

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2100



Contents

Corporate Information	2
Company Profile	4
Financial Summary	5
Chairman Letter	7
Definitions and Glossaries	9
Management Discussion and Analysis	14
Biographies of the Directors and Senior Management	27
Directors' Report	33
Corporate Governance Report	66
2023 Environmental, Social and Governance Report	89
Independent Auditor's Report	170
Consolidated Income Statement	175
Consolidated Statement of Comprehensive Income	176
Consolidated Balance Sheet	177
Consolidated Statement of Changes in Equity	179
Consolidated Statement of Cash Flows	181
Notes to the Consolidated Financial Statements	182

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Dai Jian (*Chairman*)

Mr. Wu Lili

Mr. Li Chong

Independent Non-executive Directors

Ms. Liu Qianli

Dr. Wang Qing

Mr. Ma Xiaofeng

Mr. Wei Kevin Cheng

AUDIT COMMITTEE

Ms. Liu Qianli (*Chairperson*)

Dr. Wang Qing

Mr. Ma Xiaofeng

Mr. Wei Kevin Cheng

NOMINATION COMMITTEE

Mr. Dai Jian (*Chairperson*)

Mr. Ma Xiaofeng

Ms. Liu Qianli

REMUNERATION COMMITTEE

Dr. Wang Qing (*Chairperson*)

Mr. Ma Xiaofeng

Mr. Wu Lili

CHIEF EXECUTIVE OFFICER

Mr. Dai Jian

ACTING CHIEF FINANCIAL OFFICER

Ms. Chen Xiao Hong

COMPANY SECRETARY

Ms. Lau Yee Wa

AUTHORIZED REPRESENTATIVES

Mr. Wu Lili

Mr. Dai Jian

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants and Registered PIE Auditor

22/F, Prince's Building

Central

Hong Kong

COMPANY'S WEBSITE

www.baioo.com.hk

STOCK CODE

2100

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120 Huangpu W Ave, Tianhe

Guangzhou, Guangdong

China 510623

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Hutchins Drive
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Cayman Islands

HONG KONG SHARE REGISTRAR

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Hong Kong

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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China Merchants Bank Guangzhou
Ti Yu Dong Road Sub Branch
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Guangdong 510620
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The Hongkong and Shanghai Banking Corporation Limited
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DLA Piper Hong Kong
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LEGAL ADVISORS AS TO CAYMAN ISLANDS LAW

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INVESTOR RELATIONS

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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 primarily focuses on niche game genres, excelling in female-oriented games, pet collection and raising games, and “nijigen” (「二次元」) games. BAIOO has achieved a leading position in its targeted niche game segments in China and built a gaming brand that is popular among Generation Z users.

Since its establishment, BAIOO has been committed to developing and operating online content of various types, and has successfully launched a number of major self-developed IP products with cumulative registered users exceeding 100 million. Leveraging its track record of business growth and the emergence of the mobile internet market, BAIOO has launched a series of hit game titles in China. The Company’s games have also been well-received by users in Mainland China, Hong Kong, Macau, Taiwan, Japan, South Korea, Europe, and the United States.

Looking ahead, BAIOO will continue to focus on developing niche segments. Through its unique IP strategy, BAIOO will continue to leverage the IPs that were developed and accumulated throughout the years to launch a series of creative, innovative and attractive products, provide young users with premium and differentiated IP-based experiences and services, and become a platform that brings great joy to young people.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Continuing operations					
Revenue	782,764	938,759	883,908	1,128,967	680,598
Gross Profit	318,054	360,628	400,559	429,347	362,146
Operating (Loss)/Profit	(55,126)	(37,082)	29,706	281,624	159,837
Non-IFRS Accounting Standards Measures					
— Adjusted Net (Loss)/Profit (unaudited) ⁽¹⁾	(10,081)	61,744	79,176	289,214	151,416
— Adjusted EBITDA (unaudited) ⁽²⁾	(12,279)	37,485	105,828	317,056	164,193

Notes:

- (1) Adjusted net (loss)/profit consists of (loss)/profit for the year plus share-based compensation. Adjusted net (loss)/profit eliminates the effect on non-cash share-based compensation expenses. The term of adjusted net (loss)/profit is not defined under the IFRS Accounting Standards. The use of adjusted net (loss)/profit has material limitations as an analytical tool, as adjusted net (loss)/profit does not include all items that impact our net (loss)/profit for the year.
- (2) Adjusted EBITDA means adjusted net (loss)/profit less finance income-net, plus income tax expenses/(credit), depreciation of property and equipment and right-of-use assets and amortization of intangible assets.

Financial Summary

BALANCE SHEET HIGHLIGHT

	As at 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	585,242	476,709	442,420	355,011	220,573
Current assets	1,334,857	1,579,558	1,571,922	1,725,873	1,712,162
Total assets	1,920,099	2,056,267	1,994,342	2,080,884	1,932,735
Equity and Liabilities					
Total equity	1,651,035	1,698,084	1,682,640	1,734,329	1,550,441
Non-current liabilities	29,846	52,574	63,270	81,075	95,413
Current liabilities	239,218	305,609	248,432	265,480	286,881
Total liabilities	269,064	358,183	311,702	346,555	382,294
Total Equity and Liabilities	1,920,099	2,056,267	1,994,342	2,080,884	1,932,735

Chairman Letter

Dear Shareholders,

With the steady economic recovery in 2023, the policies for the game industry was further optimized, and many game publication numbers were issued, with the goal of encouraging the game industry to create high-quality content while also promoting the industry's prosperity, health, and long-term development. Following the market trends, BAIOO has made not only painstaking efforts in game operation, but also innovations and breakthroughs in content refinement to match the market needs for high-quality content.

SEEKING CROSS DIMENSIONAL BREAKTHROUGHS TO ENHANCE CORE COMPETITIVENESS OF PRODUCTS AND PROMOTE TRADITIONAL CHINESE CULTURE

Over the last year, BAIOO has exhibited outstanding business resilience in the face of industry challenges and opportunities, continually striving for breakthroughs. On the one hand, BAIOO has aggressively engaged in cross-border collaboration with well-known brands in a number of industries such as animation, blind boxes, social media, and food and beverage, enabling them to provide users with a richer and more diverse experience. BAIOO also actively promotes traditional Chinese culture, particularly by mixing intangible cultural heritage with games, which successfully incorporates traditional Chinese culture into gaming content. This increased the value of its IP and brand influence while also boosting its core product's competitiveness.

On the other hand, BAIOO insisted on innovative and differentiated strategies to promote content innovation and to maximize IP value through various anniversary and special editions, which have been warmly accepted by users. While promoting product updates and maintaining operational stability, BAIOO also does not forget to fulfill its corporate social responsibilities. Last year, it collaborated with the Capital Animal Welfare Association to initiate a collaborative public welfare campaign which aimed at promoting compassion and safeguarding stray animals.

EXPANDING THE GLOBAL MARKET WITH CONSISTENT INNOVATION IN GAME CONTENT AND ENHANCING RESEARCH AND DEVELOPMENT CAPABILITIES

With the increasing demand for high-quality content in the market, BAIOO continues to make significant investments in game development. Its research and development expenses have remained a significant share of total expenses in recent years. It sets higher requirements for its research and development and distribution departments, aiming to conduct comprehensive innovations in gameplay, user experience, and plot to provide users with a better experience.

Chairman Letter

BAIOO's efforts in business planning and product development have received widespread market recognition during the last year. It was named as one of the "Top 20 Internet Growth Enterprises in China in 2023" issued by the Internet Society of China and received the "Best Small and Medium Market Capitalization Award" in the 8th Zhitong Finance Listed Company Selection. Its subsidiary Guangzhou Baitian Information Technology Ltd. was also recognized as an "Outstanding Enterprise in Internet Ecological Governance in the Game Industry in Guangzhou".

OUTLOOK

Looking ahead to 2024, BAIOO will maintain its focus on laying a solid foundation in niche genres, while also solidifying its market position. We will increase investment in research and development, improve technological infrastructure, and accelerate the expansion of overseas markets, striving to provide more diverse and entertaining gaming experiences to worldwide game players.

BAIOO will also maintain innovation as its driving force and make full use of its own IP advantages to explore diverse values. We will adhere to refined operations to enhance product vitality, and integrate Chinese cultural heritage to present traditional culture to the public in a new look.

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 partners, users and investors for their long-term trust and support. We will pursue more cross-border integration of cultural and creative content, continuously innovate and leverage diverse resources to actively enhance the influence of our IP and provide unique gaming experiences and services for users, with the aim of fostering a sustainable business model that creates long-term value for shareholders. We look forward to working with you hand in hand to meet the challenges and opportunities ahead.

DAI Jian

Chairman, Chief Executive Officer and Executive Director

BAIOO Family Interactive Limited

27 March 2024

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” or “Chief Executive Officer”	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), an exempted company incorporated in the Cayman Islands with limited liability on 25 September 2009 with its Shares listed on the Main Board of the Stock Exchange on 10 April 2014
“Company Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Contractual Arrangements”	a series of agreements entered into among Guangzhou WFOE, Guangzhou Baitian and the registered shareholders on 4 December 2013 and amended on 20 March 2014
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, collectively refers to Mr. DAI Jian and Stmoritz Investment Limited
“Corporate Governance Code” or “CG Code”	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules

Definitions and Glossaries

“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 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 of this annual report, 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 Tianti”	Guangzhou Tianti Network Technology Co., Ltd.* (廣州天梯網絡科技有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of Guangzhou Baitian
“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)
“Memorandum and Articles of Association”	the memorandum and articles of association of the Company

Definitions and Glossaries

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules
“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 (as amended on 19 June 2015 and 17 December 2020) and was terminated by the Board’s resolution passed on 3 March 2023, effective on 27 June 2023 following the adoption of the 2023 RSU Scheme
“PRC” or “China”	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 and was terminated by the Board’s resolution passed on 3 March 2023, effective on 27 June 2023 following the adoption of the 2023 RSU Scheme
“Pre-IPO Share Option Scheme”	the share option plan approved and adopted by the Company on 18 June 2010, details of which are set out in the prospectus of the Company dated 28 March 2014, and expired on 18 June 2020
“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 and/or the 2023 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

Definitions and Glossaries

“2023 RSU Scheme” or “Scheme”	the Company’s restricted share unit plan adopted by the Company on 3 March 2023 and approved by the Shareholders by passing an ordinary resolution at the 2023 Annual General Meeting
“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 Share(s)
“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

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

Management Discussion and Analysis

BUSINESS OVERVIEW

BAIOO continued to improve game content innovation and made breakthroughs in cross-dimensional cooperation

For the year ended 31 December 2023 (the “Year”), BAIOO maintained its dominance in the niche genres, and has been actively enhancing its product innovation and research and development capabilities, thereby continuously consolidating its visibility and leading position in these segments. By crafting more engaging game designs with ingenuity, it provided users with the most enjoyable and immersive gaming experience.

During the Year, BAIOO has shown a stable and positive development trend. By adhering to the long-term operation strategy of IP refinement, it continued to release extensive and diverse upgrades, expanded cross-border collaboration with various brands, and incorporated great traditional Chinese culture into games, which not only received widespread recognition from users, but also significantly increased the value and influence of its IPs. In particular, its core self-developed IP mobile game Legend of Aoqi (「奧奇傳說」), which has been in operation for nearly three years, has successfully re-engaged some players who had previously stopped playing with content innovation and offline communication. Its community activity significantly increased in 2023, and the discussion among players also increased accordingly. In addition, to improve user stickiness and innovation, its gameplay was further optimized and enhanced. The newly launched “Farm Management System” and “Pet Development System” have received significant appreciation from players. The game has also released special editions with national intangible cultural heritage such as Cantonese opera, colored lanterns, and Guangdong lion dance, in order to present traditional culture to modern young people in a fresh way.

During the Year, BAIOO’s signature mobile game Aobi Island: Dreamland (「奧比島: 夢想國度」) conducted cross-border collaboration with a total of 11 IPs and brands, including CCTV Animation Channel, the Capital Animal Welfare Association, well-known IP Sanrio, EMMA trendy toys, anime “Please Eat Red Bean!” (《請吃紅小豆吧!》) and “Pleasant Goat and Big Big Wolf” (《喜羊羊與灰太狼》), Cha Panda, Rolife-Nanci, Xiaohongshu, trendy toy brand SUSUMI and snack brand Laiyifen, covering areas including film and television, trendy entertainment, and social media. BAIOO is dedicated to bringing young people favourite brands into games, offering new and engaging content to gamers, and pursuing cross-dimensional breakthroughs. In particular, “Music Coffee”, a special edition linked to the well-known IP Sanrio, was released in April 2023 and received enthusiastic support from players. The relevant Weibo topic “#Aobi Island & Sanrio#” has reached nearly 600 million views. As at 31 December 2023, the Aobi Island mobile game topics readership reached 5.7 billion. Furthermore, Aobi Island held a collaboration event with “Pleasant Goat and Big Big Wolf” (《喜羊羊與灰太狼》) during its first anniversary celebration, and its anniversary celebration live streaming ranked fourth on the live streaming hot list. Its offline pop-up event attracted a huge number of players, boosting its user base and brand influence.

Management Discussion and Analysis

Shiwuyu (「食物語」), BAIOO's another core mobile game, has upgraded its gameplay experience over the previous year. The card game now features a large-scale simulated commercial gameplay, as well as new juvenile food soul skins and new gameplay tongue-to-tongue competition, to include more innovations and showcase the new "Food Fairyland" (「美食仙鄉」) style. At the same time, Shiwuyu insists on in-depth development of IP content. After two years of production, its IP derivative animated mini-series "Young Master is Out Today" (《今天少主不在家》) completed release of its full episodes in August and achieved a high rating of 9.8 points. Shiwuyu also launched cross-border collaborations with intangible cultural heritage "Guangzhou Porcelain", well-known culinary education brand "New Oriental Cuisine", and well-known bookstore "Fangsuo" during the Year, with the goal of incorporating traditional Chinese culture into its version content and providing players with a new experience, which was well received by players.

While continuing to grow in the niche game genre in China where it already has a strong presence, BAIOO also expanded its presence in international gaming marketplaces in 2023, with the goal of incorporating traditional Chinese culture into games and exploring the possibility of greater cross-border cultural integration. During the Year, Shiwuyu released international versions in multiple languages, including Korean, English, and Traditional Chinese, boosting BAIOO's international user base and introducing global users to the magnificent Chinese culture.

INDUSTRY TRENDS

Artificial Intelligence Generated Content ("AIGC") tools helped game developers reduce costs and increase efficiency as the game market rebounded

According to the "China Game Industry Report 2023" (《2023年中國遊戲產業報告》), driven by the recovery of users' willingness and ability to consume, the launch of new game products, and popular products and production line operations, the actual sales revenue of the Chinese game market reached RMB302.964 billion in 2023, representing a year-on-year increase of 13.95% and breaking through the RMB300 billion mark for the first time. The industry scale has hit a historical high, and the number of users has risen to 668 million, also a record high. In particular, the size of the mobile game market reached RMB226.86 billion, representing a year-on-year increase of 17.51%. It indicates that, despite the overall decline in the global game industry, the Chinese game sector has gradually emerged from the downturn and is showing a persistent development.

Through technological advancement and application exploration, the product development efficiency of game companies has been improved and their business models have been newly expanded. Generative AI is fast evolving, and AIGC tools are gradually being implemented, effectively supporting game research and development with application scenarios in a variety of domains such as programming, painting, and planning. AIGC is expected to continue to drive efficiency improvements in game research and development. BAIOO has been actively exploring the latest breakthroughs and application scenarios of generative AI, leveraging technology advancements to strengthen its brand influence and maintain its leadership position in the game industry.

Management Discussion and Analysis

OUTLOOK FOR 2024

Exploring AI technology to assist product development and seize market development opportunities

Looking ahead to 2024, BAIOO continues to maintain its dominance in the niche genres. It will increase investment in independent game research and development, explore better applications and breakthroughs of AIGC technology in the game industry to improve its research and development capability, striving to efficiently meet diverse users' needs and maintain the Group's competitive advantage in the niche game market.

BAIOO will continue to adhere to the long-term IP operating strategy, reinforcing the spirit of creativity and methodically creating each version with the goal of demonstrating great quality in every element in order to continuously improve the gaming experience for players. At the same time, BAIOO will actively pursue more cross-border integration of cultural and creative content, injecting new elements to maintain IP vitality and long-term appeal, as well as providing profound content to the games, in order to promote the deep integration of IP and games and create a more diverse gaming experience for players.

BAIOO will make every effort to build a rich portfolio of product development pipeline. Several products are currently in the research and development and testing stages in each game genre, with the goal of releasing them in stages to the global market. In particular, Aola Star 2 (「奥拉星2」) (previously code-named "project bn"), a 3D multiplayer pet turn-based RPG mobile game, will be launched in China soon. BAIOO will also step up its expansion efforts in the international market. Currently multiple products are being planned for release.

In the future, BAIOO will continue to enhance its product matrix and carefully design high-quality games with Chinese characteristics in order to provide global users with a gaming experience rich in Chinese cultural heritage. The Group will fulfill its corporate social responsibilities, actively promote the spirit and values of Chinese culture, and contribute to the long-term healthy and sustainable development of the industry.

OPERATION INFORMATION

The following table sets out average quarterly active accounts (“**QAAs**”), average quarterly paying accounts (“**QPAs**”) and average quarterly average revenue per quarterly paying accounts (“**ARQPA**”) for our online virtual worlds for the periods indicated below:

	For the year ended		
	31 December 2023 ⁽¹⁾	31 December 2022	Year-over-year Change
	<i>(QAA & QPA in millions, ARQPA in RMB)</i>		
average QAA ⁽²⁾	7.3	10.1	(27.7%)
average QPA ⁽³⁾	1.1	1.6	(31.3%)
average quarterly ARQPA ⁽⁴⁾	176.1	151.9	15.9%

Notes:

- As of 31 December 2023, our online virtual worlds under commercial operation included Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Shiwuyu (「食物語」), Aola Star Mobile (「奧拉星手遊」), legend of Aoqi Mobile (「奧奇傳說手遊」) and Aobi Island Mobile (「奧比島手遊」).
- The average QAA for online virtual worlds was approximately 7.3 million for the year ended 31 December 2023, representing a decrease of approximately 27.7% compared with the year ended 31 December 2022. The decrease was primarily due to some of the games with a longer launch period have shown a natural decline in the growth of their life cycles.
- The average QPA for online virtual worlds was approximately 1.1 million for the year ended 31 December 2023, representing a decrease of approximately 31.3% compared with the year ended 31 December 2022. The decrease was primarily due to decrease of QAA.
- The average quarterly ARQPA for online virtual worlds was approximately RMB176.1 for the year ended 31 December 2023, representing an increase of approximately 15.9% compared with the year ended 31 December 2022. The increase was primarily due to the users were attracted by good contents in games.

Management Discussion and Analysis

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth the detail of our consolidated income statement for the years ended 31 December 2023 and 2022, respectively:

	For the year ended			
	31 December 2023 RMB'000	% of Revenue	31 December 2022 RMB'000	% of Revenue
Revenue	782,764	100.0	938,759	100.0
Online entertainment business	782,519	100.0	937,849	99.9
Other businesses	245	—	910	0.1
Cost of revenue	(464,710)	(59.4)	(578,131)	(61.6)
Gross profit	318,054	40.6	360,628	38.4
Selling and marketing expenses	(63,731)	(8.1)	(81,800)	(8.7)
Administrative expenses	(76,184)	(9.7)	(89,924)	(9.6)
Research and development expenses	(231,137)	(29.5)	(230,021)	(24.5)
Net impairment losses on financial assets	(3,999)	(0.5)	(1,071)	(0.1)
Other income	3,366	0.4	3,734	0.4
Other (losses)/gains — net	(1,495)	(0.2)	1,372	0.1
Operating loss	(55,126)	(7.0)	(37,082)	(4.0)
Finance income — net	33,000	4.2	39,717	4.2
Share of loss of an associate	(1,302)	(0.2)	—	—
(Loss)/profit before income tax	(23,428)	(3.0)	2,635	0.3
Income tax (expense)/credit	(7,974)	(1.0)	7,704	0.8
(Loss)/profit for the year	(31,402)	(4.0)	10,339	1.1

Management Discussion and Analysis

The following table sets forth our consolidated statement of comprehensive income for the years ended 31 December 2023 and 2022 respectively:

	For the year ended			
	31 December 2023 RMB'000	% of Revenue	31 December 2022 RMB'000	% of Revenue
(Loss)/profit for the year	(31,402)	(4.0)	10,339	1.1
Other comprehensive income, net of tax	—	—	—	—
Total comprehensive (loss)/income for the year	(31,402)	(4.0)	10,339	1.1
Other financial data				
Adjusted net (loss)/profit ⁽¹⁾ (unaudited)	(10,081)	(1.3)	61,744	6.6
Adjusted EBITDA ⁽²⁾ (unaudited)	(12,279)	(1.6)	37,485	4.0

Notes:

- Adjusted net (loss)/profit consists of (loss)/profit for the year plus share-based compensation. Adjusted net (loss)/profit eliminates the effect on non-cash share-based compensation expenses. The term of adjusted net (loss)/profit is not defined under the IFRS Accounting Standards. The use of adjusted net (loss)/profit has material limitations as an analytical tool, as adjusted net (loss)/profit does not include all items that impact our net (loss)/profit for the year.
- Adjusted EBITDA consists of adjusted net (loss)/profit less finance income-net, plus income tax expenses/(credit), depreciation of property and equipment and right-of-use assets and amortization of intangible assets.

Revenue

Our revenue for the year ended 31 December 2023 was RMB782.8 million, representing a 16.6% decrease from RMB938.8 million for the year ended 31 December 2022.

Online Entertainment Business: Our online entertainment business revenue for the year ended 31 December 2023 was RMB782.5 million, representing a 16.6% decrease from RMB937.8 million for the year ended 31 December 2022. The decrease was primarily due to the natural decline in the growth of life cycles of some of the Company's games with a longer launch period, and no new game was launched during the Year.

Other Businesses: Revenue from other businesses for the year ended 31 December 2023 was RMB0.2 million, representing a 77.8% decrease from RMB0.9 million for the year ended 31 December 2022. The decrease was mainly due to the decrease in income from sales of peripheral products.

Management Discussion and Analysis

Cost of Revenue

Our cost of revenue for the year ended 31 December 2023 was RMB464.7 million, representing a 19.6% decrease from RMB578.1 million for the year ended 31 December 2022.

Online Entertainment Business: Our online entertainment business cost for the year ended 31 December 2023 was RMB464.6 million, representing a 19.6% decrease from RMB578.0 million for the year ended 31 December 2022. The decrease was mainly driven by the decrease of third-party revenue sharing.

Other Businesses: Cost of other businesses for the year ended 31 December 2023 was RMB0.07 million, representing a 30.0% decrease from RMB0.1 million for the year ended 31 December 2022. The decrease primarily reflected a decrease of peripheral products cost.

Gross Profit

As a result of the foregoing, our gross profit for the year ended 31 December 2023 was RMB318.1 million, compared with RMB360.6 million for the year ended 31 December 2022. Gross profit margin was 40.6% for the year ended 31 December 2023, compared with 38.4% for the year ended 31 December 2022. The gross profit margin increased was mainly due to the proportion of revenue from entrusted third parties mobile games with high revenue sharing decreased.

Selling and Marketing Expenses

Our selling and marketing expenses for the year ended 31 December 2023 were RMB63.7 million, a 22.1% decrease from RMB81.8 million for the year ended 31 December 2022. This was primarily due to decrease in promoting and advertising expenses.

Administrative Expenses

Our administrative expenses for the year ended 31 December 2023 were RMB76.2 million, representing a 15.2% decrease from RMB89.9 million for the year ended 31 December 2022. This decrease was primarily due to the decrease in employee benefit expenses.

Research and Development Expenses

Our research and development expenses for the year ended 31 December 2023 were RMB231.1 million, representing a 0.5% increase from RMB230.0 million for the year ended 31 December 2022.

Net Impairment Losses on Financial Assets

We recorded net impairment losses of financial assets of RMB4.0 million for the year ended 31 December 2023, which compares to RMB1.1 million net impairment losses for the year ended 31 December 2022. The net impairment losses on financial assets mainly comprised impairment on trade and other receivables.

Other Income

The Company recognized RMB3.4 million in other income for the year ended 31 December 2023, representing a decrease by 8.1% from RMB3.7 million for the year ended 31 December 2022. The other income was generated from our fulfillment of certain performance and conditions related to government grants.

Other (Losses)/Gains — net

The Company recognized net other loss of RMB1.5 million and it was primarily due to the loss on disposal of property and equipment for the year ended 31 December 2023, compared with net other gain of RMB1.4 million for the year ended 31 December 2022.

Operating Loss

As a result of the foregoing, our operating loss for the year ended 31 December 2023 was RMB55.1 million, compared with operating loss of RMB37.1 million for the year ended 31 December 2022.

Finance Income — net

We had net finance income of RMB33.0 million for the year ended 31 December 2023, compared with net finance income of RMB39.7 million for the year ended 31 December 2022. Net finance income for the year ended 31 December 2023 was primarily consisted of interest income on term deposit and cash and bank balance, as well as exchange gains on cash and bank balance, which was partly offset by interest expenses on lease liabilities.

Share of Loss of an Associate

The Company recognized share of loss of an associate of RMB1.3 million for the year ended 31 December 2023, there was no losses or gains of an associate for the year ended 31 December 2022.

(Loss)/Profit before Income Tax

As a result of the foregoing, we had a loss of RMB23.4 million for the year ended 31 December 2023, compared with a profit of RMB2.6 million for the year ended 31 December 2022.

Income Tax (Expense)/Credit

Our income tax expense for the year ended 31 December 2023 was RMB8.0 million, compared with the income tax benefit of RMB7.7 million for the year ended 31 December 2022. The change was primarily due to the decrease of deferred tax assets.

(Loss)/Profit for the Year

As a result of the foregoing, we had a loss of RMB31.4 million for the year ended 31 December 2023, compared with a profit of RMB10.3 million for the year ended 31 December 2022.

Non-IFRS Accounting Standards Measures — Adjusted Net (Loss)/Profit/EBITDA

Our adjusted net loss for the year ended 31 December 2023 was RMB10.1 million, representing a 116.4% decrease from net profit of RMB61.7 million for the year ended 31 December 2022. Our adjusted EBITDA for the year ended 31 December 2023 was loss of RMB12.3 million, representing a 132.8% decrease from profit of RMB37.5 million for the year ended 31 December 2022.

Management Discussion and Analysis

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

	Unaudited	
	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
(Loss)/Profit for the year	(31,402)	10,339
Add:		
Share-based compensation	21,321	51,405
Adjusted net (loss)/profit	(10,081)	61,744
Add:		
Depreciation and amortization	22,828	23,162
Finance income – net	(33,000)	(39,717)
Income tax expense/(credit)	7,974	(7,704)
Adjusted EBITDA	(12,279)	37,485

LIQUIDITY AND CAPITAL RESOURCES

In 2023, 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	As of
	31 December	31 December
	2023	2022
	RMB'000	RMB'000
Total liabilities	269,064	358,183
Total assets	1,920,099	2,056,267
Gearing ratio ⁽¹⁾	14%	17%

Note:

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

Management Discussion and Analysis

Cash and Cash Equivalents, Short-Term Deposits and Long-Term Deposits

As of 31 December 2023, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB966.0 million, compared with RMB1,303.7 million as of 31 December 2022. We had short-term deposits of RMB261.8 million as of 31 December 2023, compared with RMB110.0 million as of 31 December 2022, representing bank deposits which we intend to hold for over three months but less than one year. We had long-term deposits of RMB135.0 million as of 31 December 2023 compared with RMB95.0 million as of 31 December 2022, representing bank deposits which we intend to hold for over one year but less than three years.

As of 31 December 2023, the Group had no restricted cash.

The effective interest rate per annum for cash in bank balances and deposits as of 31 December 2023 was 1.9% compared with 2.3% as of 31 December 2022. Our policy is to place our cash in interest-bearing principal-protected call deposits or deposits with reputable domestic or international banks.

Our cash and cash equivalents, short-term deposits and long-term deposits are denominated in the following currencies:

Group	As of	As of
	31 December	31 December
	2023	2022
	RMB'000	RMB'000
RMB	1,214,942	1,364,918
US\$	73,227	77,203
HK\$	74,580	66,505
Others	81	85
	1,362,830	1,508,711

Bank Loans and Other Borrowings

The Group had no bank loans or other borrowings as of 31 December 2023.

Treasury Policies

As of 31 December 2023, 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 2023, RMB147.9 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.

Management Discussion and Analysis

Capital Expenditures and Investments

Our capital expenditures consist of payment of construction in progress and purchases of property and equipment, such as servers and computers and intangible assets, such as computer software. For the year ended 31 December 2023, our total capital expenditures were RMB88.5 million, compared with RMB17.3 million for the year ended 31 December 2022. The following table sets out our expenditures for the periods indicated:

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Capital Expenditures		
– Payment of construction in progress	84,966	11,185
– Purchase of property and equipment	1,633	3,940
– Purchase of intangible assets	1,939	2,198
Total	88,538	17,323

Contingent Liabilities

As of 31 December 2023, the Group did not have any material contingent liabilities, guarantees or litigation against it.

Charges on Assets

As of 31 December 2023, there were no charges on the Group's assets.

Material Acquisitions and Future Plans for Major Investment

As of 31 December 2023, 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 2023, the Group had 714 full-time employees. The following table sets forth the number of full-time employees by function as of 31 December 2023:

	As of 31 December 2023	
	Number of Employees	% of Total
Operations	20	2.8
Operations for R&D	196	27.5
Development and research	399	55.8
Sales and Marketing	44	6.2
General and administration	55	7.7
Total	714	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 and other employee benefits for the year ended 31 December 2023 were approximately RMB88.9 million, compared with RMB74.1 million for the year ended 31 December 2022. We incurred staff costs of approximately RMB359.4 million and RMB392.6 million, for the years ended 31 December 2023 and 2022, representing 45.9% and 41.8% of our revenue for those periods respectively.

As approved by the Shareholders by passing an ordinary resolution at the AGM held on 27 June 2023, 2023 RSU Scheme was adopted. We will continue to grant RSUs to our employees to incentivize them pursuant to the 2023 RSU Scheme. The maximum aggregate number of the shares from time to time for a three-year period from the date of the Company’s AGM held on 27 June 2023, underlying all the RSUs which we may grant pursuant to the 2023 RSU Scheme is no more than 282,284,400 shares of the Company, representing approximately 10% of our share capital as of the date of the AGM held on 27 June 2023.

Management Discussion and Analysis

As at 31 December 2023, there were a total of 57,511,250 RSUs granted by the Company but not yet vested, lapsed or cancelled under the Post-IPO RSU Scheme (now governed by the rules of the 2023 RSU Scheme).

Dividend

At the Company's AGM held on 27 June 2023, Shareholders approved the Board-recommended special dividend of HK\$0.015 (equivalent to approximately RMB0.013) per share for the year ended 31 December 2022. The special dividend was paid to the Shareholders on 20 July 2023.

The Board is pleased to recommend the payment of a special dividend of HK\$0.012 (equivalent to RMB0.011) per share for the year ended 31 December 2023 out of our share premium account, subject to the approval of the Shareholders at the forthcoming AGM to be held on Wednesday, 26 June 2024. The proposed special dividend will be payable on Tuesday, 30 July 2024 to the Shareholders of whose names appear on the Register of Members on Friday, 12 July 2024.

CHANGES SINCE 31 DECEMBER 2023

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 2023.

Biographies of the Directors and Senior Management

DIRECTORS

Executive Directors

DAI Jian (戴堅), aged 56, 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 23 years of experience in the information and technology industry. From March 2013 to the date of this annual report, he has been serving as the chairman of the board of Altratek Guangdong, a wireless telecommunication product and service provider, where he is responsible for the overall management, resources integration and strategic planning of the company. From December 2004 to March 2013, he was the executive director and chief executive officer 2 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 the overall management, resources integration and strategic planning of the company.

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

Saved as disclosed above, Mr. DAI is not or has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

WU Lili (吳立立), aged 56, 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 23 years of experience in the information technology industry. From March 2013 to the date of this annual report, he has been serving as the director of Altratek Guangdong. From September 2007 to June 2009, he was the deputy director of the marketing department 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 of the company.

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

Saved as disclosed above, Mr. WU is not or has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

LI Chong (李冲), aged 55, is a co-founder of our Group and was appointed as our Chief Operating Officer from September 2009 to August 2021, and Executive Director since September 2009. He is responsible for developing middle and long-term development strategies of the Group and identifying and securing high-end talents for the Group.

Mr. LI has more than 23 years of experience in the information technology industry. From March 2013 to the date of this annual report, he has been serving 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 operations 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 operations 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.

Saved as disclosed above, Mr. LI is not or has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Independent Non-Executive Directors

LIU Qianli (劉千里), aged 48, was appointed as our Independent Non-Executive Director on 18 March 2014.

Ms. LIU has over 20 years of experience in investment banking and corporate finance, including holding senior management positions at Phoenix New Media Limited (NYSE Stock Symbol: FENG), ChinaEdu Corp. and MainOne Information Technology Company Ltd. previously. She is currently an independent director of Luckin Coffee Inc. (OTC Symbol: LKNCY), and an independent non-executive director of XD Inc. (HKEX Stock Code: 2400) and Feiyu Technology International Company Limited (HKEX Stock Code: 1022).

Ms. LIU obtained her bachelor's degree of arts from Dartmouth College in 1997 and her MBA from the Massachusetts Institute of Technology Sloan School of Management in 2003.

Saved as disclosed above, Ms. LIU is not or has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Biographies of the Directors and Senior Management

WANG Qing (王慶), aged 55, was appointed as our Independent Non-Executive Director on 18 March 2014.

Dr. WANG has over 23 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 the 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 has been appointed as an independent director of Bank of Taizhou Co., Ltd. since April 2022.

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.

Saved as disclosed above, Dr. WANG is not or has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

MA Xiaofeng (馬肖風), aged 60, 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 Creativity Global (Stock Symbol: AACG), formerly known as ATA Inc. (Stock Symbol: ATAI), 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 been serving as the 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, Mr. MA is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

WEI Kevin Cheng (蔚成), aged 56, was appointed as our Independent Non-Executive Director on 27 June 2023.

Mr. WEI is currently a managing partner of a company focused on corporate finance advisory business. Mr. WEI served as the chief financial officer from December 2007 to September 2013 of IFM Investments Limited, a real-estate services company headquartered in Beijing. IFM Investments Limited was delisted from NYSE in 2015. From 2006 to 2007, Mr. WEI served as the chief financial officer of Solarfun Power Holdings Co., Limited (ticker symbol: SOLF), a NASDAQ listed solar company (now known as Hanwha Q CELLS Co., Ltd. (ticker symbol: HQCL) (privatised in 2019)). From 1999 to 2005, Mr. WEI worked in the

Biographies of the Directors and Senior Management

internal audit and risk management functions with the Asia Pacific regional or global coverage for multinational companies including LG Philips Displays International Ltd. (2003 to 2005) headquartered in Hong Kong. From 1991 to 1999, Mr. WEI worked with KPMG LLP and Deloitte Touche LLP in various audit and consulting roles between the United States of America and China.

Mr. WEI graduated from Central Washington University in June 1991, where he received his bachelor's degree (cum laude) with a double major in accounting and business administration. He is also a member of the American Institute of Certified Public Accountant.

Mr. WEI currently serves as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of the board of Alphamab Oncology (stock code: 9966), a company listed on the Main Board of the Stock Exchange, since 12 December 2019. Prior to that, Mr. Wei served as an independent non-executive director, the chairman of the audit and compliance committee of the board of Nexteer Automotive Group Limited (stock code: 1316), a company listed on the Main Board of the Stock Exchange, from June 2013 to June 2022; Mr. WEI also served as an independent non-executive director since March 2011 and further appointed as chairman of the board of the director of Tibet Water Resources Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 1115) in May 2020. He was then re-designated as a non-executive director and the chairman of the board and the nomination committee and a member of remuneration committee of Tibet Water Resources Ltd. from October 2020 to June 2021.

Save as disclosed above, Mr. WEI is not and has 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 56, is our Chairman, Executive Director and Chief Executive Officer. Please refer to the section headed “— Executive Directors — DAI Jian” for his biography.

WANG Xiaodong (王曉東), aged 58, is a co-founder of our Group and was appointed as Executive Vice President in September 2009. Mr. WANG was also appointed as our Executive Director from September 2009 to March 2010 and from December 2013 to January 2022.

Mr. WANG has more than 25 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.

Biographies of the Directors and Senior Management

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 the 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 student education and 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.

CHEN Xiao Hong (陳小紅), aged 57, 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 15 years of experience in finance management.

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

ZHONG Hong (鍾虹), aged 40, was appointed as the Chief Operating Officer of the Company from August 2021 to November 2023 (resigned on 13 November 2023). She was responsible for the overall operation of the Group.

Ms. ZHONG has more than 17 years of experience in the Internet game industry and has developed and operated many original game IP works well-received by generation Z users, including Aobi Island (「奧比島」), Aola Star (「奧拉星」), Shiwuyu (「食物語」), Zaowufaze (「造物法則」), with continuous exploration enthusiastic and unique experience and understanding in the field of Internet and games. From October 2016 to August 2021, she served as the vice president of the Group, who was responsible for the overall operation and distribution of the Company's mobile game business, and launched and operated a variety of mobile game products, including a series of mobile games such as Aola Star Mobile (「奧拉星手遊」), Shiwuyu (「食物語」), Legend of Aoqi (「奧奇傳說手遊」), Zaowufaze (「造物法則」) and Helix Waltz (「螺旋圓舞曲」). She joined the Group in October 2009 and was responsible for the market and business development of all game products under Guangzhou Baitian. Within five years, she completed the leap of Guangzhou Baitian's web game market and introduced more than 380 million registered users for the Company's products.

Ms. ZHONG obtained her bachelor's degree in E-commerce engineering from the Computer Department of Guangdong Ethnic Institute in July 2007.

Biographies of the Directors and Senior Management

COMPANY SECRETARY

LAU Yee Wa (劉綺華), aged 51, has been appointed as our Company Secretary since August 2018.

Ms. LAU is a director 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 25 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, a Chartered Governance Professional and an associate member of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

She holds a bachelor's degree in business administrative management from the 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 2023.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are developing and publishing mobile and PC games. Details of the principal activities of the Group are set out in note 14 to the section headed "Notes to the Consolidated 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 Consolidated 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 2023.

BUSINESS REVIEW AND KEY FINANCIAL PERFORMANCE INDICATORS

A review of the business of the Group during the year ended 31 December 2023 (including particulars of important events affecting the Company that have occurred during the year ended 31 December 2023, an analysis of the Group's performance during the year ended 31 December 2023 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 Consolidated 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 2023 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.

Directors' Report

DIVIDENDS

The Board recommended the payment of a special dividend of HK\$0.012 (equivalent to approximately RMB0.011) per Share for the year ended 31 December 2023, subject to the approval of the Shareholders at the AGM to be held on Wednesday, 26 June 2024. The proposed special dividend is expected to be payable on Tuesday, 30 July 2024 to the Shareholders whose names appear on the Register of Members as of Friday, 12 July 2024.

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 and 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 Friday, 21 June 2024 to Wednesday, 26 June 2024, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 20 June 2024. In addition, subject to the Shareholders' approval of the proposed special dividend at the AGM, the Register of Members will be closed from Wednesday, 10 July 2024 to Friday, 12 July 2024, both days inclusive, for the purpose of ascertaining the Shareholders' entitlement to the proposed special dividend. In order to qualify for the proposed special dividend, all transfer 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, 9 July 2024.

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 2022, unutilised proceeds from the abovementioned issuances amounted to RMB398.5 million. During the reporting period, a total of RMB0.024 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 2023, being RMB398.5 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

Details of movements in the property and equipment of the Group during the year ended 31 December 2023 are set out in note 16 to the section headed "Notes to the Consolidated 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 24 and 26 to the section headed "Notes to the Consolidated 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.

Directors' Report

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2023, neither the Company nor any member of the Group has purchased, redeemed or sold any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2023 are set out in note 25 to the sections headed "Notes to the Consolidated Financial Statements" and "Consolidated Statement of Changes in Equity" of this annual report, respectively.

DISTRIBUTABLE RESERVES

For the year ended 31 December 2023, the Company had distributable reserves amounting to RMB464,853,000 (2022: RMB492,629,000).

CHARITABLE CONTRIBUTIONS

The Group had no charitable contributions during the year ended 31 December 2023.

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 2023, the top five sources of cash proceeds from sales of physical and virtual prepaid cards and sales of AoCoins through other payment channels accounted for 80.2% of our total cash proceeds from these sales.

The top source of cash proceeds from these sales for the year ended 31 December 2023 was our online payment channel and accounted for 40.8% 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 2023.

For the year ended 31 December 2023, charges from the five largest suppliers accounted for 65.8% of our cost of revenues.

The charges from the largest supplier accounted for 43.1% 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 2023.

For the year ended 31 December 2023, there was no material dispute between the Group and its suppliers and/or customers.

DIRECTORS

The Directors during the year ended 31 December 2023 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

Independent non-executive Directors

Ms. LIU Qianli

Dr. WANG Qing

Mr. MA Xiaofeng

Mr. WEI Kevin Cheng (*appointed on 27 June 2023*)

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, at each AGM not less than one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an AGM at least once every three years. Mr. DAI Jian, Mr. LI Chong and Ms. LIU Qianli will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

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

Directors' Report

CHANGES IN DIRECTORS' INFORMATION

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

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 39 to the section headed "Notes to the Consolidated 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 2023.

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 2023.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors and those of the five highest paid individuals for the year ended 31 December 2023 are set out in notes 9 and 39 to the section headed "Notes to the Consolidated 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 2023.

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 2023. 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 2023.

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 2023.

Directors' Report

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

As at 31 December 2023, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name	Position	Relevant company (including associated corporation)	Capacity/ Nature of interest	Number of Shares/ underlying Shares held	Approximate percentage of shareholding ⁽⁹⁾
DAI Jian (戴堅) ⁽¹⁾	Chairman, Executive Director and Chief Executive Officer	The Company	Founder of a discretionary trust Interest of controlled corporation	687,944,180(L) ⁽⁶⁾	23.95%(L)
		The Company	Beneficial owner	10,000,000(L)	0.35%(L)
WU Lili (吳立立) ⁽²⁾	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	365,596,180(L)	12.73%(L)
LI Chong (李冲) ⁽³⁾⁽⁴⁾	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	114,816,360(L)	4.00%(L)
		The Company	Beneficial owner	15,000,000(L)	0.52%(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., an 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 2023, 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., an 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., an 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. LI was interested in 15,000,000 RSUs granted to him under the Post-IPO RSU Scheme entitling him to receive 15,000,000 Shares subject to vesting. For details, please refer to the Company's announcements dated 12 April 2021 and 30 March 2022, the circulars dated 21 May 2021 and 27 April 2022 and the poll results announcements dated 25 June 2021 and 6 June 2022. As at 31 December 2023, 47.5% of the RSUs granted to Mr. LI on 12 April 2021 and 20% of the RSUs granted to Mr. LI on 30 March 2022 under the Post-IPO RSU Scheme were vested.
- (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 2023, 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 2023, 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 2023, 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 2,872,844,000 Shares in issue as at 31 December 2023.

Save as disclosed above, as at 31 December 2023, 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 C3 to the Listing Rules.

Directors' Report

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

As at 31 December 2023, 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	1,193,824,720(L) ⁽⁷⁾	41.56%(L)
DAE Holding Investments Limited ⁽²⁾	Trust holding company	687,944,180(L)	23.95%(L)
Stmoritz Investment Limited ⁽²⁾	Registered owner	687,944,180(L)	23.95%(L)
DAI Jian (戴堅) ⁽²⁾⁽⁵⁾	Founder of a discretionary trust Interest of controlled corporation	687,944,180(L)	23.95%(L)
	Beneficial owner	10,000,000(L)	0.35%(L)
Bright Stream Holding Limited ⁽³⁾	Registered owner	365,596,180(L)	12.73%(L)
WHEZ Holding Ltd. ⁽³⁾	Trust holding company	365,596,180(L)	12.73%(L)
WU Lili (吳立立) ⁽³⁾	Founder of a discretionary trust Interest of controlled corporation	365,596,180(L)	12.73%(L)
THL H Limited ⁽⁴⁾	Registered owner	326,063,280(L)	11.35%(L)
Tencent Holdings Limited ⁽⁴⁾	Interest of controlled corporation	326,063,280(L)	11.35%(L)
The Core Trust Company Limited ⁽⁶⁾	Trustee of a trust	269,976,037(L)	9.40%(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), as at 31 December 2023, DAE Holding Investments Limited and TMF (Cayman) Ltd. are taken to be interested in 687,944,180 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), as at 31 December 2023, WHEZ Holding Ltd. and TMF (Cayman) Ltd. are taken to be interested in 365,596,180 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 THL H Limited is owned by Tencent Holdings Limited, which is a company listed on the Main Board of the Stock Exchange (stock code: 700). Tencent Holdings Limited is taken to be interested in 326,063,280 Shares held by THL H Limited 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 2023, 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 2,872,844,000 Shares in issue as at 31 December 2023.

Save as disclosed above, as at 31 December 2023, 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 RSU Scheme, the Post-IPO RSU Scheme and the 2023 RSU Scheme, respectively.

Summaries of the terms of the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme have been disclosed in the sections headed, "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 nine years, the circular of the Company dated 24 April 2015 and the supplementary circular of the Company dated 14 May 2015 and the circular of the Company dated 26 November 2020.

1) Pre-IPO RSU Scheme

The eligible participants under the Pre-IPO RSU Scheme includes existing employees, Directors, or officers of the Group and any other person selected by the Board at its discretion.

Unless otherwise duly approved by the Shareholders, the total number of Shares underlying RSUs under the Pre-IPO RSU Scheme shall not exceed 188,733,600 Shares (excluding Shares underlying RSUs that have lapsed or been cancelled in accordance with this Pre-IPO RSU Scheme). There is no requirement regarding the maximum entitlement of each participant under the Pre-IPO RSU Scheme. The Board has sole discretion to determine the vesting period and vesting criteria (if any) for any grant of RSUs under the Pre-IPO RSU Scheme, which may also be adjusted and re-determined by the Board from time to time. The grantee(s) shall not be required to bear or pay any price or fee for the grant of RSU under the Pre-IPO RSU Scheme. Prior to its termination, the Pre-IPO RSU Scheme had been valid and effective until 30 September 2023. It was terminated by the Board's resolution on 3 March 2023, effective on 27 June 2023 following the adoption of the 2023 RSU Scheme (as defined below under the section headed "3) 2023 RSU Scheme").

No more RSUs were granted after the Listing under the Pre-IPO RSU Scheme. As at 31 December 2023, 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 2023, IPO RSU Nominee and the Pre-IPO RSU Nominee holds 75,015,620 Shares and the New RSU Nominee hold 22,802,000 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.

The Pre-IPO RSU Scheme was terminated on 27 June 2023. Please refer to the below paragraph under the section headed "3) 2023 RSU Scheme" for details.

2) Post-IPO RSU Scheme

The eligible participants under the Post-IPO RSU Scheme includes existing and former employees, directors or officers of the Company, Guangzhou Baitian Information Technology Ltd. (廣州百田信息科技有限公司) or other companies in the Group, or any other person selected by the Board or the Remuneration Committee at its sole discretion.

The maximum number of Shares which may be awarded under the Scheme may not exceed 2% of the issued share capital of the Company as of the date of approval of the refreshed scheme limit. The maximum number of Shares which may be awarded to any one grantee under the Post-IPO RSU Scheme may not exceed 2% of the issued share capital of the Company as of the date of approval of the refreshed scheme limit. The Board or the Remuneration Committee has the sole discretion to determine the vesting schedule and vesting criteria (if any) for any grant of RSU(s) to any grantee, which may also be adjusted and re-determined by the Board from time to time. The grantee(s) shall not be required to bear or pay any price or fee for the grant of RSU under the Post-IPO RSU Scheme. Prior to its termination, the Post-IPO RSU Scheme shall be valid and effective until 1 October 2030. It was terminated by the Board's resolution on 3 March 2023, effective on 27 June 2023 following the adoption of the 2023 RSU Scheme (as defined below under the section headed "3) 2023 RSU Scheme").

During the year ended 31 December 2023, there were no RSUs granted under the Post-IPO RSU Scheme. No more RSUs were granted under the Post-IPO RSU Scheme following its termination. As at 31 December 2022 and 31 December 2023, there were a total of 118,711,250 and 57,511,250 RSUs outstanding (i.e. granted but unvested) under the Post-IPO RSU Scheme, respectively.

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. On 27 May 2021, the Company further appointed Ms. Zhang Xiaoting as the trustee and Gusto Limited, a limited liability company incorporated under the laws of the BVI and an independent third party as the nominee to administer the RSUs granted to the Directors and CEO under the Post-IPO RSU Scheme. As at 31 December 2023, Baiduo Investment Holding Limited and Gusto Limited held 172,158,417 Shares and 40,000,000 Shares, respectively, underlying the RSUs granted under the Post-IPO RSU Scheme for the benefit of eligible participants pursuant to the Post-IPO RSU Scheme.

The Post-IPO RSU Scheme was terminated on 27 June 2023. Please refer to the below paragraph under the section headed "3) 2023 RSU Scheme" for details.

Directors' Report

3) 2023 RSU Scheme

Since 1 January 2023, Chapter 17 of the Listing Rules governs both share option schemes and share award schemes.

According to their respective scheme rules, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme (collectively, the “**Previous RSU Schemes**”) were valid and effective until 30 September 2023 and 1 October 2030, respectively, unless terminated. The Board considered that (i) the Pre-IPO RSU Scheme would expire soon; and (ii) any amendments to the Post-IPO RSU Scheme to comply with Chapter 17 of the Listing Rules would be costly and unduly burdensome and such amendments will result in the Post-IPO RSU Scheme expiring on or before 10 April 2024 under Chapter 17 of the Listing Rules. Accordingly, the Board resolved on 3 March 2023 to terminate the Previous RSU Schemes, effective upon the approval of the 2023 RSU Scheme (as defined below) by the Shareholders. The Previous RSU Schemes remain in full force and effect to the extent necessary to give effect to the exercise of any awards granted prior to its termination or otherwise as may be required in accordance with the provisions of the Previous RSU Schemes. All awards granted prior to such termination and not vested on the date of termination shall remain valid.

As approved by the Shareholders an ordinary resolution at the annual general meeting of the Company dated 27 June 2023 (“**2023 AGM**”), a new RSU Scheme in compliance with Chapter 17 of the Listing Rules (the “**2023 RSU Scheme**”) was adopted. The objectives of the 2023 RSU Scheme are (i) to recognise the contributions by the grantees and to give incentives thereto in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group. Eligible persons under the 2023 RSU Scheme include any employee participant, related entity participant or a service provider who are selected by the Board or the Remuneration Committee at its sole discretion from time to time and permissible under applicable laws and regulations (including Listing Rules), but excluding excluded persons as defined under the 2023 RSU Scheme. The Core Trust Company Limited has been appointed by the Board to administer the granting and vesting of RSUs pursuant to the 2023 RSU Scheme. Subject to the conditions therein, the 2023 RSU Scheme shall be valid and effective for ten (10) years from the adoption date (i.e., 27 June 2023), and has a remaining life of about 9.5 years as at the date of this annual report.

The aggregate number of Shares underlying all grants made pursuant to the 2023 RSU Scheme (excluding awards that have lapsed or been cancelled in accordance with the rules of the same scheme) and all other share schemes as adopted by the Company from time to time for a three-year period from the date of approval of the limit by the Shareholders at the 2023 AGM (unless otherwise refreshed within such three-year period by the Shareholders' prior approval) shall not exceed 282,284,400 Shares, representing 10% of the number of Shares in issue as at the same date. The total number of Shares available for issue under the 2023 RSU Scheme was 282,284,400, representing approximately 9.8% of the issued shares of the Company as at the date of this annual report.

The aggregate number of Shares underlying all grants made to the service providers pursuant to the 2023 RSU Scheme (excluding awards that have lapsed in accordance with the rules of the 2023 RSU Scheme) and all other share schemes adopted by the Company granting options and/or awards to the service providers as adopted by the Company from time to time for a three-year period from the date of approval of the limit by the Shareholders at the AGM (unless otherwise refreshed within such three-year period by the Shareholders' prior approval) shall not exceed 28,228,440 Shares, representing 1% of the number of Shares in issue as at the same date (the "**Service Provider Sub-limit**").

The maximum number of Shares which may be awarded to any one selected person under the scheme may not exceed 1% of the issued share capital of the Company, taking into account of the Shares issued and to be issued in respect of all options and awards granted to such Grantee under all share schemes adopted by the Company in aggregate (excluding any awards lapsed in accordance with terms of the scheme) in the 12-month period up to and including the date of relevant grant, unless such grant is otherwise separately approved by the Shareholders in general meeting, with such grantee and his close associates (or associates if the participant is a connected person) abstaining from voting.

The vesting period for the award(s) shall not be less than twelve (12) months, subject to terms and conditions of the 2023 RSU Scheme. Award(s) granted to employee participants may be subject to a shorter vesting period at the discretion of the Board or the Remuneration Committee under circumstances specified under the relevant scheme rules. The Grantees shall not be required to bear or pay any price or fee for the application or acceptance of the grant of the award(s), or the vesting of the RSU(s) under the 2023 RSU Scheme. The basis of determining such purchase price of the awards aligns with the purposes of the 2023 RSU Scheme as the eligible persons will receive an award at no cost, which is much more competitive than purchasing Share in the market, thus incentivising them to contribute to the Group's development.

During the year ended 31 December 2023, there were no RSUs granted under the 2023 RSU Scheme. As at 31 December 2022 and 31 December 2023, there were no RSUs outstanding (i.e. granted but unvested) under the 2023 RSU Scheme, respectively. If all the outstanding RSUs under the 2023 RSU Scheme are vested according to the relevant vesting schedules, there would be no dilution effect on the issued share capital of the Company as at 31 December 2023.

The number of Shares underlying RSUs available for grant under the share schemes' mandate adopted by the Company as at 31 December 2022 and 31 December 2023 was 38,813,880 and 282,284,400, respectively. The number of Shares underlying RSUs available for grant under the Service Provider Sub-limit adopted by the Company as at 31 December 2022 and 31 December 2023 was nil and 28,228,440, respectively. The number of Shares that may be issued in respect of the RSUs granted under the share schemes adopted by the Company for the year ended 31 December 2023, divided by the weighted average number of Shares for the year ended 31 December 2023, is 10.53%.

Directors' Report

Movements of the RSUs under the Post-IPO RSU Scheme during the year ended 31 December 2023

Name of Grantees	Nature	RSUs held/ number of Shares underlying the RSUs as at 31 December 2022	Granted during the year (note 10)	Date of grant	Vesting Schedule	Consideration (US\$(note 11))	Vested during the year	Lapsed during the year	RSUs held/ number of Shares underlying the RSUs as at 31 December 2023	Approximate percentage of issued Shares of the Company (note 9)	The weighted average closing price of the shares immediately before the dates on which the RSU were exercised or vested
Post-IPO RSU Scheme											
(a) Director											
Mr. LI Chong	RSUs	8,000,000	—	12 April 2021	Note 1	—	2,750,000	—	5,250,000	0.18%	HK\$0.36
	RSUs	5,000,000	—	30 March 2022	Note 2	—	1,000,000	—	4,000,000	0.14%	HK\$0.40
	Sub-total	13,000,000	—	—		—	3,750,000	—	9,250,000	0.32%	
(b) Senior management											
Mr. WANG Xiaodong	RSUs	12,000,000	—	12 April 2021	Note 1	—	4,125,000	—	7,875,000	0.27%	HK\$0.36
	RSUs	10,000,000	—	30 March 2022	Note 2	—	2,000,000	—	8,000,000	0.28%	HK\$0.40
	Sub-total	22,000,000	—	—		—	6,125,000	—	15,875,000	0.55%	
(c) Other grantees											
33 employees	RSUs	24,165,000	—	2 April 2020	Note 3	—	15,735,000	1,575,000	6,855,000	0.24%	HK\$0.38
12 employees	RSUs	18,716,250	—	11 September 2020	Note 4	—	10,695,000	2,250,000	5,771,250	0.20%	HK\$0.38
38 employees	RSUs	14,240,000	—	11 June 2021	Note 5	—	5,930,000	1,245,000	7,065,000	0.25%	HK\$0.34
29 employees	RSUs	10,880,000	—	3 September 2021	Note 6	—	3,740,000	1,125,000	6,015,000	0.21%	HK\$0.36
17 employees	RSUs	14,100,000	—	12 May 2022	Note 7	—	2,660,000	5,360,000	6,080,000	0.21%	HK\$0.43
4 employees	RSUs	1,610,000	—	9 December 2022	Note 8	—	150,000	860,000	600,000	0.02%	HK\$0.24
	Sub-total	83,711,250	—				38,910,000	12,415,000	32,386,250	1.13%	
	Total	118,711,250	—				48,785,000	12,415,000	57,511,250	2.00%	

Notes:

- 1) The RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs granted shall vest on 1 July 2022;
 - 20% of the RSUs granted shall vest on 1 July 2023;
 - 30% of the RSUs granted shall vest on quarterly basis from 1 July 2023 to July 2024; and
 - 30% of the RSUs granted shall vest on quarterly basis from 1 July 2024 to July 2025.
- 2) The RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs granted shall vest on 1 July 2023;
 - 20% of the RSUs granted shall vest on 1 July 2024;
 - 30% of the RSUs granted shall vest on quarterly basis from on 1 July 2024 to July 2025; and
 - 30% of the RSUs granted shall vest on quarterly basis from on 1 July 2025 to July 2026.
- 3) The RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs granted shall vest on 2 April 2021;
 - 20% of the RSUs granted shall vest on 2 April 2022; and
 - 7.5% of the RSUs granted shall vest on a quarterly basis commencing from 2 April 2022 to 2 April 2024.
- 4) The RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs granted shall vest on 1 July 2021;
 - 20% of the RSUs granted shall vest on 1 July 2022; and
 - 7.5% of the RSUs granted shall vest on a quarterly basis commencing from 1 July 2022 to 1 July 2024.
- 5) The RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs granted shall vest on 11 June 2022;
 - 20% of the RSUs granted shall vest on 11 June 2023; and
 - 7.5% of the RSUs granted shall vest on a quarterly basis commencing from 11 June 2023 to 11 June 2025.
- 6) The RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs granted shall vest on 1 July 2022;
 - 20% of the RSUs granted shall vest on 1 July 2023; and
 - 7.5% of the RSUs granted shall vest on a quarterly basis commencing from 1 July 2023 to 1 July 2025.
- 7) The RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs granted shall vest on 1 April 2023;
 - 20% of the RSUs granted shall vest on 1 April 2024; and
 - 7.5% of the RSUs granted shall vest on a quarterly basis commencing from 1 April 2024 to 1 April 2026.
- 8) The RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs granted shall vest on 9 December 2023;
 - 20% of the RSUs granted shall vest on 9 December 2024; and
 - 7.5% of the RSUs granted shall vest on a quarterly basis commencing from 9 December 2024 to 9 December 2026.
- 9) 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 Post-IPO RSU Scheme) as at 31 December 2023. The closing price of the Shares immediately before 30 March 2022, 12 May 2022 and 9 December 2022 are HK\$0.465, HK\$0.425 and HK\$0.435, respectively.
- 10) The grantee(s) are not required to bear or pay any price or fee for the grant of RSU under the Post-IPO RSU Scheme.
- 11) No performance targets were set out for the above grants during the year of 2023.
- 12) There were no RSU(s) cancelled during the year of 2023.

Further details of the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme are set out in note 26 to the section headed “Notes to the Consolidated Financial Statements” of this annual report and note 23 to the section headed “Notes to the Financial Information” of the Prospectus. Further details of the 2023 RSU Scheme are set out in the announcement and the circular of the Company dated 3 March 2023 and 27 April 2023, respectively.

Directors' Report

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2023.

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 2023 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 36 to the section headed "Notes to the Consolidated 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 2023. 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 2023. The Directors confirm they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions entered into by the Group for the year ended 31 December 2023

On 25 January 2021, Tencent Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 700) ("**Tencent**", together with its subsidiaries, "**Tencent Group**") had, through its wholly-owned subsidiary, THL H Limited, agreed to acquire an aggregate of 81,515,820 Shares from various Shareholders of the Company (the "**Investment**"). Following the completion of the Investment, Tencent became interested in approximately 12% of the Company's issued share capital and hence a substantial Shareholder of the Company. Accordingly, Tencent (and its associates) are connected persons of the Company with effect from the completion of the Investment. Further details of the Investment are set out in the announcement of the Company dated 25 January 2021.

During the year ended 31 December 2023, the Group entered into a number of continuing transactions with Tencent Group. A summary of such continuing transactions of the Group with Tencent Group with the respective aggregate transaction amounts during the reporting period is set out as follows:

	Amount (in RMB)
Royalty fees charged by Tencent arising from Shiwuyu agency agreement (<i>Note a</i>)	33,734,438
Royalty fees charged by Tencent arising from Aola Star Mobile cooperation agreement (<i>Note b</i>)	1,632,956
Royalty fees charged by Tencent arising from Legend of Aoqi Mobile cooperation agreement (<i>Note c</i>)	2,705,906
Provision of Tencent cloud service (<i>Note d</i>)	5,094,186
Provision of Wechat Pay service of Guangzhou Baitian (<i>Note e</i>)	1,756,887
Provision of Wechat Pay service of Guangzhou Tianti (<i>Note e</i>)	219,003

Notes:

- (a) Before the completion of the Investment, Guangzhou Tianti and Tencent Computer Systems Company Limited* (深圳市騰訊計算機系統有限公司) ("**Tencent Computer**") (a subsidiary and hence an associate (as defined under Chapter 14A of the Listing Rules) of Tencent) had entered into the continuing transaction under an exclusive agency agreement in relation to the mobile game "Shiwuyu" (「食物語」) ("**Shiwuyu Agency Agreement**") in Mainland China, which continued upon the completion of the Investment to 15 October 2021. On 15 October 2021, Guangzhou Tianti renewed the continuing connected transaction under the Shiwuyu Agency Agreement by entering into a renewed exclusive agency agreement ("**Renewed Shiwuyu Agency Agreement**") with Tencent Computer. Upon the approval by the Shareholders at the extraordinary general meeting of the Company dated 1 April 2022, the proposed annual cap of the Renewed Shiwuyu Agency Agreement was revised and increased to RMB140,000,000. Upon the approval by the Shareholders at the extraordinary general meeting of the Company dated 14 October 2022, the Renewed Shiwuyu Agency Agreement was further renewed by entering into a renewed exclusive agency agreement ("**2022 Shiwuyu Agency Agreement**") with Tencent Computer, which is for a term of one year commencing from 16 October 2022 and ending on 15 October 2023.

Pursuant to the 2022 Shiwuyu Agency Agreement, (i) Guangzhou Tianti grants Tencent Computer the exclusive right to distribute and operate the mobile game "Shiwuyu" (「食物語」) as an exclusive agent in Mainland China, and Guangzhou Tianti provides the content of the mobile game and technical support of the running software; and (ii) Tencent Computer provides Guangzhou Tianti the game operating system, the server, the interface with operators and users, system maintenance and certain customer services for the distribution and operation of the mobile game "Shiwuyu" (「食物語」). The amount payable to Tencent Computer by Guangzhou Tianti will be calculated in the following manner:

$$\text{Amount payable} = \text{revenue received after deducting costs (as applicable)}^{(1)} \times (60\% \text{ or } 70\%)^{(2)}$$

Directors' Report

Notes:

- (1) Gross profit received by Tencent Computer will be used as the basis of calculation for hosting of the game on Android, HTML5 and Windows Phone systems operated by the mobile game platform of Tencent, whereas net profit received by Tencent Computer will be used as the basis of calculation for hosting of the game on other systems/platforms. Such basis of calculation is similar to those of the other agency agreements pursuant to which the Group granted exclusive rights to other independent third parties to distribute and operate (i) "Shiwuyu" (「食物語」) in overseas markets; and (ii) other mobile games of the Group, such as Aobi Island: Dream Land (「奧比島:夢想國度」) in both the PRC and overseas markets (collectively, the "**Comparable Transactions**"). "Net profit" as the basis of calculation for hosting the game on the other systems takes into account of the cost payable to the third party channel providers in maintaining such channels or applications. This is different from hosting the game on Android, HTML5 and Windows Phone systems, which operates through channels or applications that are owned by Tencent Group, and gross profit is thus used as the calculation basis in such cases.
- (2) Percentage deducted is fixed based on the platform used to play the game. In particular: (i) 60% applies for hosting the game on iOS system; and (ii) 70% applies for hosting the game on Android, HTML5 and Windows Phone systems. Such revenue sharing percentages are no more favourable than those of the Comparable Transactions which range from 72% to 81%. The revenue sharing percentage for hosting the game on iOS system is lower than that on Android, HTML5 and Windows Phone systems. This is primarily attributable to the greater difficulty for Tencent Group to distribute games in the latter systems which are generally more complex in terms of the number and variety of distribution channels or applications, and thus a higher revenue sharing percentage to Tencent Group had been set to compensate such efforts.

The proposed annual cap of the 2022 Shiwuyu Agency Agreement for the period from 16 October 2022 to 15 October 2023 is RMB80,000,000. The continuing connected transaction under the 2022 Shiwuyu Agency Agreement did not exceed the disclosed annual cap as at 31 December 2023. The royalty fees (tax-inclusive) charged by Tencent arising from the 2022 Shiwuyu Agency Agreement for the period from 16 October 2022 to 15 October 2023 was RMB40,100,096. Further details of the Renewed Shiwuyu Agency Agreement and the 2022 Shiwuyu Agency Agreement are set out in the announcements of the Company dated 15 October 2021, 26 November 2021, 17 February 2022, 1 April 2022, 2 September 2022 and 14 October 2022 and the circulars of the Company dated 14 March 2022 and 23 September 2022, respectively.

- (b) Before the completion of the Investment, Guangzhou Tianti and Tencent Computer (a subsidiary and hence an associate (as defined under Chapter 14A of the Listing Rules) of Tencent) had entered into the continuing transaction under a mobile online game cooperation access agreement in relation to the mobile game "Aola Star Mobile" (「奧拉星手遊」) ("**Aola Star Mobile Cooperation Agreement**") in Mainland China, which continued upon the completion of the Investment to 28 February 2021. On 8 March 2021, Guangzhou Tianti renewed the continuing connected transaction under the Aola Star Mobile Cooperation Agreement by entering into a renewed online game cooperation access agreement ("**Renewed Aola Star Mobile Cooperation Agreement**") with Tencent Computer. On 23 February 2022, the Renewed Aola Star Mobile Cooperation Agreement was further renewed by entering into a renewed online game cooperation access agreement ("**2022 Aola Star Mobile Cooperation Agreement**") with Tencent Computer, which is for a term of one year commencing from 1 March 2022 and ending on 28 February 2023. On 16 February 2023, the 2022 Aola Star Mobile Cooperation Agreement was further renewed by entering into a renewed online game cooperation access agreement ("**2023 Aola Star Mobile Cooperation Agreement**") with Tencent Computer, which is for a term of one year commencing from 1 March 2023 and ending on 28 February 2024.

Pursuant to the 2023 Aola Star Mobile Cooperation Agreement, Guangzhou Tianti releases and operates the mobile game "Aola Star Mobile" (「奧拉星手遊」) on Tencent's mobile game platform, Application Treasure. The amount payable to Tencent Computer by Guangzhou Tianti will be calculated in the following manner:

$$\text{Amount payable to Tencent Computer} = (A \times 25\%) + (B \times 40\%)$$

Notes:

A = revenue received from game players when they recharge their game accounts; and

B = A × 75%

The proposed annual caps of the 2022 Aola Star Mobile Cooperation Agreement and the 2023 Aola Star Mobile Cooperation Agreement for the period from 1 March 2022 to 28 February 2023 and from 1 March 2023 to 28 February 2024 are RMB10,000,000 and RMB6,500,000, respectively. The continuing connected transactions under the 2022 Aola Star Mobile Cooperation Agreement and the 2023 Aola Star Mobile Cooperation Agreement did not exceed the proposed annual caps as at 31 December 2023. The royalty fees (tax-inclusive) charged by Tencent arising from the 2022 Aola Star Mobile Cooperation Agreement and the 2023 Aola Star Mobile Cooperation Agreement for the period from 1 March 2022 to 28 February 2023 and from 1 March 2023 to 31 December 2023 were RMB3,983,020 and RMB1,033,182, respectively. Further details of the Renewed Aola Star Mobile Cooperation Agreement, the 2022 Aola Star Mobile Cooperation Agreement and the 2023 Aola Star Mobile Cooperation Agreement are set out in the announcements of the Company dated 9 March 2021, 1 April 2021, 23 February 2022 and 16 February 2023, respectively.

- (c) On 1 April 2021, Guangzhou Tianti and Tencent Computer (a subsidiary and hence an associate (as defined under Chapter 14A of the Listing Rules) of Tencent) entered into the continuing transaction under a mobile online game cooperation access agreement in relation to the mobile game "Legend of Aoqi Mobile" (「奧奇傳說手遊」) ("**Legend of Aoqi Mobile Cooperation Agreement**") in Mainland China. On 30 March 2022, Guangzhou Tianti renewed the continuing connected transaction under the Legend of Aoqi Mobile Cooperation Agreement by entering into a renewed mobile online game cooperation access agreement ("**2022 Legend of Aoqi Mobile Cooperation Agreement**") with Tencent Computer, which is for a term of one year commencing from 16 February 2022 and ending on 15 February 2023. On 16 February 2023, Guangzhou Tianti further renewed the continuing connected transaction under the 2022 Legend of Aoqi Mobile Cooperation Agreement by entering into a renewed mobile online game cooperation access agreement ("**2023 Legend of Aoqi Mobile Cooperation Agreement**") with Tencent Computer, which is for a term of one year commencing from 16 February 2023 and ending on 15 February 2024.

Pursuant to the 2023 Legend of Aoqi Mobile Cooperation Agreement, Guangzhou Tianti releases and operates the mobile game "Legend of Aoqi Mobile" (「奧奇傳說手遊」) on Tencent's mobile game platform, Application Treasure. The amount payable to Tencent Computer by Guangzhou Tianti will be calculated in the following manner:

$$\text{Amount payable to Tencent Computer} = (A \times 25\%) + (B \times 40\%)$$

Notes:

A = revenue received from game players when they recharge their game accounts; and

B = A × 75%

The proposed annual caps of the 2022 Legend of Aoqi Mobile Cooperation Agreement and the 2023 Legend of Aoqi Mobile Cooperation Agreement for the period from 16 February 2022 to 15 February 2023 and from 16 February 2023 to 15 February 2024 are RMB6,000,000 and RMB5,000,000, respectively. The continuing connected transactions under the 2022 Legend of Aoqi Mobile Cooperation Agreement and the 2023 Legend of Aoqi Mobile Cooperation Agreement did not exceed the proposed annual caps as at 31 December 2023. The royalty fees (tax-inclusive) charged by Tencent arising from the 2022 Legend of Aoqi Mobile Cooperation Agreement and the 2023 Legend of Aoqi Mobile Cooperation Agreement for the period from 16 February 2022 to 15 February 2023 and from 16 February 2023 to 31 December 2023 were RMB3,097,470 and RMB2,334,209, respectively. Further details of the Legend of Aoqi Mobile Cooperation Agreement, the 2022 Legend of Aoqi Mobile Cooperation Agreement and the 2023 Legend of Aoqi Mobile Cooperation Agreement are set out in the announcements of the Company dated 1 April 2021, 30 March 2022 and 16 February 2023, respectively.

- (d) Before the completion of the Investment, Guangzhou Baitian and Tencent Cloud Computing (Beijing) Company Limited* (騰訊雲計算(北京)有限責任公司) ("**Tencent Cloud**") (a subsidiary and hence an associate (as defined under Chapter 14A of the Listing Rules) of Tencent) had entered into the continuing transaction under a Tencent cloud service agreement ("**2019 Tencent Cloud Service Agreement**"), which continued upon the completion of the Investment to 24 July 2021. On 21 July 2021, Guangzhou Baitian renewed the continuing connected transaction under the 2019 Tencent Cloud Service Agreement by entering into a renewed Tencent cloud service agreement ("**2021 Tencent Cloud Service Agreement**") with Tencent Cloud. On 22 July 2022, the 2021 Tencent Cloud Service Agreement was further renewed by entering into a renewed Tencent cloud service agreement ("**2022 Tencent Cloud Service Agreement**"), which is for a term of one year commencing from 25 July 2022 and ending on 24 July 2023. On 24 July 2023, the 2022 Tencent Cloud Service Agreement was further renewed by entering into a renewed Tencent cloud service agreement ("**2023 Tencent Cloud Service Agreement**"), which is for a term of one year commencing from 25 July 2023 and ending on 24 July 2024.

Directors' Report

Pursuant to the 2023 Tencent Cloud Service Agreement, Guangzhou Baitian purchases and uses certain Tencent cloud services provided by Tencent Cloud, including system services composed of various products and services such as computing and network, storage and content delivery network, cloud database, cloud security, monitoring and management, domain name service, mobile and communication, video service, big data and artificial intelligence. The service fee payable by Guangzhou Baitian to Tencent Cloud by its customers for each service provided is denominated in RMB and calculated according to the standard service charges published on the official website of Tencent Cloud (www.qcloud.com) (the **"Tencent Cloud Published Rates"**) subject to a negotiable discount of approximately between 15% and 50% to the Tencent Cloud Published Rates per each service provided. Such discount shall be determined based on the type of service and the size of service fee we will pay to Tencent Cloud for such service, which shall be agreed in separate underlying orders.

The proposed annual caps of the 2022 Tencent Cloud Service Agreement and the 2023 Tencent Cloud Service Agreement for the period from 25 July 2022 to 24 July 2023 and from 25 July 2023 to 24 July 2024 are RMB9,000,000 and RMB9,000,000, respectively. The continuing connected transactions under the 2022 Tencent Cloud Service Agreement and the 2023 Tencent Cloud Service Agreement did not exceed the proposed annual caps as at 31 December 2023. The service fees (tax-inclusive) for the provision of Tencent cloud services arising from the 2022 Tencent Cloud Service Agreement and the 2023 Tencent Cloud Service Agreement for the period from 25 July 2022 to 24 July 2023 and from 25 July 2023 to 31 December 2023 were RMB5,310,734 and RMB2,189,318, respectively. Further details of the 2021 Tencent Cloud Service Agreement, 2022 Tencent Cloud Service Agreement and the 2023 Tencent Cloud Service Agreement are set out in the announcements of the Company dated 21 July 2021, 22 July 2022 and 24 July 2023, respectively.

- (e) Before the completion of the Investment, Tenpay Payment Technology Co., Ltd.* (財付通支付科技有限公司) (**"Tenpay"**) (a subsidiary and hence an associate (as defined under Chapter 14A of the Listing Rules) of Tencent) had entered into the continuing transactions under the respective WeChat Pay user service agreements with Guangzhou Baitian and Guangzhou Tianti, which continued upon the completion of the Investment to 23 February 2021 and 28 June 2021, respectively. For the year ended 31 December 2021, (i) Guangzhou Baitian renewed and entered into continuing connected transaction under the renewed WeChat Pay user service agreement (**"Renewed Guangzhou Baitian – WeChat Pay Service Agreement"**) with Tenpay on 24 February 2021; and (ii) Guangzhou Tianti had renewed and entered into continuing connected transaction under the renewed WeChat Pay user service agreement (**"Renewed Guangzhou Tianti – WeChat Pay Service Agreement"**), together with the Guangzhou Tianti – WeChat Pay Service Agreement, (**"Renewed WeChat Pay Service Agreements"**) with Tenpay on 29 June 2021.

For the year ended 31 December 2022, (i) Guangzhou Baitian further renewed and entered into continuing connected transaction under the renewed WeChat Pay user service agreement (**"2022 Guangzhou Baitian – WeChat Pay Service Agreement"**) with Tenpay on 23 February 2022 for a term of one year commencing from 24 February 2022 to 23 February 2023; and (ii) Guangzhou Tianti further renewed and entered into continuing connected transaction under the renewed WeChat Pay user service agreement (**"2022 Guangzhou Tianti – WeChat Pay Service Agreement"**), together with the 2022 Guangzhou Baitian – WeChat Pay Service Agreement, (**"2022 WeChat Pay Service Agreements"**) with Tenpay on 28 June 2022 for a term of one year commencing from 29 June 2022 to 28 June 2023, pursuant to which Tenpay provides WeChat Pay Services to Guangzhou Baitian and Guangzhou Tianti, respectively.

For the year ended 31 December 2023, (i) Guangzhou Baitian further renewed and entered into continuing connected transaction under the renewed WeChat Pay Service Agreement (**"2023 Guangzhou Baitian – WeChat Pay Service Agreement"**) with Tenpay on 16 February 2023 for a term of one year commencing from 24 February 2023 to 23 February 2024; and (ii) Guangzhou Tianti further renewed and entered into continuing connected transaction under the renewed WeChat Pay Service Agreement (**"2023 Guangzhou Tianti – WeChat Pay Service Agreement"**), together with the 2023 Guangzhou Baitian – WeChat Pay Service Agreement, (**"2023 WeChat Pay Service Agreements"**) with Tenpay on 28 June 2023 for a term of one year commencing from 29 June 2023 to 28 June 2024, pursuant to which Tenpay provides WeChat Pay Services to Guangzhou Baitian and Guangzhou Tianti, respectively.

The service fee payable to Tenpay by its customers for each service provided is denominated in RMB and calculated according to the standard service charges published on the official website (www.tenpay.com) or relevant product pages of Tenpay and as amended by notices and announcements issued by Tenpay from time to time (the **"Tenpay Published Rates"**). The Tenpay Published Rates are generally a fixed percentage of the transaction amount settled through Tenpay's platform by Guangzhou Baitian. Tencent receives an administrative fee calculated according to 1% of the transaction amount settled through Tencent's platform.

The proposed annual caps pursuant to the 2022 WeChat Pay Service Agreements and the 2023 WeChat Pay Service Agreements are RM3,500,000 and RM4,000,000, respectively. The continuing connected transactions under the 2022 WeChat Pay Service Agreements and the 2023 WeChat Pay Service Agreements did not exceed the proposed annual caps as at 31 December 2023. The service fees (tax-inclusive) of Guangzhou Baitian for the provision of WeChat Pay service arising from the 2022 Guangzhou Baitian — WeChat Pay Service Agreement and the 2023 Guangzhou Baitian — WeChat Pay Service Agreement for the period from 24 February 2022 to 23 February 2023 and from 24 February 2023 to 31 December 2023 were RMB1,676,192 and RMB1,415,652, respectively. The service fees (tax-inclusive) of Guangzhou Tianti for the provision of WeChat Pay service arising from the 2022 Guangzhou Tianti — WeChat Pay Service Agreement and the 2023 Guangzhou Tianti — WeChat Pay Service Agreement for the period from 29 June 2022 to 28 June 2023 and from 29 June 2023 to 31 December 2023 were RMB270,610 and RMB90,599, respectively. Further details of the Renewed WeChat Pay Service Agreements, 2022 WeChat Pay Service Agreements and 2023 WeChat Pay Service Agreements are set out in the announcements of the Company dated 15 December 2021, 23 February 2022, 28 June 2022, 16 February 2023 and 28 June 2023, respectively.

The transactions contemplated under the 2023 Aola Star Mobile Cooperation Agreement, the 2023 Legend of Aoji Mobile Cooperation Agreement, the 2023 Tencent Cloud Service Agreement and the 2023 WeChat Pay Service Agreements constitute continuing connected transactions of the Group with Tencent Group during the reporting period (collectively, the "**Tencent Continuing Connected Transactions**"), which are subject to the reporting, annual review and announcement requirements but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. The independent non-executive Directors have reviewed the Tencent Continuing Connected Transactions with Tencent Group and confirmed that these transactions were entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better (as defined in the Listing Rules); and
- (3) on the terms of the respective transaction agreements, which are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the Company's external auditor, PricewaterhouseCoopers ("**PwC**"), to report on the Group's disclosed 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 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed as above in accordance with Rule 14A.56 of the Listing Rules.

Directors' Report

Contractual Arrangements

Reference is made to the Prospectus, pages 67 to 73 of the Company's interim report for the six months ended 30 June 2015 (the "2015 Interim Report"), pages 48 to 54 of the Company's 2016 Annual Report, page 68 of the Company's interim report for the six months ended 30 June 2017 (the "2017 Interim Report"), pages 50 to 56 of the Company's 2017 Annual Report, page 84 of the Company's interim report for the six months ended 30 June 2018, pages 49 to 53 of the Company's 2018 Annual Report, page 74 of the Company's 2019 interim report for six months ended 30 June 2019, pages 51 to 56 of the Company's 2019 Annual Report, page 70 of the Company's 2020 interim report for six months ended 30 June 2020, pages 50 to 55 of the Company's 2020 Annual Report, page 70 of the Company's 2021 interim report for six months ended 30 June 2021, pages 52 to 57 of the Company's 2021 Annual Report, page 70 of the Company's 2022 interim report for six months ended 30 June 2022, pages 54 to 59 of the Company's 2022 Annual Report and page 68 of the Company's 2023 interim report for six months ended 30 June 2023 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 2023.

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 2023, 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 2023			
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 Guangzhou Xiaoyunxiong Interactive Education Limited ("**Xiaoyunxiong**") which is principally engaged in providing education service for children to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

On 22 June 2020, Guangzhou Baitian established Guangzhou Baitian Culture Development Company Limited ("**Baitian Culture**") which is principally engaged in providing culture and art services to facilitate Guangzhou Baitian's role and function under the Contractual Arrangement.

None of Guangzhou Tianti, Xiaoyunxiong nor Baitian Culture is a party to any of the Contractual Arrangements. For details, please see note 14 to the section headed "Notes to the Consolidated 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 2023 RMB'000	Year ended 31 December 2022 RMB'000
Revenue	307,378	356,664
Profit for the year	41,885	8,292

	Year ended 31 December 2023 RMB'000	Year ended 31 December 2022 RMB'000
Total assets	1,559,761	1,584,292

For the year ended 31 December 2023, the revenue and profit subject to the Contractual Arrangements amounted to approximately 39.3% (2022: 38.0%) and -133.40% (2022: 80.2%) of the revenue and loss for the year of the Group, respectively.

As at 31 December 2023, the total assets subject to the Contractual Arrangements amounted to approximately 81.2% (2022: 77.0%) of the total assets of the Group.

Directors' Report

Transactions carried out during the year ended 31 December 2023, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

- For the year ended 31 December 2023, the consulting service fees (tax-exclusive) provided by Guangzhou WFOE to Guangzhou Baitian pursuant to the Contractual Arrangements amounted to RMB4,660,194 (2022: RMB4,660,194).

4) Contractual Arrangements in place

For the year ended 31 December 2023, 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 2023, 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 2023.

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 2023.

Draft 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.

New Internet Publication Regulations

In addition, the Board noted that on 4 February 2016, as approved by the General Administration of Press and Publication (the “GAPP”), the Ministry of Industry and Information Technology issued the Regulations on Administration of Internet Publication Services (《網絡出版服務管理規定》) (the “**New Internet Publication Regulations**”) which came into force from 10 March 2016 and the Interim Regulations on Administration of Internet Publication (《互聯網出版管理暫行規定》) issued on 27 June 2002 was superseded. The New Internet Publication Regulations reiterate foreign enterprises are prohibited to invest in the Internet publications business preserved the license requirement for any company that engages in Internet publication activities which includes the publication of online games through Internet. Guangzhou Baitian, as an Internet content provider, holds a valid network cultural business permit issued by the Ministry of Culture and a valid internet publication license issued by the GAPP in relation to publication of all games currently operated by the Group through the Internet. The Group complied with the New Internet Publication Regulations in all material respects during the year ended 31 December 2023.

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.

Directors' Report

5) The extent to which the Contractual Arrangements relating to requirements other than the foreign ownership restriction (the “Qualification Requirements”)

As at 31 December 2023, 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, 6 February 2016 and 29 March 2022. 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.

6) 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.

Waiver from Strict Compliance with the Listing Rules

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.

7) 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 2023 (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 2023, 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.

8) 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.

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

- 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.

Directors' Report

Financial Risks

- Details of financial risks are set out in note 3 to the section headed “Notes to the Consolidated 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 2023 are set out in note 36 to the section headed “Notes to the Consolidated 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 2023.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 31 December 2023, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

RETIREMENT BENEFIT SCHEME

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

IMPORTANT EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2023

There were no other significant changes in the Group's financial position or from the information disclosed under the management discussion and analysis section of this annual report for the year ended 31 December 2023.

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 2023, 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 2023 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 Internet content and service providers 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 for the year ended 31 December 2023.

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 2023, 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.

Directors' 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 2023.

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 2024 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

27 March 2024

Corporate Governance Report

The Board of the Company is pleased to report to the Shareholders on the corporate governance of the Company for the year ended 31 December 2023 (the “**Review Period**”).

CORPORATE GOVERNANCE CULTURE

The Company is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, the Company believes that Shareholder wealth will be maximized in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to Shareholders;
- that the interests of those who deal with the Company are safeguarded;
- that overall business risk is understood and managed appropriately;
- the delivery of high-quality products and services to the satisfaction of customers; and
- that high standards of ethics are maintained.

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 Review Period, the Company has applied the principles and complied with all the Code Provisions as set out in Part 2 of the CG Code, save and except for the Code Provision C.2.1 with details as below.

Code Provision C.2.1

Code Provision C.2.1 of Part 2 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. DAI Jian currently acts as the Chairman and the chief executive officer (“**CEO**”) of the Company. 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 a consistent leadership within the Group and enables a 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix C3 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 to all Directors of the Company and all of them 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**") to regulate 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 any employee was noted by the Company during the Review Period.

BOARD OF DIRECTORS

The Company advocates the culture of "integrity" and has adopted as its core values the principles of integrity, honesty, fairness, impartiality, and ethical business practices in its operations. The Company is committed to high probity standards and ethical business practices, and it encourages whistleblowing of concerns and actual or suspected misconducts or malpractices by any staff and/or external parties in any matters related to the Company. The Board is also committed to adopting ethical and anti-corruption business practices, high standard of integrity and zero tolerance to corruption.

The Company is headed by an effective Board which acts in good faith and in the best interests of the Company. The Board assumes responsibility for its leadership and control and is collectively responsible for promoting the success of the Company by making strategic decisions and supervising the management of the Company's affairs while ensuring that the Company meets its statutory obligations. Board diversity is critical to strong governance and decision making. The Board of the Company has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. It regularly conducts board evaluation on its performance to ensure Directors have devoted sufficient time making contributions to the Company that are commensurate with their roles and responsibilities. The Board includes a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element among the Board, which can effectively exercise independent judgement.

Corporate Governance Report

The Board of the Company during the Review Period 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

Independent Non-executive Directors

Ms. LIU Qianli (*Chairperson of Audit Committee and Member of Nomination Committee*)

Dr. WANG Qing (*Chairperson of Remuneration Committee and Member of Audit Committee*)

Mr. MA Xiaofeng (*Member of Audit Committee, Remuneration Committee and Nomination Committee*)

Mr. WEI Kevin Cheng (*Member of Audit Committee*) (*appointment effective on 1 July 2023*)

Mr. WEI Kevin Cheng, who has been appointed as the independent non-executive Director during the Review Period. He has obtained the legal advice on 14 July 2023 as referred to in Rule 3.09D of the Listing Rules as regards the requirements under the Listing Rules that are applicable to him as a director of a listed issuer and the possible consequences of making a false declaration or giving false information to the Stock Exchange, and he has confirmed that he understood his obligations as a director of a listed issuer.

The biographical information of the Directors is 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 3.10(1)(2) and 3.10A 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.

The Company has received confirmation from each of the four independent non-executive Directors in respect of his/her independence and the Company considers each of them to be independent in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules.

Pursuant to Code Provision B.2.4(b) of Part 2 of the CG Code, where all the independent non-executive directors of an issuer have served more than nine years on the board, the issuer should appoint a new independent non-executive director on the board at the forthcoming annual general meeting. Since Ms. LIU Qianli, Dr. WANG Qing and Mr. MA Xiaofeng have served more than nine years on the Board, the Board nominated and Mr. WEI Kevin Cheng was appointed as an additional independent non-executive Director of the Company with effect from 1 July 2023 by passing an ordinary resolution at the Company's AGM held on 27 June 2023.

Appointment and Re-election of Directors

The non-executive Directors, including independent non-executive Directors, are appointed for a specific term of three years, subject to renewal after the expiry of the then current term.

Code Provision B.2.2 of Part 2 of the CG Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Company adopts these practices that each of the Directors is appointed for a specific term of three years with clear indication of his/her authorities and responsibilities in the service agreement/letter of appointment and always subject to re-election as and when required under the Articles of Association. The Articles of Association of the Company 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. Every Director shall be subject to retirement at an annual general meeting at least once every three years and the Directors to retire shall be those who have been the longest in office since their last re-election or appointment.

Articles of Association also requires that all directors appointed to fill a casual vacancy shall hold office until the first annual general meeting after appointment and shall then be eligible for re-election.

Board Independence Evaluation

Code Provision B.1.4 of Part 2 of the CG Code stipulates that the Company should establish mechanism(s) (the “**Mechanism**”) to ensure that independent views and input are available to the Board and the Board should review the implementation and effectiveness of the Mechanism on an annual basis. In connection with the Mechanism, the Company has adopted the following new or revised policies (collectively, the “**Board Independence Evaluation Policies**”) on 1 January 2022 to satisfy the Code Provision B.1.4 of Part 2 of the CG Code.

- Director Nomination Policy;
- Board Diversity Policy;
- Risk Management Policy; and
- Director and Senior Management Remuneration Policy.

The independence of the Board shall be promoted and further enhanced by the Company, and the Mechanism shall be reviewed on an annual basis.

During the Review Period, the Board has conducted the independence evaluations with reference to the measures and procedures as set out in the Mechanism and the evaluation results were satisfactory.

Corporate Governance Report

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control 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.

The Board directly and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

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. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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/her 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 always keep abreast of their responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director of the Company will receive a formal, comprehensive and tailored induction on the first occasion of his/her appointment and thereafter will receive any necessary professional development to ensure he/she has appropriate understanding of the business and operations of the Company and has full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements from time to time.

In accordance with Code Provision C.1.4 of Part 2 of the CG 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 by the Company and reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

Corporate Governance Report

Records of trainings received by each Director of the Company during the Review Period is summarized as below:

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

Note:

Types of Training

- A Attending in-house briefing(s)
- B Attending seminar(s) and training(s)
- C Reading materials relating to directors' roles, functions and duties

Corporate Governance Report

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. Each of the Board committees are provided with sufficient resources to perform its duties.

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 D.3 of Part 2 of the CG Code. The Audit Committee currently comprises four members namely, Ms. LIU Qianli (as Chairlady), Dr. WANG Qing, Mr. MA Xiaofeng and Mr. WEI Kevin Cheng (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 on the effectiveness of the financial reporting system, risk management and internal control systems of the Group, monitoring the integrity of the Company's consolidated financial statements and interim and annual reports, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

During the Review Period, the Audit Committee has met with senior management of the Group to review the interim and annual financial results and reports of the Company as well as other financial, internal control, corporate governance and risk management matters of the Group. It received, considered and discussed the reports and presentations provided by the senior management, the Group's internal audit department and external auditor, to ensure that the Group's consolidated interim and annual financial statements were prepared in accordance with the International Accounting Standard (IAS) and International Financial Reporting Standards (IFRSs) respectively and in compliance with the applicable disclosures as required by the Companies Ordinance and the Listing Rules, and for such internal control as the Directors determine is necessary to enable the preparation of the Group's consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Audit Committee held two meetings to review the interim and annual financial results and reports of the Company in respect of the Review Period and all other 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.

Pursuant to Code Provision D.3.3(e)(i) of Part 2 of the CG Code, the Audit Committee also met the external auditor 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 E.1 of Part 2 of the CG Code. The Remuneration Committee comprises three members, namely Dr. WANG Qing (as Chairman), Mr. MA Xiaofeng and Mr. WU Lili. The primary functions 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 procedure for developing policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving the performance based remuneration by reference to the corporate goals and objectives as resolved by the Board from time to time.

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

Details of the remuneration of each Director and members of senior management by band of the Company for the year ended 31 December 2023 are set out in notes 9 and 39 to the consolidated Financial Statements contained in this annual report.

Directors and Senior Management Remuneration Policy

The Company has adopted a Directors and Senior Management Remuneration Policy, which took effect on 1 January 2022, setting out the Company's practices on the remuneration of the Directors and senior management. The policy stipulates that the levels of remuneration should be sufficient to attract and retain the Directors and senior management as required to successfully operate the Company. The Company should avoid paying more remuneration than that is necessary for such purpose. No Director nor senior management should be involved in deciding their own remunerations.

The remuneration packages of executive Directors are determined with reference to the Company's performance and profitability, the prevailing market conditions and the performance or contribution of each executive Director. The remuneration of the executive Directors comprises basic salary, pensions and discretionary bonus. Executive Directors shall receive share options and restricted share units to be granted under the Company's share incentive schemes. The remuneration of the independent non-executive Directors mainly comprises Director's fee which is determined with reference to their duties and responsibilities. The independent non-executive Directors generally should not be granted with equity-based remuneration (e.g. share options or grants) with performance-related elements, which may lead to bias in their decision-making and may compromise their objectivity and independence.

Nomination Committee

The Company established the Nomination Committee on 19 March 2014 with defined terms of reference in compliance with paragraph B.3 of Part 2 of the CG 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 annually the structure, size and composition (including the skills, knowledge and experience) of the Board, making recommendations on any proposed changes to the Board with reference to the business strategy of the Company, reviewing the Board Diversity Policy and the Director Nomination Policy, assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment or re-appointment of Directors.

Corporate Governance Report

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 character 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 Nomination Committee met once review the independence of the independent non-executive Directors and structure, size and composition of the Board, and made recommendation to the Board on the appointment of an additional independent non-executive Director during the Review Period.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee.

The Company has adopted a revised Director Nomination Policy, which took effective on 1 January 2022, setting out the criteria and process in relation to the nomination and appointment of Directors of the Company. It aims to provide a clear guideline to the Company to select right candidates to be part of the Board and to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company. At the same time, it aims to enhance the Board continuity and to sustain an appropriate leadership at the Board level. In identifying and selecting suitable candidates to become a member of the Board, the ultimate decision will be based on, including but not limited to, the potential contributions that the selected candidate 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 process set out in the Director Nomination Policy is as follows:

Appointment of New Director

- (i) The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents.
- (ii) The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of a new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out in the Policy to determine whether such candidate is qualified for directorship.
- (iii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).
- (iv) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

- (v) For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out in the Policy to determine whether such candidate is qualified for directorship.
- (vi) Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders of the Company in respect of the proposed election of Director at the general meeting.
- (vii) In the selection process of an independent non-executive Director, the Nomination Committee and/or the Board should consider factors which may affect a candidate's time commitment to the Company, including by not limited to:
 - directorship at another issuer undergoing a period of particularly increased activity, such as an acquisition or a takeover;
 - chairing an issuer's board and/or board committees;
 - membership of board committees;
 - acting as chief executive officer or full-time executive director for another issuer; and
 - being an independent non-executive director for multiple boards and taking up significant commitments at government or non-profit making bodies.

Re-election of Director at General Meeting

- (i) The Nomination Committee and/or the Board should review the overall contributions and services of the retiring Director to the Company and the level of his/her participation and performance on the Board. The non-executive Director and independent non-executive Director are expected to:
 - keep up to date with the Company's business affairs and be involved in scrutinizing the Company's performance in achieving agreed corporate goals and objectives, and monitor performance reporting;
 - bring independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct, and help review some of the Board's major decisions, the Company's performance in relation to corporate goals, and monitor performance reporting;
 - take the lead where potential conflicts of interest arise; and
 - serve on the audit, remuneration, nomination and other governance committees of the Company, if invited.
- (ii) The Nomination Committee and/or the Board should also review and determine whether the retiring Director continues to meet the criteria as set out in the Policy.

Corporate Governance Report

- (iii) The Nomination Committee and/or the Board should then make recommendation to shareholders of the Company in respect of the proposed re-election of Director at the general meeting.
- (iv) Where the Board proposes a resolution to elect or re-elect a candidate as Director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders of the Company and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations. Such information shall include but not limited to (a) the process used for identifying the individual and why the Board believes the individual should be elected and the reasons why it considers the individual to be independent; (b) if the proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, why the Board believes the individual would still be able to devote sufficient time to the Board; (c) the perspectives, skills and experience that the individual can bring to the Board; and (d) how the individual contributes to diversity of the Board.

Director Selection Criteria

The selection criteria set out in the Director Nomination Policy is as follows:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- Any measurable objectives adopted for achieving diversity on the Board;
- Requirement for the Board to have independent Directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence, gender and cultural diversity and diversity of perspectives;
- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of Directors and succession planning.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Board Diversity Policy

The Company has adopted a revised Board Diversity Policy which took effect on 1 January 2022, setting out the approach to achieve diversity of the Board and is available on the website of the Company. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance and sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

Pursuant to the Board Diversity Policy, the Nomination Committee considers the several aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service (collectively, the “**Measurable Objectives**”). All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company’s business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board composition will not be considered diverse if its composition consists of a single category of one of the Measurable Objectives, including but not limited to gender, ethnicity, or work experience.

Selection of candidates will be based on the Measurable Objectives. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Company shall develop and maintain pipeline of potential successors to the Board to maintain diversity, based on the Measurable Objectives.

The Nomination Committee and the Board are of the view that the current composition of the Board has achieved the objectives set in the Board Diversity Policy.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Report

Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this annual report:

	Female	Male
	Percentage (number)	Percentage (number)
Board	14% (1)	86% (6)
Senior Management	50% (2)	50% (2)
Other employees	45% (318)	55% (389)
Overall workforce	45% (320)	55% (394)

The Board had targeted to achieve and had achieved to have at least 1 female Director, 2 female senior management and 318 female employees of the Group and considers that the above current gender diversity is satisfactory.

Corporate Governance Functions

The Board is responsible for performing the functions as set out in Code Provision A.2.1 of Part 2 of the CG Code.

During the Reviewed Period, 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 CG Code and disclosure in its corporate governance report.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

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

	Board	Nomination Committee	Remuneration Committee	Audit Committee	AGM
Executive Directors					
Mr. DAI Jian	4/4	1/1	—	—	1/1
Mr. WU Lili	4/4	—	1/1	—	1/1
Mr. LI Chong	4/4	—	—	—	1/1
Independent Non-Executive Directors					
Ms. LIU Qianli	4/4	1/1	—	2/2	1/1
Dr. WANG Qing	4/4	—	1/1	2/2	1/1
Mr. MA Xiaofeng	4/4	1/1	1/1	2/2	1/1
Mr. WEI Kevin Cheng ^{Note 1}	3/3			1/1	

Note:

1. Mr. WEI Kevin Cheng appointed as an independent non-executive Director with effect from 1 July 2023.

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 pursuant to Code Provision C.2.7 of Part 2 of the CG Code.

The independent non-executive Directors have attended the annual general meeting of the Company to gain and develop a balanced understanding of the views of the Shareholders.

BOARD MEETINGS

Pursuant to Code Provision C.5.1 of Part 2 of the CG Code, the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. It is expected that regular Board meetings will normally involve the active participation, either in person or through electronic means of communication, of a majority of Directors entitled to be present. The Board held four meetings during the Review Period.

Corporate Governance Report

For each regular Board meeting, notice is delivered to each member of the Board at least 14 days in advance to ensure that Directors can have sufficient time to arrange for attending the meeting, either in person or through electronic means. Agenda, full board papers and related materials in form of quality are sent to all Directors 3 days before the meeting as agreed to ensure that Directors can make informed decisions during the meeting. Minutes which record all the matters being considered and decisions reached at each Board meeting are circulated among all Directors thereafter for comments within a reasonable time to make certain that sufficient and accurate details are being recorded. Minutes of each Board meeting duly signed by the Chairman is kept by the Company Secretary and they are open for inspection at any reasonable time upon receipt of a reasonable notice from any Director.

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.

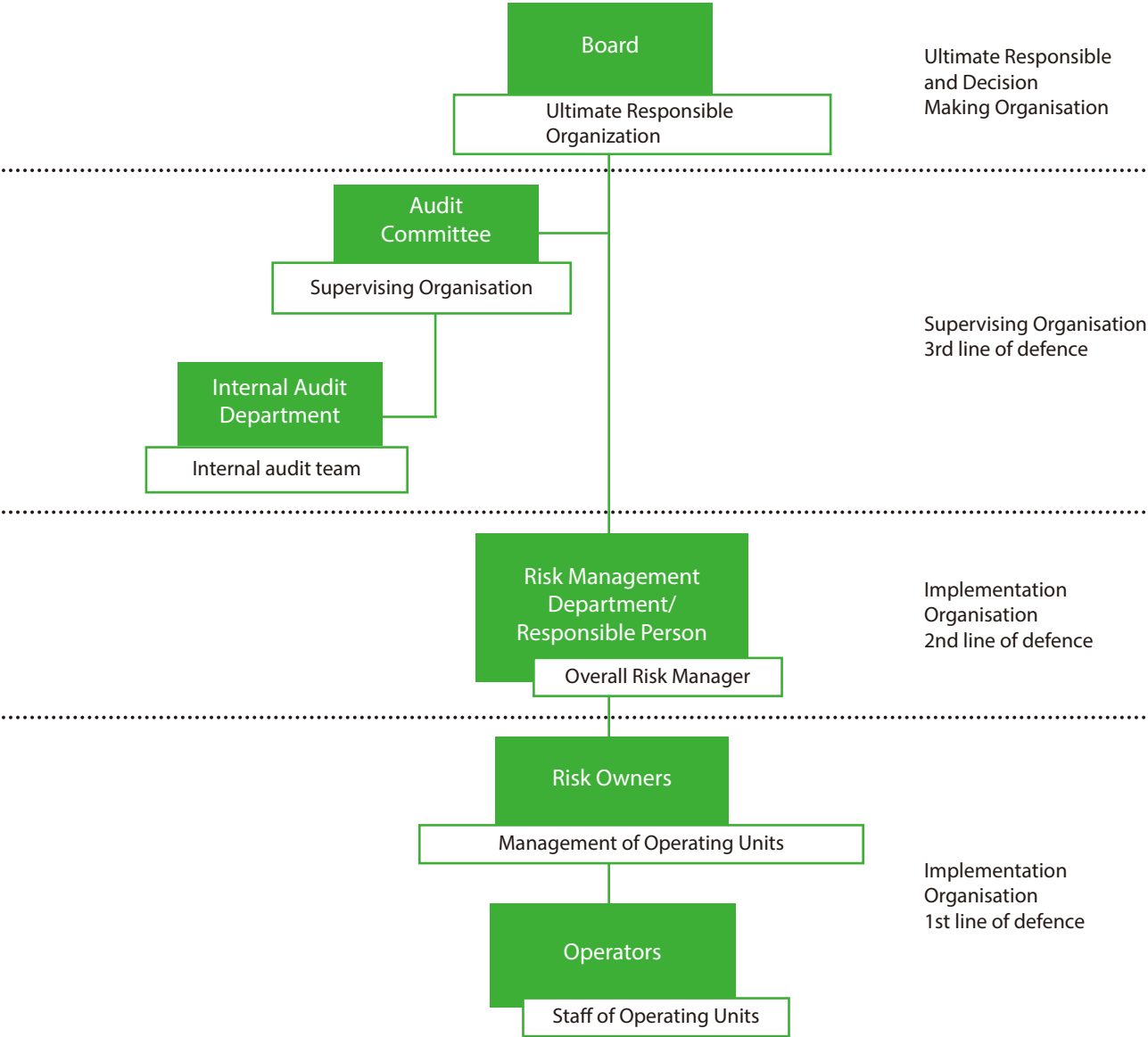
The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Board is also responsible for carrying out an annual review on any changes in the nature and extent of significant risks (including ESG risks), identify any significant control failings or weakness and also the extent to which they have results in unforeseen outcomes or contingencies that have had, could have had, or may in the future have a material impact on the Company's financial performance or conditions.

The Audit Committee and the Internal Audit Department of the Company which was established under the supervision of the Audit Committee are responsible for assisting the Board in leading the management and overseeing the 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



Corporate Governance Report

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 (including ESG risks) and internal control systems for the year ended 31 December 2023.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management (including ESG risks) and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2023, and considered that such systems are effective and adequate. The annual review also covered, among other things, the financial reporting and internal audit function, staff qualifications and experiences, adequacy of relevant resources, training programmes, budget of the Company's accounting, internal audit, financial reporting functions, as well as those relating to the Company's ESG performance and reporting.

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.

Anti-Fraud, Anti-Corruption and Whistleblowing Policy

The Company has adopted the Anti-Fraud, Anti-Corruption and Whistleblowing Policy, which took effect on 1 January 2022, setting out the purposes of preventing fraud, reducing risks, standardizing business behaviour, safeguarding legitimate rights and interests of the Company and protecting legitimate rights and interests of its shareholders, whilst aligning with the actual circumstances of the Company.

The desired corporate culture of the Company includes the element of “integrity”. Integrity, honesty, fairness, impartiality, and ethical business practices are all the core values of the Company. The Company is committed to high probity standards and ethical business practices, and encouraging whistleblowing of concerns and actual or suspected misconduct or malpractice by any staff and/or external parties in any matters related to the Company. The top-level management is also committed to adopt ethical and anti-corruption business practices, high standard of integrity and zero tolerance to corruption.

This Policy applies to the Company, directors and employees of the Company at all levels, external parties with whom the Company does business, and persons acting on behalf of the Company in agency or fiduciary capacity (such as agents, consultants and contractors). The whistleblowing mechanism further covers external parties, including business counterparts (such as customers and suppliers), who may be victims of misconduct by Company’s employees.

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.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2023.

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 Code Provision D.1.1 of Part 2 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 consolidated 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.

AUDITOR'S REMUNERATION

The remuneration paid/payable to the external auditor of the Company, PricewaterhouseCoopers in respect of the audit services and non-audit services for the Review Period is set out below:

Service Category	Fees Paid/Payable RMB'000
Audit Services	3,858
Non-audit Services	
– Professional service on ESG reporting	142
– Others	149
Total	4,149

COMPANY SECRETARY

Ms. LAU Yee Wa has been appointed as the Company's company secretary. Ms. LAU is currently a director of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

Ms. LAU reports to the Chairman and CEO of the Company. All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Ms. CHEN Xiao Hong, the Acting Chief Financial Officer of the Company, has been designated as the primary contact person at the Company which would work and communicate with Ms. LAU on the Company's corporate governance and secretarial and administrative matters.

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

SHAREHOLDERS' RIGHTS

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

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

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

The requisitionists who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "**Requisition**") signed by the requisitionist(s) concerned to the head office of the Company at 34 Floor, Goldchi Building, 120 Huangpu W Ave, Tianhe, Guangzhou, Guangdong, China 510623 or at the office of Tricor Investor Services Limited, the Hong Kong Share Registrar of the Company, at 17/F, Far East Finance Centre, 16 Harcourt Road, 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.

Corporate Governance Report

The Company will check the Requisition and the identity and the shareholding of the requisitioner(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 requisitioner(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the requisitioner(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 requisitioner(s) at the EGM.

If within 21 days of the deposit of the Requisition the Board has not advised the requisitioner(s) of any outcome to the contrary and fails to proceed to convene such EGM, the requisitioner(s) himself (themselves) may do so in accordance with the Articles of Association, and all reasonable expenses incurred by the requisitioner(s) concerned as a result of the failure of the Board shall be reimbursed to the requisitioner(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 17/F, Far East Finance Centre,
16 Harcourt Road, Hong Kong
(For the attention of the Company Secretary)

Fax: (852) 2117 0869

Email: baioo@christensencomms.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 endeavours to maintain an ongoing dialogue with its Shareholders and in particular, through annual general meeting and other general meetings. At the AGM held on 27 June 2023, Directors were available to meet Shareholders and answer their enquires.

Shareholders' Communication Policy

The Company has adopted a Shareholders' Communication Policy, which took effect on 1 January 2022. The policy aims at promoting effective communication with Shareholders and other stakeholders, encouraging Shareholders to engage actively with the Company and enabling Shareholders to exercise their rights as Shareholders effectively. The Board reviewed the implementation and effectiveness of the Shareholders' Communication Policy and the results were considered satisfactory.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(i) Corporate Communication

"Corporate Communication" as defined under the Listing Rules refers to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to the following documents of the Company: (a) the directors' report, annual accounts together with a copy of the auditor's report and, where applicable, its summary financial report; (b) the interim report and, where applicable, its summary interim report; (c) a notice of meeting; (d) a listing document; (e) a circular; (f) a proxy form; (g) an application proof; and (h) a post hearing information pack. The Corporate Communication of the Company will be published on the Stock Exchange's website (www.hkex.com.hk) in a timely manner as required by the Listing Rules. Corporate Communication will be provided to Shareholders and non-registered holders of the Company's securities in both English and Chinese versions or where permitted, in a single language, in a timely manner as required by the Listing Rules. Shareholders are encouraged to provide, amongst other things, their contact details, in particular, their email address to the Hong Kong Share Registrar of the Company in order to facilitate timely and effective communications.

(ii) Announcements and Other Documents pursuant to the Listing Rules

The Company shall publish announcements (on price sensitive information, corporate actions and transactions etc.) and other documents (e.g. Memorandum and Articles of Association) on the Stock Exchange's website in a timely manner in accordance with the Listing Rules.

(iii) Corporate Website

The Company's website (www.baioo.com.hk) provides Shareholders with corporate information and other relevant financial and non-financial information available electronically and on a timely basis about the Group. Any information or documents of the Company posted on the Stock Exchange's website will also be published on the Company's website under the "Investor Relations" section. Other corporate information about the Company's business developments, overview, corporate governance and contractual arrangements will also be available on the Company's website. The Shareholders' Communication Policy, as amended from time to time, shall be made available on the Company's website in the "Investor Relations" section. The Company will review this Policy on an annual basis to ensure its continued effectiveness.

Corporate Governance Report

(iv) Shareholders' Meetings

The annual general meeting and other general meetings of the Company are primary forum for communication between the Company and its Shareholders. The Company shall provide Shareholders with relevant information on the resolution(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable Shareholders to make an informed decision on the proposed resolution(s). Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. Appropriate arrangements for the general meetings shall be in place to encourage Shareholders' participation. Where appropriate or required, the Chairman of the Board and other Board members, the chairmen of board committees or their delegates, and the external auditor should attend general meetings of the Company to answer Shareholders' questions (if any). The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent Shareholders' approval.

(v) Shareholders' Enquiries

Enquiries about Shareholdings

Shareholders should direct their enquiries about their shareholdings to the Company's Hong Kong share registrar, Tricor Investor Services Limited, via its online holding enquiry service at www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or call its hotline at (852) 2980 1333, or go in person to its public counter at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

Enquiries about Corporate Governance or Other Matters to be put to the Board and the Company

The Company will not normally deal with verbal or anonymous enquiries. Shareholders may send written enquiries to the Company, for the attention of the Company Secretaries, by email: baioo@christensencomms.com, fax: (852) 2117 0869, or mail to the following:

Address: (Head Office) 34th 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

Note: Shareholders' information may be disclosed as required by law.

Other Investor Relations Communication Platforms

Investor/analysts briefings, roadshows (both domestic and international), media interviews, marketing activities for investors and specialist industry forums etc. will be launched on a required basis.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the Review Period, the Company has amended its Articles of Association. Details of the amendments are set out in the circular dated 27 April 2023 to the Shareholders. An up-to-date version of the Company's Memorandum and Articles of Association is also available on the Company's website and the Stock Exchange's website.

2023 Environmental, Social and Governance Report

I. ABOUT THE REPORT

1. Report summary

This report is the eighth environmental, social and governance report (the “**Report**”) issued by BAIOO Family Interactive Limited (the “**Group**” or “**BAIOO**”). The purpose of the Report is to disclose in a transparent and open manner the Group’s investment and performance in Environmental, Social and Corporate Governance (“**ESG**”) in 2023, in order to respond to the concerns and expectations of the stakeholders and the social public on the Group’s sustainable development, and to join hands with all parties to promote sustainable development.

2. Scope and boundary of the Report

The Report covers the period from 1 January 2023 to 31 December 2023, 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 and services. For the details of the businesses of the Group, please refer to the 2023 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. In accordance with the four principles of materiality, quantitative, balance and consistency, the Report ensures to give a true and accurate view of information and strives to fully reflect the ESG management and achievements of the Group.

Principle of the Report	Definition	Response of the Group
Materiality	The issues covered in the Report shall reflect the significant impact of the Group on the economy, environment and society, or the scope of stakeholders’ assessment and decision.	The Group identifies materiality issues through assessing materiality issues by maintaining communication with stakeholders in combination with the Group’s strategic development and business operation.
Quantitative	The report shall disclose key performance indicators in a measurable manner.	The Group makes quantitative disclosure of the Group’s key performance indicators for environment and society, and illustrates the standards, methods and emission factors adopted for disclosure of the commission data.

2023 Environmental, Social and Governance Report

Principle of the Report	Definition	Response of the Group
Balance	The report shall reflect the overall sustainable development performance of the Group in an impartial manner.	The Group has explained in detail the sustainable development issues that have a significant impact on its business, including work results and challenges.
Consistency	The Group shall ensure that the Report is disclosed in a consistent manner.	The Group will ensure that the disclosure scope and reporting method of the Report are generally consistent every year and comparative.

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 AND OBJECTIVE OF THE GROUP

1. Managing Sustainable Development

During the Year, the Group continued to focus on the three niche game genres of female-oriented games, pet collection and raising games and “nijigen” games, continued to focus on the development and operation of internet products and deployed the business development in web games (“**Web Games**”), mobile games (“**Mobile Games**”), and comic intellectual properties (“**IPs**”), and actively practiced our three core values of IP companionship, immersive experience and casual socializing, conveying the vision of “Green Entertainment, Healthy Interaction and Joyful Companion”. In addition, the Group actively invested in R&D, kept abreast of the development of cutting-edge technologies, enhanced our product development pipeline and engineering capabilities for high-quality games. Meanwhile, we strictly controlled product quality, attached importance to customer service, and strived to create a green, happy and healthy network environment and were committed to bringing more high-quality IP games to global users.

The Group is fully aware of the importance of fulfilling corporate environmental and social responsibilities. The Group attaches great importance to the health and development of employees by providing diversified welfare facilities and strengthening employee communication and care; put into practice the green and low-carbon operation mode with respond to the national dual carbon goal, develop and review environmental objectives, proactively respond to climate change, and integrate green and environmental protection-related elements into games to help users establish awareness of environmental responsibility; actively participate in social welfare and convey the positive energy of social welfare with love. In terms of corporate ESG governance, the Board of Directors of the Group, as the highest responsible organization for the management and public disclosure of ESG matters, is informed of and discusses the annual ESG work status through board meetings and other channels, and is responsible for the Group’s ESG management policies, ESG strategies, and ESG-related target formulation, target progress review and ESG performance.

2023 Environmental, Social and Governance Report

The Group has established a complete ESG governance structure, formulated and issued the “Terms of Reference of the ESG Management Committee”, clarified the personnel composition, division of responsibilities, reporting procedures, etc. at all levels of the ESG governance structure, and actively integrated ESG concepts into daily operating activities.

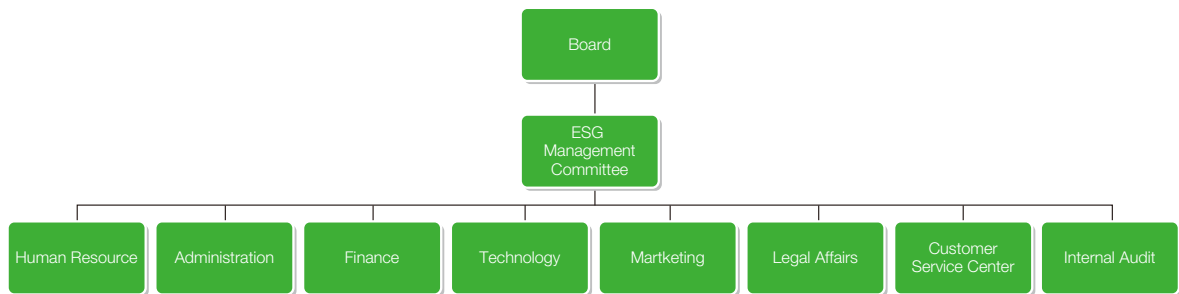


Chart of the Composition Structure of the ESG Management Committee of the Group

The division of responsibilities at all levels of the Group’s ESG governance structure includes:

Board

- The Board has overall responsibility for the Group’s ESG strategy and reporting, and is responsible for supervising the revision and implementation of relevant strategies of the Group, allocating resources and ensuring the effective operation of ESG risk management;
- The Board is responsible for assessing and determining ESG related risks and opportunities, ensuring that an appropriate and effective ESG risk management and internal control system is in place. It formulates the Group’s ESG management policies, strategies, priorities and objectives, and reviews the Group’s performance on ESG-related objectives by formulating indicators; reviews and formally approves the annual environmental, social and governance report; and
- The Board authorizes the ESG Management Committee to coordinate and manage ESG issues in accordance with its terms of reference.

2023 Environmental, Social and Governance Report

ESG Management Committee

- The chairman of the ESG Management Committee is the executive director of the Group, and the member is composed of the heads of each functional center;
- The ESG Management Committee is responsible for formulating and reviewing the Group's environmental, social and governance responsibilities, vision, objectives, strategies and policies, and strengthening the importance assessment and reporting process to ensure the consistent the execution and implementation of the environmental, social and governance policies adopted by the Board; and
- The ESG Management Committee shall hold a meeting at least once a year and report its decisions or suggestions to the Board.

All Function Centers

- All function centers are responsible for implementing the specific work of the Group's ESG management strategy and supervising the ESG work process;
- All function centers arrange the person in charge to regularly collect and count relevant quantitative indicators and data, so as to provide an information basis for the Board and management to review the ESG management progress and ESG report disclosure.

2. Internal Control

The Group has established a relatively perfect risk management and internal control systems and set up a risk management framework comprising of the Board of Directors, Audit Committee, Internal Audit Department and Risk Management Department. This framework features a model of "three lines of defense", i.e., Risk Supervising Organization, Risk Management Department/Responsible Person, Management of Operating Units, to identify, assess, respond, trace and monitor the Group (including ESG) risks.

The Group will continue to optimize the internal control mechanism, constantly improve risk management to cope with and resist material risks, and enhance the corporate governance level and risk prevention and control ability. During the Year, the Group continues to improve compliance operations and anti-corruption mechanisms, conducts anti-corruption training, supervises and urges all the staff to abide by laws and to act honestly and uprightly, creates a business environment with honesty, integrity, cleanness and uprightness; continues to strengthen close contact and exchanges with government authorities, industry associations and other organizations, strictly implements the latest industry laws and regulations, continues to promote the establishment of a healthy and green network ecological environment, and fully safeguards the legitimate rights and interests of users.

III. STAKEHOLDER ENGAGEMENT PLAN AND MATERIALITY ASSESSMENT

1. Communication with Stakeholders

The Group attaches considerable emphasis on exchanges and communications with stakeholders, ensures the openness and transparency of the information of the Group by establishing diversified communication channels. 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 Group through the investor hotline and email, the Group'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. For Stakeholders within the Group, 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	Improvement in profitability
	Scientific governance	Creation of long-term earnings
	Compliance operations	Strengthened risk management and control
	Information disclosure	Regular information disclosure
Government and regulatory authorities	Promoting social employment	Participation in the regional common construction
	Compliance with national policies	Regulatory compliance in business operations
	Fulfilling tax payment obligations	Timely and proactive tax payment
	Strengthening the construction of clean governance	Cooperation in government's supervision and examination
Customers	Customers' demand	Improvement of customer communication mechanism
	Pursuit of quality	Enhancement of product and service quality
	Privacy safety	Protection of customers' privacy
	Business integrity	Optimization of internal control system

2023 Environmental, Social and Governance Report

Stakeholders	Expectation and Proposition	Communication and Response
Staff	<p>Smooth career development</p> <p>Protection of legitimate rights and interests</p> <p>Remuneration and benefit protection</p> <p>Good working environment</p>	<p>Construction of a reasonable promotion mechanism</p> <p>Compliance with laws and regulations</p> <p>Improvement of the remuneration and benefit system</p> <p>Employee care and rights protection</p>
Suppliers and partners	<p>Openness and fairness</p> <p>Cooperation and win-win solutions</p> <p>Coordinated development</p>	<p>Standardization of procurement process</p> <p>Perfection of communication mechanisms</p> <p>Establishment of a long-acting management model</p>
Communities	<p>Eco-friendly community</p> <p>Devotion to social welfare</p> <p>Promotion of the development of the community</p>	<p>Implementation of green operation</p> <p>Launch of public welfare projects</p> <p>Provision of quality cultural resources</p>
Industry association	<p>Promotion of growth in the industry</p> <p>Fair competition</p>	<p>Participation in industry discussions and communications</p> <p>Improvement of R&D capabilities</p>

2023 Environmental, Social and Governance Report

Case Sharing: Communications with investors in 2023

The Group holds annual and interim results conferences on a regular basis, organizes and carries out online investor exchanges and offline activities from time to time, and actively participates in investment strategy conferences organized by major brokerage firms, so as to strengthen the two-way communication mechanism between the Group and its investors through diversified channels, and to safeguard the informed rights and interests of the investors in a practical manner.



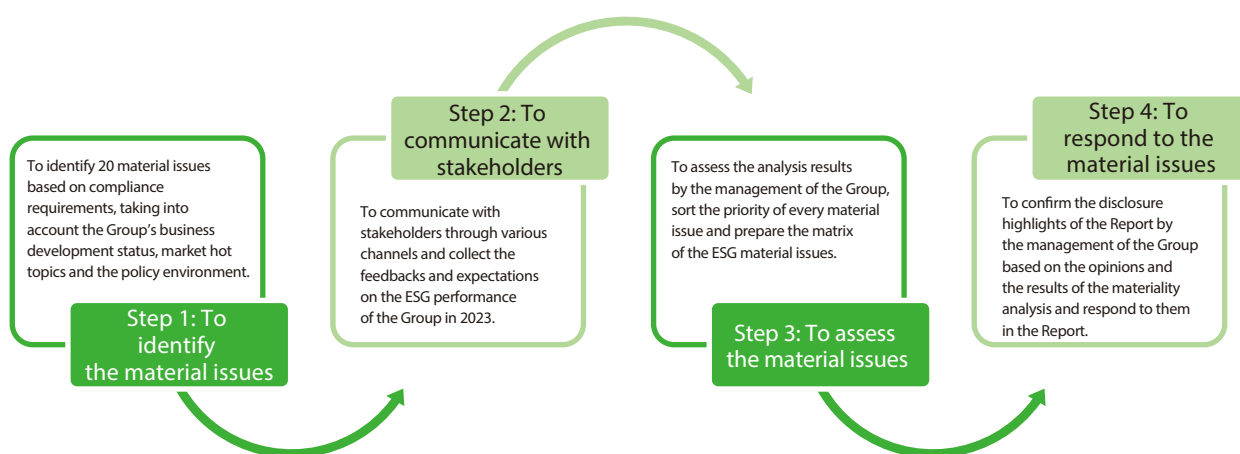
Online communications with certain investors of the Group

2023 Environmental, Social and Governance Report

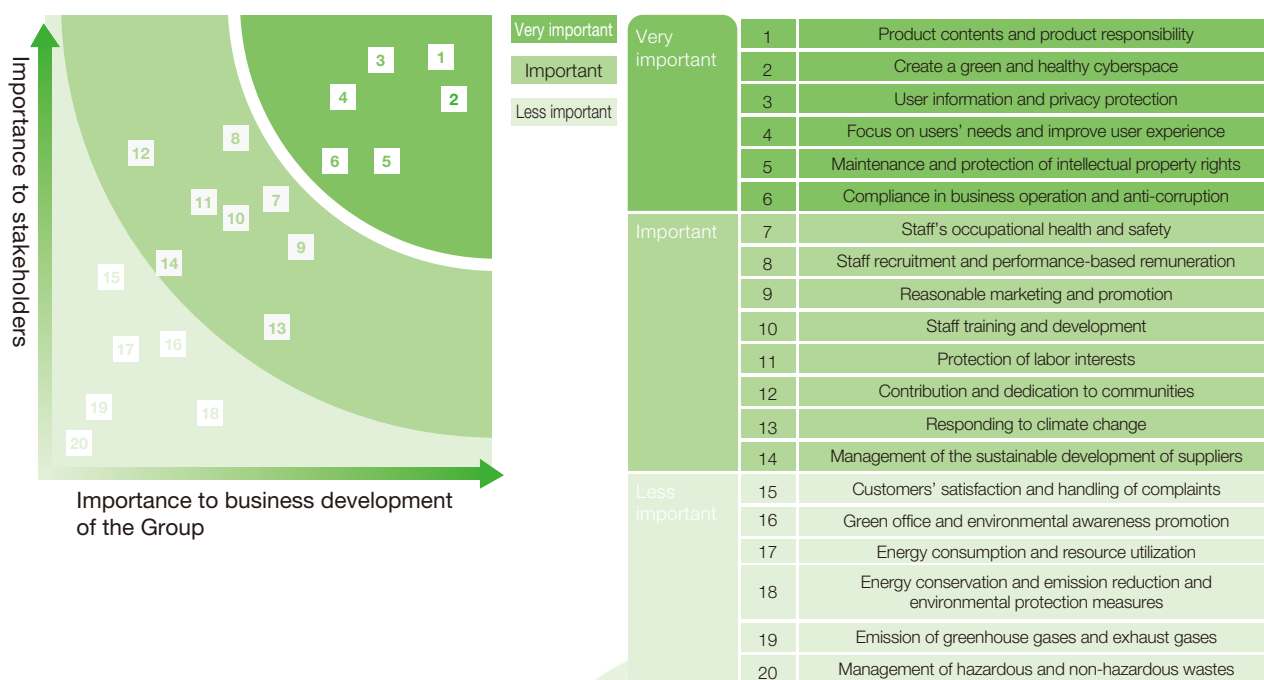
2. Materiality Assessment of Issues

During the Year, the Group strictly followed the procedures for analyzing and assessing the material issues and comprehensively assessed and determined the sequence of the material issues through means of close contact with stakeholders, feedback and industry analysis, taking into account our own development, industry characteristics and national policy environment.

In 2023, the steps of materiality assessment of the Group's issues are as follows:



During the Year, the results of materiality assessment of the Group's issues are as follows:



2023 material issues matrix

Ranking of the 2023 material issues

2023 Environmental, Social and Governance Report

The ranking of the 2023 material issues indicates that the issues that are most concerned among stakeholders are still centred on the aspects including product contents and product responsibility, creating a green and healthy cyberspace, and users' information and privacy protection. The Group has fully respected the opinions of both internal and external stakeholders and proactively responded to the propositions of all parties concerned.

During the Year, the Group adhered to strict product R&D processes and quality control mechanisms. Through a series of measures including strengthening technical support, adopting a middle-office deployment mechanism, and improving game testing standards and processes, the Group strictly controlled product quality and adhered to high-quality content creation and R&D to convey positive values and traditional culture. In addition, the Group strictly abided by the relevant laws and regulations such as the Law of the People's Republic of China on Protection of Minors, the Provisions on the Administration of Online Publishing Services, the Personal Information Protection Law of the People's Republic of China, and Notice by the General Administration of Press and Publication of Preventing Minors from Indulging in Online Games, guided users to access the internet healthily and protect the healthy growth of teenagers through a series of measures such as anti-addiction measures, parental supervision projects, information content review and monitoring. We attach importance to user privacy and security and protect users' legitimate rights and interests.

The Group is well aware that communications with stakeholders are a driver of its sustainable development. In the future, the Group will continue to improve our communication mechanism, listen to the voice of all stakeholders, and take their feedback as an important reference for the Group's ongoing management for sustainable development.

IV. PRODUCT RESPONSIBILITY

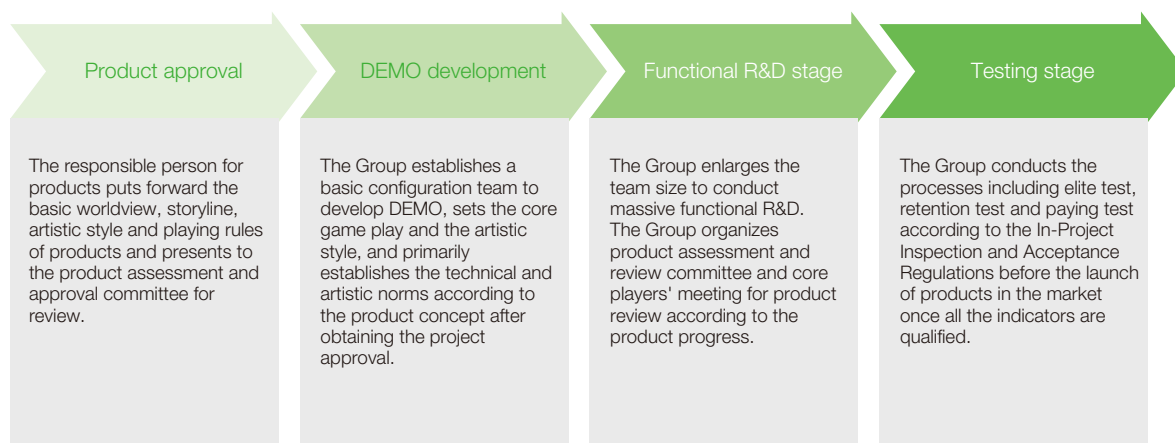
The Group adheres to the spirit of craftsmanship, conducts in-depth studies on users' needs and pays attention to the development trend of the industry. Through the implementation of stringent product R&D processes and quality control, the Group adheres to the creation and R&D of high-quality content and strives to create outstanding game products that can convey positive values and traditional culture. At the same time, the Group actively listens to the voice of its users and protects their basic rights and interests through sound complaint handling mechanism, user satisfaction surveys, and the continuous enhancement of user privacy protection.

1. Product quality management

The Group adheres to strict product R&D processes and quality control mechanisms, and achieves full-process product quality control through a series of measures such as optimizing the management structure, strengthening technical support, adopting a middle-office deployment mechanism, and improving game testing standards and processes, and continuing to strengthen the Group's product quality control platform and the application of the big data analysis system.

1) Product quality control mechanism

The Group adheres to high quality content creation and R&D and has formulated and implemented internal systems such as the "In-Project Inspection and Acceptance Regulations", the "Table of Risk Assessment for Server Technology" and Regulations on Product and Technical Review Process, and set up stringent product R&D and acceptance testing process to implement the quality control throughout its full process. The process of R&D and marketing of our products covers the following steps:



2023 Environmental, Social and Governance Report

The Group has set up Product Quality Control Team responsible for controlling the quality throughout all stages of developing the products. The Product Quality Control Team carries out overall quality evaluation from the dimensions of function, safety, adaptability, fault tolerance and weak network. For products with evaluation results failing to meet the standards, the Product Quality Control Team will request the project team to rectify the relevant issue until the products pass the subsequent evaluation after rectification, the Product Quality Control Team cannot proceed to the next stage, so as to provide assurance of the product quality throughout its full process.

The Group adhered to the focus on users' needs and continued to improve quality management. During the Year, in order to further strengthen product quality control, the Group focused on the optimization of product R&D management and product quality acceptance.

In terms of product R&D management:

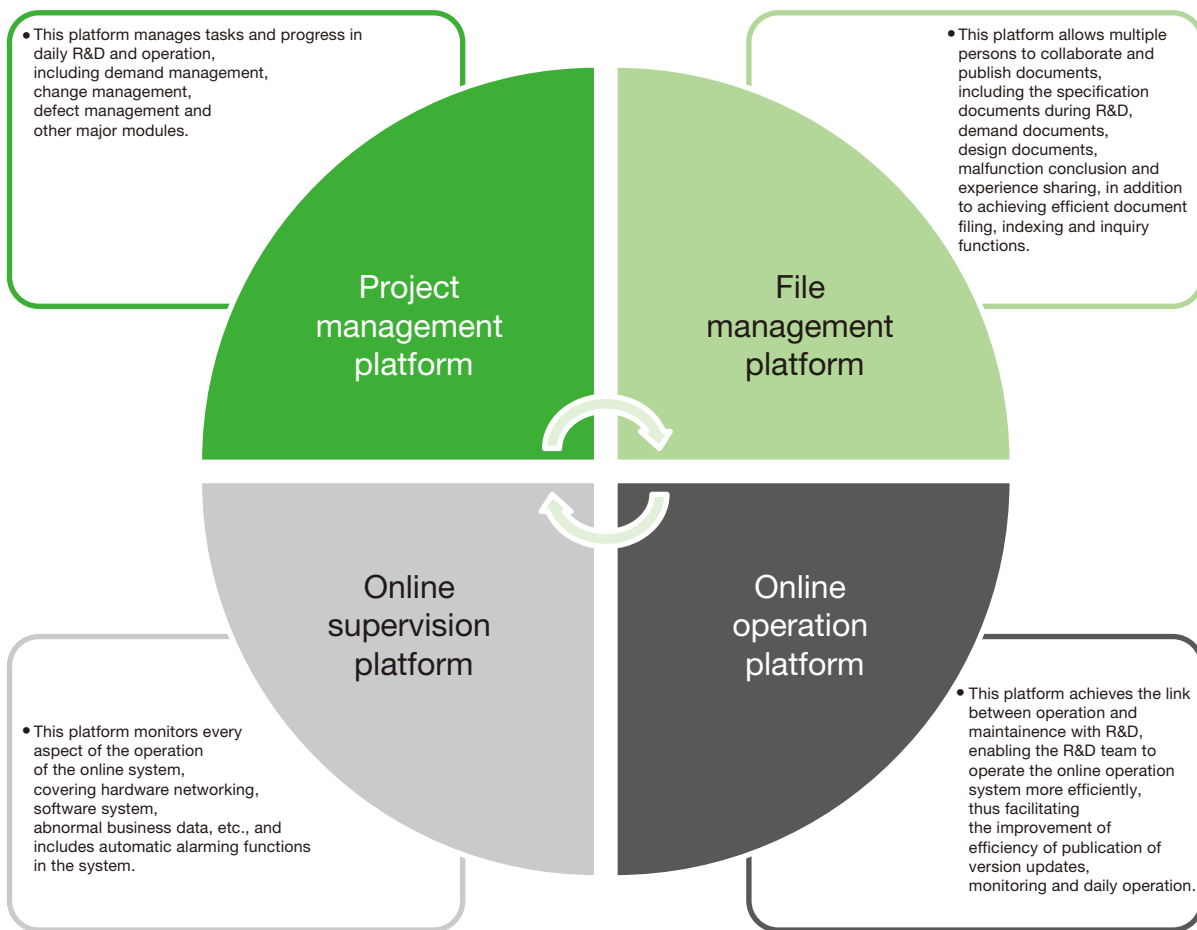
- ✓ Set up a company-level R&D technology center and an independent technical art department to provide technical support for various projects in terms of effect and performance;
- ✓ Adopt a middle-stage deployment mechanism to flexibly schedule and promptly support breakthroughs and performance optimization of key projects;
- ✓ Independent integration and engine departments for unified management and component reuse to improve production efficiency; and
- ✓ Set clear game development goals for each project, including gameplay, user experience, performance, etc., to ensure that the product meets player expectations.

In terms of product quality acceptance:

- ✓ The test center has established an infrastructure team to focus on developing test automation tools, strengthening indicator quantification, and furthering improvement of acceptance efficiency and quality;
- ✓ Improve game testing standards and processes, add acceptance criteria for PC and mini-game categories, and refine stress test indicators to ensure the stable operation of games; and
- ✓ Organize user experience testing and focus group discussions to obtain users' feedback and solve users' needs and problems in a timely manner.

2) Product quality control platform

The Group continues to strengthen the coordination of the four self-developed core management platforms including the project management platform, the file management platform, the online operation platform, and the online supervision platform to regulate the workflow and provide a strong guarantee for the improvement of production quality, product R&D and operational efficiency.



2023 Environmental, Social and Governance Report

During the Year, the Group continued to strengthen digital operations and empower high-quality business development with high-quality operations, and has taken measures including but are not limited to:

- ✓ Build a quality analysis platform for R&D management of new project based on Feishu to analyze the quality of each game version and improve team collaboration and development efficiency;
- ✓ Implement solution for multi-version concurrency management and support the corresponding automated construction and management system to ensure the consistency and traceability of multi-version concurrency R&D and multi-regional distribution of the game; and
- ✓ The project management system has changed from Jira¹ to Tapd², lowering the accessibility threshold and improves collaboration efficiency.

3) Data analysis and supervision

The Group continued to apply a third-party big data system in data collection, modeling, storage, analysis and intelligent application at the operation stage of products, so as to conduct real-time and comprehensive operational analysis, and thus timely identify problems and adjust the operational strategy. In addition, the Group achieved complementing and expansion of the functions of external data system through the internal self-developed data system, thereby carrying out more comprehensive and efficient product quality analysis and control.

During the Year, the Group established the data monitoring and alarm system, which is connected with internal self-developed data systems, to strengthen the monitoring of release of project operation data and stability of online operation, and to shorten the time for incident response and processing. At the same time, the Group continues to strengthen refined operations and assists in research and development, distribution, and operation improvement and optimization of products by mining and analyzing data.

1 Jira is a tracking tool for projects and transactions, and is widely used in work areas such as defect tracking, customer service, requirements gathering, process approval, task tracking, project tracking and agile management.

2 Tapd (Tencent Agile Product Development) is a software R&D management platform that provides solutions for the entire product R&D life cycle and supports full-process R&D practices such as agile demand planning, iterative plan tracking, testing and quality assurance, and continuous construction and delivery.

2023 Environmental, Social and Governance Report

2. Positive Culture Inheritance

By creating a positive IP image in games and linking it with traditional Chinese culture, the Group built games into a new carrier for disseminating positive values and traditional culture. In the future, the Group will continue to innovate linkage products, so as to share positive values to users imperceptibly and build cultural confidence.

1) Legend of Aoqi: to promote the belief of justice and friendship, and gather the power of unity and cooperation

“Legend of Aoqi” is a spirit-themed strategic battle mobile game, which tells the story of spirits fighting against the invasion of the evil shadow army. Players incarnate as a spirit trainer and cooperate with the spirit partners to jointly resist the threats of the evil forces and shoulder the important task of maintaining peace in the world of Aoqi.

Case sharing: Legend of Aoqi linked with lion dance, promoting the culture of Guangdong

In January 2023, the Group’s game, “Legend of Aoqi”, collaborated with the Cantonese Lion Dance of Guangdong Lingnan Folk Arts and Crafts Research Institute (廣東省嶺南民間工藝研究院) to implant the elements of lion dance into the game characters, and launched a series of lectures on the knowledge of lion dance, “Intangible Cultural Heritage School · Xiao Nuo Notes” (非遺學堂 · 小諾筆記), to educate players on the origin, characteristics, moral and development of lion dance. At the same time, “Legend of Aoqi” created the highlight of the Spring Festival, “The Hegemony of the Lion King”, in the game scene, embedding game content and activities such as receiving gifts by the practice of cai qing (採青), lion dance culture, lion dance new year celebration, etc., allowing players to appreciate the unique charm of traditional Chinese culture in a vivid and lively way, highlighting the endless vitality of intangible cultural heritage.



Promotional poster of the linkage of “Legend of Aoqi” and Cantonese lion dance

2) “Aola Star”: to inspire the spirit of exploration and adventure and a tenacious will

“Aola Star” is a role-playing game in the genre of pet raising. Players will play the role of an “Aola Star” trainer, leading the magic pets to jointly explore the vast universe and the world of stars. After experiencing battles and challenges, they will gradually grow into the guardians of the universe, and take on the mission of protecting the world and keeping the peace. The game of “Aola Star” focuses on courage, friendship, aiming to inspire the infinite imagination of children, helping them to develop an outlook of the courage to explore and not fear the difficulties of life and the world.

Case sharing: “Aola Star” linked with Guangzhou embroidery, exploring the beauty of traditional crafts

In June 2023, the Group’s “Aola Star” web game collaborated with Guangdong Institute of Arts & Crafts (廣東省工藝美術研究所) to invite Ms. Liang Xiaoman, the sixth-generation inheritor of the Guangzhou Embroidery family, an intangible cultural heritage, to set up a popular science column in the game linkage theme center to guide everyone to understand and appreciate Guangzhou embroidery, and feel the charm of the traditional arts and crafts of Guangzhou embroidery. In the meantime, four pieces of art pieces of Guangzhou embroidery were customized for game character design of “Aola Star”, creating a linkage story about Guangzhou embroidery, the sea, guardianship and hope, and witnessing the harmonious integration of intangible cultural heritage and games with players.



Promotional poster of the linkage of “Aola Star” and Guangzhou embroidery

2023 Environmental, Social and Governance Report

Furthermore, the chief team designer of “Aola Star” and the chief embroiderer, Ms. Liang Xiaoman, collaborated to complete the traditional embroidery linkage work rendered by game characters. They used China’s national treasure, panda, as the main design element of the work, and let “Yi Le” (伊樂) wear a panda costume with an embroidery needle in hand to embody the theme of “embroidery” of this linkage. This linkage allowed everyone to explore the beauty of traditional arts and crafts through embroidery pieces, showcasing more possibilities of inheritance of intangible cultural heritage.



The customized work of the linkage of “Aola Star” and Guangzhou embroidery

Case sharing: “Aola Star” linked with Yangjiang kites, appreciating the charm of intangible cultural heritage

In February 2023, the Group’s “Aola Star” mobile game joined hands with the Guangdong Kite Association (廣東省風箏協會) and Guangdong Institute of Arts & Crafts to bring out the remarkable linkage version of “Aola Star Mobile Game X Yangjiang Kites”, Kites in the Breeze (清風逐鶴). In this linkage version, users could understand the crafts of kite-making through activities such as kite classrooms and kite workshops, experiencing the unique charm of Yangjiang kites.



Promotional poster of the linkage of “Aola Star” and Yangjiang kites

2023 Environmental, Social and Governance Report

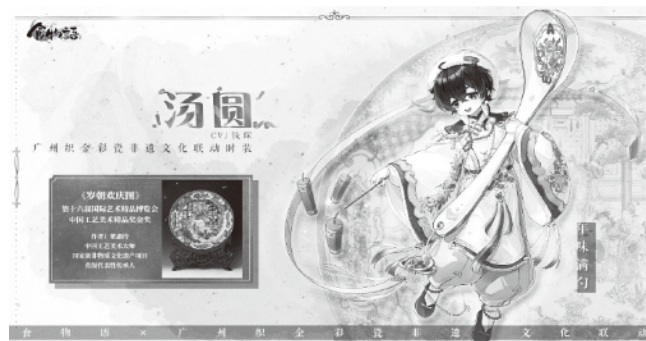
In addition, the “Aola Star” team invited Mr. Ruan Quan, the inheritor of the Yangjiang kites project, to be responsible for the production of the kites of this linkage, and they jointly filmed the documentary “Paper Kites” to record the traditional craftsmanship of Yangjiang kites. The linkage of “Aola Star” mobile game and Yangjiang kites, an intangible cultural heritage, is in line with Aola Star’s IP core concept of “promoting traditional Chinese culture starting from the younger generation today”, which aims to allow more people to appreciate the unique charm of intangible cultural heritage through methods preferred by young people nowadays.

3) “Shiwuyu”: to inherit the essence of Chinese food and help spread food culture

“Shiwuyu” is a role play game primarily designed for female which impersonates traditional Chinese cuisine with unique creativity and gives them unique characters and personalities based on traditional Chinese cuisine and cultural elements. This game ingeniously integrates the profound heritage and humanistic sentiments of Chinese food culture into the game, and carefully created a series of online and offline exciting activities for players through the linkage of intangible cultural heritage project and cooperation with different brands. It is committed to leading players to dig deeper into the stories behind food, exploring the historical background and local customs closely related to food culture and stimulating players’ sense of identity and pride in traditional Chinese food culture.

Case sharing: “Shiwuyu”linked with Guangcai (廣彩), livening up the Chinese New Year

In January 2023, the Group’s “Shiwuyu” mobile game and Guangdong Institute of Arts & Crafts jointly promoted the intangible cultural heritage of Guangcai (the Canton famille rose porcelain) and launched exciting activities such as New Year’s lantern riddle party, linkage fashion and customized Zhijin Porcelain (織金彩瓷) (a type of gold polychrome glazed porcelain) plates. Under the professional guidance of Mr. Zhou Chengjie, the municipal inheritor of the national intangible cultural heritage Guangcai porcelain firing technique project, “Shiwuyu” incorporated Guangcai elements into the fashion design of characters, and used Ms. Zhai Huiling’s work “Celebrating the New Year (歲朝歡慶圖)” as inspiration to create the Tangyuan (glutinous rice dumpling) fashion “Full Spoonful of New Year Flavor (年味滿勺)”, which symbolizes wealth, splendor and family reunion in the new year.



Promotional poster of the linkage of “Shiwuyu” and Guangcai

2023 Environmental, Social and Governance Report

Meanwhile, “Shiwuyu” also invited Mr. Zhou Chengjie to produce a custom-made gold polychrome glazed porcelain plate for this linkage. The work ingeniously incorporated elements of “Shiwuyu” and was exhibited offline at the Guangdong Arts & Crafts Treasures House (廣東省工藝美術珍品館). “Shiwuyu” continues to launch linkage content related to traditional Chinese culture. While conforming to the China-Chic consumer trends, it actively promotes the innovative development of China’s excellent traditional culture.



The customized work of the linkage of “Shiwuyu” and Guangcai

Case sharing: “Shiwuyu” linked with Fang Suo (方所), appreciating Chinese food culture

From 1 June to 30 June 2023, the Group’s “Shiwuyu” mobile game and Fang Suo Commune commenced a cultural linkage activity derived from food around the period of the Dragon Boat Festival. Taking “Book Recommendations by Food Souls (食魂薦書)” as the starting point, combined with the geographical location of Fang Suo stores, the game recommended Chinese cuisine full of regional customs and book lists with Chinese cultural characteristics to players, presenting special book exhibitions with unique characteristics.



Promotional poster of the linkage of “Shiwuyu” and Fang Suo

2023 Environmental, Social and Governance Report

Furthermore, “Shiwuyu” also held a game production sharing session at the Guangzhou store of Fang Suo, guiding everyone to appreciate the food characteristics from different regions and the traditional food cultures of different dynasties. “Shiwuyu” follows the new generation of young people’s pursuit of culture and beauty, actively promotes traditional Chinese food culture and enhances the new generation of young people’s sense of identity and participation in Chinese culture.



The sharing session held by “Shiwuyu”

3. Create a Green and Healthy Cyberspace

The Group has carefully protected the healthy growth of teenagers and strictly complied with the Law of the People’s Republic of China on Protection of Minors, the Provisions on the Administration of Online Publishing Services and other related laws and regulations. In addition, pursuant to the Personal Information Protection Law of the People’s Republic of China, Regulation on the People’s Republic of China on the Protection of Minors in Cyberspace, the Notice on Further Strict Management to Effectively Prevent Minors from Indulging in Online Games issued by the National Press and Publication Administration and other regulations, the Group has made continuous efforts to improve its internal systems and optimize its network management mechanism of game products. Meanwhile, the Group has guided users to surf the Internet healthily through a series of measures such as anti-addiction system, parent monitoring project, information content audit and monitoring in order to help create a clear, healthy, civilized and orderly network environment.

2023 Environmental, Social and Governance Report

During the Year, the Group fully cooperated with the cyberspace department to carry out a total of 8 special actions under the “Cool and Bright” series, including the “Cool and Bright Rectification of Cyberspace in Spring Festival 2023” special action, “Cool and Bright Rectification of Cyberspace for Minors in Summer 2023” special action, etc., strictly followed the special action requirements, fully implemented the investigation tasks, and effectively maintained the order of internet information content dissemination. In October 2023, the Group was awarded the title of “Excellent Enterprise in Network Ecological Governance in Guangzhou Game Industry (廣州市遊戲行業網路生態治理遊戲優秀企業)” issued by the Guangzhou Games Industry Association.



Honored with the title of “Excellent Enterprise in Network Ecological Governance in Guangzhou Game Industry”

1) Anti-addiction system for juveniles

The Group actively implemented the real-name registration system for online game user accounts, connected all the games published and operated by the Group to the “national online game anti-addiction real-name authentication system”, and set the limit on the duration of minors’ games and the amount of recharging, set the age-appropriate prompt for the game download and registration login interface, and turned off the tourist experience mode. The Group also strengthened the monitoring and maintenance of daily operations to ensure the effective operation of anti-addiction measures.

2023 Environmental, Social and Governance Report

During the Year, the Group's anti-addiction measures for minors adopted mainly include:

Strict implementation of the real name registration system and login requirements	Strict restriction of the time for providing online game services to minors	Regulation of paid services to minors
<ul style="list-style-type: none">• The Group strictly abides by the requirements under the Notice on Further Strict Management to Effectively Prevent Minors from Indulging in Online Games, deactivates the tourist experience mode, strictly implements the real name registration system and login requirements of online game user accounts;• The distribution platform supports prompts for age-appropriateness and restricts the login of non-age-appropriate players.	<ul style="list-style-type: none">• The Group strictly limits the time for providing online game services to minors, and only provides services to minors from 20:00 to 21:00 every day on Friday, Saturday, Sunday and legal holidays, so as to guide the minors in allocation of after-class time in a more reasonable manner.	<ul style="list-style-type: none">• Users under 8: no paid services are provided to them;• Users between 8 and 16: a single payment is limited to no more than RMB50 and the cumulative payment in a month is limited to no more than RMB200;• Users between 16 and 18: a single payment is limited to no more than RMB100 and the cumulative payment in a month is limited to no more than RMB400.

2) Parent monitoring program

The Group has strictly implemented the relevant provisions of the “Parent Monitoring Program for Juveniles in Online Games”. By setting up the web page of “Important Notes for Parents” on its official website and also setting up a parental monitoring hotline, parents are provided with free online game monitoring service to help parents correctly learn and understand the internet, so as to prevent minors from being addicted to online games.

The Group has expressly listed out the application conditions and methods for guardianship services on its official website to avoid malicious guardianship of users. Upon confirmation of the guardianship after the information review process is passed, the Group 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, provide technical support for guardians to help parents assist parents in correcting the behavior of game addiction in some of the minor children, guide their minor children to surf the internet healthily and actively to avoid internet addiction.

3) Review and monitoring of contents and information

The Group has established a sound mechanism and process for review of information content. Through various means including the filtering system of sensitive words, the introduction of Netease's shield, customer review, user reporting, the Group strictly manages user statements, filters bad contents related to pornography, gambling and drug abuse in online communities, actively prevent and resist the spread of bad information, ensures the legal compliance of all online information, and creates a high-quality game community environment.

Sensitive word screening system

- The Group has developed a powerful filtering system of sensitive word and regularly updated and maintained the sensitive word library.
- All information published by users shall be filtered by sensitive thesaurus, and it is prohibited to publish seriously sensitive words.

Netease's shield

- The Group adopts the industry-leading network security protection system Netease's shield. Relying on Netease's rich security experience and the accumulation of artificial intelligence, the Group intelligently filters the information released by users to ensure content security, business security and mobile security.

Review by customer service

- Through the filtering system of sensitive word and the column content of Netease's shield, the game community can be accessed only after the strict review by customer service. If any violation is found, the customer service will promptly ban or freeze the account to ensure the harmony and health of the online community.

User report

- The Group provides convenient channels for users to report violations, and immediately enable them offline when they are found. For accounts that publish violating contents, customer service will promptly ban or freeze the account according to the violations.

4. Information Safety and User Privacy Protection

The Group highly values information safety construction and user privacy protection. The Group strictly follows the relevant laws and regulations including the Personal Information Protection Law of the People's Republic of China and the Cybersecurity Law of the People's Republic of China. The Group has formulated and implemented the internal polices and guidelines including the "Engine Room Patrol Inspection System", the "Remote Access System", the "Cloud Management System", the "Customer Information Safety and Privacy Protection System" and the "Management Measures for the Filing of Network Accounts", to continuously improve the information safety and management system and protect information safety and user privacy.

In order to strengthen information safety and management, the measures taken by the Group include but are not limited to:

- **Firewall system and online behavior control system:** Authorization updates of the security library of firewall system and online behavior control system are followed up continuously to improve the safety and reliability of the system; at the same time, the monitoring of abnormal VPN traffic operations in remote office environments is strengthened.
- **Data disaster recovery system and emergency drill:** In cooperation with the top domestic cloud service providers, off-site disaster recovery of core data is carried out in the cloud. The office data that needs to be backed up is fully accessible by the data disaster recovery system. Different backup strategies are formulated according to the priority of data security. Data recovery emergency drill and result analysis are carried out monthly.
- **Security vulnerability library:** The Group realizes the automatic sorting of current security vulnerabilities, timely sorting out the security vulnerability library, and timely notify the project team to upgrade and repair components if major security vulnerabilities are found.
- **Equipment security protection:** Regular health testing of storage device are implemented to ensure normal operation of all storage media and prevent any security risk.
- **Terminal security management:** The channels for uploading to cloud storage are strictly limited and the access of storage peripheral devices are effectively prohibited through terminal management strategies to avoid data exchange between unauthorized devices and the system and reduce potential risks of data leakage.
- **Optimization of the handover process for resignation files:** Upon exit of an employee, the Company files are automatically handed over to superiors to ensure that important assets of the Company will not be lost with the personnel changes; the information security of project management software (TAPD) is enhanced, and authority is automatically removed after exit of the personnel to ensure that all sensitive data is processed properly, preventing any information leakage after exit of the employee.

2023 Environmental, Social and Governance Report

- **Information Security Awareness Publicity and Implementation:** During the Year, a total of 6 cyber security trainings were conducted to help employees establish correct security awareness of cyber information content, and ensure that the entire process of product development, publishing, and operation is legitimate and compliant.

In order to strengthen user privacy protection, the measures taken by the Group include but are not limited to:

- **Improvement of the Privacy Agreement:** The Privacy Agreement is supplemented with instructions for collecting new device identifiers, such as WiFi parameters and User Agent; and it is supplemented with the instructions for the usage of channel SDKs to clearly convey the purpose of collecting private information to users.
- **Set the switch for personalized push:** Users are given the freedom to choose whether personal information is collected and push notifications are received.
- **Restriction of access rights:** Employees' access to user information are restricted and monitored, with their qualifications and authorities for accessing information and data classified, and punitive measures against violations are taken.
- **APP permission application detection tool:** The Group continued to use its own APP permission application detection tool, which will automatically scan during mobile game operation to ensure the legitimate and compliant use of user information.

5. Listen to the Voice of Users

The Group strictly follows the relevant laws and regulations including the Law of the People's Republic of China on Protection of Consumer Rights and Interests. The Group has formulated internal regulations such as the Business Process and Work Specifications of the Customer Service Center and Measures for Performance Assessment Management of Customer Service Representatives, and continued to improve the service working mechanism. At the same time, the Group has established a sound complaint handling mechanism, listen to the voice of users through user satisfaction and demand surveys on a continuous basis, and enhance user satisfaction as well as comprehensively protect customers' rights and interests.

1) User service and management

The Group attaches great importance to the quality of user services. The customer service provides 365-day online services from 08:00 a.m. to 10:00 p.m. every day to meet customers' needs timely. During the Year, in order to further improve quality of user service and enhance user experience, the Group focused on optimization according to the following dimensions:

Formulate assessment indicators

- Quantified assessment of customer services representatives by the customer service center is performed according to six dimensions, namely, monthly actual workload, work quality, professional skills, attitudes towards system operation and service attitude, to comprehensively and objectively assess and evaluate the overall performance of customer services representatives, and to motivate customer services representatives to continuously improve their service levels.

Formulate FAQ standards

- Prepare an FAQ document and timely update the contents according to business adjustments and feedback from users and the customer service representatives in actual practice to help the customer service representatives to answer users' questions in a faster and accurate way and to enhance user service experience.

Broaden communication channels

- During the Year, the Group continued to use the web games qq qidian online system, broadened the feedback and communication channels for the general customers of web games aiming at enhancing the customer service experience of the general users of web games.

Service evaluation tips

- After providing services to users, the customer service representative shall obtain objective comments on the service through the service evaluation prompts, for summarizing potential problems and improve service quality.

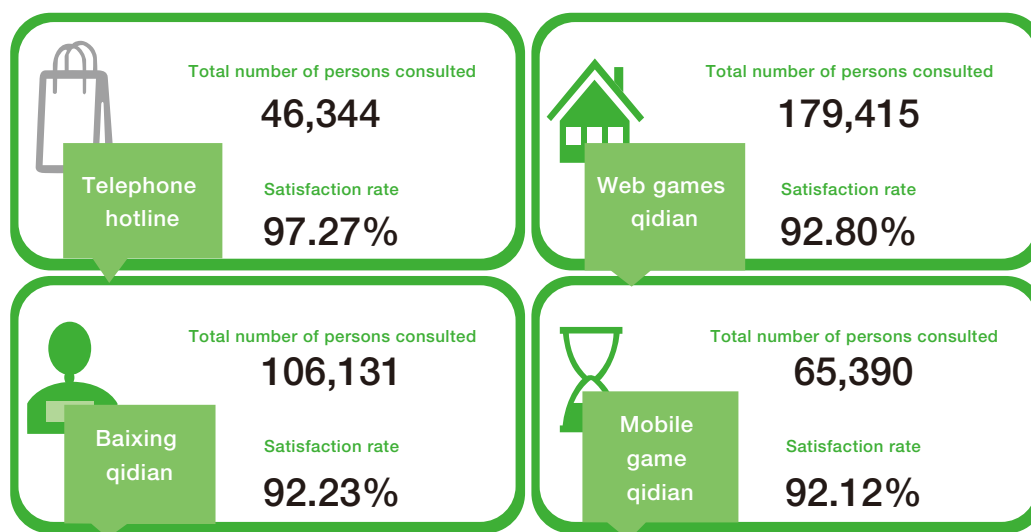
Quality monitoring mechanism

- The Group is equipped with professional quality inspection staff who will inspect on a random basis the telephone-call recording, online chat, users' feedback and emails of the customer service representative, and evaluate their service language, service attitude, reply skills and operation of the system, so as to ensure that the quality of services provided by the customer service representative.

2023 Environmental, Social and Governance Report

2) User satisfaction survey

During the Year, the Group's customer service center continued to conduct user satisfaction surveys through four channels, namely, telephone hotline, web games qidian, baixing qidian and mobile game qidian. The results of the satisfaction survey improved slightly compared with the previous year, with the details as follows:



3) User demand survey

In order to gain in-dept insights into user demands and product satisfaction, the Group conducted user research on domestic and foreign mobile game users, and systematically collected users' real demands and suggestions by regularly conducting surveys on users of domestic mobile games with three methods, i.e., customer engagement ("CE"), questionnaire and return visit, which provide strong support for the continuous optimization of products.

CE Survey

- The CE survey of the Group is usually carried out before the first elite test. By inviting target players to try the game and conducting in-depth interviews with them, the Group can get an indepth understanding of the views and suggestions of the target customers on the game and thus optimize the content of the game products.

Questionnaire Survey

- During the development and update for each version of a game project, regular questionnaire survey is carried out, mainly in the form of online questionnaire embedded in the game or platform to understand their satisfaction with the entire product and provide support for subsequent game test and operation.

Return Visit

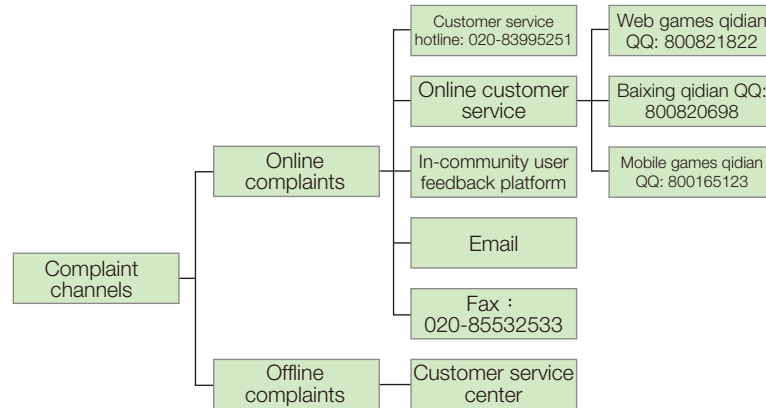
- Upon play testing for game products, an audio or written interview invitation is sent to the selected target players; feedbacks and outcomes of the interviewed players are used to evaluate the play testing effect and improve the product quality.

2023 Environmental, Social and Governance Report

During the Year, in order to cooperate with the launch of the international service of “Shiwuyu”, the Group comprehensively applied three research methods, i.e., video interviews, questionnaires, and material testing in project establishment stage, closed testing stage, and after product launch to conduct in-depth research on overseas users to ensure a comprehensive understanding and response to the demands of overseas users.

4) Handling of users' complaints

The Group attaches great importance to user complaint management, maintains both online and offline complaint channels, standardizes complaint handling processes to timely receive user feedback in a timely manner. Users can provide feedback and complaints by ways of telephone hotline, online customer service, email, the in-community user feedback platform, email, fax and visits.



Main complaint channels for users

The customer service staff actively accept user complaints. Complaints are classified into Level 1, Level 2 and Level 3 (the most serious level) based on severity, and the corresponding responsible department will follow up and handle them in a timely manner in strict accordance with the process, and inform the user of the handling results within the specified time limit. The response time for Level 1, Level 2, and Level 3 complaints shall be no later than 2 hours, 30 minutes, and 15 minutes, respectively. The time for replying with a solution or dealing with the problem shall be no later than 4 hours, 3 hours, and 3 hours respectively. In serious cases, the processing time should be within 1 hour. During the Year, the Group's customer service center received 6,879 complaints, and the customer complaint resolution rate reached 100%.

2023 Environmental, Social and Governance Report

6. Exchange and Cooperation and Industry Recognition

During the business development, the Group always adheres to the concept of achieving mutual growth with industry peers, discusses with the industry peers on the innovation challenges and opportunities faced by the industry, and strives to promote technological innovation, to facilitate the sustained and high-quality development of the industry.

Case sharing: Lenovo Tianxi Ecosystem and App Store Developer Salon (Guangzhou)

In September 2023, the Group was invited to attend the “Lenovo Tianxi Ecosystem and App Store Developer Salon (Guangzhou)”. The event was designed to allow developers to discuss and explore new directions for the development of PC application ecosystem. Relevant team leaders of the Group participated in the roundtable discussion at this event, sharing with the guests the problems faced by developers in the game scene and the empowering solutions provided by Lenovo’s open platform to jointly explore new opportunities for PC games and promote cooperation and development in the gaming industry.



Roundtable forum

Case sharing: “Aola Star II” won “Vivo’s Most Anticipated Game for 2023”

In November 2023, the Group participated in “Vivo Developer Conference” held at the Shenzhen World Exhibition & Convention Center. During the conference, the Group’s mobile game “Aola Star II” was selected as the “Vivo’s Most Anticipated Game for 2023”. This award fully reflects the industry’s recognition of the Group’s product capabilities.



“Aola Star II” won “Vivo’s Most Anticipated Game for 2023”

7. Intellectual Property Management

The Group highly values the management and protection of intellectual property rights, strictly complies 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 conducts the intellectual property right reporting work. 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 intellectual property right infringement cases.

During the Year, the legal affairs department formulated and issued the Copyright Management Measures, reaffirming the scope and content of intellectual property rights, and making relevant provisions and arrangements for the use of intellectual property of the Group, external intellectual property, and the handling of violations so as to strengthen the protection of intellectual property of the Group and control management of the legitimate use of external materials.

The handling of intellectual property infringement of the Group is led by the legal affairs department and coordinated by the business departments. After receiving clues of material infringement, the Group quickly understood the facts of infringement, collected evidence of infringement, communicated with various departments to determine solutions, claimed rights to the infringer in time, and handled the case with the help of various platforms, external service providers, government rights protection agencies and other forces. The intellectual property rights of the Group were effectively protected.

At the same time, all online games and website pages of the Group were equipped with infringement reporting channels to encourage users and players to provide infringement clues and fully protect the legitimate rights and interests of the Group. In addition, the Group controlled the leakage of trade secrets by signing confidentiality agreement; developed a trademark application plan in advance, applied for new game trademarks in a timely manner, and carried out trademark monitoring work to protect the Group's game trademark rights from infringement; and increased its internal publicity on the legal and effective use of trademarks and the original design of trademarks, so that employee's awareness of trademark protection and practical operational skills could be strengthened to provide solid support for the long-term development of the enterprise.

As of 31 December 2023, the Group had possessed 2 patents for invention, 719 certificates for registration of copyrights of works, 109 certificates for registration of copyrights of software, 1,078 registered mainland trademarks and 113 registered oversea trademarks.

V. EMPLOYMENT MANAGEMENT

The Group adheres to the people-oriented development concept, attracts fully qualified professionals through multiple channels, and establishes a sound training system and assessment and promotion mechanism to promote talent development and management. At the same time, the Group actively establishes a friendly and diverse communication platform, pays due attention to the physical and mental health of staff, and is committed to creating a harmonious and stable working environment and a broad career development platform for staff.

1. Construction of a Talent Team

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 fair, justice and indiscriminate, and continues to optimize the management measures regarding recruitment, performance assessment, remuneration and benefits, etc., so as to prompt the joint development of the staff and the Group.

1) Staff Recruitment Management

During the Year, the Group continues to implement internal policies including the Employee Handbook and the Administration Measures on Recruitment, to standardize the employee recruitment process and improve the talent selection mechanism. The Group adheres to the principles of open recruitment, fair competition, recruitment on merits, staffing management, so as to ensure that recruitment operations are not affected by factors such as nationality, ethnicity, marital status, age, gender and religious belief. The Group actively carries out talent introduction and cooperation, explores the construction of a diversified talent pool, and introduces outstanding talents through on-campus recruitment, social recruitment and internal recommendation.

2023 Environmental, Social and Governance Report

As of 31 December 2023, the Group had a total of 732 employees.

Type of employees		Number of employees in 2023
By gender	Male	401
	Female	331
By type	Full-time	714
	Internship	18
By age group	Under 30	375
	30–50	350
	Above 50	7
By geographical region	Mainland China	731
	Overseas regions and Hong Kong, Macau and Taiwan	1
Total		732

During the Year, the turnover rate of male employees of the Group was 78.55% and that of female employees was 65.56%. The turnover rate of employees under 30 was 103.87%, the turnover rate of employees aged 30–50 was 38.57%, and there are no turnover of employees over the age of 50; the turnover rate of employees in Mainland China was 72.78%, and there are no staff turnover in overseas and Hong Kong, Macau and Taiwan.

2023 Environmental, Social and Governance Report

- **Case sharing: BAIIO's 2023 Spring on-campus recruitment events**

On 7 February 2023, the Group officially launched the 2023 Spring On-Campus Recruitment Project after detailed orchestration and preparation. This recruitment focuses on core positions such as technology development, game planning and game art, aiming to find a group of talented and innovative young talents to jointly inject fresh vitality into the prosperity and development of the Group.



Promotional Poster of BAIIO 2023 Spring On-Campus Recruitment

2) Remuneration and Benefits and Performance Assessment

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 + shares” to formulate a competitive remuneration package for the staff at different levels and the functional departments. Meanwhile, in March and September every year, the heads of the departments and the human resource department will review the remuneration of staff. Staff members meeting the standards may apply for a pay rise with their heads of the department and the human resource department and relevant heads will consider their applications, enabling 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 body check, festive activities and gift packages, paid annual leave, cash gifts for weddings and newborn babies, meal benefits and settlement for household registration system. The staff benefits system covers various aspects of basic necessities in life, including clothing, food, residence and travel, showing our concern for the vital interests of our employees.

The Group has formulated and consistently implemented the “Human Resource Management System of the BAIIO Group” and conducted appraisal on work performance of employees under the principles of openness, fairness and impartiality. The appraisal is conducted quarterly and annually in terms of their work performance, capability and quality, work ethics etc. The results of the appraisal are classified into five levels, i.e. excellent, good, satisfactory, qualified and unqualified, and serve as an important basis for passing probation, salary increase and promotion of employees. The Group will communicate with employees regarding the results of their performance appraisal to achieve the purpose of making best use of their strengths while avoiding their shortcomings and making continuous progress, thus motivating employees to improve their personal skills continuously.

3) Young Teams and Orderly Management

The Group comprises of young teams with a relaxed and open atmosphere. At the same time, the Group leads its harmonious development by establishing and carrying forward a corporate culture of “innovation, passion, curiosity, initiative, result-oriented and efficiency-centered”. The Group proactively provides guidance in building a dynamic and orderly office environment and reminds the staff to pay attention to meeting duration and keeping the meeting room clean by creative items such as hourglass and placards. The Group has developed an OA system, covering multiple segments such as personnel management, system announcement, staff activities, contract approval, and leave application to simplify workflow and improve work efficiency.

- **Baioo Space**

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 push messages about latest trainings, surrounding facilities, dining guide and administrative guidance, thus facilitating the work and life of employees.

- **House-journal, “BAIOO@YOU” (《百奥@你》)**

“BAIOO@YOU”, which is the largest house medium of the Group. Since its publication 8 years ago, BAIOO@YOU has shouldered the dual mission of internal cultural communication and external brand building. It adheres to the original intention of being employee-oriented and speaking for employees, and conveys the developments of the Group in the most stylish and friendly way, expressing the voice of the Group and the expectations of employees. As of 31 December 2023, BAIOO@YOU has a total of 61 editions, extensively and comprehensively covering corporate culture and people of BAIOO, and deepening employees’ sense of identity and belonging to the Group’s culture, which gives strong impetus to the stable development of the Company.



The covers of journals of “BAIOO@YOU” in 2023

4) Talent Reassessment

In order to fully explore high potential talents at all levels and focus on their training and empowerment, the Group had conducted an annual talent reassessment in the second quarter of 2023 to re-evaluate their capabilities and output the latest defined talent ranks and changes in positions. The reassessment covers main employees at all levels and includes classification of the personnel's task levels, general qualities, professional abilities, management capabilities, etc. The results of talent reassessment will serve as a reference for future talent development strategy and personnel promotion and training, effectively promoting the realization of the Group's values and objectives.

2. Promotion Blueprint and Training Mechanism

The Group takes staff development as its core strategy, and strives to build a fair and transparent promotion blueprint. Meanwhile, the Group caters to staff's needs and customizes training courses and learning opportunities so as to enhance their soft skills, such as professional expertise and teamwork. The Company and its staff members are committed to grow and create a bright future together.

1) "Double-ladder" promotion blueprint

The official rank system of the Group is divided into five categories: products, technical, arts, functional and management. Each rank of each category has specific competency standards and staff members can advance vertically through the ranks, but also move horizontally across to another category. Meanwhile, the Group has established a "Double-ladder" talent development mechanism to promote employees to advance in the "Profession Ladder" of technical talents or the "Management Ladder" of management talents based on the employees' own conditions and career planning, while equal amounts of resources, attention and respect will be given to both ladders. In addition, staff members who have made significant contribution to the Group will be promoted beyond the rule, so as to optimally unleash their potential and motivation.

In the fourth quarter of 2023, the Group successfully launched and completed staff promotion project, which aims to motivate and develop core personnel to promote the advancement of the overall strength of our team. To determine candidates for promotion, the Group comprehensively evaluated according to various key factors (including past performance, strategic relevance, future development potential and influence over products), aiming to ensure the promotion was in line with the future development strategy of the Group. Besides, the Group identified and promoted employees with outstanding abilities and potential, laying a solid foundation for the Group's sustainable development.

2023 Environmental, Social and Governance Report

2) Diversified training system

The Group is committed to providing employees with rich learning resources and broad development space. The Group formulated and implemented the “BAIOO Training Management System”, developing a comprehensive diversified training system covering management to new staff members. We conducted in-depth research on the key capabilities required for employees at various stages, developed relevant learning and training courses, and systematically promote talent development and management.

The human resources department of the Group is responsible for coordinating the preparation of monthly and annual training plans, training courses and training materials of each department, and understanding the actual training of each department. The Group encourages employees to share excellent learning resources and enhance their self-development ability through independent learning. In addition, employees can apply to the Group for financial subsidies, participate in external courses, industry forums and apply for examinations for professional qualifications related to their career development, and continue to stimulate employees’ enthusiasm for continuous learning and self-improvement.

Training program for new staff <ul style="list-style-type: none">• It is oriented to new staff development for social recruitment and on-campus recruitment, and is divided into social recruitment training and on-campus recruitment training• Social recruitment training includes courses on introduction of the Group and basic HR processes• Duration of on-campus recruitment is one year, consisting of intensive lectures, outdoor training, tutorials and professional training• This program facilitates the integration of new staff into the team and development of a clear direction	Training program for management position <ul style="list-style-type: none">• It is mainly divided into training on system and workflow and management knowledge and skills• System and workflow training is mainly carried out for newly-promoted managers, introducing functional system and office process• Management knowledge and skills training is oriented to key management positions or reserve management positions, and is carried out by external vendors• This program empowers relevant staff members to learn and master management ability quickly
Professional skill training program <ul style="list-style-type: none">• It is divided into two categories: in-house and external training• Open to all staff, covering five categories of distribution, product, technology, art and function• The in-house trainer program runs twice a week, and external trainers are regularly invited to conduct training• This program has effectively improved the professional competence and the working efficiency of the staff	Online learning platform <ul style="list-style-type: none">• BAIOO online learning platform “Wiki” is dedicated to sharing valuable training documents and audio materials with our staff• Approximately 600 online courses in “Wiki” are open to all members, covering professional knowledge of different positions, management skills, case study, tips for new staff, market consultation and general workplace qualities• Employees can post “essays”, job summaries and case analyses in “Wiki”, and discuss with department colleagues to fully stimulate innovative thinking and enthusiasm for learning

Diversified training system

2023 Environmental, Social and Governance Report

- **Case sharing: 2023 training program for new staff recruited on-campus**

Between June and September in 2023, the Group carried out 2023 training program for new staff recruited on-campus. The training consisted of three parts: intensive training (lecture + outdoor quality development), tutorial and professional training, which effectively helped new staff to quickly understand the Group and integrate into the Company. This program improved their capabilities in target management, resource control, risk management, team collaboration, and facilitated the transition from school to workplace.



2023 training program for new staff recruited on-campus

- **Case sharing: Management training program**

Between January and April 2023, the Group carried out management training program for key management, targeting to newly-promoted managers, core management and outstanding staff for reserve management, with curriculum covering process system, leadership principles, management tasks, leadership relationships, and guidance performance of each functional department. Case study discussion sessions are included to discuss management issues and solutions. The training was conducted in the form of online self-study and offline class training, supplemented by homework and examination, enabling the trainees to further familiarize with the role of the manager, the system of management process, and facilitating solving management issues in the actual workplace.



Management training program

2023 Environmental, Social and Governance Report

- **Case study: training program on AI painting principles and engine technology**

During the Year, the Group carried out a series of training courses on AI applications, including AI functions and use of drawing tools, to improve the application ability of integrating AI technology into painting process, with a total of 123 people participated in the program. In addition, the Group encouraged outstanding employees to participate in external trainings. During the Year, relevant TA technical personnel participated in conference on virtual engine, Unreal Fest, to learn from practical experiences of top engine technical experts in China, and the latest industry application cases to improve relevant knowledge and skills.



AI painting principles training program



Engine technology training program

3) In-house trainer system

The internal trainer system serves as an important mechanism for the exchange of experience and technology among employees within the Group, and also a vital platform for employees to express themselves and explore their “other aspect”. The Group has formulated and implemented the Measures of Managing In-house Trainers, encouraged the staff to share, learn and exchange ideas on a regular basis. Employees can become in-house trainers after passing a series of certification processes, with their teaching and training assessed. Focusing on building a team of in-house trainers, they are entitled to relevant rights and interests.

In order to continue to give full play to the vitality and potentiality of the in-house trainer mechanism, the Group provides support and regularly provides training courses for them, such as courseware development and teaching skills, to improve their teaching ability. Meanwhile, the Group optimized the rating criteria of instructors, divided them into junior, intermediate and senior instructors based on the three criteria of teaching hours, course satisfaction and number of participants, and increased the incentive level of trainers. During the Year, the number of the in-house trainer team of the Group has reached 148.

2023 Environmental, Social and Governance Report

During the Year, the Group conducted 2,691.88 hours of training for a total of 501 persons. Besides, the Group has invested a total of RMB84,649 in external on-the-job education and training, to broaden their horizons and enhance their professional skills and management capabilities.

	2023	Percentage of the trained employees	Average training hours per person
By gender	Male	57.29%	4.58
	Female	42.71%	2.59
By rank	Middle and senior management	1.60%	0.99
	First-line management	13.37%	8.68
	General staff	85.03%	2.92

3. Occupational Health and Humanistic Care

The Group has paid great attention to the occupational health and safety of its employees, and strictly complied with laws and regulations such as the Law of the People's Republic of China on Prevention and Control of Occupational Disease and the Production Safety Law of the People's Republic of China. It adopted a series of measures such as occupational disease protection, care for female employees and fire drills to protect the physical and mental health and safety of employees. At the same time, the Group advocated the work philosophy of "combination of work and rest", and actively carried out a variety of employee care and team— building activities to enhance the employees' cohesion and sense of belonging and guide employees to pursue a better life in a healthy and sustainable way. In the past three years including the reporting year, there was no work-related fatalities occurrence. In the reporting period, there was zero lost day due to work injury.

1) Occupational Disease Prevention and Fitness Facilities

The Group attaches great importance to the health and safety of its employees. Our businesses do not involve any occupational hazards of high dangerousness or risks, but the Group provides employees with annual physical examination and additional commercial insurance, and AED emergency equipment for cardiopulmonary resuscitation is installed in the office to cope with emergencies. At the same time, in order 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, the Group encouraged the staff to relieve fatigue by standing, walking and stretching.

2023 Environmental, Social and Governance Report

The Group is well-aware of the importance of employees' physical and mental health to work, and creates a comfortable and free working atmosphere for employees by providing a space for leisure and relaxation. In the meantime, the Group provided a variety of welfare facilities, such as the purchase of multi-functional massage chairs and the setting of exclusive preferential prices, which can be used by employees after work to alleviate muscle strain. We have also hired external teachers to provide various courses such as yoga, fitness training, and kickboxing at free gyms and yoga rooms at each weeknight. We encourage employees to actively participate in physical exercise. We have also built a cat room, a library and a manual cabinet to stimulate creative inspiration of employees.



Staff participated in kickboxing lesson



Library



Lulala cat house



Display cabinet

2023 Environmental, Social and Governance Report

The Group highly values employees' dining experience. It created a comfortable dining environment for employees by providing spacious, bright, exquisite restaurants and café. In addition, it has taken rigorous food safety measures to ensure that employees eat safely and healthily. At the same time, allergy warning labels were provided in the restaurants to ensure the food safety of employees. The Group also launched “online order + call for meal” mode. After placing an order online, the staff can directly go to the food counter to pick up the meal, reducing the queuing time. In order to further expand the variety of dishes, restaurants continued to introduce a total of 105 new products this year, including special meals and limited meals for festivals and seasons. In addition, employees can submit complaints and claims for wrong or problem dishes through the “restaurant suggestion box” function, the “online star evaluation of dishes” function and the online complaint channel on the enterprise's WeChat mobile terminal, and the supplier will communicate and follow up with them, thus further improving the staff's dining experience.



Staff canteen and restaurant new dishes

2023 Environmental, Social and Governance Report

- **Case sharing: AED first aid training**

On 24 April 2023, the Group invited experts to conduct AED first aid training for employees. By watching videos, pictures and listening to experts' careful explanation, employees learnt about cardiopulmonary resuscitation procedures, operating methods, precautions and the availability of AED equipment in the office, and carried out practical first aid operations. This activity effectively enhanced the treatment capabilities of employees in responding to emergencies and improved their self-rescue and mutual-rescue skills.



AED first aid training

- **Case sharing: free dental clinical services**

On 21 July 2023, the Group invited Suihua Stomatological Hospital Affiliated to Jinan University to conduct a special on-site free dental clinic activity for employees. During the activity, the medical team conducted detailed oral examinations, professional diagnosis and treatment suggestions for employees, and distributed oral health education materials to popularize the knowledge of oral health care, which effectively enhanced the staff's oral health concept, increased their emphasis on oral health and stimulated their passion for personal health management.



Special free dental clinic activity

2) Care for Females

The Group attaches great importance to the care and protection of female employees. The Group facilitates female employees to improve their adaptability and tolerance to the work environment, promotes gender equality in the workplace and increases the temperature of the enterprise by providing facilities and benefits for female employees such as convenient washrooms, nursery rooms and “Channel for Mothers-to-be” in staff restaurants.

Convenient washrooms

- The Group renovated and relocated the original women’s toilet room in the office building to the interior of the Group’s office area, increased access protection, and provided menstrual hygiene products to female employees to ensure their safety and convenience when using the toilet.

Nursery rooms

- The Group provides fully-equipped baby care rooms, including door curtains, tables and chairs, washrooms, refrigerators and other equipment, which fully shows our respect and protection for employees’ privacy, and has been unanimously affirmed and praised by many novice mothers of the Group.

“Channel for Mothers-to-be” in staff restaurants

- The Group has also opened the “Channel for Mothers-to-be” in staff 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.



Nursery



“Channel for Mothers-to-be” in staff restaurants

2023 Environmental, Social and Governance Report

3) Staff Activities and Humanistic Care

The Group is an advocate of work-life balance and holds various leisure festival activities for the employees regularly through our established trade union committee. In 2023, the Group enriched employees' spare time cultural life by organizing coffee experience classes and holding activities on Mother's Day, Father's Day, Dragon Boat Festival and Mid-Autumn Festival, so as to create a lively, positive and healthy atmosphere and improve team cohesion.

- **Case sharing: coffee experience class**

On 26 October 2023, the Group organized coffee experience classes to explain to employees the basic knowledge of coffee beans, how to use bean grinders and coffee machines, and demonstrate the operations and techniques of coffee making. Under the guidance of baristas, everyone participated in the coffee making process and experienced the fun of making coffee with his own hands.



Coffee experience classes

- **Case sharing: Warm Mother's Day and Father's Day**

During the Year, the Group organized heart-warming activities on Mother's Day and Father's Day respectively, sending exclusive holiday gifts to female employees who have become mothers; and inviting bone setting teachers to perform shoulder and neck massages for employees who have become fathers. By holding such festival activities, we conveyed care and provided physical and mental care to employees, enhancing their sense of belonging to the "big family".



*Exclusive presents giveaway on
Mother's Day*



*Shoulder and neck massage on
Father's Day*

2023 Environmental, Social and Governance Report

- **Case sharing: Celebrations on the Dragon Boat Festival and Mid-Autumn Festival**

During the Dragon Boat Festival on 22 June 2023, in order to create a festive atmosphere, the Group organized employees to participate in making zongzi (a traditional Chinese rice-dumpling). The event invited experts to explain the process and techniques of making zongzi to everyone, which inspired everyone's love for traditional food making in the fun-filled production process.



Making zongzi on the Dragon Boat Festival

During the Mid-Autumn Festival on 29 September 2023, in order to promote traditional culture and enhance employee cohesion, the Group organized activities to celebrate the Mid-Autumn Festival. Those activities created a happy and peaceful festive atmosphere, allowing employees to deeply understand the connotation of the traditional culture of the Mid-Autumn Festival.



Mooncake-making activities on the Mid-Autumn Festival

2023 Environmental, Social and Governance Report

4) Fire Drill

The Group 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 continues to improve employees' fire safety awareness and emergency response capabilities.

- **Case sharing: fire drill activities**

On 12 June 2023, the Group organized employees to participate in the property fire drill, so that employees could learn the basic knowledge of fire protection, the use of fire-extinguishing equipment and escape skills, etc., which effectively improved employees' safety awareness and enhancing their ability to respond and protect in emergencies.



Fire drill site

4. Labor Rights and Interests

The Group formulates and implements the internal management system of “Employee Handbook” and “Personnel Management System”, and provides employees with opportunities to speak freely by establishing diversified communication and complaint channels. Meanwhile, the Group resolutely prohibits the employment of child labor and forced labor, opposes any form of discrimination and harassment, and fully protects the vital interests of employees.

1) Staff Satisfaction and Complaints

The Group encourages and requires all employees to maintain adequate communication, and clarifies employee communication channels and grievance procedures in the “Personnel Management System”. The Group hopes to understand employees’ opinions and feedback in a timely manner, enhance friendship, help each other, learn from each other, make progress together, and form a good working atmosphere of unity within the department and the entire Group.

Employee communication channels

- Employees are free to join any trade unions or similar organizations;
- Employees can learn about the Group’s various notices via OA bulletin board, intranet, email and other channels;
- Employees can submit suggestions and opinions on various aspects of the Group through email and follow the complaint and appeal procedure;
- Employees have the right to express personal opinions or complaints to their direct superiors, superior superiors, and human resources department;
- To conduct face-to-face interviews at the critical stages of work career including career entry, promotion and resignation; and
- To issue questionnaires regularly to understand the degree of satisfaction and demands of the employees.

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. The Group strictly prohibits hiring child labor by verifying the age and other identification information of job applicants. It is strictly prohibited to employ child labor. If it is found that the management personnel intentionally assist the applicants to conceal their true identity and age and use false identity certificates to enter the Group, the Group will seriously deal with it according to the system. In the meantime, the Group implements flexible working hours and is opposed to working overtime. The employees who need to work overtime should apply in advance and will be granted with paid leave or overtime compensation. 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, and strictly maintains a working environment where everyone is equal and respectful. In terms of employee recruitment, wages, benefits, training, promotion, etc., the Group does not discriminate on the basis of race, social status, national origin, religious belief, age, disability, gender, marital status, pregnancy, sexual orientation, political affiliation, etc., and abuse and harassment of employees are strictly prohibited. During the reporting period, the Group did not receive any complaints regarding infringement of the staff's rights and interests.

VI. COMPLIANCE OPERATIONS AND ANTI-CORRUPTION

The Group has always adhered to the concepts of compliance operations, honesty and integrity, and has formulated and implemented various internal management systems, such as Contract Review Methods and Highlights, Practical Guidelines on Anti-Corruption and Employees' Handbooks, to continue to improve the construction of the compliance system and enhance the level of operation and management as well as risk prevention capabilities. Meanwhile, the Group continues to strengthen the construction of a culture of integrity, improve employees' awareness of integrity, and create an honest and trustworthy, clean and upright business environment.

1. Compliance Operations

The Group strictly complies with the relevant national laws and regulations and obtained relevant official qualifications and licenses such as the Network Culture Operation License, the Online Publishing Service License, and the Publication Operation License of the People's Republic of China. At the same time, all departments of the Group adhere to operating in compliance with the laws, such as:

- the public affairs department strengthens close communication with government authorities, industry associations and other organizations, tracks and implements the new industrial regulations in a timely manner, and ensures that the Group operates in accordance with laws and regulations;
- legal affairs department strictly implements the Guidelines for the Legal Affairs of BAIOO, and carries out legal affairs such as contract review and approval, legal document review, intellectual property protection, infringement complaints, etc. in accordance with the standard operating specifications to protect the legal rights and interests of the Group; and
- overseas issuance team cooperates with the legal affairs department and various business departments to identify compliance risk points in overseas regions and is committed to ensuring the compliance operations of the Group's overseas business.

During the Year, the Group's public affairs department participated in a total of 15 conferences on industry laws and regulations organized by competent government departments or industry associations, to thoroughly study and implement the Personal Information Protection Law, Regulation on the Protection of Minors in Cyberspace and other industry-related laws and regulations, as well as to strictly implement the latest legal and regulatory requirements in the industry. Simultaneously, the Group's legal affairs department shares legal knowledge and relevant cases with all employees through monthly internal training and sharing sessions, the BAIOO Legal Express subscription account and others, in order to continuously enhance employees' awareness of compliance.

2023 Environmental, Social and Governance Report

- **Case sharing: Training on legal analysis of online game account transactions**

On 6 July 2023, the legal affairs department organized a training on the legal analysis of online game account transactions, which provided employees with an in-depth analysis of the composition of online game accounts, the value of accounts and the entire process of account transactions, explored the attribution of online game accounts, and analyzed the legal risks in the trading and sale of online game accounts through case studies. Through this training, the relevant employees effectively acquired the ability to determine the legal risks involved in online game accounts and main points for responding.



Legal analysis training site

2. Anti-corruption

The Group 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, the Anti-Monopoly Law of the People's Republic of China. The Group has a policy of zero tolerance towards corruption and has formulated and enforced internal systems such as the Anti-Fraud, Anti-Corruption and Report Management System to clarify the specific requirements of anti-corruption, anti-bribery and anti-money laundering work in prevention, control and feedback. During the reporting period, the Group did not involve in any corruption litigation cases or received any related reports.

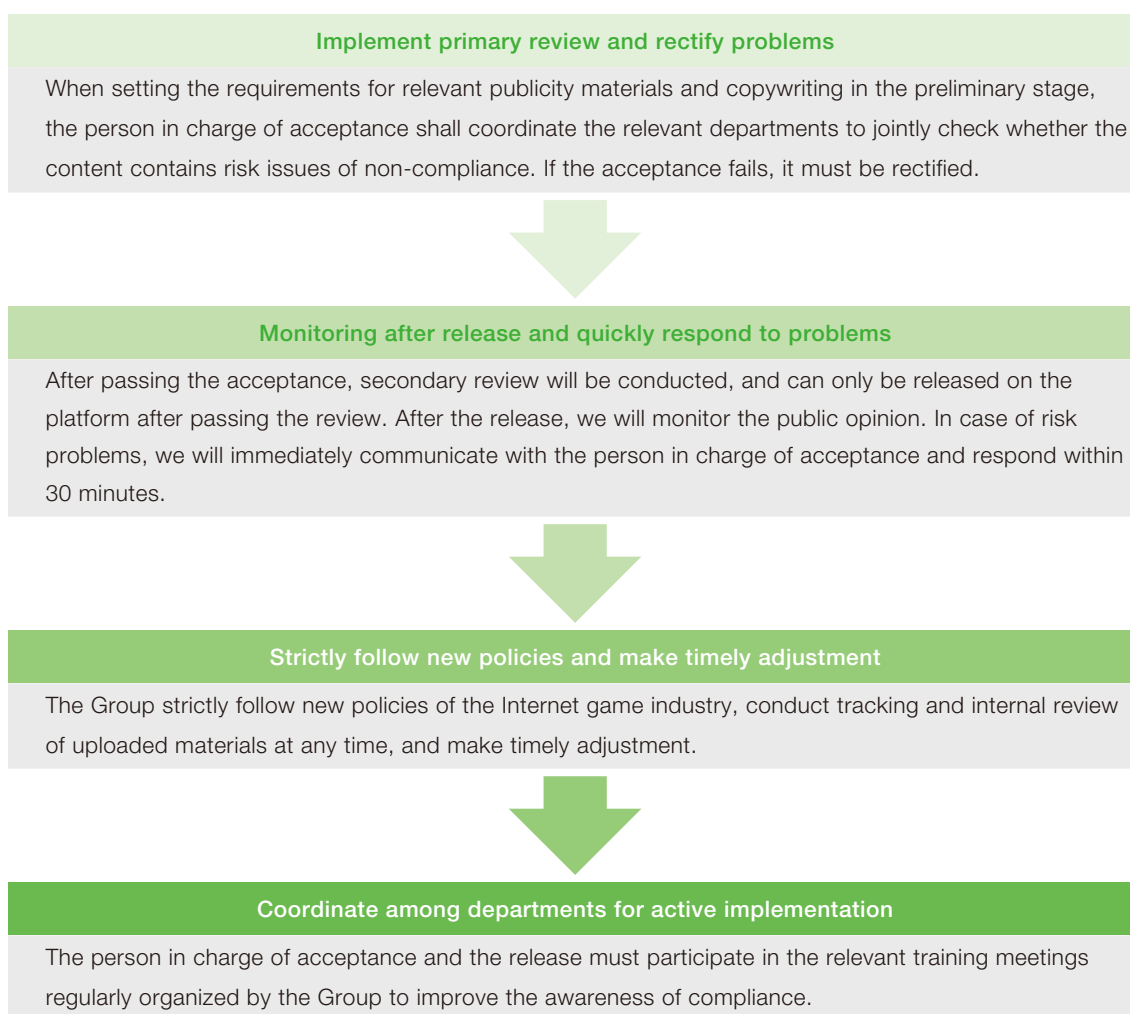
The Group receives reporting information via email, reporting telephone, anonymous mail and other channels and publicize it on the internal and external networks; For the reported information received, the Group has formulated clear handling procedures, reward and punishment plans and remedial measures. In addition, the Group specified the whistleblower protection mechanism, and those who divulge the whistleblower's information, retaliate against the whistleblower, or make false or malicious accusations against the whistleblower will be considered as serious violations of the company's rules and regulations, and will be dismissed with their employment contract terminated; Those who violate the law shall be transferred to the judicial organ for handling according to law. Furthermore, the Group regularly organizes subject talk and training on anti-corruption for all employees and directors of the Group, emphasizing on the Group's "third rail" as well as its management practices and strengthening the awareness of integrity and work ethics of all employees.

2023 Environmental, Social and Governance Report

During the Year, the Group organized anti-corruption related training for a total of 732 directors and employees totaling 732 hours. The anti-corruption training cover the Group's anti-corruption policy and risk management approach etc., ensuring that the employees are fully aware of the anti-corruption policy, the process of managing corruption risks, and familiarizing with their corresponding roles and responsibilities in anti-corruption and business ethics, to cultivate a good sense of anti-corruption awareness and professional conduct.

3. Publicity on Compliance

The Group highly values the compliance of publicity and marketing of products and services, strictly complied with laws and regulations such as Advertising Law of the People's Republic of China and strictly checked the contents of publicity of game products, advertising materials, and community posts, so as to completely eradicate false and exaggerated advertising. The main steps of review and management of publicity materials of the Group include:

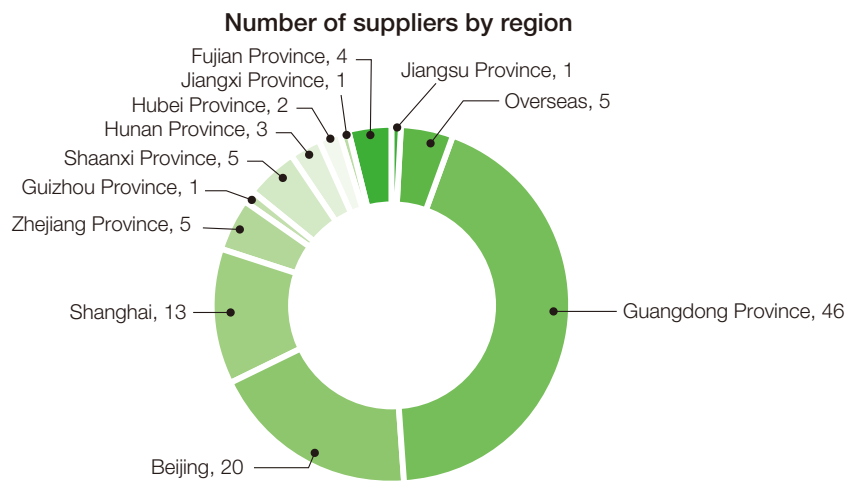


2023 Environmental, Social and Governance Report

At the same time, the Group has formulated and implemented the Administrative Measures for Filing Online Accounts to uniformly register and manage the official online accounts published, including websites, official account, online stores and Tiktok account, and to clarify the procedures for opening account and changing administrators. The Group continues to strengthen the review of text, pictures and other contents, and constantly improve the content review mechanism. The legal affairs department regularly inspects the posts on each account and will immediately delete any content of non-compliance once discovered.

VII. RESPONSIBILITY OF THE SUPPLY CHAIN

Adhering to the concept of “win-win cooperation and sunshine procurement”, the Group strictly complies with the Bidding Law of the People’s Republic of China, Government Procurement Law of The People’s Republic of China and other relevant laws and regulations, formulates and implements internal systems such as the “Commerce Management System”, the “Supplier Selection Management System”, to standardize the selection, evaluation and management of suppliers, and incorporates the supplier’s code of conduct into the “Commerce Management System”, clarifying the requirements and assessment process of environmental management, labor rights, equality and anti-discrimination and anti-corruption of suppliers, and is committed to creating an open and transparent environment for sunshine procurement. At the same time, the Group gives priority to the selection of products and suppliers that are conducive to the sustainable development of society and the environment, and urges suppliers to jointly promote the development of green supply chain. In 2023, the Group has 106 suppliers, all of whom are subject to supplier admission, evaluation, and management practices. The number of suppliers by region is as follows:



2023 Environmental, Social and Governance Report

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 evaluate the management of operation, manufacturing capability, technical level, quality level, delivery capability, price level, after-sales service and other indicators of suppliers by adhering to the principles of openness, impartiality and merits, and determine the final list of suppliers based on the evaluation results. When selecting catering suppliers, the Group focuses on the source of food, quality of ingredients, the distribution sites, service experience to ensure the safety of food and quality of service.

2. Supplier Assessment

At the end of each year, the finance department and relevant departments are responsible for conducting assessments of suppliers selected by the Group. The assessment criteria include the business scale, quality level, delivery capability, price level, technical capability, service quality, compliance with code of conduct of the supplier, and the assessment team will evaluate by weight for different indicators. The assessment results of the suppliers are divided into three levels: A being the highest level and priority will be given to those so evaluated in future procurement deals, with procurement proportion increased if necessary; for those evaluated the intermediate level of B, normal transactions and procurement proportion can be maintained; for those evaluated the lowest-level of C, our partnership will be terminated and replaced with new suppliers. The results of the assessment are recorded in the Annual Supplier Assessment Form, which is kept by the finance department. After the completion of the annual assessment, the finance department will update the List of Major Suppliers based on the results of the assessment.

3. Environmental and social risk management of the supply chain

The Group attaches great importance to the sustainable development of the supply chain by giving priority to suppliers which can promote social and environmental sustainable development, and formulates requirements of code of conduct for suppliers in selecting suppliers, requiring them to comply with the following codes of conduct at the lowest limit:

- **Compliance with laws and regulations:** All applicable laws and regulations must be observed in the course of operation;
- **Environment:** Appropriate systems should be adopted to assess, measure and reduce the impact of business operations on the environment;
- **Child labor and forced labor:** Workers below the legal working age shall not be employed; No forced labor, coerced labor or bonded labor in any form shall be employed;

2023 Environmental, Social and Governance Report

- **Salary and working hours:** All employees should sign employment contracts in accordance with local laws; The supplier shall comply with the local applicable statutory minimum wage level and self-discipline code; Overtime compensation shall be paid in accordance with the law, and the hours shall be within the legal working hours limit;
- **Labor Relations:** Appropriate communication mechanism and appeal procedures should be in place to enable employees to express their demands and appeal to the management;
- **Health and safety:** Health and safety policies should be formulated, and operation procedures should be clearly listed to reduce the chance of injury or illness of employees and protect their health; Training on occupational safety and relevant codes of practice should be provided for employees to ensure safety for themselves and their employees;
- **Discrimination:** When hiring employees, the main determinant shall be whether the candidate meets the job requirements. No discrimination against employees on the basis of gender, race, nationality, age, marital status, child status, sexual orientation, religion or physical disability will be allowed;
- **Suppliers and subcontractors:** If applicable, code of conduct meeting the requirements of suppliers shall be formulated and salary should be paid to their suppliers and subcontractors on time; and
- **Bribery and corruption:** Policies, codes of conduct and operating procedures should be formulated to eliminate any form of bribery, corruption and fraud and ensure strict implementation.

At the same time, the Group actively responds to the national goal of achieving carbon peak and carbon neutrality, practices green and low carbon concept and promotes the awareness of ESG management to the suppliers, and takes full account of factors such as environmental protection, resource conservation, safety and health, recycling and low carbon and recycling promotion in procurement decisions, for example, priority is given to cloud server providers with the concept of green data center, and we actively build green supply chains. Energy-saving and eco-friendly products, such as LED lighting, split air conditioners and computers with national energy-saving certification, etc., are our first choice in decoration materials and office equipment in the office area of the Group to reduce energy consumption.

4. Supplier Communication and Management

The Group maintains transparent and smooth communication with suppliers on the basis of mutual trust and cooperation to ensure that the demands of both parties are timely addressed to, striving to build a mutually beneficial and win-win cooperative relationship. 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. The administrative department holds suppliers' meeting every month and regularly follows up on the daily operation of the suppliers so as to maintain effective communication and solve any problems in a timely manner.

For the catering suppliers, the Group has developed monitoring measures for daily management as follows:

Ensure food safety in restaurant	Maintain sanitation of the restaurant environment	Improve the service quality of the restaurant
<ul style="list-style-type: none">• implement a quarterly sampling mechanism for on-site dishes and tableware and send to a third party for testing;• conduct 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.	<ul style="list-style-type: none">• regularly conduct the general cleaning every week and arrange professional disinfection companies for door-to-door quarterly treatment;• check the sanitation of the restaurant environment and every day to ensure the comfort of the restaurant environment.	<ul style="list-style-type: none">• check the food products every day to ensure the effectiveness of the food supply;• check the dressing of the staff, and check the health certificates regularly;• implement the punishment mechanism for complaints received into the contract terms and clarify the compensation terms and coverage.

2023 Environmental, Social and Governance Report

For coffee shop suppliers, the Group has developed the following daily management and monitoring measures:

- The management of products in and out of storage was strengthened to keep the inventory within a reasonable range. When bottled drinks are sold, their remaining shelf life shall not be less than one third of the effective shelf life of the products.
- The administration department strictly supervised and managed the environmental sanitation of the coffee shop, and required the supplier to clean and disinfect the bar before and after business every day; and
- The requirements for mealtime were specified, and the WeChat platform-based online ordering service was provided to ensure that the service meets the expected standards.

For cleaning and greening suppliers, the Group has developed the following daily management and monitoring measures:

- The supplier was required to output the work completion of the day in the form of mini program; and
- Adhering to the long-term cooperation intention, we established a mutual trust mechanism to strengthen information sharing, jointly optimize the office cleaning and greening mechanism and operation process, and improve the service efficiency and quality of suppliers.

VIII. ENVIRONMENTAL RESPONSIBILITY

The Group actively responds to the national dual carbon goal, and incorporates environmental protection into its routine operations and management, strictly follows the laws and regulations including the Environmental Protection Law of the People's Republic of China and Atmospheric Pollution Prevention and Control Law of the People's Republic of China, formulates and implements the Office 5S Management Regulations, the Fixed Asset Management System and other policies on environmental protection, carries out a series of measures such as energy conservation and emission reduction, water conservation and waste classification, etc. to improve the efficiency of energy and resource utilization. At the same time, the Group continues to enhance its ability to respond to risks of climate change, aiming to capitalize on the opportunities created by climate change and help transform contribute to the transition to a low-carbon economy. The Group also organizes environmental campaigns to raise awareness of environmental protection among all sectors of the society.

1. Green Operation

The Group always adheres to the concept of green development, conducts daily operation and management under the principle of "green office, energy saving", identifies energy consumption and emission points of operation management, optimizes green operation measures, and reduces carbon emissions. Meanwhile, the Group implements water resource management and waste management in a planned manner, explores the green circular economy, and strives to create a green and low-carbon office environment.

1) Save energy and resources and reduce carbon emissions

The Group attaches great importance to conserve energy and reduce emissions in its operations. It has formulated energy conservation and emission reduction goals and specific measures, and actively takes measures to promote the realization of the goals.

The Group's objectives: to put into practice the operation mode of low-energy consuming and sustainable development, explore green and low-carbon office, improve energy efficiency and reduce greenhouse gas emissions.

The Group's measures on the management goal include:

- Employees are encouraged to choose public transport mode, green travel and reduce personal carbon footprint;
- The office shall be equipped with LED lamps, and the electric lamps shall be turned off during lunch break, and the energy-saving and environmental protection signs shall be posted. The electric lamps in the meeting room, training room and other public areas shall be turned on and off at the same time; Arrange personnel to patrol and turn off the power supply after work and before holidays;

2023 Environmental, Social and Governance Report

- The Group promotes the behavior of green supplies and encourages and advocates the selection of reusable office stationery; Electronic office equipment shall be products with energy-saving certification marks, and the maintenance for failure shall adopt the mode of repair or replacement of parts to reduce the waste of resources newly purchased;
- The air conditioning temperature shall not be too low, the room temperature shall be kept at 26°C, and the temperature difference shall not exceed 1°C; Fresh air systems are installed on all floors of the Group to lead the outdoor air into the room after purification and discharge the indoor air out of the room after purification; and
- The Group completely decommissions the physical computer rooms of online services, leases a cloud server provider with a green data center concept and migrates all services to the cloud-based platform; The Group adjusts the operating parameters of the rotating ring equipment (precision air-conditioner) in the internal data room quarterly to ensure low-consumption and high-energy operation of the equipment under seasonal changes.

During the Year, the key achievements of the Group in promoting the realization of energy saving and emission reduction targets were that the Group's electricity consumption were reduced by 5.62% year-on-year through the implementation of a series of energy saving and emission reduction initiatives.

2) Conservation of water resources

The Group attaches importance to the efficient utilization of water resources in its operations and has formulated and implemented various water conservation measures to enhance the efficiency of water resources. During the reporting period, the Group had no water pressure in business operation and no difficulty in sourcing suitable water.

The Group's objectives: Water resource should be used rationally to improve the efficiency of water use.

The Group's measures on the management goal include:

- set up water-saving faucets in toilets, and strengthen daily maintenance and management to reduce the waste of water resources; and
- strengthen internal publicity and implementation by posting environmental protection signs and other ways to improve employees and cleaning personnel's awareness of water conservation.

During the Year, the key achievements of the Group in facilitating the accomplishment of water conservation targets is: employees were guided to form water-saving habits and their water-saving awareness was enhanced by adopting the above water conservation measures.

2023 Environmental, Social and Governance Report

3) Waste management

In compliance with the Law on the Prevention and Control of Environmental Pollution by Solid Waste and other regulations, the Group adheres to the principles of reduction, recycling and harmlessness and strictly manages the discharge and treatment of waste. Based on business characteristics, the Group's waste discharge mainly consists of waste gas produced by the use of official vehicles, office waste and a small amount of waste electronic equipment, and there is no direct discharge of waste to water and land.

The Group's objectives: Materials recycling should be improved and waste should be reduced.

The Group's measures on the management goal include:

- Garbage classification is advocated to set up special garbage bins for recyclable garbage, other garbage, kitchen waste, and harmful garbage, and the cleaning personnel will pack and transport the classified garbage to the centralized treatment point, and then the property management company will handle it uniformly;
- Garbage recycling is recommended to separate and the paper, plastic, glass, metal and electrical appliances with recycling value in office garbage to store separately, and submit to the waste recycling agency for comprehensive utilization;
- Hazardous waste is sent to the community centralized collection site for professional treatment according to the regulations. For the waste ink cartridges, toner cartridges and instruments and equipment that cannot be reused, the Group will arrange relevant personnel to collect them uniformly and regularly submit them to the supplier for treatment;
- The "green printing" policy is strictly implemented to set the monthly limit of printing/copying paper for employees, and the administrator of the printing and copying machine regularly monitors the background data, supervises the use of office paper, advocates the reuse of printing paper, recycles daily single-sided paper documents that do not involve confidentiality as secondary paper, and sets up a special secondary environmental protection paper storage cabinet in the printing area; and
- Promote paperless office, launch more approval processes in the OA system, and convert traditional paper approvals into online approvals; Use the Feishu Cloud document function to enable multiple people to access and edit at the same time, reducing the need to deliver documents through paper, express delivery, etc., to improve work efficiency and reduce office paper consumption.

During the Year, the key achievements of the Group in propelling the fulfillment of waste reduction targets is that the Group's non-hazardous waste decreased by 14.64% year-on-year through a series of waste reduction initiatives.

2023 Environmental, Social and Governance Report

2. Green promotion

The Group advocates a green and low-carbon lifestyle, actively carries out environmental awareness promotion activities and invites all employees and the public to participate in ecological and environmental protection actions.

Case sharing: Charitable tree planting activity on the theme of “Staying next to Lucid Waters and be with Lush Mountains”

On 12 March 2023, BAIIO Charity and Baitian Party Branch organized 20 employee volunteers to go to Nansha Wetland Park in Guangzhou to plant the third batch of love forests, to achieve the environmental protection mission of “environment is livelihood, green hills are beauty, and blue sky is bliss” with practical actions. A total of 20 golden bell tree saplings were planted in this activity, contributing to the construction of ecological civilization.



Charitable tree planting activity

In addition, the Group believes that games can be used as a medium to spread environmental awareness, the Aola Star, one of the flagship products of the Group, tells an adventure story in the “Aola Star Planet” where advanced eco-friendly technology and green energy are used. The game has embedded a lot of environmental protection knowledge in the storyline and scenarios, including garbage sorting and resource recycling, which arouses users’ interests and awareness of environmental protection through fun, cultivates their sense of responsibility and action for environmental education, and obtains a positive effect in environmental education and promotion.

2023 Environmental, Social and Governance Report

3. Responding to climate change

Climate change has become a common problem that all mankind must urgently address. With reference to the proposed framework of TCFD (Task Force on Climate-Related Financial Disclosures), the Group continues to improve resilience and resistance to climate change risks around the four pillars of “Governance, Strategies, Risk Management, Indicators and Targets”.

Governance

The ESG Management Committee of the Group is responsible for formulating and reviewing related policies on climate change, and includes “Response to Climate Change” in its annual materiality assessment. Simultaneously, the ESG Management Committee supervises the Group’s effective management of risks in climate change in the process of operation, so as to mitigate the impact of climate change on business, adapt to climate and environmental change, and strengthen the Group’s ability to resist climate change.

Strategies

The Group is actively engaged in the identification and assessment of climate-related risks and is concerned about their potential impact. In combination with the TCFD’s recommendations, the Group identifies climate change risks that may have a significant impact on the Group from two dimensions, namely transition risks and physical risks, and actively takes response measures.

2023 Environmental, Social and Governance Report

Risk type		Risk description	Response measures
Transition risks	Policies, regulations and laws	In the context of the national goal of achieving carbon peak and carbon neutrality, regulatory requirements such as carbon emission report and information disclosure, and expansion of carbon trading scope may be generated in the future	<ul style="list-style-type: none"> Continue to pay attention to the development of national laws and regulations related to climate change Continue to promote energy conservation and consumption reduction measures to reduce greenhouse gas emissions
	Market	<p>The market's awareness of climate change has been strengthened, and customer behavior preferences have changed, which will be more inclined to buy products and services with green eco-friendly attributes</p> <p>Rising costs of electric power and other energy procurement</p>	<ul style="list-style-type: none"> Real-time tracking of customer behavior preferences, and timely increasing efforts to develop green eco-friendly products Strengthen the promotion and management of energy conservation and consumption reduction Prioritize the use of energy-conserving equipment and reduce unnecessary energy consumption
Reputation	Poor and negative news on environmental protection and climate change may affect the reputation of the Group		<ul style="list-style-type: none"> Strengthen brand building, and incorporate green elements into the game Actively undertake and disclose green environmental protection and climate change response measures and achievements

2023 Environmental, Social and Governance Report

Risk type		Risk description	Response measures
Physical risks	Acute risk	Daily operation is interrupted due to power failure and water shut-down caused by natural disasters such as typhoon, flood, drought or extreme weather	<ul style="list-style-type: none"> Deactivate the original online service physical engine room for operation and maintenance, and migrate all relevant service contents to the cloud server
	Chronic risk	Regional climate change caused by rising average temperature and sea level, and office and data infrastructure may be damaged	<ul style="list-style-type: none"> Regularly carry out data validation of data disaster recovery system, establish offline data backup, and ensure the availability and integrity of backup data Conduct monthly data recovery emergency drill and result analysis

Risk management

The Group identifies major climate change risks based on the characteristics of its principal business, the characteristics of its industry and the climatic conditions of the geographical areas in which it is located. At the same time, the Group actively adopts response measures to mitigate the identified climate-related risks, and the relevant business departments are responsible for executing and implementing feasible countermeasures.

Indicators and targets

In order to better understand and continuously track the effectiveness of the Group's efforts to address climate change, the Group has set relevant targets covering energy conservation and emission reduction, water conservation, and waste management, and has actively taken measures to promote the achievement of the targets. Meanwhile, the Group continues to disclose the greenhouse gas emission data of Scope I and Scope II and pay attention to the emission reduction measures of Scope III. Employees are strongly encouraged to travel in a low-carbon and green way, and give priority to public transportation when traveling, so as to reduce the carbon emissions generated from commuting and travel.

2023 Environmental, Social and Governance Report

4. Key Environmental Performance Data for 2023

ESG Key performance indicators	Unit	Consumption/Emission
NOx	Kg	1.69
SOx	Kg	0.03
Particulate matter	Kg	0.12
Greenhouse gas emissions (Scope I)	Tonne	5.56
Greenhouse gas emissions (Scope II)	Tonne	1,080.16
Total greenhouse gas emissions (Scopes I + II)	Tonne	1,085.72
Total hazardous wastes	Tonne	0.07
Total non-hazardous wastes	Tonne	8.10
Gasoline consumption	'000 kWh	18.53
Electricity consumption	'000 kWh	1,894.02
Direct energy consumption	'000 kWh	18.53
Indirect energy consumption	'000 kWh	1,894.02
Total energy consumption	'000 kWh	1,912.55
Energy consumption intensity	'000 kWh/person	2.61
Office paper consumption	Tonne	0.58
Water consumption	m ³	952.00
Water consumption intensity	m ³ /person	1.30

2023 Environmental, Social and Governance Report

Notes of the environmental data for 2023:

- The collection time of environmental data in 2023 covers from 1 January 2023 to 31 December 2023; the scope of collection includes the Group's office building in Guangzhou, official vehicles and engine room used by administrative office.
- Emissions in 2023 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) are generated 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 latest Average Emission Factor of National Power Grid.
- The types of energy consumed by the Group in 2023 included purchased electricity and gasoline used in official vehicles; the relevant energy coefficient are referenced from the Reporting Guidance on Environmental KPIs of the Hong Kong Stock Exchange and the national GBT2589-2020 General Principles for Calculation of the Comprehensive Energy Consumption.
- Total hazardous wastes included the volume of the waste electronic products, waste batteries and waste ink cartridges/toner cartridges; with 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 intensity values are calculated by the total number of employees.

IX. GIVING BACK TO THE SOCIETY

The Group actively contributed to the society and fulfilled its corporate responsibility and created a fair, equal and inclusive social environment by carrying out public welfare activities such as education assistance, rural revitalization initiatives and caring for the elderly. During the Year, the Group has established the “BAIOO Public Welfare” and organized 5 social welfare activities with 144 volunteers participated, which benefited a total of 440 people and the donation amounted to RMB110,122.

1. Education assistance

➤ **Case sharing: “Happy Kitchen”, “Baitian Library” donation and return visits to primary schools and assistance to public schools**

“BAIOO Public Welfare” made donations to build “Happy Kitchen” for two rural schools, Xiyong Primary School in Yangjjiao Town, Maonan District, Maoming City and Dapo Primary School in Nawu Town, Huazhou City. It also made donations to participate in the construction of “Baitian Library” for Dapo Primary School. In March 2023, the Group conducted in-depth return visits to these two primary schools to find out the usage and operation of the equipment: “Happy Kitchen” benefited more than five hundred teachers and students, improved the hardware facilities as well as food hygiene and safety issues of the canteens of the rural primary schools, protecting the health of teachers and students; and “Baitian Library” provided a warm and comfortable reading environment for students, and helped create a strong reading atmosphere.



“Happy Kitchen” public welfare project



“Baitian Library” public welfare project

2023 Environmental, Social and Governance Report

During the visits, “BAIOO Public Welfare” donated computers and “Contemporary Chinese Dictionary” to these two primary schools to help students develop their interest in learning and their ability to learn independently. It also provided grants to 20 students from poor families and conducted in-depth visits to the families of two of the students, providing them with care and support with action. This series of public welfare activities aims to help improve the quality of rural education and promote the development of rural education.



Presenting grants



Donating computers to schools

- **Case sharing: “Love never idles, charity sale warming children’s hearts” public welfare charity sale**

On 12 May 2023, “BAIOO Public Welfare” launched a public welfare charity sale with the theme of “love never idles, charity sale warming children’s hearts”, calling on employees to raise a sum of RMB13,220.06 by selling idle items. Through the “Little Wishes” public welfare project of Canton Hope Project, “BAIOO Public Welfare” presented a wish gift and “Contemporary Chinese Dictionary” to students of Xie’s Primary School and Fenglang Primary School in Suixi County, Zhanjiang City, in order to promote the improvement and balanced development of educational quality with minimal efforts and help each wish and dream fly high.



Site of presenting public welfare charity sale

2023 Environmental, Social and Governance Report



Site of giving “Little wish” gifts and “The Contemporary Chinese Dictionary”

- **Case sharing: “99 Public Welfare Day” activity**

On the “99 Public Welfare Day” in 2023, “BAIOO Public Welfare” together with the Guangdong Youth Development Foundation participated in the “1+1 Caring Grants” project, which called on employees to raise grants for extremely poor students at rural primary schools in remote areas of Guangdong Province, providing them with care and support with action. On 7 September, employees of the Group donated RMB4,917.76 to bring 59 education grants to extremely poor students in Guangdong Province. Meanwhile, the Group earmarked a donation of RMB20,000 for 20 students from poor families in Liannan County, Qingyuan with RMB1,000 per student through the Guangdong Youth Development Foundation to help the students overcome short-term financial difficulties, motivating them to learn and study hard, so as to better serve the community after graduation.



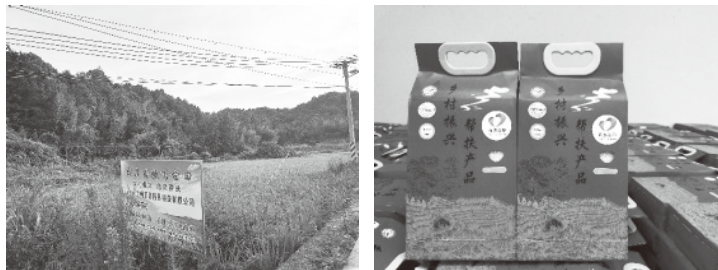
Site of “99 Public Welfare Day”

2023 Environmental, Social and Governance Report

2. Rural revitalization

- **Case sharing: Promoting rural revitalization and participating in the “I have an acre of farmland in Huanghuai” for subscribing arable land**

The Group actively responded to the call of the national rural revitalization strategy. From 16 to 17 March 2023, under the leadership of the Party Committee of Guangzhou Tianhe Science and Technology Park, the Party Branch of the Group went to Huanghuai Town, Xingning City, Guangdong Province to carry out activities of Party building. During the activities, the Group subscribed to 10 acres of arable land located in Huangxi Village, Huanghuai Town, Xingning City, and took actions to help the rural grain production and sale, promote the efficiency of agriculture and increase farmers’ income, and drive rural economic development



Subscribing arable land activity

3. Caring for the elderly

- **Case sharing: “Caring for the Elderly for Mid-Autumn Festival” visits to the elderly activity**

On 22 September 2023, as Mid-Autumn Festival was approaching, “BAIOO Public Welfare” and Baitian Party Branch, together with the social worker service station of “Double Hundred Project” of Changxing Street, Guangzhou, Guangdong Province, entered the community and visited 10 elderly living alone, delivering daily necessities such as rice, oil and noodles, and extended their sincere holiday greetings. Meanwhile, the Group donated 135 bags of rice to the social worker service station, which allocated to special groups in need. The donated rice is sourced from the arable land of Huanghuai Town, Xingning City, which the Group subscribed. It not only revitalized the rural, but also provided support for the elderly, creating a strong harmonious atmosphere of caring and respecting the elderly.



Site of visiting the elderly for the Mid-Autumn Festival

2023 Environmental, Social and Governance Report

X. MAJOR HONORS AND AWARDS IN 2023

During this year, the major honors and awards obtained by the Group are as follows:

No.	Award	Presented by	Award Date
1	The Most Influential Online Game Enterprise for 2022 in the Golden Diamond List	Guangdong Game Industry Association	16 February 2023
2	The Most Popular Online Game Enterprise for 2022 in the Golden Diamond List	Guangdong Game Industry Association	16 February 2023
3	China's Growth Internet Enterprises in 2023	Internet Society of China	26 October 2023
4	Award for Most Anticipated Game in 2023	VIVO	1 November 2023
5	Anticipated Game for Players in OGA 2023	OPPO	16 November 2023

XI. INDUSTRY ASSOCIATIONS PARTICIPATED BY THE GROUP

As of 31 December 2023, the industry associations in which the Group had participated and its memberships are as follows:

No.	Name of Association	Membership Level
1	China Audio-video and Digital Publishing Association	Member of the Working Committee on Game Publishing
2	Copyright Society of China	Director
3	Internet Society of China	Member
4	Guangdong Digital Publishing Association	Head Unit of the Professional Committee of Online Games Animation
5	Guangdong Software Industry Association	Director
6	Guangdong Entertainment & Game Industry Association	Director
7	Game Culture Industry Alliance of Tianhe Intelligent City in Guangzhou	Director
8	Guangzhou Industry Alliance of Cultural Listed Companies	Member
9	Guangdong New Social Stratum Association	Member
10	Software and Information Industry Association of Tianhe District of Guangzhou	Vice President
11	Guangzhou Game Industry Association	Vice President
12	Guangzhou Internet Culture Association	Member
13	Guangdong Provincial Internet Federation	Member
14	Guangdong Provincial Youth Network Association	Member
15	Guangzhou Internet Society	Member

2023 Environmental, Social and Governance Report

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	VIII. Environmental responsibility
A1.1	The types of emissions and respective emissions data.	Disclosed	VIII. Environmental responsibility
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	VIII. Environmental responsibility
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	VIII. Environmental responsibility
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	VIII. Environmental responsibility
A1.5	Description of emissions target(s) set and steps taken to achieve them.	Disclosed	VIII. Environmental responsibility
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Disclosed	VIII. Environmental responsibility
A2 General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Disclosed	VIII. Environmental responsibility
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Disclosed	VIII. Environmental responsibility
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Disclosed	VIII. Environmental responsibility
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Disclosed	VIII. Environmental responsibility

2023 Environmental, Social and Governance Report

	ESG Indicators	Status of Disclosure	Corresponding Section
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Disclosed	VIII. Environmental responsibility
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable	The Group is a non-production enterprise, which does not use packaging material
A3 General disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Disclosed	VIII. Environmental responsibility
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Disclosed	VIII. Environmental responsibility
A4 General disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Disclosed	VIII. Environmental responsibility
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Disclosed	VIII. Environmental responsibility
B1 General disclosure	Policies on compensation and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.	Disclosed	V. Employment management
B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Disclosed	V. Employment management
B1.2	Employee turnover rate by gender, age group and geographical region.	Disclosed	V. Employment management
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 occurred in each of the past three years including the reporting year.	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

2023 Environmental, Social and Governance Report

	ESG Indicators	Status of Disclosure	Corresponding Section
B3 General disclosure	Policies on improving employees' knowledge and skills for 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).	Disclosed	V. Employment management
B3.2	The average training hours completed per employee by gender and employee category.	Disclosed	V. Employment management
B4 General disclosure	Information on the policies and compliance with relevant laws and regulations which have a significant impact on the 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	VII. Responsibility of the Supply Chain
B5.1	Number of suppliers by geographical region.	Disclosed	VII. Responsibility of the Supply Chain
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Disclosed	VII. Responsibility of the Supply Chain
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Disclosed	VII. Responsibility of the Supply Chain
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Disclosed	VII. Responsibility of the Supply Chain

2023 Environmental, Social and Governance Report

	ESG Indicators	Status of Disclosure	Corresponding Section
B6 General disclosure	Information on the policies and compliance with relevant laws and regulations which have a significant impact on the 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.	Not applicable	The Group's operations do not involve product recalls
B6.2	Number of products and service 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 products recall procedures.	Disclosed	IV. Product responsibility
B6.5	Description of consumer data protection and privacy policies, and 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 the issuer relating to prevention of bribery, extortion, fraud and money laundering.	Disclosed	VI. Compliance operations and anti-corruption
B7.1	Number of conducted legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Disclosed	VI. Compliance operations and anti-corruption
B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	Disclosed	VI. Compliance operations and anti-corruption
B7.3	Description of anti-corruption training provided to directors and staff.	Disclosed	VI. Compliance operations and anti-corruption
B8 General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Disclosed	IX. Giving back to the society
B8.1	Focus areas of contribution (e.g., education, environmental matters, labor needs, health, culture, sports).	Disclosed	IX. Giving back to the society
B8.2	Resources contributed (e.g., money or time) to the focus areas.	Disclosed	IX. Giving back to the society

2023 Environmental, Social and Governance Report

APPENDIX II: LIST OF INTERNAL POLICIES, LAWS AND REGULATIONS

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
A1 Emissions	Environmental Protection Law of the People's Republic of China	Office 5S Management Regulations
	Noise Pollution Prevention and Control Law of the People's Republic of China	
	Atmospheric Pollution Prevention and Control Law of the People's Republic of China	
	Water Pollution Prevention and Control Law of the People's Republic of China	
	Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes	
	Directory of National Hazardous Wastes	
A2 Use of Resources	Hazardous Wastes Management Plan and Ledgers Management and Preparation Technical Guidelines	Office 5S Management Regulations Fixed Asset Management System
	Circular Economy Promotion Law of the People's Republic of China	
	Energy Conservation Law of the People's Republic of China	
	Environmental Protection Law of the People's Republic of China	

2023 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
A3 Environment and Natural Resources	Environmental Protection Law of the People's Republic of China	Office 5S Management Regulations
	Atmospheric Pollution Prevention and Control Law of the People's Republic of China	
	Energy Conservation Law of the People's Republic of China	
A4 Climate Change	Environmental Protection Law of the People's Republic of China	Office 5S Management Regulations
	Energy Conservation Law of the People's Republic of China	
B1 Employment	Labor Law of the People's Republic of China	Employees' Handbooks
	Labor Contract Law of the People's Republic of China	Management Measures for Recruitment
	Employment Promotion Law of the People's Republic of China	Human Resource Management System
	Social Insurance Law of the People's Republic of China	System of Prohibition of Discrimination and Sexual Harassment
	Provisions on Minimum Wages	Remuneration
	Law of the People's Republic of China on the Protection of Disabled Persons	Management System
		Staffing Level Management Measures
		Customer Service Assessment and Performance Management System

2023 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
B2 Health and Safety	Labor Law of the People's Republic of China	Office 5S Management Regulations
	Law of the People's Republic of China on Prevention and Control of Occupational Diseases	Management System of Conference Rooms
	Production Safety Law of the People's Republic of China	Regulations on Management of Staff Restaurants
	Law of the People's Republic of China on Fire Prevention	Regulations on Management of Staff Cafés
	Regulations on the Safety Administration of Hazardous Chemicals	Regulations on Management of Fitness Rooms
	Emergency Response Law of the People's Republic of China	Regulations on Management of Identification Cards
	Interim Regulations on Investigation and Administration of Hidden Dangers in Production Safety	Regulations on Management of Keys
	Regulation of Insurance for Labor Injuries	System of Prohibition of Discrimination and Sexual Harassment
	Provisions on the Supervision and Management of Occupational Health at Workplace	Employees' Handbook
	Occupational Disease Classification and Catalog	
B3 Development and Training	—	Training Management System of BAIOO
		Management Measures for the In-house Trainers
		Human Resource Management System
		Promotion and Management System of On-job Education for Staff

2023 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
B4 Labor Standards	Provisions on the Prohibition of the Employment of Child Labor	Employees' Handbook
	Labor Law of the People's Republic of China	Human Resource Management System
	Labor Contract Law of the People's Republic of China	
	Regulation on Public Holidays for National Annual Festivals and Memorial Days	
	Implementation Measures for Paid Annual Leave for Employees of Enterprises	
	Provisions on the Medical Treatment Period of Employees Suffering from Illness or Non-work Related Injuries	
B5 Supply Chain Management	Implementation Measures of Guangzhou on Administration of the Medical Treatment Period of Employees Suffering from Illness or Non-work Related Injuries	
	Bidding Law of the People's Republic of China	Commerce Management System
	Copyright Law of the People's Republic of China	Management System on Selection of Suppliers
	Civil Code of the People's Republic of China	Code of Ethics and Business Conduct System

2023 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
B6 Product Responsibility	Personal Information Protection Law of the People's Republic of China	User Information Security and Privacy Protection System
	Data Security Law of the People's Republic of China	Engine Room Patrol Inspection System
	Measures for the Supervision and Administration of Online Trading	Remote Access System
	Copyright Law of the People's Republic of China	Cloud Management System
	Regulation for the Implementation of the Copyright Law of the People's Republic of China	Regulations on Product and Technical Review Process
	Patent Law of the People's Republic of China	Regulations on Product Launch and Publishing Process
	Trademark Law of the People's Republic of China	SDK Access Guidelines
	Civil Code of the People's Republic of China	Functional Backstage Access Guidelines
	Advertising Law of the People's Republic of China	Elimination and Removal Process
	Anti-unfair Competition Law of the People's Republic of China	Emergency Treatment Procedures Process
	Law of the People's Republic of China on Protection of Minors	Requirements of Game Updating and Maintenance
	Provisions on the Administration of Online Publishing Services	Process Requirements of Website Production and Publishing
	Interim Provisions on the Administration of Internet Culture	Process Requirements of Content Production and Publishing
	Notice on Preventing Minor's Addiction to Online Games	Process Requirements of Material Production Process for Handling Operation Accidents

2023 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
	Notice of Further Imposing Strict Administrative Measures to Prevent Minors from Addicting to Online Games	Specification for Internal Test and Acceptance of Project
	Rules on Online Protection of the Personal Information of Children	Information Disclosure System
	Provisions on the Administration of the Use of Chinese Characters in Publications	Standards Related to Cloud Testing
	Regulation on the Administration of Publication	Guidelines for Legal Affairs of BAIOO
	Provisions on the Administration of Publication of Audio and Video Recordings	Regulations of BAIOO on Management for Use of VPN System and Internet
	Administrative Provisions on the Publishing of Electronic Publications	Baitian Game Licensing and Service Agreement
	Notice on Further Regulating the Use of Language in Publications	Baitian Game Privacy Policy
	Notice on Publishing “Health Game Advice” in Game Publications	Guidance on Advertising Compliance with Laws and Regulations
	Notice by the Ministry of Public Security, the Ministry of Information Industry, the Ministry of Culture, and the General Administration of Press and Publication on Regulating the Business Order of Online Games and Banning Gambling by Using Online Games	Tianti Game Licensing and Service Agreement
	Notice on Protecting the Physical and Mental Health of Minors and Implementing the Online Games Anti-addiction System	Tianti Game Privacy Policy
		Guidance on Tianti Game Children Privacy Protection
		Guidance on Baitian Game Children Privacy Protection
		Business Process and Workflow Regulation of the Customer Service Center

2023 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
	Notice on Starting the Work of Online Games Anti-addiction Real-name Authentication	Online Account Filing and Management Measures
	Notice on Further Carrying Out the Work of Online Games Anti-addiction Real-name Authentication	Editing Responsibility System
	Notice of the General Office of the General Administration of Press, Publication, Radio, Film and Television on the Administration of Mobile Game Publishing Services	Publishing Reward and Penalty System
	Opinions on Strengthening the Protection of Minors through Standardizing Live Streaming Reward	Responsibility System of Three-Review of Content
	Notice of Strengthening of the Administration of Game Living Streaming Disseminated through Online Audio-visual Programs Platforms	Three Proofreading System
	Provisions on the Administration of Information Services of Mobile Internet Apps	Measures on Copyright Management
	Provisions on the Administration of Internet Pop-up Information Push Services	
	Basic Requirements for Collection of Personal Information by Information Security Technology Mobile Internet Apps	
	Provisions on the Administration of Internet Users' Account Information	
	Provisions on Ecological Governance of Network Information Content	
	Regulation on the Protection of Minors in Cyberspace	

2023 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
	Regulations of Guangdong Province on the Prevention of Juvenile Delinquency	
	Guidelines of Guangdong Province for the Compliance of Competition of Internet Platform Operators (Anti-monopoly)	
	Guidelines on Legally Punishing Illegal and Criminal Acts of Violence in Cyberspace	
	Interim Measures for the Administration of Generative Artificial Intelligence Services	
	Notice by the Ministry of Industry and Information Technology of Conducting the Filing of Mobile Internet Applications	
	Provisions on the Administration of Deep Synthesis of Internet-based Information Services	
B7 Anti-corruption	Interim Provisions on Banning Commercial Bribery	Anti-fraud and Reporting Corruption Management System
	Anti-money Laundering Law of the People's Republic of China	Conflict of Interests Management System
	Anti-unfair Competition Law of the People's Republic of China	Code of Ethics and Business Conduct System
	Anti-monopoly Law of the People's Republic of China	Inside Information Disclosure Management System
		Financial Management System
B8 Community Investment	Charity Law of the People's Republic of China	—

Independent Auditor's Report



羅兵咸永道

To the Shareholders of BAIOO Family Interactive Limited

(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of BAIOO Family Interactive Limited (the “Company”) and its subsidiaries (the “Group”), which are set out on pages 175 to 256, comprise:

- the consolidated balance sheet as at 31 December 2023;
- 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, comprising material accounting policy information and other explanatory information.

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 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards 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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Independent Auditor's Report

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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 related to revenue recognition — provision of virtual items in online virtual worlds of online entertainment business.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue recognition — provision of virtual items in online virtual worlds of online entertainment business</p> <p>Refer to Notes 4.1(a) and 5 to the consolidated financial statements.</p> <ul style="list-style-type: none">Revenue from online virtual worlds of online entertainment business for the year ended 31 December 2023 amounted to RMB782,519,000, representing 99.97% of the Group's total revenue. Out of the total revenue from online virtual worlds, an amount of RMB754,976,000 is related to the provision of consumable and durable virtual items.Consumable virtual 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.	<p>Our procedures, carried out on a sample basis, in relation to management's revenue recognition of provision of virtual items in online virtual worlds included:</p> <ul style="list-style-type: none">Understood, evaluated and validated the internal controls of revenue cycle, including the key controls with respect to the assessment of consumption timing of consumable and durable virtual items;Tested the classification of consumable and durable virtual items by comparing to the features of the corresponding virtual items in revenue recognition;

Independent Auditor’s Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<ul style="list-style-type: none"> • Durable virtual items represent 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 online 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 virtual world. <p>The determination of Player Relationship Period for relevant online virtual worlds are subject to high degree of judgements and estimates. It is made taking into account all known and relevant information available to the Group at the time of assessment and the inherent risk in relation to the assessment is considered relatively higher due to significant judgements and assumptions used. Given the significant transaction of revenue from online virtual worlds and the involvement of critical accounting estimates, the assessment of Player Relationship Period is considered a key audit matter.</p>	<ul style="list-style-type: none"> • Evaluated and challenged the considerations made by management in determining the underlying assumptions for expected Player Relationship Period by comparing to historical patterns and market practice; and assessed the inherent risk of material misstatement by considering the degree of estimation judgement and other inherent risk factors; • Tested the integrity of the data with the involvement of our information technology specialist and recalculated the Player Relationship Period based on those data; and • Recalculated the revenue recognition of provision of durable items based on the respective Player Relationship Period. <p>Based on the above, we found that the judgement and estimates applied by management were supportable by the evidence we obtained and procedures performed.</p>

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.

Independent Auditor's Report

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 IFRS Accounting Standards 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.

Independent Auditor's Report

- 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, actions taken to eliminate threats or safeguards applied.

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 Au Chi Ho.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 March 2024

Consolidated Income Statement

	Note	Year ended 31 December	
		2023	2022
		RMB'000	RMB'000
Revenue	5	782,764	938,759
Cost of revenue	6	(464,710)	(578,131)
Gross profit		318,054	360,628
Selling and marketing expenses	6	(63,731)	(81,800)
Administrative expenses	6	(76,184)	(89,924)
Research and development expenses	6	(231,137)	(230,021)
Net impairment losses on financial assets	3.1(b)	(3,999)	(1,071)
Other income	7	3,366	3,734
Other (losses)/gains — net	8	(1,495)	1,372
Operating loss		(55,126)	(37,082)
Finance income	10	35,427	43,343
Finance costs	10	(2,427)	(3,626)
Finance income — net	10	33,000	39,717
Share of loss of an associate		(1,302)	—
(Loss)/profit before income tax		(23,428)	2,635
Income tax (expense)/credit	11	(7,974)	7,704
(Loss)/profit for the year		(31,402)	10,339
Attributable to:			
— Shareholders of the Company		(31,478)	10,167
— Non-controlling interests		76	172
		(31,402)	10,339
(Loss)/earnings per share for profit attributable to shareholders of the Company (expressed in RMB per share)	12		
Basic (loss)/earnings per share		(0.0117)	0.0039
Diluted (loss)/earnings per share		(0.0117)	0.0038

The notes on pages 182 to 256 are integral parts of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
(Loss)/profit for the year	(31,402)	10,339
Other comprehensive income	—	—
Total comprehensive (loss)/income for the year	(31,402)	10,339
Attributable to:		
— Shareholders of the Company	(31,478)	10,167
— Non-controlling interests	76	172
	(31,402)	10,339

The notes on pages 182 to 256 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

	Note	As at 31 December	
		2023	2022
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property and equipment	16	149,884	71,816
Right-of-use assets	17	255,163	276,304
Intangible assets	18	4,114	2,820
Prepayments and other receivables	21	4,560	4,090
Long-term bank deposits	23	135,000	95,000
Deferred tax assets	31	14,823	21,679
Investment in an associate	15	16,698	—
Financial assets at fair value through profit or loss	22	5,000	5,000
		585,242	476,709
Current assets			
Inventories		114	207
Contract costs	28	47,820	71,633
Trade receivables	20	29,225	71,807
Prepayments and other receivables	21	29,868	22,200
Short-term bank deposits	23	261,788	110,000
Cash and cash equivalents (excluding bank overdrafts)	23	966,042	1,303,711
		1,334,857	1,579,558
Total assets		1,920,099	2,056,267
EQUITY			
Share capital	24	8	8
Share premium	24	1,108,922	1,099,859
Reserves	25	50,526	75,034
Retained earnings	27	484,313	515,993
Capital and reserves attributable to Shareholders of the Company		1,643,769	1,690,894
Non-controlling interests		7,266	7,190
Total equity		1,651,035	1,698,084

Consolidated Balance Sheet (Continued)

	Note	As at 31 December	
		2023	2022
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Contract liabilities	28	11,869	15,426
Lease liabilities	17	17,186	37,148
Other payables and accruals	30	791	—
		29,846	52,574
Current liabilities			
Trade payables	29	4,661	8,199
Other payables and accruals	30	78,343	93,498
Advances from distributors	33	17,889	25,342
Contract liabilities	28	121,249	159,684
Income tax liabilities		—	52
Lease liabilities	17	17,076	18,828
Bank overdrafts		—	6
		239,218	305,609
Total liabilities		269,064	358,183
Total equity and liabilities		1,920,099	2,056,267

The notes on pages 182 to 256 are integral parts of these consolidated financial statements.

These consolidated financial statements on pages 175 to 256 were approved by the Board of Directors of the Company (the "Board") on 27 March 2024 and were signed on its behalf.

.....
Li Chong

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Wu Lili

Consolidated Statement of Changes in Equity

	Attributable to shareholders of the Company						Non-controlling interests	Total equity
	Note	Share capital	Share premium	Reserves	Retained earnings	Subtotal		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2022		8	1,106,699	62,911	506,004	1,675,622	7,018	1,682,640
Comprehensive income								
Profit for the year		—	—	—	10,167	10,167	172	10,339
Total comprehensive income		—	—	—	10,167	10,167	172	10,339
Transactions with owners, recognized directly in equity								
RSU Scheme:								
— Value of employee services	25	—	—	51,405	—	51,405	—	51,405
— Vesting of RSUs	25	—	39,460	(39,460)	—	—	—	—
Special final dividend of 2021	24	—	(45,087)	—	—	(45,087)	—	(45,087)
Cancellation of shares	24	—	(1,213)	—	—	(1,213)	—	(1,213)
Profit appropriations to statutory reserves	25	—	—	178	(178)	—	—	—
Total transactions with owners, recognized directly in equity		—	(6,840)	12,123	(178)	5,105	—	5,105
Balance at 31 December 2022		8	1,099,859	75,034	515,993	1,690,894	7,190	1,698,084

Consolidated Statement of Changes in Equity (Continued)

	Attributable to shareholders of the Company						
	Note	Share	Share	Reserves	Retained	Subtotal	Non-
		capital	premium		earnings		controlling
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	Total equity RMB'000
Balance at 1 January 2023	8	1,099,859	75,034	515,993	1,690,894	7,190	1,698,084
Comprehensive (loss)/income							
(Loss)/profit for the year	–	–	–	(31,478)	(31,478)	76	(31,402)
Total comprehensive (loss)/income	–	–	–	(31,478)	(31,478)	76	(31,402)
Transactions with owners, recognized directly in equity							
RSU Scheme:							
– Value of employee services	25	–	21,321	–	21,321	–	21,321
– Vesting of RSUs	25	–	(46,031)	–	–	–	–
Special final dividend of 2022	24	–	(36,968)	–	(36,968)	–	(36,968)
Profit appropriations to statutory reserves	25	–	202	(202)	–	–	–
Total transactions with owners, recognized directly in equity	–	9,063	(24,508)	(202)	(15,647)	–	(15,647)
Balance at 31 December 2023	8	1,108,922	50,526	484,313	1,643,769	7,266	1,651,035

The notes on pages 182 to 256 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December	
		2023	2022
		RMB'000	RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	34	(15,595)	11,591
Interest received from cash and cash equivalents		25,588	29,683
Income tax paid		(960)	(11,107)
Net cash generated from operating activities		9,033	30,167
Cash flows from investing activities			
Purchase of property and equipment, intangible assets and land use right		(88,538)	(17,323)
Proceeds from disposals of property and equipment		—	66
Investment income received from financial assets at fair value through profit or loss		—	325
Interest received from term bank deposits		6,775	2,341
Payments for investment in an associate		(18,000)	—
Investment in term bank deposits		(530,542)	(140,000)
Investment in financial assets at fair value through profit or loss		—	(50,000)
Maturity of term bank deposits		338,754	54,000
Maturity of financial assets at fair value through profit or loss		—	50,000
Net cash used in investing activities		(291,551)	(100,591)
Cash flows from financing activities			
Repurchase of ordinary shares		—	(1,213)
Principal elements of lease payments		(17,776)	(14,783)
Interest elements of lease payments		(2,427)	(3,626)
Dividend paid to the Company's shareholders		(36,968)	(45,087)
Net cash used in financing activities		(57,171)	(64,709)
Net decrease in cash and cash equivalents		(339,689)	(135,133)
Cash and cash equivalents at beginning of the year		1,303,705	1,429,190
Foreign exchange gains on cash and cash equivalents		2,026	9,648
Cash and cash equivalents at end of the year		966,042	1,303,705
Cash and cash equivalents comprises:			
Cash and bank balances	23	966,042	1,303,711
Bank overdrafts		—	(6)
Cash and cash equivalents at end of the year		966,042	1,303,705

The notes on pages 182 to 256 are integral parts of these consolidated financial statements.

Notes to the Consolidated 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 in the People’s Republic of China (the “PRC”), as well as some other off-line businesses.

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 27 March 2024.

2 Basis of preparation and changes in accounting policies

2.1 Basis of preparation

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.

The consolidated financial statements of the Group have been prepared in accordance with all applicable IFRS Accounting Standards 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 Accounting Standards 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.

Notes to the Consolidated Financial Statements

2 Basis of preparation and changes in accounting policies (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group

The Group has applied the following new and amended standards for its annual reporting period commencing 1 January 2023:

		Effective for annual periods beginning on or after
IFRS 17	Insurance Contracts	1 January 2023
IAS 1 and IFRS Practice Statement 2 (Amendment)	Disclosure of Accounting Policies	1 January 2023
IAS 8 (Amendment)	Definition of Accounting Estimates	1 January 2023
IAS 12 (Amendment)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IAS 12 (Amendment)	International Tax Reform — Pillar Two Model Rules	1 January 2023

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

(b) New standards and amendments to standards not yet adopted

		Effective for annual periods beginning on or after
IAS 1 (Amendment)	Classification of Liabilities as Current or Non-current	1 January 2024
IAS 1 (Amendment)	Non-current Liabilities with Covenants	1 January 2024
IFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024
IAS 7 and IFRS 7 (Amendments)	Supplier finance arrangements	1 January 2024
IAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
IFRS 10 and IAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

None of above new standards and amendments to standards is expected to have a significant effect on the consolidated financial statements of the Group.

Notes to the Consolidated Financial Statements

2 Basis of preparation and changes in accounting policies (continued)

2.2 Changes in accounting policies

As explained in Note 2.1(a) above, the Group has adopted the Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities Arising from a Single Transaction” on 1 January 2023, which resulted in the recognition of separate deferred tax assets and separate deferred tax liabilities for temporary differences arising on leases, contract liabilities and contract costs, both at initial recognition and subsequently. In accordance with the transitional provisions, the Group adopted the amendments for the first time by recognising deferred tax for all temporary differences related to leases, contract liabilities and contract costs at the beginning of the earliest comparative period presented. As a result, with the beginning of the earliest period presented being 1 January 2022, an adjustment of RMB12,148,000 was recognised to the gross amounts of deferred tax assets and deferred tax liabilities simultaneously, and the resultant deferred tax assets and deferred tax liabilities met the set-off provisions and was presented on a net basis on the condensed consolidated statement of financial position.

Since the Group had considered the lease, contract liabilities and contract costs as a single transaction in which the assets and liabilities were integrally linked and recognised deferred tax on a net basis previously, there were nil impact on opening retained earnings upon the adoption of the amendments.

Notes to the Consolidated Financial Statements

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 operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong Dollar (HK\$) and US Dollar (US\$). Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities and net investment in foreign operations. The finance department of the Group is responsible for monitoring and managing the net position in each foreign currency. The Group currently does not hedge transactions undertaken in foreign currencies but manages its exposure through constant monitoring to limit as much as possible the amount of its foreign currencies exposures.

The Group's foreign exchange risk primarily arose from the cash and cash equivalents, receivables and payables denominated in HK\$ and US\$. If RMB had strengthened/weakened by 100 basis points against HK\$ and US\$ with all other variables held constant, the post-tax loss for the year ended 31 December 2023 would have been approximately higher/lower by RMB1,385,000 (2022: approximately lower/higher by RMB1,245,000).

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

(ii) Interest rate risk

For the years ended 31 December 2023 and 2022, 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, term bank deposits, trade receivables and other receivables 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.

Notes to the Consolidated Financial Statements

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(i) *Impairment on cash and cash equivalents and term bank deposits*

As at 31 December 2023, substantially all the Group's bank deposits included in cash and bank balances were deposited with major reputable financial institutions incorporated in the PRC. There has been no recent history of default in relation to these financial institutions. The loss allowance is measured at 12-month expected credit loss and the directors consider that the amount is minimal.

(ii) *Impairment on trade receivables*

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

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. Management collectively assessed the expected credit losses taking into account the ageing analysis and the history of bad debt losses in respect of those groups of platforms and payment channels. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the platforms and payment channels to settle the receivables.

And the recognition and measurement method of loss allowance for each category is measured separately:

- For trade receivables due from customers with specific credit risks or external credit ratings. The Group applies the individual identification method based on the characteristics of credit risk of each individual balance.
- The remaining trade receivables due from customers are grouped based on similar credit risk, the Group calculates the expected credit loss by referring to the historical credit loss experience for each aging bucket, combining with the current situation and the forecast of future economic conditions.

Notes to the Consolidated Financial Statements

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment on trade receivables (continued)

The balance of each category of trade receivables as at 31 December 2023 and 2022 was as follows:

	Trade receivables	Loss allowance	Net carrying amount
31 December 2023			
Customers with specific credit risks or credit ratings	25,489	(120)	25,369
Customers grouped based on similar credit risk	4,090	(234)	3,856
	29,579	(354)	29,225
31 December 2022			
Customers with specific credit risks or credit ratings	66,961	(214)	66,747
Customers grouped based on similar credit risk	5,174	(114)	5,060
	72,135	(328)	71,807

Notes to the Consolidated Financial Statements

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment on trade receivables (continued)

For trade receivables based on individual assessments, the Group assesses the credit quality of the customers, taking into account of their financial positions, past experience and other factors. The expected credit loss considers the customers' external credit ratings.

For trade receivables based on similar credit risk assessments, the loss allowance as at 31 December 2023 and 2022 was determined as follows for trade receivables from customers which have been grouped based on similar credit risk characteristics:

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 180 days past due	Total
31 December 2023						
Expected loss rate	0.92%	1.50%	2.42%	11.50%	100.00%	
Gross carrying amount						
— trade receivables	2,395	1,203	124	200	168	4,090
Loss allowance	22	18	3	23	168	234

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 180 days past due	Total
31 December 2022						
Expected loss rate	0.17%	0.42%	1.06%	2.50%	100.00%	
Gross carrying amount						
— trade receivables	4,218	720	94	40	102	5,174
Loss allowance	7	3	1	1	102	114

Notes to the Consolidated Financial Statements

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment on trade receivables (continued)

The loss allowances for trade receivables as at 31 December 2023 and 2022 reconcile to the opening loss allowances as follows:

	2023 RMB'000	2022 RMB'000
Opening loss allowance at 1 January	(328)	(373)
(Increase)/reversal in loss allowance recognised in profit or loss during the year	(46)	45
Receivables written off during the year as uncollectible	20	—
Closing loss allowance at 31 December	(354)	(328)

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 180 days past due.

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

(iii) Impairment on other receivables

For other receivables, the Group assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Management also makes periodic collective assessments as well as individual assessment on the recoverability of these receivables and follows up the disputes or amounts overdue, if any. Management assesses the loss allowance for other receivables on an individual basis were recognized and the expected loss for others on collective assessments was immaterial.

Notes to the Consolidated Financial Statements

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment on other receivables (continued)

The loss allowances for other receivables as at 31 December 2023 and 2022 reconcile to the opening loss allowances as follows:

	2023 RMB'000	2022 RMB'000
Opening loss allowance at 1 January	(5,321)	(4,205)
Increase in loss allowance recognised in profit or loss during the year	(3,953)	(1,116)
Closing loss allowance at 31 December	(9,274)	(5,321)

(iv) Net impairment losses on financial assets recognized in profit or loss

During the year, the following losses were recognized in profit or loss in relation to impaired financial assets:

	2023 RMB'000	2022 RMB'000
(Increase)/reversal in loss allowance on trade receivables	(46)	45
Increase in loss allowance of other receivables	(3,953)	(1,116)
Net impairment losses on financial assets	(3,999)	(1,071)

Notes to the Consolidated Financial Statements

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 RMB'000
At 31 December 2023						
Trade payables	4,661	—	—	—	4,661	4,661
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	29,837	791	—	—	30,628	30,628
Lease liabilities	17,409	18,279	—	—	35,688	34,262
	51,907	19,070	—	—	70,977	69,551
At 31 December 2022						
Trade payables	8,199	—	—	—	8,199	8,199
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	30,544	—	—	—	30,544	30,544
Lease liabilities	19,331	20,298	21,312	—	60,941	55,976
Bank overdraft	6	—	—	—	6	6
	58,080	20,298	21,312	—	99,690	94,725

Notes to the Consolidated Financial Statements

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	
	2023	2022
	RMB'000	RMB'000
Total liabilities	269,064	358,183
Total assets	1,920,099	2,056,267
Gearing ratio	14%	17%

3.3 Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

- (a) 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 (continued):

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. The quoted market price incorporates the market's assumptions with respect to changes in economic climate such as rising interest rates and inflation, as well as changes due to environmental, social and governance (ESG) risk. 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. This is the case for unlisted equity securities and for instruments where ESG risk gives rise to a significant unobservable adjustment.

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
- The latest round financing, i.e. the prior transaction price or the third-party pricing information
- 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.

- (b) Fair value of financial assets at fair value through profit or loss (Note 22)

Investment in a private equity fund ("the Fund")

The Group invested in the Fund which was valued based on the net asset value.

As at 31 December 2022, the Group transferred the Fund from level 2 into level 3, because the Fund has made investments in unlisted equities, whose valuation was not based on observable inputs but the net asset value evaluated by the Fund's administrator.

As at 31 December 2023, there were no transfers between levels in hierarchy for recurring fair value measurements.

Notes to the Consolidated Financial Statements

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

- (b) Fair value of financial assets at fair value through profit or loss (Note 22) (continued)

Structure deposits

The Group invested in short-term structural deposits that contained derivatives which are financial instruments in level 3. 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.

- (c) The carrying amounts of financial assets including cash and cash equivalents, term bank deposits, trade and other receivables and financial liabilities including trade payables, other payables and accruals and bank overdrafts, approximated their respective fair value due to their short maturities.

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

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

(b) Current income tax and deferred income tax

Significant judgement is required in determining the provision for income tax, including the amount of the provision for taxations, the timing of payments of the related taxations, and the tax rates that would be applicable when related tax losses and temporary differences that give rise to deferred income tax are recycled for those group entities currently entitling preferential tax rates. 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 tax assets and liabilities in the period in which such determination is made.

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

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

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 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 mainland China to the Company, management has assessed the availability of distributable revenues (see Note 11(e)) and funds held by the Company and concluded that those 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 2023 and 2022.

4.2 Critical judgements in applying the Group's accounting policies

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.

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgements (continued)

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

Subsidiaries arising from contractual arrangements (continued)

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

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

5 Segment information

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

The Group determined that it has operating segments as follows:

- Online entertainment business
- Other businesses

The Group's online entertainment business involves development, operation and exclusive distribution of online virtual world business through its own web-based platform and mobile platforms. Other businesses mainly include sales of peripheral products 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, net impairment losses on financial assets, other income, other (losses)/gains — net, finance income — net, and income tax (expense)/credit are not included in the measure of the segments' performance.

Notes to the Consolidated Financial Statements

5 Segment information (continued)

There were no material inter-segment sales during years ended 31 December 2023 and 2022, 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.

(a) Segment results

The segment information provided to the Group's CODM for the reportable segments for the years ended 31 December 2023 and 2022 are as follows:

	Year ended 31 December 2023		
	Online	Other	Total
	entertainment	businesses	
	business		
RMB'000	RMB'000	RMB'000	
Segment revenue	782,519	245	782,764
Timing of revenue recognition			
At a point in time	183,421	245	183,666
Over time	599,098	—	599,098
Gross profit	317,883	171	318,054

	Year ended 31 December 2022		
	Online	Other	Total
	entertainment	businesses	
	business		
RMB'000	RMB'000	RMB'000	
Segment revenue	937,849	910	938,759
Timing of revenue recognition			
At a point in time	170,172	910	171,082
Over time	767,677	—	767,677
Gross profit	359,850	778	360,628

Notes to the Consolidated Financial Statements

5 Segment information (continued)

(a) Segment results (continued)

Out of revenue from online entertainment business, RMB754,976,000 is related to the provision of consumable and durable virtual items for the year ended 31 December 2023 (2022: RMB897,698,000).

Other profit and loss disclosures:

	Year ended 31 December 2023			
	Online	Other	Unallocated	Total
	entertainment	businesses	Item	
	business			
RMB'000	RMB'000	RMB'000	RMB'000	
Depreciation	18,019	5	2,481	20,505
Amortization	2,322	1	—	2,323

	Year ended 31 December 2022			
	Online	Other	Unallocated	Total
	entertainment	businesses	Item	
	business			
RMB'000	RMB'000	RMB'000	RMB'000	
Depreciation	17,920	17	3,305	21,242
Amortization	1,918	2	—	1,920

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the Mainland China and Outside Mainland China. For the years ended 31 December 2023 and 2022, the geographical information on the total revenue is as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue		
— Mainland China	755,855	878,277
— Outside Mainland China	26,909	60,482
Total	782,764	938,759

Notes to the Consolidated Financial Statements

5 Segment information (continued)

(a) Segment results (continued)

Revenue of the Group is mainly derived from online virtual worlds of online entertainment business 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 10.0% of the Group's total revenue account for 82.6% and 76.5% of the total revenue for the years ended 31 December 2023 and 2022, 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	
	2023	2022
Aobi Island Mobile	35.90%	40.3%
Legend of Aoqi	18.40%	10.6%
Shiwuyu	16.90%	15.4%
Legend of Aoqi Mobile	11.40%	10.2%

The Group has a large number of game players, no individual game players generated revenue which exceeded 10% or more of the Group's revenue for the year ended 31 December 2023 (2022: same).

The games were distributed to individual game players through own web-based platform, and Third Party Platforms including Company A and Group B. The revenue generated through Company A and Group B accounted for 35.9% (2022: 40.3%) and 15.8% (2022: 15.0%) of the Group's revenue for the year ended 31 December 2023, respectively. Besides those, no revenue through a single company or group exceeded 10% or more of the Group's revenue for the reporting period.

As at 31 December 2023, the total non-current assets, other than financial assets and deferred tax assets, located in Mainland China and Hong Kong were RMB425,859,000 (31 December 2022: RMB350,878,000) and nil (31 December 2022: RMB239,000), respectively.

Notes to the Consolidated Financial Statements

5 Segment information (continued)

(b) Accounting policies of revenue recognition

Online entertainment business

The Group earns revenue primarily through development, operation and exclusive distribution of online virtual worlds through its own web-based platform and mobile platforms. Mobile platforms are collectively referred to the “Third Party Platforms” thereafter. For 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.

(i) ***Revenue from operation of online virtual worlds of online entertainment business***

The Group’s online virtual worlds of online entertainment business 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 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.

Notes to the Consolidated Financial Statements

5 Segment information (continued)

(b) Accounting policies of revenue recognition (continued)

Online entertainment business (continued)

(i) *Revenue from operation of online virtual worlds of online entertainment business (continued)*

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.
- 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.

(ii) *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 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.

Notes to the Consolidated Financial Statements

5 Segment information (continued)

(b) Accounting policies of revenue recognition (continued)

Online entertainment business (continued)

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

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

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

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

Other businesses

Revenues from the Group's other businesses are mainly income from sales of peripheral products.

Revenues generated under sales of peripheral products are calculated and recognized based on the volume of the merchandise products determined in the agreement (such as sales volume). The sales of the products are derived from the sales reports provided by the merchandisers and the e-commerce platform, the evidence of which is readily available for verification by the Group.

Contract costs and contract liabilities

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

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

Notes to the Consolidated Financial Statements

6 Expenses by nature

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Employee benefit expenses (Note 9)	359,413	392,562
Distribution costs and payment handling fees	345,156	432,752
Content expenses	34,055	38,867
Promotion and advertising expenses	33,909	51,790
Depreciation of right-of-use assets (Note 17)	12,830	14,135
Professional fees	12,705	11,621
Bandwidth and server custody fees	8,439	9,386
Depreciation of property and equipment and amortization of intangible assets (Notes 16 and 18)	9,998	9,027
Utilities and office expenses	6,796	7,118
Auditor's remuneration	4,149	4,113
— Audit services	3,858	3,858
— Non-audit services	291	255
Travelling and entertainment expenses	3,509	1,952
Others	4,803	6,553
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	835,762	979,876

7 Other income

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Government grants	2,807	1,885
Others	559	1,849
	3,366	3,734

Notes to the Consolidated Financial Statements

8 Other (losses)/gains – net

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Gain on disposal of right-of-use assets	569	—
(Loss)/gain on disposals of property and equipment	(1,189)	66
Foreign exchange losses (Note 13)	(590)	(248)
Donation	(230)	(260)
Investment income of financial assets at fair value through profit or loss (Note 22)	—	325
Others	(55)	1,489
	(1,495)	1,372

9 Employee benefit expenses

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Wages, salaries and discretionary bonuses	249,177	267,044
Pension costs — defined contribution plans (Note (a))	24,915	27,004
Other social security costs, housing benefits and other employee benefits	64,000	47,109
Share-based compensation expenses	21,321	51,405
	359,413	392,562

(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 2023, the Group contributes funds which are calculated on a fixed percentage of 14% (2022: 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.

In the case of defined contribution schemes, forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) by the Group to these plans may not be used by the Group to reduce the existing level of contributions.

Notes to the Consolidated Financial Statements

9 Employee benefit expenses (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year include one (2022: one) director whose emoluments are reflected in the analysis shown in Note 39. The emoluments paid and payable to the remaining four (2022: four) individuals during the year are as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Wages and salaries	4,743	5,411
Discretionary bonuses	1,845	2,740
Pension costs — defined contribution plans	129	168
Other social security costs, housing benefits and other employee benefits	193	238
Share-based compensation expenses	9,365	23,713
	16,275	32,270

The emoluments fell within the following band:

	Year ended 31 December	
	2023	2022
	No. of individuals	
HK\$13,000,000 to HK\$13,500,000	—	1
HK\$10,500,000 to HK\$11,000,000	—	1
HK\$9,500,000 to HK\$10,000,000	1	—
HK\$7,500,000 to HK\$8,000,000	—	1
HK\$5,500,000 to HK\$6,000,000	—	1
HK\$3,000,001 to HK\$3,500,000	1	—
HK\$2,500,001 to HK\$3,000,000	1	—
HK\$2,000,000 to HK\$2,500,000	1	—

Notes to the Consolidated Financial Statements

10 Finance income – net

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Finance income:		
– Interest income from cash and cash equivalents	25,588	29,683
– Interest income from term bank deposits	7,813	4,012
– Net foreign exchange gain (Note 13)	2,026	9,648
	35,427	43,343
Finance costs:		
– Interest charge for lease liabilities (Note 17)	(2,427)	(3,626)
Finance income – net	33,000	39,717

11 Income tax (expense)/credit

The income tax (expense)/credit of the Group for the years ended 31 December 2023 and 2022 is analyzed as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current income tax (expense)/credit:		
– Current year	(1,118)	84
– Under-provision in prior year	–	(2,389)
Deferred income tax (expense)/credit	(6,856)	10,009
	(7,974)	7,704

Notes to the Consolidated Financial Statements

11 Income tax (expense)/credit (continued)

The tax on the Group's (loss)/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	
	2023	2022
	RMB'000	RMB'000
(Loss)/profit before income tax	(23,428)	2,635
Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions	1,988	(1,574)
Tax effects of:		
Tax losses and temporary differences for which no deferred tax asset was recognized (Note (a))	(34,354)	(5,375)
Super deduction for research and development expenses (Note (b))	27,451	23,857
Expense not deductible for income tax purposes	(3,345)	(10,687)
Others	286	1,483
Income tax (expense)/credit	(7,974)	7,704

(a) Tax losses and temporary differences for which no deferred tax asset was recognized

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Tax losses	274,507	67,078
Temporary differences	66,994	45,418
	341,501	112,496
Potential tax benefit	51,905	17,551

Deferred tax assets relating to certain tax losses and temporary differences are recognized as management considers it is probable that future taxable profit will be available against which the tax losses or temporary difference can be utilized (Note 4.1(b)).

As at 31 December 2023, the unused tax losses amounting to RMB368,842,000 (2022: RMB161,433,000) can be carried forward against future taxable income under the PRC enterprise income tax law and these tax losses will expire at various dates up to and including 2033 (2022: 2032), respectively. The remaining tax losses have no expiry date.

Notes to the Consolidated Financial Statements

11 Income tax (expense)/credit (continued)

(b) PRC corporate income tax

Guangzhou Baitian

Guangzhou Baitian was qualified as “High and New Technology Enterprise” in 2022 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the year ended 31 December 2023 (2022: same).

Guangzhou Tianti

Guangzhou Tianti was qualified as “High and New Technology Enterprise” in 2022 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the year ended 31 December 2023 (2022: same).

Guangzhou WFOE, Guangzhou Xiaoyunxiong Interactive Education Limited (“Xiaoyunxiong”)

Guangzhou WFOE and Xiaoyunxiong was qualified as “Small Low-Profit Enterprise” in 2023 and 2022, and the provision for income tax was calculated in accordance with the two-tiered tax rates regime.

Under the two-tiered tax rates regime, the first RMB3 million of profits of qualifying corporations were taxed at 5% and profits above RMB3 million were taxed at 20% for the year ended 31 December 2023.

Under the two-tiered tax rates regime, the first RMB1 million of profits of qualifying corporations were taxed at 2.5% while profits above RMB1 million but within RMB3 million reduces from 10% to 5% for the year ended 31 December 2022.

Other Subsidiaries

Except for subsidiaries of the Group mentioned above, the Group’s subsidiaries in mainland China are subject to corporate income tax at the rate of 25%.

Super Deduction

According to a policy promulgated by the State Tax Bureau of the PRC that was effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development (“R&D”) expenses incurred as tax deductible expenses in determining tax assessable profits (“Super Deduction”). Certain qualified subsidiaries of the Group have claimed such Super Deduction in ascertaining its tax assessable profits/(losses) for the years ended 31 December 2023 and 2022. Based on Public Notice [2022] No. 28 issued by the State Tax Bureau of the PRC on 22 September 2022, the enterprises originally eligible for additional 75% deduction of eligible R&D expenses can further enjoy an increased super deduction ratio of 100% from 1 October 2022 to 31 December 2022 (i.e. the fourth quarter of 2022), certain qualified subsidiaries of the Group have claimed such additional super deduction in the fourth quarter of 2022. Furthermore, based on Public Notice [2023] No. 7 issued by the State Tax Bureau of the PRC on 26 March 2023, the enterprises eligible for 100% deduction of eligible R&D expenses from 1 January 2023 to 31 December 2023. Certain qualified subsidiaries of the Group have claimed such additional super deduction in the 2023 and fourth quarter of 2022.

(c) 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.

Notes to the Consolidated Financial Statements

11 Income tax (expense)/credit (continued)

(d) Hong Kong profits tax

The provision for Hong Kong profits tax for the year ended 31 December 2023 are calculated in accordance with the two-tiered profits tax rates regime (2022: same). Under the two-tiered profits tax rates regime, the first HK\$2 million of profit of a qualifying corporation is taxed at 8.25%, and profit above HK\$2 million is taxed at 16.5%.

(e) PRC withholding tax (“WHT”)

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

As at 31 December 2023, no deferred tax liability had been provided for in respect of the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB1,197,103,000 (2022: RMB1,227,247,000). Such earnings are expected to be retained by the subsidiaries in mainland China and not to be remitted to a foreign investor in the foreseeable future based on management’s estimation of overseas funding requirements.

12 (Loss)/earnings per share

(a) Basic

Basic (loss)/earnings per share for (loss)/profit attributable to shareholders of the Company

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue less treasury shares and shares held for Share Option Scheme and Restricted Share Unit (“RSU”) Scheme during the year.

	Year ended 31 December	
	2023	2022
(Loss)/profit attributable to shareholders of the Company (RMB'000)	(31,478)	10,167
Weighted average number of ordinary shares in issue less treasury shares and shares held for RSU Scheme	2,680,282,734	2,639,811,550
Basic (loss)/earnings per share (in RMB/share)	(0.0117)	0.0039

Notes to the Consolidated Financial Statements

12 (Loss)/earnings per share (continued)

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended 31 December 2023, the Company had potential ordinary shares, the RSUs which had to be considered for calculating diluted loss per share. No adjustment was made to basic loss per share to derive the diluted losses per share for the year ended 31 December 2023 as potential ordinary shares was anti-dilutive.

For year ended 31 December 2022, the Company had potential ordinary shares, 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 assumed exercise price of the unvested RSUs. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the RSUs are vested. The difference is added to the denominator as the number of shares issued for no consideration.

	Year ended 31 December 2022
Profit attributable to shareholders of the Company and profit used to determine diluted earnings per share (RMB'000)	10,167
Weighted average number of ordinary shares	
Weighted average number of ordinary shares in issue less treasury shares and shares held for RSU Scheme	2,639,811,550
Adjustments for:	
— RSUs	56,383,994
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	2,696,195,544
Diluted earnings per share (in RMB/share)	0.0038

Notes to the Consolidated Financial Statements

13 Net foreign exchange gains

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Finance income — net (Note 10)	2,026	9,648
Other losses — net (Note 8)	(590)	(248)
	1,436	9,400

14 Subsidiaries

The following is a list of the principal subsidiaries as at 31 December 2023:

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
			2023	2022	2023	2022	
Directly held by the Company							
Baitian Technology Limited ("Baitian Hong Kong")	Hong Kong, Limited liability company	HK\$10,000	100%	100%	—	—	Online interactive entertainment, 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
Madfun Game Limited	Hong Kong, Limited liability company	HK\$10,000	100%	100%	—	—	Online interactive entertainment, Hong Kong
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, 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
廣州百田文化發展有限公司 ("Baitian Culture")	The PRC, Limited liability company	RMB450,000,000	100%	100%	—	—	Culture and art service, the PRC

Notes to the Consolidated Financial Statements

14 Subsidiaries (continued)

(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 term bank deposits as at 31 December 2023 amounting to RMB1,108,742,000 (2022: RMB1,215,639,000) are held in Mainland China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

15 Investment in an associate

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Associate	16,698	—

Movement of the investment in an associate is analysed as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
At the beginning of the year	—	—
Addition	18,000	—
Share of loss	(1,302)	—
At the end of the year	16,698	—

Notes to the Consolidated Financial Statements

15 Investment in an associate (continued)

Set out below are the details of an associate of the Group. The associate as listed below has share capital consisting solely of registered capital, which are held directly by the Group.

Name of entity	Place of business/country of incorporation	% of ownership interest 2023	Nature of relationship	Measurement method
上海趣糖網絡科技有限公司 ("Shanghai Qutang")	The PRC	14.6	Associate	Equity method

- (i) In August 2023, the Group made investment in Shanghai Qutang with amount of RMB18,000,000. The Group has designated a member in the board of directors which enables the Group to exercise significant influence in Shanghai Qutang through the participation in operational, investing and financing actions. Consequently, Shanghai Qutang has been accounted for as an associate of the Group.

Shanghai Qutang is a private company engaged in game operation and there is no quoted market price available for its equity.

- (ii) There were no contingent liabilities relating to the Group's interest in the associate.

Notes to the Consolidated Financial Statements

16 Property and equipment

	Servers	Office equipment	Motor vehicles	Leasehold improvements	Construction in progress (Note(a))	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022						
Cost	12,474	11,012	1,822	33,005	2,774	61,087
Accumulated depreciation	(11,943)	(5,990)	(721)	(17,034)	—	(35,688)
Net book amount	531	5,022	1,101	15,971	2,774	25,399
Year ended 31 December 2022						
Opening net book amount	531	5,022	1,101	15,971	2,774	25,399
Additions	47	2,672	1,222	—	49,583	53,524
Depreciation charge	(233)	(2,627)	(307)	(3,940)	—	(7,107)
Closing net book amount	345	5,067	2,016	12,031	52,357	71,816
At 31 December 2022						
Cost	12,131	12,727	3,041	33,004	52,357	113,260
Accumulated depreciation	(11,786)	(7,660)	(1,025)	(20,973)	—	(41,444)
Net book amount	345	5,067	2,016	12,031	52,357	71,816
Year ended 31 December 2023						
Opening net book amount	345	5,067	2,016	12,031	52,357	71,816
Additions	225	425	907	76	85,299	86,932
Depreciation charge	(189)	(2,878)	(698)	(3,910)	—	(7,675)
Disposal	—	(1)	—	(1,188)	—	(1,189)
Closing net book amount	381	2,613	2,225	7,009	137,656	149,884
At 31 December 2023						
Cost	12,356	13,148	3,948	28,080	137,656	195,188
Accumulated depreciation	(11,975)	(10,535)	(1,723)	(21,071)	—	(45,304)
Net book amount	381	2,613	2,225	7,009	137,656	149,884

Notes to the Consolidated Financial Statements

16 Property and equipment (continued)

- (a) As at 31 December 2023, construction in progress mainly comprised office buildings under construction located in the PRC.
- (b) Depreciation charge was included in the following categories in the consolidated income statement:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of revenue	1,777	1,800
Administrative expenses	1,229	1,376
Research and development expenses	4,398	3,652
Selling and marketing expenses	271	279
	7,675	7,107

- (c) Revaluation, depreciation methods and useful lives:

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. See Note 40.5 for the other accounting policies relevant to property and equipment.

Notes to the Consolidated Financial Statements

17 Leases

(a) Amounts recognised in the consolidated balance sheet

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Right-of-use assets		
Land use right	231,428	236,369
Office	23,735	39,935
	255,163	276,304
Lease liabilities		
Current	17,076	18,828
Non-current	17,186	37,148
	34,262	55,976

Right-of-use assets with carrying amounts of RMB3,369,000 was disposed due to modification of lease agreements during the year ended 31 December 2023 (2022: Nil).

(b) Amounts recognised in the consolidated income statement

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Depreciation charge of right-of-use assets		
Land use right	(4,942)	(4,942)
Office	(12,830)	(13,312)
	(17,772)	(18,254)
Interest expense (included in finance cost)	(2,427)	(3,626)
Expense relating to short-term leases (included in cost of revenue and administrative expenses)	—	(4)

The total cash outflow for leases in 2023 was approximately RMB20,203,000 (2022: RMB18,413,000).

During the year ended 31 December 2023, no depreciation (2022: RMB823,000) from land use right was charged as profit or loss and RMB4,942,000 (2022: RMB4,119,000) was capitalized in construction in progress.

17 Leases (continued)

(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.

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.

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.

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.

See Note 40.17 for the other accounting policies relevant to leases.

Notes to the Consolidated Financial Statements

18 Intangible assets

	Licenses RMB'000	Software RMB'000	Total RMB'000
At 1 January 2022			
Cost	2,913	6,590	9,503
Accumulated amortization	(2,913)	(4,048)	(6,961)
Net book amount	—	2,542	2,542
Year ended 31 December 2022			
Opening net book amount	—	2,542	2,542
Additions	—	2,198	2,198
Amortization charge	—	(1,920)	(1,920)
Closing net book amount	—	2,820	2,820
At 31 December 2022			
Cost	—	6,685	6,685
Accumulated amortization	—	(3,865)	(3,865)
Net book amount	—	2,820	2,820
Year ended 31 December 2023			
Opening net book amount	—	2,820	2,820
Additions	—	3,617	3,617
Amortization charge	—	(2,323)	(2,323)
Closing net book amount	—	4,114	4,114
At 31 December 2023			
Cost	—	10,302	10,302
Accumulated amortization	—	(6,188)	(6,188)
Net book amount	—	4,114	4,114

Notes to the Consolidated Financial Statements

18 Intangible assets (continued)

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of revenue	382	505
Administrative expenses	832	532
Research and development expenses	773	359
Selling and marketing expenses	336	524
	2,323	1,920

(a) Accounting policies of intangible assets

– 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.

– Software

Software is 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.

Notes to the Consolidated Financial Statements

19 Financial instruments by category

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Assets as per consolidated balance sheet		
Financial assets at amortized cost:		
– Trade receivables (Note 20)	29,225	71,807
– Other receivables (excluding prepayments and tax recoverable) (Note 21)	15,092	25,107
– Short-term bank deposits (Note 23)	261,788	110,000
– Long-term bank deposits (Note 23)	135,000	95,000
– Cash and cash equivalents (Note 23)	966,042	1,303,711
	1,407,147	1,605,625
Assets at fair value through the profit or loss:		
– Financial assets at fair value through profit or loss (Note 22)	5,000	5,000
	1,412,147	1,610,625
Liabilities as per consolidated balance sheet		
Financial liabilities at amortized cost:		
– Trade payables (Note 29)	4,661	8,199
– Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals) (Note 30)	30,628	30,544
– Bank overdrafts	–	6
– Lease liabilities (Note 17(a))	34,262	55,976
	69,551	94,725

Notes to the Consolidated Financial Statements

20 Trade receivables

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Receivables from third parties	29,579	72,135
Less: allowance for impairment	(354)	(328)
	29,225	71,807

- (a) The credit period for trade receivables was generally 30 days from the date of billing. Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
0–30 days	19,895	62,931
31–60 days	7,064	6,056
61–90 days	1,181	3,006
91–180 days	1,270	40
181–365 days	127	73
Over 365 days	42	29
	29,579	72,135

- (b) The Group applies the simplified approach to provide for ECL prescribed by IFRS 9. For the year ended 31 December 2023, increase in impairment RMB46,000 was made for the gross amounts of trade receivables (2022: reversal in impairment RMB45,000) (Note 3.1(b)).
- (c) As at 31 December 2023, trade receivables were mainly denominated in RMB and their fair value approximated their carrying amounts (2022: same).
- (d) The maximum exposure to credit risk is the carrying amount of the trade receivable balance. The Group does not hold any collateral as security.
- (e) The concentration risk with respect to trade receivables comes from Company A and Group B accounted for 50.8% (2022: 64.9%) and 14.0% (2022: 12.6%) of the Group's trade receivables as at 31 December 2023, respectively.
- (f) Classification as trade 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 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.

Notes to the Consolidated Financial Statements

21 Prepayments and other receivables

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Included in non-current assets		
Rental and other deposits	3,637	3,913
Prepayments for construction in progress	997	81
Prepayments for others	—	96
	4,634	4,090
Less: allowance for impairment of other receivables	(74)	—
	4,560	4,090
Included in current assets		
Prepayments	5,047	2,222
Input value added tax to be deducted	11,000	3,942
Others	24,260	22,573
	40,307	28,737
Less: allowance for impairment of other receivables	(9,200)	(5,321)
Less: allowance for impairment of prepayments	(1,239)	(1,216)
	29,868	22,200
	34,428	26,290

As at 31 December 2023, other receivables were mainly dominated in RMB (2022: the same).

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.

Notes to the Consolidated Financial Statements

22 Financial assets at fair value through profit or loss

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
At 1 January	5,000	5,000
Investment in structural deposits	—	50,000
Gains recognized in profit or loss (Note 8)	—	325
Maturity of structural deposits	—	(50,325)
At 31 December	5,000	5,000
Unrealized gains recognized in profit or loss for the year	—	—

As at 31 December 2023, the balance comprised the Group's investment in the Fund amounting to RMB5,000,000 (2022: same), carrying at fair value within a fair value hierarchy level 3 (2022: level 3) (Note 3.3).

As at 31 December 2023, the Group keep the Fund at level 3, because the Fund has made investments in unlisted equities, whose valuation was not based on observable inputs but the net asset value evaluated by the Fund's administrator.

23 Cash and cash equivalents and term bank deposits

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Short-term bank deposits (Note (a))	261,788	110,000
Long-term bank deposits (Note (b))	135,000	95,000
Cash and cash equivalents		
— Cash at banks and on hand	966,042	1,303,711
	1,362,830	1,508,711
Maximum exposure to credit risk (Note (d))	1,362,754	1,508,622

(a) Short-term bank deposits represent the Group's deposit placed in banks with an expected maturity of over three months but less than one year.

(b) Long-term deposits represent the Group's deposit placed in a bank with an expected maturity of over one year but less than three years.

Notes to the Consolidated Financial Statements

23 Cash and cash equivalents and term bank deposits (continued)

- (c) The effective interest rate per annum for all bank balances and term deposits as at 31 December 2023 was approximately 1.94% (2022: 2.33%).
- (d) As at 31 December 2023, substantially all the Group's bank deposits included in cash and bank balances were deposited with major reputable financial institutions incorporated in the PRC. There has been no recent history of default in relation to these financial institutions.

Cash and cash equivalents and term bank deposits are denominated in the following currencies:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
RMB	1,214,942	1,364,918
US\$	73,227	77,203
HK\$	74,580	66,505
Others	81	85
	1,362,830	1,508,711

Notes to the Consolidated Financial Statements

24 Share capital and share premium

As at 31 December 2023 and 2022, the authorised share capital of the Company comprises 100,000,000,000 ordinary shares with par value of US\$0.0000005 per share. As at 31 December 2023, the total number of ordinary shares of the Company was 2,872,844,000 (2022: 2,822,844,000) shares which included 172,811,062 (2022: 167,770,438) 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 2022	2,771,194,000	2	8	1,106,699	1,106,707
RSU Scheme:					
– Issuance of shares held for RSUs Scheme	54,300,000	–	–	–	–
– Vesting of RSUs	–	–	–	39,460	39,460
2021 special final dividend payable to equity holders of the Company (Note 32)	–	–	–	(45,087)	(45,087)
Cancellation of ordinary shares	(2,650,000)	–	–	(1,213)	(1,213)
As at 31 December 2022	2,822,844,000	2	8	1,099,859	1,099,867
As at 1 January 2023	2,822,844,000	2	8	1,099,859	1,099,867
RSU Scheme:					
– Issuance of shares held for RSUs Scheme	50,000,000	–	–	–	–
– Vesting of RSUs	–	–	–	46,031	46,031
2022 special final dividend payable to equity holders of the Company (Note 32)	–	–	–	(36,968)	(36,968)
As at 31 December 2023	2,872,844,000	2	8	1,108,922	1,108,930

Notes to the Consolidated Financial Statements

25 Reserves

	Other reserves RMB'000 (Note(a))	Statutory reserves RMB'000 (Note(b))	Share-based compensation reserve RMB'000 (Note 26)	Total RMB'000
As at 1 January 2022	2,069	6,483	54,359	62,911
RSU Scheme:				
– Value of employee services	–	–	51,405	51,405
– Vesting of RSUs	–	–	(39,460)	(39,460)
Profit appropriations to statutory reserves	–	178	–	178
As at 31 December 2022	2,069	6,661	66,304	75,034
As at 1 January 2023	2,069	6,661	66,304	75,034
RSU Scheme:				
– Value of employee services	–	–	21,321	21,321
– Vesting of RSUs	–	–	(46,031)	(46,031)
Profit appropriations to statutory reserves	–	202	–	202
As at 31 December 2023	2,069	6,863	41,594	50,526

(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.

26 Share-based payments

(a) RSU Schemes

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.

On 2 April 2020, the Company granted RSUs representing an aggregate of 55,700,000 shares to 38 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 11 September 2020, the Company granted RSUs representing an aggregate of 35,650,000 shares to 12 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 11 June 2021, the Company granted RSUs representing an aggregate of 19,000,000 shares to 42 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 25 June 2021, it was approved by shareholders at the annual general meeting that the Company granted RSUs representing an aggregate of 25,000,000 shares to 2 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.

Notes to the Consolidated Financial Statements

26 Share-based payments (continued)

(a) RSU Schemes (continued)

On 3 September 2021, the Company granted RSUs representing an aggregate of 14,000,000 shares to 30 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 12 May 2022, the Company granted RSUs representing an aggregate of 15,300,000 shares to 18 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 6 June 2022, it was approved by shareholders at the annual general meeting that the Company granted RSUs representing an aggregate of 15,000,000 shares to 2 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 9 December 2022, the Company granted RSUs representing an aggregate of 1,610,000 shares to 4 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.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As at 1 January 2022	130,420,000
Granted	31,910,000
Forfeited	(3,135,000)
Vested	(40,483,750)
As at 31 December 2022	118,711,250
As at 1 January 2023	118,711,250
Forfeited	(12,415,000)
Vested	(48,785,000)
As at 31 December 2023	57,511,250

Notes to the Consolidated Financial Statements

26 Share-based payments (continued)

(a) RSU Schemes (continued)

The fair value of the RSUs was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these RSUs.

There was no RSUs granted arrangement during the year 2023. The weighted average fair value of RSUs granted during the year ended 31 December 2022 was HK\$0.45 per share (equivalent to approximately RMB0.39 per share).

The fair value is recognised as an expense over the relevant service period, which is the year to which the bonus relates and the vesting period of the shares.

27 Retained earnings

	Retained earnings RMB'000
As at 1 January 2022	506,004
Profit for the year	10,167
Profit appropriations to statutory reserves	(178)
As at 31 December 2022	515,993
As at 1 January 2023	515,993
Loss for the year	(31,478)
Profit appropriations to statutory reserves	(202)
As at 31 December 2023	484,313

Notes to the Consolidated Financial Statements

28 Contract costs and contract liabilities

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current contract costs relating to online virtual worlds	47,820	71,633
Non-current contract liabilities		
– Memberships	816	677
– Online virtual worlds (Note (a))	11,053	14,749
Total non-current contract liabilities	11,869	15,426
Current contract liabilities		
– Advances from customers	11,281	11,046
– Memberships	11,373	9,808
– Online virtual worlds (Note (a))	98,595	138,830
Total current contract liabilities	121,249	159,684

- (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 durable virtual items, amounting to RMB571,555,000 was recognized during the year ended 31 December 2023 (2022: RMB727,526,000).

Notes to the Consolidated Financial Statements

28 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	
	2023	2022
	RMB'000	RMB'000
Revenue recognized that was included in the contract liability balance at the beginning of the year		
— Advances from customers	11,046	9,953
— Memberships	9,808	10,931
— Online virtual worlds	138,830	96,126
	159,684	117,010

Unsatisfied contract liabilities as at 31 December 2023 related to memberships and online virtual worlds are expected to be recognized as revenue in 2 months to 4 years.

29 Trade payables

Trade payables primarily relate to the purchase of services for server custody, distribution costs and the revenue sharing collected by the Group which is payable to cooperated game developers according to the respective cooperation agreements.

The credit period for trade payables was generally 30 days from the date of billing. The ageing analysis of trade payables based on recognition date is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
0–30 days	4,154	7,220
31–60 days	105	308
61–180 days	351	569
181–365 days	6	42
Over 365 days	45	60
	4,661	8,199

As at 31 December 2023 and 2022, the fair value of trade payables approximated their carrying amounts.

Notes to the Consolidated Financial Statements

30 Other payables and accruals

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current		
Staff costs and welfare accruals	44,627	57,482
Construction cost payable	22,988	24,956
Professional service fees payable	5,045	4,464
Other tax liabilities (Note (a))	3,879	5,472
Purchase of intangible assets	791	—
Others	1,013	1,124
	78,343	93,498
Non-Current		
Purchase of intangible assets	791	—

(a) The balances represent liabilities relating to value-add tax and other related taxes in the PRC.

(b) As at 31 December 2023 and 2022, the fair value of other payables and accruals approximated their carrying amounts.

31 Deferred income tax

	As at 31 December	
	2023	2022
	RMB'000	(Restated) RMB'000
Deferred income tax assets:	24,531	36,607
Offsetting	(9,708)	(14,928)
	14,823	21,679

Notes to the Consolidated Financial Statements

31 Deferred income tax (continued)

	As at 31 December	
	2023	2022 (Restated)
	RMB'000	RMB'000
Deferred income tax liabilities:	(9,708)	(14,928)
Offsetting	9,708	14,928
	—	—

(i) Movement of deferred tax assets/liabilities

The movement in deferred tax assets/liabilities during the year is as follows:

Movements of deferred tax assets	Lease liabilities RMB'000	Tax losses RMB'000	Provisions RMB'000	Contract liabilities RMB'000	Total RMB'000
As at 1 January 2023	5,180	15,033	433	15,961	36,607
Charged to profit or loss	(2,027)	(486)	(167)	(9,396)	(12,076)
As at 31 December 2023	3,153	14,547	266	6,565	24,531
As at 31 December 2021	89	7,329	600	3,652	11,670
Application of HKAS 12 Amendments (Note 2.2)	7,054	—	—	5,094	12,148
As at 1 January 2022 (Restated)	7,143	7,329	600	8,746	23,818
Credited/(charged) to profit or loss	(1,963)	7,704	(167)	7,215	12,789
As at 31 December 2022 (Restated)	5,180	15,033	433	15,961	36,607

Notes to the Consolidated Financial Statements

31 Deferred income tax (continued)

(i) Movement of deferred tax assets/liabilities (continued)

Movements of deferred tax liabilities	Right-of-use assets RMB'000	Contract costs RMB'000	Total RMB'000
As at 1 January 2023	(5,117)	(9,811)	(14,928)
Charged to profit or loss	1,974	3,246	5,220
As at 31 December 2023	(3,143)	(6,565)	(9,708)
As at 31 December 2021	—	—	—
Application of HKAS 12 Amendments (Note 2.2)	(7,054)	(5,094)	(12,148)
As at 1 January 2022 (Restated)	(7,054)	(5,094)	(12,148)
Credited/(charged) to profit or loss	1,937	(4,717)	(2,780)
As at 31 December 2022 (Restated)	(5,117)	(9,811)	(14,928)

32 Dividend

The dividends paid in 2023 and 2022 amounted RMB36,968,000 and RMB45,087,000, respectively. The Board of Directors of the Company proposed on 27 March 2024 a special dividend of HK\$0.012 (equivalent to approximately RMB0.011) per ordinary share, which will be debited to the share premium account, totalling approximately RMB29,430,000. Such dividend is to be approved by the shareholders at the annual general meeting to be held on 26 June 2024. These financial statements do not reflect this dividend payable as a liability as at 31 December 2023.

(a) Dividend paid to ordinary shares

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Special final dividend of 2022 — HK\$0.015 (2021: HK\$0.02), equivalent to approximately RMB0.013 (2021: RMB0.017), per ordinary share	39,039	47,109
Less: dividend for shares held for the RSU Schemes	(2,071)	(2,022)
	36,968	45,087

Notes to the Consolidated Financial Statements

32 Dividend (continued)

(b) Dividend not recognized as at 31 December 2023

	RMB'000
Proposed special dividend of HK\$0.012, equivalent to approximately RMB0.011 per ordinary share	31,314
Less: dividend for shares held for the RSU Schemes	(1,884)
	29,430

33 Advance from distributors

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Advance for licensing fee	14,022	21,275
Advance for royalty fee	633	591
Others	3,234	3,476
	17,889	25,342

The Group licenses online games to distributors and receives licensing fees and royalty fees from distributors as sharing of proceeds earned from game players. The balance represented the licensing fee and royalty fee prepaid by distributors to the Group before games' launch.

Notes to the Consolidated Financial Statements

34 Cash flow information

(a) Cash used in operations

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
(Loss)/profit after income tax	(31,402)	10,339
Adjustments for:		
– Income tax expense/(credit) (Note 11)	7,974	(7,704)
– Depreciation of property and equipment (Note 16)	7,675	7,107
– Depreciation of right-of-use assets (Note 17)	12,830	14,135
– Amortization of intangible assets (Note 18)	2,323	1,920
– Loss/(gain) on disposals of property and equipment (Note 8)	1,189	(66)
– Gain on disposal of right-of-use assets (Note 8)	(569)	–
– Share-based compensation expenses (Note 9)	21,321	51,405
– Finance income — net (Note 10)	(33,000)	(39,717)
– Share of loss of an associate	1,302	–
– Interest income of financial assets at fair value through profit or loss (Note 8)	–	(325)
– Net impairment losses on financial assets (Note 3.1)	3,999	1,071
– Foreign exchange losses on operating activities (Note 13)	590	248
Changes in working capital (excluding the currency translation differences on consolidation):		
– Trade receivables	42,568	(42,905)
– Prepayments and other receivables	(8,769)	(994)
– Inventory	93	(207)
– Trade payables	(3,900)	482
– Other payables and accruals	(14,187)	6,965
– Advances from distributors	(7,453)	(7,388)
– Contract costs	23,813	(30,433)
– Contract liabilities	(41,992)	47,658
Cash (used in)/generated from operations	(15,595)	11,591

Notes to the Consolidated Financial Statements

34 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.

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cash and cash equivalents (including bank overdraft)	966,042	1,303,705
Term bank deposits	396,788	205,000
Lease liabilities	(34,262)	(55,976)
Net cash	1,328,568	1,452,729
Cash, term bank deposits and liquid investments	1,362,830	1,508,705
Gross debt — fixed interest rates	(34,262)	(55,976)
Net cash	1,328,568	1,452,729

	Other assets		Liabilities from financing activities	
	Cash	Term bank deposits	Leases	Total
Net cash as at 1 January 2022	1,429,190	119,000	(70,759)	1,477,431
Cash flows	(135,133)	86,000	18,409	(30,724)
Accrued interest expense	—	—	(3,626)	(3,626)
Foreign exchange adjustments	9,648	—	—	9,648
Net cash as at 31 December 2022	1,303,705	205,000	(55,976)	1,452,729
Cash flows	(339,689)	191,788	20,203	(127,698)
Accrued interest expense	—	—	(2,427)	(2,427)
Disposal of lease liabilities	—	—	3,938	3,938
Foreign exchange adjustments	2,026	—	—	2,026
Net cash as at 31 December 2023	966,042	396,788	(34,262)	1,328,568

Notes to the Consolidated Financial Statements

35 Commitments

(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Construction in progress	51,747	138,646

36 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 14.

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

Key management personnel compensations paid or payable for employee services

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Wages, salaries and bonuses	8,087	10,300
Pension costs — defined contribution plans	235	285
Other social security costs, housing benefits and other employee benefits	340	405
Share-based compensation expense	10,695	24,981
	19,357	35,971

37 Contingencies

The Group did not have any material contingent liabilities as at 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements

38 Balance sheet and reserve movement of the Company

Balance sheet of the Company	Note	As at 31 December	
		2023	2022
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries		393,774	372,453
		393,774	372,453
Current assets			
Prepayments and other receivables		7,669	10,510
Amounts due from subsidiaries		24,801	22,885
Short-term bank deposits		53,457	50,000
Cash and cash equivalents		49,684	99,157
		135,641	182,552
Total assets		529,415	555,005
EQUITY			
Share capital		8	8
Share premium		1,108,919	1,099,859
Reserves	(a)	39,648	64,358
Accumulated losses	(a)	(683,722)	(671,596)
Total equity		464,853	492,629
LIABILITIES			
Current liabilities			
Other payables and accruals		3,253	2,544
Amounts due to subsidiaries		61,309	59,832
		64,562	62,376
Total liabilities		64,562	62,376
Total equity and liabilities		529,415	555,005

Notes to the Consolidated Financial Statements

38 Balance sheet and reserve movement of the Company (continued)

(a) Reserve movement of the Company

	Reserves RMB'000	Accumulated losses RMB'000
At 1 January 2022	52,413	(660,983)
Loss for the year	—	(10,613)
RSU Scheme:		
— Value of employee services	51,405	—
— Vesting of RSUs	(39,460)	—
At 31 December 2022	64,358	(671,596)
At 1 January 2023	64,358	(671,596)
Loss for the year	—	(12,126)
RSU Scheme:		
— Value of employee services	21,321	—
— Vesting of RSUs	(46,031)	—
At 31 December 2023	39,648	(683,722)

Notes to the Consolidated Financial Statements

39 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 2023 and 2022 are set out below:

Year ended 31 December 2023:

Name	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Executive Directors							
Mr. Dai Jian ("CEO")	—	1,080	90	42	80	—	1,292
Mr. Wu Lili	—	960	130	68	71	—	1,229
Mr. Li Chong	—	960	80	43	63	4,105	5,251
Independent Non-Executive Directors							
Ms. Liu Qianli	425	—	—	—	—	—	425
Dr. Wang Qing	425	—	—	—	—	—	425
Mr. Ma Xiaofeng	425	—	—	—	—	—	425
Mr. Wei Cheng (Note (f))	214	—	—	—	—	—	214

Year ended 31 December 2022:

Name	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Executive Directors							
Mr. Dai Jian ("CEO")	—	1,155	115	42	86	—	1,398
Mr. Wu Lili	—	930	120	88	91	—	1,229
Mr. Li Chong	—	1,080	120	42	56	6,102	7,400
Independent Non-Executive Directors							
Ms. Liu Qianli	404	—	—	—	—	—	404
Dr. Wang Qing	404	—	—	—	—	—	404
Mr. Ma Xiaofeng	404	—	—	—	—	—	404

Notes to the Consolidated Financial Statements

39 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)

(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.

(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.

(f) Mr. Wei Cheng was appointed as an independent non-executive director since 27 June 2023.

40 Summary of other material accounting policies

40.1 Subsidiaries

40.1.1 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.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.1 Subsidiaries (continued)

40.1.1 Consolidation (continued)

(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 Accounting Standards.

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.

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.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.1 Subsidiaries (continued)

40.1.1 Consolidation (continued)

(a) Business combinations (continued)

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.

40.1.2 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.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.2 Associate

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

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

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

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

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.

40.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to CODM.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.4 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 (losses)/gains — net".

(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.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.5 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.

Construction in progress represents buildings under construction, which is stated at actual construction costs less any impairment loss. Construction in progress is transferred to property, plant and equipment when completed and ready for use.

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 40.6).

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

40.6 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.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.7 Investments and other financial assets

40.7.1 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.

40.7.2 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.

40.7.3 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.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.7 Investments and other financial assets (continued)

40.7.3 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.

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.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.7 Investments and other financial assets (continued)

40.7.4 Impairment of financial assets

The Group assesses on a forward looking basis 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 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.

40.8 Trade and other receivables

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 20 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

40.9 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.

40.10 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.

Where any group company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the shareholders of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the shareholders of the Company.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.11 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.

40.12 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 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 tax asset is realized or the deferred tax liability is settled.

Deferred 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.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.12 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and the associate, except for deferred 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 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.

(c) Offsetting

Deferred 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 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.

40.13 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 separated 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.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.14 Share-based payments

(a) Equity-settled share-based payments transactions

The Group operates various equity-settled share-based compensation plans, including the 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.

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.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.15 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.

40.16 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains 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 10.

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).

40.17 Leases

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.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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,

40 Summary of other material accounting policies (continued)

40.17 Leases (continued)

- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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.

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. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Notes to the Consolidated Financial Statements

40 Summary of other material accounting policies (continued)

40.17 Leases (continued)

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets 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 without a purchase option. Low-value assets comprise electronic equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 17). 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.

40.18 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.

40.19 Government grants

Grants from the government are recognised 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 profit or loss over the period necessary to match them with the costs that they are intended to compensate.