–	52
Final dividend of 2018	26	–	(49,793)	–	–	(49,793)	–	(49,793)
Special dividend of 2019	26	–	(59,399)	–	–	(59,399)	–	(59,399)
Buy-back and cancellation of shares	26	(1)	(23,635)	–	–	(23,636)	–	(23,636)
Capital injection in a subsidiary from a non-controlling shareholder		–	–	–	–	–	1,000	1,000
Profit appropriations to statutory reserves	27	–	–	1,141	(1,141)	–	–	–
Total transactions with owners, recognized directly in equity		(1)	(130,337)	(1,048)	(1,141)	(132,527)	1,000	(131,527)
Balance at 31 December 2019		8	1,326,987	10,302	205,638	1,542,935	7,506	1,550,441

The notes on pages 140 to 228 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

		Year ended 31 December	
		2019	2018
	Notes	**RMB'000**	RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	35	**130,396**	(27,876)
Interest received		**11,984**	14,587
Income tax paid		**(2,566)**	(6,224)
Net cash generated from/(used in) operating activities		**139,814**	(19,513)
Cash flows from investing activities			
Proceeds from disposal of subsidiaries		**—**	12,958
Proceeds from disposal of an associate		**16,000**	—
Purchase of property and equipment and intangible assets		**(5,515)**	(12,578)
Proceeds from disposals of fixed assets		**—**	1,279
Interest received from bank deposits and a related party		**30,226**	25,230
Investment in bank deposits		**(1,987,543)**	(2,271,465)
Maturity from bank deposits		**2,084,490**	2,583,000
Loans to a related party		**(3,530)**	(6,000)
Repayment from a related party		**3,530**	1,000
Net cash generated from investing activities		**137,658**	333,424
Cash flows from financing activities			
Principal elements of lease payments		**(12,645)**	—
Buy-back and cancellation of ordinary shares		**(23,636)**	(28,999)
Exercise of share options		**52**	—
Interest paid		**(5,515)**	(105)
Proceed from capital contribution		**1,000**	—
Dividend paid to the Company's shareholders		**(109,192)**	(48,472)
Net cash used in financing activities		**(149,936)**	(77,576)
Net increase in cash and cash equivalents		**127,536**	236,335
Cash and cash equivalents at beginning of the year		**1,145,647**	906,368
Foreign exchange gains on cash and cash equivalents		**815**	2,944
Cash and cash equivalents at end of the year		**1,273,998**	1,145,647
Cash and cash equivalents comprises:			
Cash and bank balances	25	**1,274,044**	1,145,686
Bank overdrafts		**(46)**	(39)
Cash and cash equivalents		**1,273,998**	1,145,647

The notes on pages 140 to 228 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"), 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."

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 26 March 2020.

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. The financial statements are for the group consisting of BAIOO Family Interactive Limited and its subsidiaries.

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 (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 2019:

IFRS 9 (Amendments)	Prepayment Features with Negative Compensation
IFRS 16	Leases
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRSs 2015–2017 Cycle	IFRS 3, IFRS 11, IAS 12 and IAS 23
IFRIC 23	Uncertainty over Income Tax Treatments

Save for the impact of adoption of IFRS 16 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 and interpretations not yet adopted

		Effective for annual periods beginning on or after
IFRS 3 (Amendment)	Definition of a Business	1 January 2020
IAS 1 and IAS 8 (Amendment)	Definition of Material	1 January 2020
IFRS 9, IAS 39 and IFRS 7 (Amendments)	IBOR Reform and its Effects on Financial Reporting — Phase 1	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021 Note
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between An Inventory and its Associate or Joint Venture	To be determined

Note: The amendments were originally intended to be effective for annual reporting periods beginning on or after 1 January 2020. 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.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 *Leases* on the Group's financial statements.

As indicated in note 2.1 above, the Group has adopted IFRS 16 from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach and has not restated comparative amounts for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.24.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rates applied to the lease liabilities on 1 January 2019 were 5.6% for leases below 5 years (inclusive) and 5.8% for leases over 5 years.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies

(a) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made by applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

(b) Measurement of lease liabilities

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	126,793
Discounted using the lessee's incremental borrowing rate at the date of initial application	106,258
Less: short-term leases not recognised as a liability	(467)
Lease liability recognised as at 1 January 2019	105,791
Of which are:	
Current lease liabilities	16,220
Non-current lease liabilities	89,571

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

(c) *Measurement of right-of-use assets*

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liabilities on adoption, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

(d) *Adjustments recognised in the balance sheet on 1 January 2019*

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets — increase by RMB92,817,340
- lease liabilities — increase by RMB105,791,218
- other payables and accruals — decrease by RMB12,973,878

(e) *Lessor accounting*

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

There was no significant impact on the Group's net profit after tax for the year ended 31 December 2019 as a result of adoption of IFRS 16.

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 losses 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 the 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 over their estimated useful lives, as follows:

Servers	3 years
Office equipment	3 years
Motor vehicles	4 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) 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 the shorter of remaining term of the contract and 5 years.

(b) Other intangible assets

Other intangible assets mainly include computer software. They are initially recognised and measured at cost and amortised over their estimated useful lives using the straight-line method, which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

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 the end of each reporting period.

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

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.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 Summary of significant accounting policies (continued)

2.11 Investments and other financial assets (continued)

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.

2.11.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("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.

2 Summary of significant accounting policies (continued)

2.11 Investments and other financial assets (continued)

2.11.3 Measurement (continued)

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.

- 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 expected credit losses ("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.

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.

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

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 Summary of significant accounting policies (continued)

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 for 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 and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other 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. They 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 or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(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

(a) Defined contribution plan

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.

(b) Bonus plans

The expected cost of bonuses is recognised as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

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 virtual 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 contract liabilities 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.

2 Summary of significant accounting policies (continued)

2.20 Revenue (continued)

Online entertainment business (continued)

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

— 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.

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 payment 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.

2 Summary of significant accounting policies (continued)

2.20 Revenue (continued)

Online entertainment business (continued)

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

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.

Other businesses

Revenues from the Group's other businesses mainly included advertising revenue and early childhood education services 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 customers. Contract terms generally range from 1 to 3 months. Third party customers are generally billed at the end of the display period and payments are due usually within 3 months.

Early childhood education revenues are mainly generated from kindergarten service provided to customers. Kindergarten service fees are charged by semester of enrollment and collected in advance and are initially recorded as contract liability. Revenues are recognized over the semester.

Contract costs and contract liabilities

Contract liabilities primarily consists of the unamortized revenue from sales of virtual items of online virtual worlds, and the tuition fee of which service has not been provided, 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) distribution costs and payment handling fees, (ii) employee benefit expenses, (iii) depreciation and amortization of property and equipment, intangible assets and right-of-use assets, (iv) bandwidth and server custody fees; etc.

2.22 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 11 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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 relating to costs are deferred and recognised in the profit or loss 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 Summary of significant accounting policies (continued)

2.24 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change is described in Note 2.2.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were 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.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 Summary of significant accounting policies (continued)

2.24 Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

2 Summary of significant accounting policies (continued)

2.24 Leases (continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of equipment are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.25 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

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$) and US Dollar (US$). The trade receivables, other receivables, trade payables and other payables are mainly denominated in RMB. 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 2019 would have been approximately lower/higher by RMB809,000 (2018: approximately lower/higher by RMB569,000).

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

(ii) Interest rate risk

For the years ended 31 December 2019 and 2018, 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 bank balances, structural deposit, trade receivables, contract costs, other receivables and loans to 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 2019, substantially all the Group's bank deposits included in cash and bank balances were deposited with major financial institutions incorporated in the PRC and Hong Kong, 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 2019 and 31 December 2018 was determined as follows:

	Group A RMB'000	Group B RMB'000	Total RMB'000
31 December 2019			
Expected loss rate	**0%**	**29%**	**N/A**
Gross carrying amount — trade receivables	**125,529**	**12,720**	**138,249**
Loss allowance	**—**	**3,716**	**3,716**

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

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	2019 RMB'000	2018 RMB'000
Opening loss allowance at 1 January	**(1,047)**	—
Increase in loss allowance recognised in profit or loss during the year	**(2,669)**	(1,047)
Closing loss allowance at 31 December	**(3,716)**	(1,047)

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

For contract costs, other receivables and loans to 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 follows 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 loans to a related party.

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 bank balances.

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. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount (assets)/ liabilities RMB'000
At 31 December 2019						
Trade payables	**16,195**	**–**	**–**	**–**	**16,195**	**16,195**
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	**8,642**	**–**	**–**	**–**	**8,642**	**8,642**
Bank overdrafts	**46**	**–**	**–**	**–**	**46**	**46**
Lease liabilities	**18,273**	**19,129**	**61,068**	**21,312**	**119,782**	**100,968**
At 31 December 2018						
Trade payables	11,065	–	–	–	11,065	11,065
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	21,330	–	–	–	21,330	21,330
Bank overdrafts	39	–	–	–	39	39

3 Financial risk management (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and maintain an optimal capital structure to reduce the cost of capital.

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, which was unchanged from 2018, was to maintain the gearing ratio within 40%.

The gearing ratios were as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Total liabilities	**382,294**	128,592
Total assets	**1,932,735**	1,659,393
Gearing ratio	**20%**	8%

3 Financial risk management (continued)

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).

The following table presents the Group's assets that are measured and recognised at fair value as at 31 December 2019 on a recurring basis:

	Level 3
	RMB'000
Recurring fair value measurements:	
Assets:	
Financial assets at fair value through profit or loss	**5,071**

The following table presents the Group's assets that are measured and recognised at fair value as at 31 December 2018 on a recurring basis:

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

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

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.

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.

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 2019.

	Financial assets at fair value through profit or loss RMB'000
At 1 January 2019	**107,444**
Gains recognized in profit or loss (Note 8)	**18,146**
Additions	**1,459,000**
Repayment of structural deposits	**(1,579,519)**
At 31 December 2019	**5,071**
Unrealized losses recognized in profit or loss for the year	**1,883**

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 2018.

	Financial assets at fair value through profit or loss RMB'000
At 1 January 2018	106,856
Gains recognized in profit or loss (Note 8)	15,493
Additions	1,380,000
Repayment of structural deposits	(1,394,905)
At 31 December 2018	107,444
Unrealized gains recognized in profit or loss for the year	887

The Group determines the fair value of the Group's level 3 financial instruments 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 2019, fair value gain of RMB20,029,000 (2018: RMB15,096,000) related to derivatives and fair value loss of RMB1,883,000 (2018: fair value gain of RMB397,000) 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 2019 comprised realized gain of RMB20,029,000 (2018: RMB14,606,000) and unrealized gain of nil (2018: RMB490,000). The fair value loss related to the unlisted equity investment for the year ended 31 December 2019 was unrealized (2018: same).

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

As these structural deposits were not traded in an active market, their fair values have been determined using various applicable valuation techniques, including comparable transactions approaches, equity allocation model and other option pricing models 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, structural deposits, trade and other receivables and financial liabilities including trade payables, other payables and accruals and lease liabilities, approximated their respective fair value at each of the reporting dates.

4 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

(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.

4 Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(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.

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 12 (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 2019 and 2018.

(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 Critical accounting estimates and judgements (continued)

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.

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 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 rental, kindergarten service, 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.

There were no material inter-segment sales during years ended 31 December 2019 and 2018, 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 2019 and 2018 are as follows:

	Year ended 31 December 2019		
	Online entertainment business RMB'000	Other businesses RMB'000	Total RMB'000
Segment revenue	**678,889**	**1,709**	**680,598**
Timing of revenue recognition			
At a point in time	**185,046**	**—**	**185,046**
Over time	**493,843**	**1,709**	**495,552**
Gross profit/(loss)	**362,604**	**(458)**	**362,146**
Depreciation	**16,891**	**3,525**	**20,416**
Amortization	**1,835**	**—**	**1,835**
Share of losses of an associate	**—**	**(18,144)**	**(18,144)**

	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 losses of an associate	—	(7,087)	(7,087)	—	(7,087)

* 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 2019 and 2018, the geographical information on the total revenues is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Continuing operations		
— Mainland China	**653,198**	268,677
— Hong Kong	**27,400**	15,812
Revenue from continuing operations	**680,598**	284,489
Revenue from discontinued operations		
— Hong Kong	**—**	5,248
Total	**680,598**	289,737

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 2019 and 2018. 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 83.4% and 78.9% of the total revenue for the years ended 31 December 2019 and 2018, 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	
	2019	2018
Shiwuyu	**30.4%**	*
Aola Star Mobile	**21.3%**	*
Legend of Aoqi	**17.4%**	32.8%
Aola Star	**14.3%**	30.7%
Zaowufaze	*	15.4%

As at 31 December 2019, the total non-current assets, other than financial assets and deferred tax assets, located in Mainland China and Hong Kong were RMB177,848,000 (31 December 2018: RMB119,914,000) and RMB19,000 (31 December 2018: RMB30,000), respectively.

6 Expenses by nature

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Distribution costs and payment handling fees	**233,420**	35,122
Employee benefit expenses (Note 9)	**184,552**	158,708
Promotion and advertising expenses	**59,009**	53,173
Depreciation of right-of-use assets (Note 18)	**15,249**	—
Bandwidth and server custody fees	**8,454**	7,597
Utilities and office expenses	**7,516**	1,948
Professional fees	**7,028**	7,506
Depreciation of property and equipment and amortization of intangible assets (Notes 17 and 19)	**7,002**	8,754
Content expenses	**8,343**	9,897
Auditor's remuneration	**4,025**	3,927
Travelling and entertainment expenses	**3,130**	4,604
Operating lease rentals	**370**	18,556
Others	**7,568**	4,105
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**545,666**	313,897

7 Other income

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Government grants	**2,155**	6,000
Others	**1,092**	576
	3,247	6,576

8 Other gains — net

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Financial assets at fair value through profit or loss:		
— Fair value gains (Note 3.3)	**18,146**	15,493
Others	**(1,093)**	81
	17,053	15,574

9 Employee benefit expenses

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and discretionary bonuses	**143,240**	121,128
Pension costs — defined contribution plans (Note (a))	**13,174**	11,311
Other social security costs, housing benefits and other employee benefits	**27,889**	21,196
Share-based compensation expenses	**249**	5,073
	184,552	158,708

(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 2019, the Group contributes funds which are calculated on a fixed percentage of 14% (2018: 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 (2018: three) directors whose emoluments are reflected in the analysis shown in Note 41. The emoluments paid and payable to the remaining two (2018: two) individuals during the year are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Wages and salaries	**1,630**	1,620
Discretionary bonuses	**546**	275
Pension costs — defined contribution plans	**64**	64
Other social security costs, housing benefits and other employee benefits	**75**	73
Share-based compensation expenses	**—**	179
	2,315	2,211

The emoluments fell within the following band:

	Year ended 31 December	
	2019	2018
	No. of individuals	
HK$1,000,000 to HK$1,500,000	**2**	2

10 Gain on disposal of a subsidiary

In 2018, the Group disposed of 7% equity interest of Guangzhou Baiman to Xiamen Geecap Equity Investment Co. Ltd., a third party, for a consideration of RMB14,000,000. After the disposal, Guangzhou Baiman ceased to be a subsidiary and became an associate of the Group, which was recognized at fair value, amounting to RMB94,867,000. As a result, a gain on disposal of a subsidiary of RMB115,015,000 was recognized, which was the sum of the consideration received, the fair value of the investment retained and the carrying amount of the net liability of RMB6,148,000 disposed.

11 Finance income — net

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Finance income:		
— Interest income from bank deposits	**18,685**	23,823
— Net foreign exchange gains (Note 14)	**815**	2,810
— Interest income on loans to a related party	**1,058**	766
	20,558	27,399
Finance costs:		
— Interest charge for lease liabilities	**(6,001)**	—
— Interest expense	**—**	(67)
	(6,001)	(67)
Finance income — net	**14,557**	27,332

12 Income tax expense

The income tax expense of the Group for the years ended 31 December 2019 and 2018 is analyzed as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current income tax	**24,166**	4,188
Deferred income tax (Note 33)	**(19,083)**	13,745
Income tax expense	**5,083**	17,933
Income tax expense is attributable to:		
Profit from continuing operations	**5,083**	17,933

12 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	
	2019	2018
	RMB'000	RMB'000
Profit from continuing operations before income tax expense	**156,250**	126,955
Loss from discontinued operations before income tax expense	**—**	(1,374)
	156,250	125,581
Share of losses of an associate	**18,144**	7,087
	174,394	132,668
Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions (Note (a), (b), (c))	**21,015**	15,732
Tax effects of:		
Tax losses for which no deferred income tax asset was recognized	**1,775**	7,925
Utlisation of previously unrecognised tax losses and temporary timing differences	**(7,346)**	—
Super deduction for research and development expenses (Note (c))	**(6,743)**	(5,743)
Change of applicable tax rate (Note (c))	**(3,076)**	—
Income not subject to tax	**(725)**	(1,182)
Expenses not deductible for income tax purposes:		
— Share-based compensation	**25**	1,172
— Others	**158**	29
Income tax expense	**5,083**	17,933

(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

The provision for Hong Kong profits tax for the years ended 31 December 2019 and 2018 are calculated in accordance with the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HKD2 million of profits of qualifying corporations are taxed at 8.25%, and profits above HKD2 million are taxed at 16.5%.

12 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 "Key Software Enterprise" in 2019 and was entitled to a preferential income tax rate of 10% on its estimated assessable profits for the year ended 31 December 2019 (2018: 15%). 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 2019 (2018: 10%).

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 2019 and 2018.

(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 2019 and 2018, 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 33).

13 Earnings 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	
	2019	2018
Profit from continuing operations attributable to shareholders of the Company (RMB'000)	**151,625**	113,052
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,679,031,094**	2,738,003,867
Basic earnings per share (in RMB/share)	**0.0566**	0.0413

(ii) Basic earnings 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	
	2019	2018
Profit attributable to shareholders of the Company (RMB'000)	**151,625**	112,075
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,679,031,094**	2,738,003,867
Basic earnings per share (in RMB/share)	**0.0566**	0.0409

13 Earnings 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 years ended 31 December 2019 and 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.

(i) Diluted earnings per share for profit from continuing operations attributable to shareholders of the Company

	Year ended 31 December	
	2019	2018
Earnings		
Profit from continuing operations attributable to shareholders of the Company and profit used to determine diluted earnings per share (RMB'000)	**151,625**	113,052
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,679,031,094**	2,738,003,867
Adjustments for:		
— RSUs	**704,394**	8,860,616
— Share options	**1,013,229**	1,148,237
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,680,748,717**	2,748,012,720
Diluted earnings per share (in RMB/share)	**0.0566**	0.0411

13 Earnings per share (continued)

(b) Diluted (continued)

(ii) Diluted earnings per share for profit attributable to shareholders of the Company

	Year ended 31 December	
	2019	2018
Earnings		
Profit attributable to shareholders of the Company and profit used to determine diluted earnings per share (RMB'000)	**151,625**	112,075
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,679,031,094**	2,738,003,867
Adjustments for:		
— RSUs	**704,394**	8,860,616
— Share options	**1,013,229**	1,148,237
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,680,748,717**	2,748,012,720
Diluted earnings per share (in RMB/share)	**0.0566**	0.0408

14 Net foreign exchange gains

The exchange differences credited to the consolidated income statement are included as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Finance income — net (Note 11)	**815**	2,810
Other (losses)/gains — net	**(764)**	167
	51	2,977

15 Subsidiaries

The following is a list of the principal subsidiaries as at 31 December 2019:

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
			2019	2018	2019	2018	
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
Bababaobei 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
廣州百田教育科技有限公司 ("Baitian Education")	The PRC, Limited liability company	RMB10,000,000	90%	N/a	10%	N/a	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 subsidiaries established in the PRC amounting to RMB1,197,000,494 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.

16 Investment in an associate

	Investment in an associate RMB'000
As at 1 January 2018	—
Addition (Note 10)	94,867
Share of losses for the year	(7,087)
As at 31 December 2018	87,780
As at 1 January 2019	**87,780**
Disposal (Note a)	**(8,726)**
Share of losses for the year	**(18,144)**
As at 31 December 2019	**60,910**

(a) In 2019, the Group disposed of certain equity interest of investment in Guangzhou Baiman to Shenzhen Litong Industrial Investment Fund Company Limited ("Shenzhen Litong"), a third party, for a consideration of RMB16,000,000. In addition, Shenzhen Litong also injected RMB33,330,000 into Guangzhou Baiman. Upon completion of the transaction, the disposal gain was around RMB7,274,000.

(b) Set out below is the details of investment in an associate as at 31 December 2019 and 2018:

Name of entity	Place of business/country of incorporation	% of ownership interest 2019	% of ownership interest 2018	Measurement method	Principal activities
Guangzhou Baiman Culture Communications Company Limited	The PRC	31.2%	47.4%	Equity method	Comic development and production

(c) The Group considered that Guangzhou Baiman was not significant to the Group and thus its summarised financial information was not disclosed.

17 Property and equipment

	Servers RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2018					
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
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	11,935	5,236	633	32,271	50,075
Accumulated depreciation	(11,301)	(4,498)	(602)	(5,444)	(21,845)
Net book amount	634	738	31	26,827	28,230
Year ended 31 December 2019					
Opening net book amount	**634**	**738**	**31**	**26,827**	**28,230**
Additions	**241**	**1,087**	**—**	**2,240**	**3,568**
Depreciation charge	**(469)**	**(633)**	**—**	**(4,065)**	**(5,167)**
Closing net book amount	**406**	**1,192**	**31**	**25,002**	**26,631**
At 31 December 2019					
Cost	**12,007**	**5,987**	**633**	**34,511**	**53,138**
Accumulated depreciation	**(11,601)**	**(4,795)**	**(602)**	**(9,509)**	**(26,507)**
Net book amount	**406**	**1,192**	**31**	**25,002**	**26,631**

17 Property and equipment (continued)

Depreciation charge was included in the following categories in the consolidated income statement:

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cost of revenue	**1,874**	2,736
Administrative expenses	**1,047**	2,177
Research and development expenses	**1,810**	2,348
Selling and marketing expenses	**436**	569
	5,167	7,830

18 Leases

(a) Amounts recognised in the balance sheet

	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000
Right-of-use assets		
Office	**84,905**	92,817
Lease liabilities		
Current	**17,807**	16,220
Non-current	**83,161**	89,571
	100,968	105,791

Additions to the right-of-use assets during the 2019 financial year were RMB7,335,989.

18 Leases (continued)

(b) Amounts recognised in the income statement

	Year ended 31 December 2019 RMB'000
Depreciation charge of right-of-use assets	
Office	**(15,249)**
Interest expense (included in finance cost)	**(6,001)**
Expense relating to short-term leases (included in cost and administrative expenses)	**(370)**

The total cash outflow for leases in 2019 was RMB18,530,434.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods of 6 months to 10 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

19 Intangible assets

	Intellectual properties RMB'000	Trademark RMB'000	Licenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018					
Cost	1,674	18,709	—	2,066	22,449
Accumulated amortization	(586)	(2,901)	—	(760)	(4,247)
Accumulated Impairment	—	(14,377)	—	—	(14,377)
Net book amount	1,088	1,431	—	1,306	3,825
Year ended 31 December 2018					
Opening net book amount	1,088	1,431	—	1,306	3,825
Additions	—	—	3,380	753	4,133
Amortization charge	(112)	(125)	(389)	(432)	(1,058)
Disposal	—	—	—	(36)	(36)
Disposal of subsidiaries	(976)	(1,306)	—	(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
Year ended 31 December 2019					
Opening net book amount	**—**	**—**	**2,991**	**943**	**3,934**
Additions	**—**	**—**	**—**	**697**	**697**
Amortization charge	**—**	**—**	**(1,127)**	**(708)**	**(1,835)**
Closing net book amount	**—**	**—**	**1,864**	**932**	**2,796**
At 31 December 2019					
Cost	**—**	**—**	**3,380**	**2,740**	**6,120**
Accumulated amortization	**—**	**—**	**(1,516)**	**(1,808)**	**(3,324)**
Net book amount	**—**	**—**	**1,864**	**932**	**2,796**

19 Intangible assets (continued)

Amortization charge was included in the following categories in the consolidated income statement:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Selling and marketing expenses	**20**	163
Research and development expenses	**327**	228
Cost of revenue	**1,272**	445
Administrative expenses	**216**	222
	1,835	1,058

20 Financial instruments by category

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Assets as per consolidated balance sheet		
Financial assets at amortized cost:		
— Trade receivables (Note 22)	**134,533**	16,977
— Other receivables (excluding prepayments) (Note 23)	**15,754**	18,347
— Loans to a related party	**20,000**	20,000
— Short-term deposits (Note 25)	**226,008**	222,465
— Cash and cash equivalents (Note 25)	**1,274,044**	1,145,686
	1,670,339	1,423,475
Assets at fair value through the profit or loss:		
— Financial assets at fair value through profit or loss (Note 24)	**5,071**	107,444
	1,675,410	1,530,919
Liabilities as per consolidated balance sheet		
Financial liabilities at amortized cost:		
— Trade payables (Note 31)	**16,195**	11,065
— Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals) (Note 32)	**8,642**	21,330
— Bank overdrafts	**46**	39
— Lease liabilities (Note 18 (a))	**100,968**	—
	125,851	32,434

21 Inventories

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Finished goods — cost	**2,080**	2,265
Less: allowance for impairment	**(2,080)**	—
	—	2,265

Write-downs of inventories to net realisable value amounted to RMB2,080,118 (2018: nil). These were recognised as expenses during the year ended 31 December 2019 and included in 'Administrative expenses' in the consolidated income statement.

22 Trade receivables

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Receivables from third parties	**138,249**	18,024
Less: allowance for impairment	**(3,716)**	(1,047)
	134,533	16,977

As at 31 December 2019 and 2018, the fair values of trade receivables approximate their carrying amounts.

22 Trade receivables

(a) Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
0–30 days	**54,447**	9,087
31–60 days	**79,630**	1,640
61–90 days	**276**	2,765
91–180 days	**358**	850
181–365 days	**357**	3,682
Over 365 days	**3,181**	—
	138,249	18,024

(b) The Group applies the simplified approach to provide for ECL prescribed by IFRS 9. As at 31 December 2019, a provision of RMB2,669,000 was made against the gross amounts of trade receivables (2018: RMB1,047,000) (Note 3.1 (b)).

(c) As at 31 December 2019 and 2018, trade receivables were denominated in RMB and their fair value approximated their carrying amounts.

(d) The maximum exposure to credit risk is the carrying amount of the net receivable balance. The Group does not hold any collateral as security.

(e) There was no concentration risk with respect to trade receivables as at 31 December 2019.

23 Prepayments and other receivables

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Included in non-current assets		
Prepayments	**2,624**	—
Rental and other deposits	**4,142**	3,266
Less: allowance for impairment	**—**	—
	6,766	3,266
Included in current assets		
Interests receivable	**3,704**	5,789
Prepayments	**2,271**	5,130
Receivables for disabled people security funds	**—**	1,183
Others	**7,908**	8,109
	13,883	20,211
Less: allowance for impairment	**—**	—
	13,883	20,211
	20,649	23,477

As at 31 December 2019 and 2018, the carrying amounts of prepayments and other receivables approximated their fair values.

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	
	2019	2018
	RMB'000	RMB'000
Included in non-current assets		
Unlisted equity security	**5,071**	6,954
Included in current assets		
Structural deposits	**—**	100,000
Derivatives	**—**	490
	—	100,490
	5,071	107,444

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	
	2019	2018
	RMB'000	RMB'000
Short-term deposits (Note (a))	**226,008**	222,465
Cash and cash equivalents		
— Cash at banks and on hand (Note (b))	**1,274,044**	1,145,686
	1,500,052	1,368,151
Maximum exposure to credit risk (Note (d))	**1,499,781**	1,367,986

(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 at bank balances as at 31 December 2019 and 2018 were demand deposits in nature.

(c) The effective interest rate per annum for all bank balances and term deposits as at 31 December 2019 was approximately 1.93% (2018: 1.8%).

(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	
	2019	2018
	RMB'000	RMB'000
RMB	**1,414,529**	1,304,412
HK$	**56,618**	39,423
US$	**28,801**	24,216
Others	**104**	100
	1,500,052	1,368,151

26 Share capital and share premium

As at 31 December 2019, the total number of ordinary shares of the Company was 2,770,894,000 shares which included 112,373,705 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 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 34)	–	–	–	(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

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 2019	2,807,152,000	2	9	1,457,324	1,457,333
RSU Scheme:					
– Vesting of RSUs	–	–	–	2,403	2,403
Share Option Scheme:					
– Exercise of share options	818,000	–	–	87	87
2018 final dividend paid to equity holders of the Company (Note 34)	–	–	–	(49,793)	(49,793)
2019 special dividend paid to equity holders of the Company (Note 34)	–	–	–	(59,399)	(59,399)
Buy-back and cancellation of shares	(37,076,000)	–	(1)	(23,635)	(23,636)
As at 31 December 2019	2,770,894,000	2	8	1,326,987	1,326,995

(a) The Company acquired 37,076,000 of its own shares through purchases from the stock market during the year ended 31 December 2019 for cash totalling HK$26,464,000 (equivalent to RMB23,636,000), 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 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
As at 1 January 2019	**2,069**	**5,083**	**4,198**	**—**	**11,350**
Share Option Scheme:					
— Exercise of share options	**—**	**—**	**(35)**	**—**	**(35)**
RSU Scheme:					
— Value of employee services	**—**	**—**	**249**	**—**	**249**
— Vesting of RSUs	**—**	**—**	**(2,403)**	**—**	**(2,403)**
Profit appropriations to statutory reserves	**—**	**1,141**	**—**	**—**	**1,141**
As at 31 December 2019	**2,069**	**6,224**	**2,009**	**—**	**10,302**

(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 2018	0.009	1,384,000
Forfeited	0.009	(40,000)
As at 31 December 2018	0.009	1,344,000
As at 1 January 2019	**0.009**	**1,344,000**
Exercised	**0.009**	**(818,000)**
As at 31 December 2019	**0.009**	**526,000**

On 10 April 2014, upon the completion of the IPO, the share options became exercisable.

As at 31 December 2019, options granted over 204,000 and 322,000 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 2018	27,082,000
Forfeited	(2,559,250)
Vested	(18,151,250)
As at 31 December 2018	6,371,500
As at 1 January 2019	**6,371,500**
Forfeited	**(167,250)**
Vested	**(6,114,250)**
As at 31 December 2019	**90,000**

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 2019 was HK$0.47 (2018: HK$0.48) per share.

29 Retained earnings/(accumulated losses)

	Retained earnings/ (accumulated losses) RMB'000
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
As at 1 January 2019	**55,154**
Profit for the year	**151,625**
Profit appropriations to statutory reserves	**(1,141)**
As at 31 December 2019	**205,638**

30 Contract costs and contract liabilities

The Group has recognized the following assets and liabilities related to contracts with customers:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current contract costs relating to online virtual worlds	**63,694**	1,135
Non-current contract liabilities		
— Memberships	**1,433**	2,114
— Online virtual worlds (Note (a))	**7,180**	5,840
Total non-current contract liabilities	**8,613**	7,954
Current contract liabilities		
— Advances from customers	**8,755**	7,218
— Memberships	**11,998**	14,013
— Online virtual worlds (Note (a))	**138,481**	22,867
Total current contract liabilities	**159,234**	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 RMB635,496,000, was recognized during the year ended 31 December 2019 (2018: RMB228,150,000).

30 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 2019 RMB'000
Revenue recognized that was included in the contract liability balance at the beginning of the year	
— Advances from customers	**7,218**
— Memberships	**14,013**
— Online virtual worlds	**22,867**
	44,098

Unsatisfied contract liabilities as at 31 December 2019 related to memberships and online virtual worlds are expected to be recognized as revenue in 1 to 2 years.

31 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	
	2019	2018
	RMB'000	RMB'000
0–30 days	**10,622**	5,499
31–60 days	**4,365**	3,762
61–180 days	**648**	974
181–365 days	**9**	830
Over 365 days	**551**	—
	16,195	11,065

(a) As at 31 December 2019 and 2018, the fair value of trade payables approximated their carrying amounts.

32 Other payables and accruals

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Staff costs and welfare accruals	**35,668**	16,433
Other tax liabilities (Note (b))	**8,899**	1,111
Professional service fees payable	**6,146**	5,566
Accruals for rental expenses	**—**	12,974
Others	**2,496**	2,790
	53,209	38,874

(a) As at 31 December 2019 and 2018, 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.

33 Deferred income tax

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	**2,240**	2,225
— to be recovered within 12 months	**15,523**	2,635
— set-off of deferred tax assets pursuant to set-off provisions	**(4,269)**	(4,860)
	13,494	—

33 Deferred income tax (continued)

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Deferred income tax liabilities:		
— to be recovered after 12 months	**7,908**	14,088
— to be recovered within 12 months	**—**	—
— set-off of deferred tax assets pursuant to set-off provisions	**(4,269)**	(4,860)
	3,639	9,228

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 2019	**4,860**	**14,088**
Recognized in profit or loss (Note 12)	**12,903**	**(6,180)**
Set-off of deferred tax assets	**(4,269)**	**(4,269)**
As at 31 December 2019	**13,494**	**3,639**
As at 1 January 2018	**4,579**	**526**
Recognized in profit or loss (Note 12)	**281**	**14,026**
Disposal of a subsidiary	**—**	**(464)**
As at 31 December 2018	**4,860**	**14,088**

33 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	Impairment losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2018	2,759	102	—	1,718	4,579
Recognized in profit or loss	165	(90)	—	206	281
As at 31 December 2018	2,924	12	—	1,924	4,860
Recognized in profit or loss	12,291	(12)	798	(174)	12,903
Set-off of deferred tax liabilities	(2,284)	—	(289)	(1,696)	(4,269)
As at 31 December 2019	**12,931**	**—**	**509**	**54**	**13,494**

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 2018	526	—	526
Recognized in profit or loss	(62)	14,088	14,026
Disposal of a subsidiary	(464)	—	(464)
As at 31 December 2018	—	14,088	14,088
Recognized in profit or loss	—	(6,180)	(6,180)
Set-off of deferred tax liabilities	—	(4,269)	(4,269)
As at 31 December 2019	**—**	**3,639**	**3,639**

33 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 RMB1,775,000 and RMB7,092,000 in respect of losses amounting to RMB7,479,000 and RMB32,472,000 that can be carried forward against future taxable income for the years ended 31 December 2019 and 2018, 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, RMB562,000 and RMB186,000 will expire in 2022, 2023 and 2024, respectively. The remaining tax losses have no expiry date.

As at 31 December 2019 and 2018, 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 RMB956,051,000 and RMB810,044,000, 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.

34 Dividend

The dividends paid in 2019 and 2018 amounted to RMB109,192,000 and RMB48,472,000 respectively. The Board of Directors of the Company proposed a special final dividend of HK$0.025 (equivalent to approximately RMB0.022) per ordinary share, which will be recognized in share premium account, totalling approximately RMB58,488,000. Such dividend is to be approved by the shareholders at the annual general meeting on 26 June 2020. These financial statements do not reflect this dividend payable as a liability as at 31 December 2019.

(a) Dividend paid to ordinary shares

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Final dividend of 2018 HK$0.021 (2017: HK$0.021), equivalent to approximately RMB0.018 (2017: RMB0.017), per ordinary share	**52,407**	50,385
Less: Dividend for shares held for the RSU Schemes	**(2,614)**	(1,913)
	49,793	48,472
Special dividend of 2019 HK$0.025, equivalent to approximately RMB0.023, per ordinary share	**61,929**	—
Less: Dividend for shares held for the RSU Schemes	**(2,530)**	—
	59,399	—
	109,192	48,472

(b) Dividends not recognized as at 31 December 2019

	Year ended 31 December 2019 RMB'000
Proposed special final dividend of HK$0.025, equivalent to approximately RMB0.022 per ordinary share	**60,960**
Less: Dividend for shares held for the RSU Schemes	**(2,472)**
	58,488

35 Cash flow information

(a) Cash generated from operations

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit after income tax	**151,167**	107,648
Adjustments for:		
— Income tax expense (Note 12)	**5,083**	17,933
— Winding up of a subsidiary	**—**	(8,541)
— Depreciation of property and equipment (Note 17)	**5,167**	7,830
— Depreciation of right-of-use assets (Note 18)	**15,249**	—
— Amortization of intangible assets (Note 19)	**1,835**	1,058
— Impairment charge of inventory (Note 21)	**2,080**	—
— Share-based compensation expenses (Note 27)	**249**	5,073
— Finance income — net	**(14,557)**	(27,614)
— Gains on disposals of fixed assets and intangible assets	**—**	(349)
— Share of losses of an associate (Note 16)	**18,144**	7,087
— Gain on disposal of a subsidiary	**—**	(115,015)
— Gain on disposal of an associate (Note 16)	**(7,274)**	—
— Fair value gains on financial assets at fair value through profit or loss (Note 8)	**(18,146)**	(15,493)
— Net impairment losses on financial assets	**2,669**	1,047
— Foreign exchange losses/(gains) on operating activities (Note 14)	**764**	(167)
Changes in working capital (excluding the currency translation differences on consolidation):		
— Inventories	**185**	2,423
— Trade receivables	**(120,231)**	(7,791)
— Prepayments and other receivables	**425**	(1,171)
— Trade payables	**5,049**	7,635
— Other payables and accruals	**28,362**	4,048
— Advances from customers and distributors	**1,018**	(18,181)
— Advances under government grants	**(78)**	(600)
— Contract costs	**(62,559)**	(1,135)
— Contract liabilities	**115,795**	6,399
Cash generated from/(used in) operations	**130,396**	(27,876)

35 Cash flow information (continued)

(b) Net cash reconciliation

This section sets out an analysis of net cash and the movements in net cash for each of the periods presented.

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents (including bank overdraft)	**1,273,998**	1,145,647
Short-term deposits	**226,008**	222,465
Lease liabilities	**(100,968)**	—
Net cash	**1,399,038**	1,368,112
Cash, short-term deposits and liquid investments	**1,500,006**	1,368,112
Gross debt — fixed interest rates	**(100,968)**	—
Net cash	**1,399,038**	1,368,112

35 Cash flow information (continued)

(b) Net cash reconciliation (continued)

	Other assets		Liabilities from financing activities	
	Cash RMB'000	Short-term deposits RMB'000	Leases RMB'000	Total RMB'000
Net debt as at 1 January 2018	906,368	222,465	—	1,128,833
Cash flows	236,335	—	—	236,335
Foreign exchange adjustments	2,944	—	—	2,944
Net cash as at 31 December 2018	1,145,647	222,465	—	1,368,112
Recognised on adoption of IFRS 16 (see note 2.2)	—	—	(105,791)	(105,791)
	1,145,647	**222,465**	**(105,791)**	**1,262,321**
Cash flows	**127,536**	**3,543**	**18,160**	**143,724**
Accrued interest expense	**—**	**—**	**(6,001)**	**(6,001)**
Acquisitions — operating leases	**—**	**—**	**(7,336)**	**(7,336)**
Foreign exchange adjustments	**815**	**—**	**—**	**815**
Net cash as at 31 December 2019	**1,273,998**	**226,008**	**(100,968)**	**1,399,038**

36 Commitments

(a) Operating lease commitments — as lease

The Group leases buildings for daily operations under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 18 for further information.

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Minimum lease payments under non-cancellable operating leases of certain properties not recognised in the financial statements are payable as follows:		
Not later than 1 year	**646**	16,039
Later than 1 year and not later than 5 years	**—**	70,181
Over 5 years	**—**	40,573
	646	126,793

37 Related party transactions

The ultimate parent and the ultimate controlling party of the Group is TMF (Cayman) Ltd. (incorporated in the Cayman Islands). Interest in subsidiaries are set out in Note 15.

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 2019:

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) Loans to a related party

Name of a related party	As at 31 December	
	2019	2018
	RMB'000	RMB'000
— Guangzhou Baiman	**20,000**	20,000

Loans to a related party are 3-year loans with interest rates of 5.4% per annum (2018: 1-year loans with interest rates of 5.4% per annum).

(c) Transactions with a related party

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loans to Guangzhou Baiman	**3,530**	6,000
Repayment of loans by Guangzhou Baiman	**(3,530)**	(1,000)
Interest income and office rental income from Guangzhou Baiman	**2,273**	766
Income of selling office equipment to Guangzhou Baiman	**102**	—

37 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	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	**7,275**	6,900
Pension costs — defined contribution plans	**243**	278
Other social security costs, housing benefits and other employee benefits	**348**	300
Share-based compensation expenses	**—**	207
	7,866	7,685

38 Contingencies

The Group did not have any material contingent liabilities as at 31 December 2019 and 2018.

39 Events occurring after the reporting period

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

40 Balance sheet and reserve movement of the Company

Balance sheet of the Company	Note	As at 31 December 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries		**252,788**	252,539
Financial assets at fair value through profit or loss		**5,071**	6,954
		257,859	259,493
Current assets			
Prepayments and other receivables		**3,677**	5,416
Amounts due from subsidiaries		**38,667**	31,145
Short-term deposits		**211,008**	207,465
Cash and cash equivalents		**202,659**	330,722
		456,011	574,748
Total assets		**713,870**	834,241
EQUITY			
Share capital		**8**	9
Share premium		**1,326,987**	1,457,324
Reserves	(a)	**63**	2,252
Accumulated losses	(a)	**(645,592)**	(644,124)
Total equity		**681,466**	815,461
LIABILITIES			
Current liabilities			
Other payables and accruals		**3,672**	2,726
Amounts due to subsidiaries		**28,732**	16,054
		32,404	18,780
Total liabilities		**32,404**	18,780
Total equity and liabilities		**713,870**	834,241

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 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)
At 1 January 2019	**2,252**	**(644,124)**
Loss for the year	**—**	**(1,468)**
Share Option Scheme		
— Exercise of share options	**(35)**	**—**
RSU Scheme:		
— Value of employee services	**249**	**—**
— Vesting of RSUs	**(2,403)**	**—**
At 31 December 2019	**63**	**(645,592)**

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 2019 and 2018 are set out below:

Year ended 31 December 2019:

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 ("CEO")	–	1,380	115	32	82	–	1,609
Mr. Wu Lili	–	600	144	83	91	–	918
Mr. Li Chong	–	1,440	120	32	50	–	1,642
Mr. Wang Xiaodong	–	1,200	100	32	50	–	1,382
Independent Non-Executive Directors							
Ms. Liu Qianli	346	–	–	–	–	–	346
Dr. Wang Qing	346	–	–	–	–	–	346
Mr. Ma Xiaofeng	346	–	–	–	–	–	346

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 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 ("CEO")	—	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

(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.