

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2100





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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Dai Jian (*Chairman*)

Mr. Wu Lili

Mr. Li Chong

Mr. Wang Xiaodong (*resigned on 26 January 2022*)

### Independent Non-executive Directors

Ms. Liu Qianli

Dr. Wang Qing

Mr. Ma Xiaofeng

## AUDIT COMMITTEE

Ms. Liu Qianli (*Chairperson*)

Dr. Wang Qing

Mr. Ma Xiaofeng

## NOMINATION COMMITTEE

Mr. Dai Jian (*Chairperson*)

Mr. Ma Xiaofeng

Ms. Liu Qianli

## REMUNERATION COMMITTEE

Dr. Wang Qing (*Chairperson*)

Mr. Ma Xiaofeng

Mr. Wu Lili

## CHIEF EXECUTIVE OFFICER

Mr. Dai Jian

## ACTING CHIEF FINANCIAL OFFICER

Ms. Chen Xiao Hong

## COMPANY SECRETARY

Ms. Lau Yee Wa

## AUTHORIZED REPRESENTATIVES

Mr. Wu Lili

Mr. Dai Jian

## AUDITOR

PricewaterhouseCoopers

*Certified Public Accountants and Registered PIE Auditor*

22/F, Prince's Building

Central

Hong Kong

## COMPANY'S WEBSITE

[www.baioo.com.hk](http://www.baioo.com.hk)

## STOCK CODE

2100

## HEADQUARTERS IN THE PRC

34th Floor, Goldchi Building

120 Huangpu W Ave, Tianhe

Guangzhou, Guangdong

China 510623

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### REGISTERED OFFICE

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### PRINCIPAL BANKS

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

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

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

### LEGAL ADVISORS AS TO HONG KONG LAW

DLA Piper Hong Kong  
25/F, Three Exchange Square  
8 Connaught Place  
Central  
Hong Kong

### LEGAL ADVISORS AS TO CAYMAN ISLANDS LAW

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

### INVESTOR RELATIONS

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

# Company Profile

Founded in 2009 and listed on the Hong Kong Stock Exchange in 2014, BAIOO Family Interactive Limited is a leading internet content and service provider in China. BAIOO primarily focuses on niche game genres in which it excels, namely female-oriented games, pet collection and raising games, and “nijigen” (「二次元」) games. BAIOO has gained a leading position in the niche game segments in China and is a gaming brand that is prevailing among generation Z.

Since its establishment, BAIOO has been committed to the development and operation of various online content. The Company's key products have attracted over 300 million registered users. Leveraging BAIOO's business growth and the emerging mobile internet market, the Company has launched a series of hit game titles. The Company has also launched its gaming products in Hong Kong, Macau, Taiwan, Japan, South Korea, Europe and the United States, which were well received by users.

Looking ahead, BAIOO will continue to focus on developing games in the niche gaming segments, namely female-oriented, pet collection and raising, and “nijigen” (「二次元」). Leveraging its “IP Super Evolution” strategy and its IP that were developed and accumulated throughout the years, BAIOO will continue to develop a series of creative and attractive products, provide young users with differentiated and upgraded IP experience and services, create successive hit titles and sequels, and become a joy-making platform for the youth.

# Financial Summary

## INCOME STATEMENT HIGHLIGHT

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000 (Restated) <sup>(1)</sup>
Continuing operations					
Revenue	<b>883,908</b>	1,128,967	680,598	284,489	309,677
Gross Profit	<b>400,559</b>	429,347	362,146	171,677	168,095
Operating Profit	<b>29,706</b>	281,624	159,837	106,710	12,611
Non-international Financial Reporting Standards ("IFRSs") Measures					
— Adjusted Net Profit/(Loss) (unaudited) <sup>(2)</sup>	<b>79,176</b>	289,214	151,416	112,721	(22,613)
— Adjusted EBITDA (unaudited) <sup>(3)</sup>	<b>105,828</b>	317,056	164,193	111,928	(32,375)

### Notes:

- (1) Due to the discontinuance of our retail business as part of our strategy, our retail business has been classified as discontinued operation, and the related revenue, expenses and tax are presented as a single amount in the consolidated income statement as "Loss for the year from discontinued operations". Comparative figures have been reclassified to conform with the new presentation.
- (2) Adjusted net profit/(loss) consists of profit/(loss) for the year plus share-based compensation. Adjusted net profit/(loss) eliminates the effect on non-cash share-based compensation expenses. The term of adjusted net profit/(loss) is not defined under the IFRS. The use of adjusted net profit/(loss) has material limitations as an analytical tool, as adjusted net profit/(loss) does not include all items that impact our net profit/(loss) for the year.
- (3) Adjusted EBITDA means adjusted net profit/(loss) less finance income-net, plus income tax, depreciation of property and equipment and right-of-use assets and amortization of intangible assets.

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000 (Restated) <sup>(1)</sup>
Continuing operations					
Revenue	<b>883,908</b>	1,128,967	680,598	284,489	309,677
Gross Profit	<b>400,559</b>	429,347	362,146	171,677	168,095
Non-international Financial Reporting Standards (excluding the one-off disposal gain related to the disposal of a 7% equity interest in a subsidiary, Guangzhou Baiman Culture Communications Company Limited, the "Disposal")					
Operating profit/(Loss)	<b>29,706</b>	281,624	159,837	(7,367) <sup>(2)</sup>	12,611
— Profit After Tax	<b>26,906</b>	273,231	151,167	6,721 <sup>(2)</sup>	26,455
— Adjusted Net Profit/(Loss) <sup>(3)</sup> (unaudited)	<b>79,176</b>	289,214	151,416	11,794	(22,613)
— Adjusted EBITDA <sup>(4)</sup> (unaudited)	<b>105,828</b>	317,056	164,193	11,001	(32,375)

### Notes:

- (1) Due to the discontinuance of our retail business as part of our strategy, our retail business has been classified as discontinued operation, and the related revenue, expenses and tax are presented as a single amount in the consolidated income statement as "Loss for the year from discontinued operations". Comparative figures have been reclassified to conform with the new presentation.
- (2) Operating profit/(loss) and profit after tax of 2018 eliminate the effect on the Disposal. They are unaudited and not defined under the IFRS.
- (3) Adjusted net profit/(loss) consists of profit/(loss) for the year plus share-based compensation. Adjusted net profit/(loss) eliminates the effect on non-cash share-based compensation expenses. For 2018, adjusted net profit eliminated the effect of the Disposal as well. The term of adjusted net profit/(loss) is not defined under the IFRS. The use of adjusted net profit/(loss) has material limitation as an analytical tool, as adjusted net profit/(loss) does not include all items that impact our net profit/(loss) for the year.
- (4) Adjusted EBITDA means adjusted net profit/(loss) less finance income-net, plus income tax, depreciation of property and equipment and right-of-use assets and amortization of intangible assets. For 2018, adjusted EBITDA eliminates the effect of the Disposal as well.

## Financial Summary

### BALANCE SHEET HIGHLIGHT

	As at 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
<b>Assets</b>					
Non-current assets	422,420	355,011	220,573	130,164	48,256
Current assets	1,571,922	1,725,873	1,712,162	1,529,229	1,582,352
<b>Total assets</b>	<b>1,994,342</b>	2,080,884	1,932,735	1,659,393	1,630,608
<b>Equity and Liabilities</b>					
Total equity	1,682,640	1,734,329	1,550,441	1,530,801	1,488,774
Non-current liabilities	63,270	81,075	95,413	17,182	7,278
Current liabilities	248,432	265,480	286,881	111,410	134,556
<b>Total liabilities</b>	<b>311,702</b>	346,555	382,294	128,592	141,834
<b>Total Equity and Liabilities</b>	<b>1,994,342</b>	2,080,884	1,932,735	1,659,393	1,630,608

# Chairman Letter

Dear Shareholders,

The year 2021 witnessed the sustained and rapid growth of China's digital economy, iterations and innovations of multiple technologies, and stable expansion of the game market. In addition, the Chinese government has introduced new anti-addiction regulations to protect minors, thus enabling a healthier user structure. The market share of mobile games in China's game market continued to expand and remained dominant, while the revenue from games developed by Chinese companies continued to rise.

In recent years, the Chinese government has introduced a series of industry policies, and the overall game industry has gradually become standardized and optimized. At the same time, Chinese game enterprises have actively upgraded their strategic positioning to focus on the areas of social benefits, cultural content and proprietary research and development, moving towards high-quality development. Since its establishment, BAI00 has been committed to the development of the niche game market, focusing on female-oriented games, pet collection and raising games, and comic-adapted "nijigen" (「二次元」) games. BAI00 actively consolidates its strengths in operation, R&D and innovation to provide users with richer and more diversified game experiences. In addition, we continue to integrate Chinese cultural elements into our games to promote China's high-quality traditional culture, while fulfilling corporate social responsibility and contributing to the promotion of Chinese culture and spirit.

In order to further strengthen BAI00's leading position in the niche game segment and to explore more development opportunities, BAI00 successfully introduced Tencent Holdings Limited as a major shareholder of the Company in January 2021 to inject more resources and new impetus into our business development.

## CONTENT INNOVATION AND R&D STRENGTHS HIGHLY RECOGNIZED BY THE MARKET; CORE PRODUCTS POISED FOR LAUNCH

With the increasing variety of games in the market, users have higher requirements of products. In 2021, we focused on generation Z users and actively developed high-quality games through our IP super evolution strategy to provide users with richer, more interesting and meaningful game experiences.

For our domestic business, our signature mobile games, namely the female-oriented game Shiwuyu (「食物語」), the pet collection and raising game Aola Star Mobile (「奧拉星手遊」), nijigen games Zaowufaze II (「造物法則二：先鋒英雄」), as well as Legend of Aoqi Mobile (「奧奇傳說手遊」) which was launched in April 2021, continued to receive positive acclaim. In order to strengthen user stickiness and provide rich game experiences, we continued to update game content and actively cooperated with different industries for development, enabling us to gain positive feedback from the market and users. Specifically, we collaborated with several cultural associations to integrate the famous traditional Chinese arts including Cloisonné, Wing Chun and embroidery into our games, in an effort to promote traditional Chinese culture. Meanwhile, we further strengthened the popularity and value of our brand and IPs by collaborating with other classic animation IPs.

## Chairman Letter

In addition, we conduct active planning and execution of pre-launch promotional work for new mobile games. In particular, Aobi Island: Dream Land (「奧比島：夢想國度」), the mobile game version of Aobi Island (「奧比島」), has already won several industry awards prior to its launch, reflecting the high anticipation of the market and users, reflecting the value of Aobi Island, our classic IP that has been in operation for 13 years.

In recent years, we have continued to deepen our internationalization strategy. BAIIO's games have been successfully launched in several overseas markets, including Hong Kong, Macau, Taiwan, Japan, South Korea, Singapore, Malaysia, Europe and the United States.

Furthermore, we continued to increase investments in R&D to upgrade our capabilities in creativity, technology, art, talents and operations, which have been recognized by the industry and capital market. In 2021, BAIIO was included as a constituent of the MSCI China All Shares Small Cap Index, and our subsidiary Guangzhou Baitian was successfully selected as the "2021 Top 30 Guangzhou Cultural Enterprises" and the "The Most Influential Enterprise" of the 2021 Golden Diamond Awards.

## OUTLOOK

Looking ahead to 2022, we will continue to focus on the three niche game genres of female-oriented games, pet battle games, and "nijigen" (「二次元」) games to provide users with diversified and interesting game content and build a green, healthy and beneficial Internet environment. We will further strengthen our core competitiveness in R&D, technical reserve and operation of game products, with an aim to bring users a higher quality game experience by creating successive hit games and sequels.

Meanwhile, we will actively seize the development opportunities in the domestic and overseas game markets, explore more crossover collaboration opportunities with different cultural entities, to integrate more high quality Chinese traditional culture into game content, and promote the spirit and value of Chinese culture to users around the world.

### ACKNOWLEDGEMENTS

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

**DAI Jian**

*Chairman, Chief Executive Officer and Executive Director*

**BAIOO Family Interactive Limited**

29 March 2022

# Definitions and Glossaries

## DEFINITIONS

“AGM”	the annual general meeting of the Company to be convened and held in accordance with the Articles of Association
“AI”	artificial intelligence
“Articles of Association”	the articles of association of the Company as amended, supplemented or revised from time to time
“associate”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Company
“Board” or “Board of Directors”	the board of Directors
“BVI”	the British Virgin Islands
“CEO”	the chief executive officer of the Company
“Chairman”	the chairman of the Board
“Company” or “us” or “our Company”	BAIOO Family Interactive Limited (百奧家庭互動有限公司), 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 and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
“DAE Trust”	a discretionary trust set up by Mr. DAI Jian for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. DAI and his family members

## Definitions and Glossaries

“Director(s)” or “our Director(s)”	the director(s) of our Company or any one of them
“Group” or “our Group” or “BAIOO”	our Company, its subsidiaries and the PRC Operating Entity (the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements), or, where the context so requires, in respect of the period before our Company became the holding company of its current subsidiaries, our Company’s current subsidiaries or the business operated by such subsidiaries or their predecessors (as the case may be)
“Guangzhou Baiman”	Guangzhou Baiman Culture Communications Company Limited* (廣州百漫文化傳播有限公司), a company with limited liability incorporated on 5 January 2016 under the laws of the PRC. Guangzhou Baitian held 31.2% equity interests in Guangzhou Baiman and independent third parties held 68.8%. Pursuant to a sale and purchase agreement dated 9 August 2020, Guangzhou Baitian had disposed of the 31.2% of the equity interests in Guangzhou Baiman and upon completion of the disposal, Guangzhou Baiman had ceased to be an associate of the Company. For details, please refer to the announcement of the Company dated 9 August 2020
“Guangzhou Baitian” or “PRC Operating Entity”	Guangzhou Baitian Information Technology Ltd.* (廣州百田信息科技有限公司), a company incorporated on 2 June 2009 and existing under the laws of the PRC. As of the date hereof, Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming and Mr. WANG Xiaodong hold 46.92%, 28.37%, 12.9%, 7.08% and 4.73% equity interests in Guangzhou Baitian, respectively
“Guangzhou WFOE”	Baiduo (Guangzhou) Information Technology Limited* (百多(廣州)信息科技有限公司), a company incorporated on 29 October 2013 under the laws of the PRC, an indirect wholly-owned subsidiary of the Company
“independent third party”	any entity or party which is not connected (as defined in the Listing Rules) to any of our Directors, substantial shareholders or chief executives of our Company or its subsidiaries, or any of their respective associates
“IP”	intellectual property
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on 10 April 2014
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)

## Definitions and Glossaries

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 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 and was amended on 19 June 2015 and 17 December 2020
“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
“Pre-IPO Share Option Scheme”	the share option plan approved and adopted by the Company on 18 June 2010
“Prospectus”	the prospectus of the Company dated 28 March 2014
“R&D”	research and development
“Register of Members”	the register of members of the Company
“Registered Shareholders”	the registered shareholders of Guangzhou Baitian, namely Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming and Mr. WANG Xiaodong
“Remuneration Committee”	the remuneration committee of the Company
“RSU(s)”	restricted share unit(s), being a contingent right to receive Shares which is granted pursuant to the Pre-IPO RSU Scheme and/or the Post-IPO RSU Scheme
“SFO”	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)” or “Ordinary Share(s)”	ordinary share(s) in the share capital of our Company with par value US\$0.0000005 each (or of such other nominal amount as shall result from capitalization, subdivision, consolidation, re-classification or re-construction of the share capital of the Company from time to time) with the rights ascribed in the Articles of Association

## Definitions and Glossaries

“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

\* English names are for identification purpose only

## Definitions and Glossaries

### 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

For the year ended 31 December 2021 (the “Year”), BAIOO continued to experience steady growth in the PC and mobile device areas. BAIOO remained committed to focusing on niche game genres, deepening its development in female-oriented games, pet collection and raising games, and “nijigen” (「二次元」) games to build up high entry barriers, which further consolidated the Company’s reputation and leading position in these market segments. Meanwhile, BAIOO proactively improved its capabilities in innovation and R&D, with an aim to provide more diversified and interesting game content to users around the world.

During the Year, the operation of BAIOO’s core mobile games and web games remained steady. In particular, BAIOO’s signature mobile games Shiwuyu (「食物語」) and Aola Star Mobile (「奧拉星手遊」) continued to be well-received by users. By constantly updating in-game content and launching versions with new themes, BAIOO was able to offer higher quality gaming experiences to users. In addition, the Group further enriched its game product portfolio by launching a pet collection and raising game Legend of Aoqi Mobile (「奧奇傳說手遊」), which was adapted from the IP of our web games with the same title in China in April 2021 and was highly praised by users and the market. Currently, the product reputation of these mobile games has been improving, among which, Aola Star Mobile (「奧拉星手遊」) and Legend of Aoqi Mobile (「奧奇傳說手遊」) have won a number of industry awards, demonstrating the market’s recognition of the Group’s game content.

BAIOO had been actively promoting China’s high-quality traditional culture and is committed to incorporate Chinese traditional art into the game content. During the Year, the Group cooperated with numerous cultural organizations and classic animation IP to further enhance the brand and IP popularity of BAIOO. Aola Star Mobile (「奧拉星手遊」) cooperated with the classic animation “EVANGELION” (新世紀福音戰士) and the animation of Chinese traditional style “Wushanwuxing” (霧山五行) to launch the linkage version; Aola Star Web (「奧拉星頁遊」) cooperated with Guangdong Institute of Arts and Crafts (廣東省工藝美術研究所) for Cloisonne, and cooperated with Guangdong Lingnan Folk Art Institute (廣東省嶺南民間工藝研究院) for Wing Chun, so as to integrate China’s quintessence into the game content.

BAIOO joined hands with Zhejiang Provincial Department of Culture and Tourism and China Academy of Art for another signature mobile game Shiwuyu (「食物語」) to promote Chinese traditional food culture during the Year. In December 2021, Shiwuyu (「食物語」) launched the large cross-boundary activity, Shiwuyu (「食物語」) X Pizza Hut X Yu Garden to provide users with a wide range of game content and activities. In addition, Shiwuyu (「食物語」) and Legend of Aoqi Mobile (「奧奇傳說手遊」) also cooperated with the national animation, “The story of hongmao and lantu” (虹貓藍兔七俠傳) and Tencent animation “The outcast” (一人之下), respectively, to enhance their IP popularity by launching collaborative versions. As for BAIOO’s classic web game Aobi Island (「奧比島」), it collaborated with Guangdong Institute of Arts and Crafts to launch a version with the theme of the national intangible cultural heritage “Stylish Embroidery” (潮繡) during the Year to promote Chinese traditional embroidery skills.

## Management Discussion and Analysis

In addition to actively expanding the domestic gaming market, BAIOO has also made achievements in the overseas mobile gaming market. Currently, BAIOO has successfully launched its mobile games in Hong Kong, Macau, Taiwan, Japan, South Korea, Europe and the United States, and gained much popularity. During the Year, BAIOO continuously updated and optimised the content of its localised games, allowing more overseas users to experience BAIOO's games and understand Chinese culture.

With the elevation of users' preferences and demands for gaming content, BAIOO has also actively strengthened its R&D investment, striving to improve its independent game development capacity to create higher-quality and differentiated games for users around the globe. The Group also actively abided by the policies of the Chinese government on preventing addiction and protecting teenagers, and continued to put corporate social responsibility into practice. We have been committed to providing a healthy game environment for Chinese teenagers, and contributing to the long-term health and sustainable development of the industry.

### INDUSTRY TRENDS

In 2021, China's gaming market maintained steady growth, with high-quality products leading the overall development of the industry. According to the latest China's Gaming Industry Report released by the Game Publishers Association Publications Committee of the China Audio-Video and Digital Publishing Association (中國音數協遊戲工委) ("GPC"), the number of gaming users in China reached 670 million, representing a year-over-year increase of 0.2%, while the revenue generated by the gaming industry reached RMB296.51 billion, representing a year-over-year increase of 6.4%. In particular, the mobile gaming market continued to expand and occupy the largest share of the industry, accounting for 76.0% of the total revenue.

According to the GPC report, technological upgrading accelerates the transformation of the game industry, and industrial development is also conducive to technological innovation. The proprietary games developed by the Chinese enterprises play a dominant role in the business of domestic game enterprises. At the same time, the overseas market has become the key strategy of an increasing number of small and medium-sized companies. In addition, game companies pay more attention to the internal ideological and cultural development and social image building, and the willingness of social responsibility continues to improve.

With the further saturation of game users, the exploration of user's segmentation needs has become the focus of future market competition. BAIOO has always adhered to the cultivation of the niche gaming markets and actively grasped the development opportunities at home and abroad. With its deep insight into users in the niche gaming markets and its strong strength in operation and R&D, BAIOO further consolidate its brand influence and position in the niche gaming segments.

### OUTLOOK FOR 2022

Looking ahead to 2022, BAI00 will continue to focus on three game genres, namely female-oriented games, “nijigen” (「二次元」) games and pet collection and raising games. BAI00 will also continue to enrich its game portfolio, increase investment in R&D, launch more high-quality games, upgrade the experience of Baioo’s IP through linking multi-faceted resources and taking the new generation of high quality as a carrier, and provide users with more diversified and interesting game experiences.

BAI00 plans to launch community-based raising mobile game Aobi Island: Dreamland (「奧比島：夢想國度」) in China in 2022, which has adapted the IP of the BAI00’s classic web game and inherits the classic elements of this web game. As a classic IP that has been operating for 13 years, the news of the launching of Aobi Island surprised the majority of IP fans. The related microblog topics of # the launching of Aobi Island # were once ranked third in the most popular search list, with 130 million readers, and the related microblog topics of #Aobi Island# reached 290 million, demonstrating the high popularity of the IP. In addition, Aobi Island: Dreamland (「奧比島：夢想國度」) won a number of awards during the Year, including the “Most Anticipated Game of the Year” at the 2021 Vivo Developer Conference, the “Most Anticipated New Game of the Year” of the 6th Golden Gyroscope Award, the “Most Anticipated Award” at the 2021 OPPO Developer Conference, and the “Most Anticipated Game Operation Award” at the Huawei Developer Conference, which reflected the expectations of BAI00’s high-quality games. Aobi Island: Dreamland (「奧比島：夢想國度」) will join hands with G-Bits Leiting Games (「吉比特雷霆遊戲」) to invest in building the most popular community game products among the users.

BAI00 will also continue to explore more forms of cross-border integration of culture and creativity. In the future, BAI00 will be deeply rooted in Chinese culture, and integrate more Chinese elements into products, thus delivering innovative, interesting and beneficial entertainment content to users, so as to show Chinese characteristics, Chinese spirit and Chinese wisdom to the young generation and the world.

BAI00 will also continue to fulfill its corporate social responsibility and respond to government policies, integrate more excellent Chinese traditional culture into game content, and deliver more innovative game products to users all over the world. Through the IP super-evolution strategy, BAI00 will leverage its IP that has been precipitated for many years and carefully incubated to continuously develop a series of creative and attractive products, in a position to provide users with different IP upgrade experience and services, and create high-quality games that are stronger from generation to generation. At the same time, BAI00 will grasp the development opportunities at home and abroad, continues to upgrade in creativity, technology, art, playing methods, talents, operation and other aspects, and further expands the Group’s brand awareness and market position in the game industry and within younger users.

# Management Discussion and Analysis

## OPERATION INFORMATION

The following table sets out average quarterly active accounts, average quarterly paying accounts and average quarterly average revenue per quarterly paying accounts for our online virtual worlds for the years indicated below:

	For the year ended		
	31 December 2021 <sup>(1)</sup>	31 December 2020	Year-over-year Change
			<i>(QAA &amp; QPA in millions, ARQPA in RMB)</i>
average QAA <sup>(2)</sup>	<b>10.0</b>	13.4	(25.4%)
average QPA <sup>(3)</sup>	<b>1.6</b>	1.7	(5.9%)
average quarterly ARQPA <sup>(4)</sup>	<b>140.0</b>	166.9	(16.1%)

Notes:

1. As of 31 December 2021, our online virtual worlds under commercial operation included Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Helix Waltz, Shiwuyu (「食物語」), Aola Star Mobile (「奧拉星手遊」), Zaowufaza II (「造物法則二：先鋒英雄」) and legend of Aoqi Mobile (「奧奇傳說手遊」).
2. The average QAA for online virtual worlds was approximately 10.0 million for the year ended 31 December 2021, representing a decrease of approximately 25.4% compared with the year ended 31 December 2020. The decrease was primarily due to three new mobile games launched in the fourth quarter of 2019 which remained higher popular in 2020.
3. The average QPA for online virtual worlds was approximately 1.6 million for the year ended 31 December 2021, representing a decrease of approximately 5.9% compared with the year ended 31 December 2020. The decrease was due to three new mobile games launched in the fourth quarter of 2019 which remained higher popular in 2020.
4. The average quarterly ARQPA for online virtual worlds was approximately RMB140.0 for the year ended 31 December 2021, representing a decrease of approximately 16.1% compared with the year ended 31 December 2020. The decrease was primarily due to additional free virtual items were given to the users of the Company's mobile games to ensure user loyalty and game experience.

## OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our consolidated statements of comprehensive income for the years ended 31 December 2021 and 2020, respectively:

	For the year ended			
	31 December 2021 RMB'000	% of Revenue	31 December 2020 RMB'000	% of Revenue
<b>Revenue</b>	<b>883,908</b>	<b>100.0</b>	1,128,967	100.0
Online entertainment business	882,594	99.9	1,126,264	99.8
Other businesses	1,314	0.1	2,703	0.2
<b>Cost of revenue</b>	<b>(483,349)</b>	<b>(54.7)</b>	(699,620)	(62.0)
<b>Gross profit</b>	<b>400,559</b>	<b>45.3</b>	429,347	38.0
Selling and marketing expenses	(105,127)	(11.9)	(58,811)	(5.2)
Administrative expenses	(91,458)	(10.3)	(56,241)	(5.0)
Research and development expenses	(173,296)	(19.6)	(106,486)	(9.4)
Net impairment losses on financial assets	(1,284)	(0.1)	(687)	(0.1)
Other income	2,845	0.3	3,741	0.3
Other gains — net	4,429	0.5	5,344	0.5
(Loss)/gain on disposal of equity interest in an associate	(6,962)	(0.8)	65,417	5.8
<b>Operating profit</b>	<b>29,706</b>	<b>3.4</b>	281,624	24.9
Finance income — net	24,743	2.8	11,175	1.0
Share of losses of associates	(3,115)	(0.4)	(3,300)	(0.3)
<b>Profit before income tax</b>	<b>51,334</b>	<b>5.8</b>	289,499	25.6
Income tax expense	(24,428)	(2.8)	(16,268)	(1.4)
<b>Profit for the year</b>	<b>26,906</b>	<b>3.0</b>	273,231	24.2

## Management Discussion and Analysis

The following table sets forth our consolidated statement of comprehensive income for the years ended 31 December 2021 and 2020, respectively:

	31 December		For the year ended	
	2021	% of	31 December	% of
	RMB'000	Revenue	2020	Revenue
			RMB'000	
<b>Profit for the year</b>	<b>26,906</b>	<b>3.0</b>	273,231	24.2
Other comprehensive income, net of tax	—	—	—	—
<b>Total comprehensive income for the year</b>	<b>26,906</b>	<b>3.0</b>	273,231	24.2
<b>Other financial data</b>				
Adjusted net profit <sup>(1)</sup> (unaudited)	<b>79,176</b>	<b>9.0</b>	289,214	25.6
Adjusted EBITDA <sup>(2)</sup> (unaudited)	<b>105,828</b>	<b>12.0</b>	317,056	28.1

Notes:

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

### Revenue

Our revenue for the year ended 31 December 2021 was RMB883.9 million, representing a 21.7% decrease from RMB1,129.0 million for the year ended 31 December 2020.

*Online Business:* Our online business revenue for the year ended 31 December 2021 was RMB882.6 million, a 21.6% decrease from RMB1,126.3 million for the year ended 31 December 2020. The decrease was primarily due to the revenue from existing games has a usual decline as a result of life cycle.

*Other Businesses:* Revenue from other businesses for the year ended 31 December 2021 was RMB1.3 million, a 51.9% decrease from RMB2.7 million for the year ended 31 December 2020. The decrease was mainly due to the decrease of rental services.

## Cost of Revenue

Our cost of revenue for the year ended 31 December 2021 was RMB483.3 million, a 30.9% decrease from RMB699.6 million for the year ended 31 December 2020.

*Online Entertainment Business:* Our online entertainment business cost for the year ended 31 December 2021 was RMB482.2 million, a 30.7% decrease from RMB695.4 million for the year ended 31 December 2020. 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 2021 was RMB1.1 million, a 73.8% decrease from RMB4.2 million for the year ended 31 December 2020. The decrease primarily reflected a decrease of employee cost and benefit expenses.

## Gross Profit

As a result of the foregoing, our gross profit for the year ended 31 December 2021 was RMB400.6 million, compared with RMB429.3 million for the year ended 31 December 2020. Gross profit margin was 45.3% for the year ended 31 December 2021, compared with 38.0% for the year ended 31 December 2020. The gross profit margin increased mainly due to the proportion of revenue with higher third-party revenue sharing decreased.

## Selling and Marketing Expenses

Our selling and marketing expenses for the year ended 31 December 2021 were RMB105.1 million, a 78.7% increase from RMB58.8 million for the year ended 31 December 2020. This was primarily due to increase in promoting and advertising expenses for the new mobile game launched.

## Administrative Expenses

Our administrative expenses for the year ended 31 December 2021 were RMB91.5 million, a 62.8% increase from RMB56.2 million for the year ended 31 December 2020. This increase was primarily due to the increase in staff cost and expenses relating to RSUs granted to employees.

## Research and Development Expenses

Our research and development expenses for the year ended 31 December 2021 were RMB173.3 million, a 62.7% increase from RMB106.5 million for the year ended 31 December 2020. This increase was primarily driven by the Group's strategy to enhance in-house game development capabilities and improve user experience through continuous investment in recruitment of more talents for the group's research and development team.

## Net Impairment Losses on Financial Assets

We recorded net impairment losses of financial assets of RMB1.3 million for the year ended 31 December 2021, which compares to RMB0.7 million net impairment losses for the year ended 31 December 2020.

# Management Discussion and Analysis

## Other Income

The Company recognized RMB2.8 million in other income for the year ended 31 December 2021, representing a decrease by 24.3% from RMB3.7 million for the year ended 31 December 2020.

## Other Gains — net

The Company recognized net gain of RMB4.4 million primarily consisted of the interest income of structural deposits for the year ended 31 December 2021, compared with net gain of RMB5.3 million for the year ended 31 December 2020.

## Loss on Disposal of Equity Interest in an Associate

During the year ended 31 December 2021, the Group disposed all of its equity interest of investment in Chengdu Constmotion Interactive Entertainment Network Technology Co., Ltd to a third party, which resulted in a disposal loss of RMB7.0 million.

## Operating Profit

As a result of the foregoing, our operating profit for the year ended 31 December 2021 was RMB29.7 million, compared with operating profit of RMB281.6 million for the year ended 31 December 2020.

## Finance Income — net

We had net finance income of RMB24.7 million for the year ended 31 December 2021, compared with net finance income of RMB11.2 million for the year ended 31 December 2020. Net finance income for the year ended 31 December 2021 primarily consisted of interest income on short-term deposit, long-term deposit and cash and bank balance, which was partly offset by exchange losses on cash and bank balance, as well as interest expenses on lease liabilities.

## Share of Losses of Associates

We recorded share of losses of an associate of RMB3.1 million for the year ended 31 December 2021 due to our investee company registered losses, compared to share of losses of RMB3.3 million for the year ended 31 December 2020.

## Profit before Income Tax

As a result of the foregoing, we had a profit of RMB51.3 million for the year ended 31 December 2021, compared with a profit of RMB289.5 million for the year ended 31 December 2020.

## Income Tax Expense

Our income tax expense for the year ended 31 December 2021 was RMB24.4 million, representing a 49.7% increase from RMB16.3 million for the year ended 31 December 2020. This was primarily due to the Group's subsidiaries, Guangzhou Baitian Information Technology Limited and Guangzhou Tianti Internet Technology Limited were no longer qualified as "Key software Enterprise" since the application of new policies published in 2021, therefore the applicable income tax rates for

## Management Discussion and Analysis

the year ended 31 December 2020 were revised from 10% to 15% on Guangzhou Baitian's profit and from 0% to 12.5% on Guangzhou Tianti's profit, resulting that an under-provision of EIT was recorded for the year ended 31 December 2021.

### Profit for the Year

As a result of the foregoing, we had a profit of RMB26.9 million for the year ended 31 December 2021, compared with a profit of RMB273.2 million for the year ended 31 December 2020.

### Non-IFRS Measure — Adjusted Net Profit/EBITDA

Our adjusted net profit for the year ended 31 December 2021 was RMB79.2 million, representing a 72.6% decrease from RMB289.2 million for the year ended 31 December 2020. Our adjusted EBITDA for the year ended 31 December 2021 was a profit of RMB105.8 million, representing a 66.6% decrease from a profit of RMB317.1 million for the year ended 31 December 2020.

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

	Unaudited For the year ended 31 December	
	2021 RMB'000	2020 RMB'000
<b>Profit for the year</b>	<b>26,906</b>	273,231
Add:		
Share-based compensation	<b>52,270</b>	15,983
<b>Adjusted net profit</b>	<b>79,176</b>	289,214
Add:		
Depreciation and amortization	<b>26,967</b>	22,749
Finance income — net	<b>(24,743)</b>	(11,175)
Income tax	<b>24,428</b>	16,268
<b>Adjusted EBITDA</b>	<b>105,828</b>	317,056

# Management Discussion and Analysis

## LIQUIDITY AND CAPITAL RESOURCES

In 2021, we met our working capital and other capital requirements principally from cash flow generated from our operating activities.

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

	As of 31 December 2021 RMB'000	As of 31 December 2020 RMB'000
Total liabilities	311,702	346,555
Total assets	1,994,342	2,080,884
Gearing ratio <sup>(1)</sup>	16%	17%

Note:

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

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

As of 31 December 2021, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB1,429.2 million, compared with RMB1,382.0 million as of 31 December 2020. We had a short-term deposit of RMB54.0 million as of 31 December 2021, compared with RMB229.6 million as of 31 December 2020, representing bank deposits which we intend to hold for over three months but less than one year. We had long-term deposits of RMB65.0 million as of 31 December 2021 compared with no long-term deposits as of 31 December 2020, representing bank deposits which we intend to hold for over one year but less than two years.

As of 31 December 2021, the Group had no restricted cash.

The effective interest rate per annum for cash in bank balances and deposits as of 31 December 2021 was 2.3%, compared with 2.0% as of 31 December 2020. Our policy is to place our cash in interest-bearing principal-protected call deposits or deposits with reputable domestic or international banks.

## Management Discussion and Analysis

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 2021	31 December 2020
	RMB'000	RMB'000
RMB	1,427,957	1,484,112
US\$	82,215	76,744
HK\$	37,928	50,667
Others	90	103
	<b>1,548,190</b>	1,611,626

### Bank Loans and Other Borrowings

The Group had no bank loans or other borrowings as of 31 December 2021.

### Treasury Policies

As of 31 December 2021, the Group adopted 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 2021, RMB120.2 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 prepayments for construction in progress and other long-term assets, purchases of property and equipment, such as servers, computers, construction in progress and intangible assets, such as computer software. In the year ended 31 December 2021, our total capital expenditures were RMB27.0 million, compared with RMB250.3 million in the year ended 31 December 2020. The following table sets out our expenditures for the periods indicated:

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Capital Expenditures		
– Prepayments for construction in progress and other long-term assets	14,353	—
– Purchase of land use right	—	247,077
– Purchase of property and equipment	9,542	1,989
– Purchase of intangible assets	3,069	1,218
Total	26,964	250,284

### Contingent Liabilities

As of 31 December 2021, the Group did not have any material contingent liabilities, guarantees or litigation against it.

### Charges on Assets

As of 31 December 2021, there were no charges on the Group's assets.

### Material Acquisitions and Future Plans for Major Investment

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

## Employees and Staff Costs

As of 31 December 2021, the Group had 1,053 full-time employees. The following table sets forth the number of full-time employees by function as of 31 December 2021:

	As of 31 December 2021	
	Number of Employees	% of Total
Operations	47	4.5
R&D Operations	384	36.5
Development and research	466	44.3
Sales and marketing	92	8.7
General and administration	64	6.0
<b>Total</b>	<b>1,053</b>	<b>100</b>

In addition to salary, we also provide various incentives, including share-based awards, such as share options and RSUs granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by the PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity leave. We are required by the PRC law to make contributions to these social insurance plans at specified percentages of the compensation of each employee, up to a maximum amount as may be specified by the local government from time to time. Such social insurance plans include defined contribution retirement benefit plans organized by the relevant governmental authorities. Forfeited contributions by the Group to these plans may not be used by the Group to reduce the existing level of contributions. The total amount of contributions we made for employee social insurance plans for the year ended 31 December 2021 were approximately RMB69.8 million, compared with RMB40.1 million for the year ended 31 December 2020. We incurred staff costs of approximately RMB367.1 million and RMB244.8 million, for the years ended 31 December 2021 and 2020, representing 41.5% and 21.7% of our revenue for those periods respectively.

We also grant share options and RSUs to our employees to incentivize them to contribute to our growth. Pursuant to the Pre-IPO Share Option Scheme and the Pre-IPO RSU Scheme, there were no shares of Pre-IPO share options and Pre-IPO RSUs outstanding as of 31 December 2021.

## Management Discussion and Analysis

We will continue to grant RSUs to our employees to incentivize them pursuant to the Post-IPO RSU Scheme. The maximum aggregate number of the Shares underlying all the RSUs which we may grant pursuant to the Post-IPO RSU Scheme is 54,343,880 shares, representing approximately 2.0% of our share capital as of the date of the AGM. Pursuant to the Post-IPO RSU Scheme and there were a total of 130,420,000 RSUs outstanding as at 31 December 2021.

### Dividend

At the Company's AGM on 25 June 2021, Shareholders of the Company approved the Board-recommended special dividend of HK\$0.06 (equivalent to approximately RMB0.05) per share for the year ended 31 December 2020. The special dividend was paid to shareholders on 28 July 2021.

The Board is pleased to recommend the payment of a special dividend of HK\$0.02 (equivalent to approximately RMB0.016) per share for the year ended 31 December 2021 out of our share premium account, subject to the approval of the Shareholders at the forthcoming AGM to be held on Monday, 6 June 2022. The proposed dividend will be payable on Thursday, 28 July 2022 to the Shareholders of whose names appear on the Register of Members on Friday, 8 July 2022.

## CHANGES SINCE 31 DECEMBER 2021

There were no other significant changes in the Group's financial position or from the information disclosed under the management discussion and analysis in this annual report for the year ended 31 December 2021.

# Biographies of the Directors and Senior Management

## DIRECTORS

### Executive Directors

**DAI Jian** (戴堅), aged 54, 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 21 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 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 54, 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 21 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.

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.

## Biographies of the Directors and Senior Management

**LI Chong** (李冲), aged 53, is a co-founder of our Group and has been 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 21 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.

**WANG Xiaodong** (王曉東), aged 56, 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 23 years of experience in the information technology industry, as well as extensive experience in the education industry. Prior to joining the Group, he was one of the new project leaders of Altratek Guangdong from September 2007 to July 2009, where he was a key participant in the feasibility study and development of Aobi Island. He was specifically responsible for managing human resources, administration and the cooperation with primary schools and other education agencies for the product. He was the Director of Human Resources and Vice President of Guangzhou Elite from August 2001 to December 2008, where he was in charge of the company's operations in northern China, as well as the management and development of the company's human resources department.

From January 1998 to August 2001, he was the Associate Dean of Hunan University College of Civil Engineering (湖南大學土木工程學院), where he was responsible for 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.

Saved as disclosed above, Mr. WANG 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

## Independent Non-Executive Directors

**LIU Qianli** (劉千里), aged 46, was appointed as our Independent Non-Executive Director on 18 March 2014.

Ms. LIU has over 18 years of experience in investment banking and corporate finance. Ms. LIU served as an independent director of North Oakridge Capital, an investment management firm that manages the North Oakridge Investment Fund, a long-biased equity long-short fund focusing China TMT and consumer sectors from June 2017 to December 2019. From December 2010 to July 2013, Ms. LIU served as the Chief Financial Officer of Phoenix New Media, a media company in China listed on the New York Stock Exchange. Prior to that, she served as the Chief Financial Officer of ChinaEDU Corp., an education services provider in China listed on NASDAQ, from October 2008 to November 2010. From July 2007 to August 2008, she served as the Chief Financial Officer of MainOne Inc., an information technology company. Ms. LIU was a Vice President at Lehman Brothers' investment banking division in Hong Kong and an Associate at Lehman Brothers' investment banking division in New York from July 2003 to June 2007.

Ms. LIU is the Assistant Head of School of Business and Executive Vice President at Keystone Academy in Beijing, China. Ms. LIU has been an Independent Non-Executive Director of Feiyu technology International Company Limited since November 2014, a HK-listed developer and operator of mobile games and web games. She has been appointed as an independent non-executive director of XD Inc. since December 2020.

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

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.

**WANG Qing** (王慶), aged 53, was appointed as our Independent Non-Executive Director on 18 March 2014.

Dr. WANG has over 21 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.

## Biographies of the Directors and Senior Management

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

Mr. MA is the co-founder, chairman and Chief Executive Officer of ATA Inc., a professional services provider for testing, assessment and related services in China, and a public company listed on NASDAQ. Since July 2015, Mr. MA has 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.

## SENIOR MANAGEMENT

**DAI Jian** (戴堅), aged 54, is our Chairman, Executive Director and Chief Executive Officer. Please refer to the section headed “— Executive Directors — DAI Jian” for his biography.

**LI Chong** (李冲), aged 53, is our Executive Director and former Chief Operating Officer (ceased to be Chief Operating Officer since 17 August 2021). Please refer to the section headed “— Executive Directors — LI Chong” for his biography.

**WANG Xiaodong** (王曉東), aged 56, is our former Executive Director (resigned on 26 January 2022) and Executive Vice President. Please refer to the section headed “— Executive Directors — WANG Xiaodong” for his biography.

**DENG Linghua** (鄧凌華), aged 46, was appointed as our Chief Technology Officer in November 2014. He is responsible for the design, development and testing of our products, as well as the operation, maintenance and upgrade of our network infrastructure and information technology system.

Mr. DENG has more than 22 years of experiences in the information and technology industry. Prior to joining the Group, he was a system structure engineer of Altratek Guangdong, a wireless telecommunication product and service provider from May 2007 to July 2009, where he was a key participant in the technology development of Aobi Island at the early stage, and was responsible for the system structure design, technology team recruitment and research management. Prior to that, Mr. DENG worked with Zhongxing Telecommunication Equipment Corporation (ZTE Corporation) and Shenzhen Sysway Information & Technology Co., Ltd.

## Biographies of the Directors and Senior Management

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

**CHEN Xiao Hong** (陳小紅), aged 55, 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 13 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 38, was appointed as the Chief Operating Officer of the Company in August 2021. She is responsible for the overall operation of the Group.

Ms. ZHONG has more than 15 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.

## COMPANY SECRETARY

**LAU Yee Wa** (劉綺華), aged 49, has been appointed as our Company Secretary since August 2018.

Ms. LAU is an Associate 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 23 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 2021.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities 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 Financial Statements" of this annual report. The analysis of the Group's revenues and contribution to results by business segments are set out in note 5 to the section headed "Notes to the Financial Statements" of this annual report. There were no other significant changes in the nature of the Group's principal activities during the year ended 31 December 2021.

## BUSINESS REVIEW AND KEY FINANCIAL PERFORMANCE INDICATORS

A review of the business of the Group during the year ended 31 December 2021 (including particulars of important events affecting the Company that have occurred during the year ended 31 December 2021, an analysis of the Group's performance during the year ended 31 December 2021 using financial key performance indicators and a discussion on the Group's future business development) is provided in the sections headed "Chairman Letter" and "Management Discussion and Analysis" of this annual report. A description of the principal risks and uncertainties that the Group may be facing and compliance with relevant laws and regulations which have a significant impact on the Group can be found in this directors' report. In addition, the financial risk management objectives and policies of the Group are available in note 3 to the section headed "Notes to the Financial Statements" of this annual report. These discussions form part of this directors' report.

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

## RESULTS

The results of the Group for the year ended 31 December 2021 are set out in the sections headed "Consolidated Income Statement", "Consolidated Statement of Comprehensive Income", "Consolidated Balance Sheet", "Consolidated Statement of Changes in Equity" and "Consolidated Statement of Cash Flows" of this annual report.

### DIVIDENDS

The Board recommended the payment of a special dividend of HK\$0.02 (equivalent to approximately RMB0.016) per Share for the year ended 31 December 2021, subject to the approval of the Shareholders at the AGM to be held on Monday, 6 June 2022. The proposed dividend is expected to be payable on Thursday, 28 July 2022 to the Shareholders whose names appear on the Register of Members on Friday, 8 July 2022.

### 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 of the Company, subject to the Articles of Association of the Company 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 of the Company, any restrictions on payment of dividends and any other factors that the Board may consider relevant.

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

### CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the upcoming AGM, the Register of Members will be closed from Tuesday, 31 May 2022 to Monday, 6 June 2022, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 30 May 2022. In addition, subject to the Shareholders’ approval of the proposed special dividend at the AGM, the Register of Members will be closed from Wednesday, 6 July 2022 to Friday, 8 July 2022, both days inclusive, for the purpose of ascertaining the shareholders’ entitlement to the proposed special dividend. In order to qualify for the proposed special dividend, all transfers documents accompanied by the relevant share certificates must be lodged for registration with the Company’s share registrar in Hong Kong, Tricor Investor Services Limited, no later than 4:30 p.m. on Tuesday, 5 July 2022.

## Directors' Report

### 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 2020, unutilised proceeds from the abovementioned issuances amounted to RMB401.0 million. During the reporting period, a total of RMB2.5 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 2021, 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

Detail of movements in the property and equipment of the Group during the year ended 31 December 2021 are set out in note 16 to the section headed "Notes to the Financial Statements" of this annual report.

### SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

Details of movements in the Company's share capital and share incentive schemes are set out in notes 24 and 26 to the section headed "Notes to the Financial Statements" of this annual report and the below paragraph headed "Share Incentive Schemes", respectively.

### PRE-EMPTIVE RIGHTS

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

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2021, 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 2021 are set out in note 25 to the sections headed "Notes to the Financial Statements" and "Consolidated Statement of Changes in Equity" of this annual report, respectively.

### DISTRIBUTABLE RESERVES

For the year ended 31 December 2021, the Company had no distributable reserves.

### CHARITABLE CONTRIBUTIONS

The Group had no charitable contributions during the year ended 31 December 2021.

### 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 2021, 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 70.3% of our total cash proceeds from these sales.

The top source of cash proceeds from these sales for the year ended 31 December 2021 was our online payment channel and accounted for 38.1% of our total cash proceeds from these sales.

None of the Directors, their close associates or any Shareholders that, to the knowledge of the Directors, own more than 5% of the Company's issued share capital had any interest in any of the five largest revenue contributors during the year ended 31 December 2021.

## Directors' Report

For the year ended 31 December 2021, charges from the five largest suppliers accounted for 42.3% of our cost of revenues.

The charges from the largest supplier accounted for 22.1% 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 2021.

For the year ended 31 December 2021, there was no material dispute between the Group and its suppliers and/or customers.

## DIRECTORS

The Directors during the year ended 31 December 2021 and up to the date of this annual report are:

### Executive Directors

Mr. DAI Jian (*Chairman and Chief Executive Officer*)

Mr. WU Lili

Mr. LI Chong

Mr. Wang Xiaodong (*resigned on 26 January 2022*)

### Independent non-executive Directors

Ms. LIU Qianli

Dr. WANG Qing

Mr. MA Xiaofeng

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

## ROTATION AND RE-ELECTION OF DIRECTORS

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

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

## CHANGES IN DIRECTORS' INFORMATION

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

Name of Director	Information
Mr. DAI Jian	— the annual basic salary of Mr. DAI has been adjusted to RMB1,080,000 per annum since 1 April 2022
Mr. LI Chong	— the annual basic salary of Mr. LI has been adjusted to RMB960,000 per annum since 1 April 2022
Mr. WU Lili	— the annual basic salary of Mr. WU has been adjusted to RMB960,000 per annum since 1 April 2022

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

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

## DIRECTORS' SERVICE CONTRACTS

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

Save as disclosed in note 39 to the section headed "Notes to the Financial Statements" of this annual report, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors which are required to be disclosed under the Listing Rules, or section 383 of the Companies Ordinance or the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 622G, Laws of Hong Kong). Save as disclosed above, none of the Directors has a service contract with the Company or any member of the Group which is not determinable within one year without payment of compensation, other than statutory obligations.

## Directors' Report

### 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 2021.

### 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 2021.

### DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors and those of the five highest paid individuals for the year ended 31 December 2021 are set out in note 39 and note 9 to the section headed "Notes to the Financial Statements" of this annual report, respectively. The remunerations of the Directors are determined based on the market price and contribution made by such Directors to the Company. There has been no arrangement under which any Director has waived or agreed to waive any emoluments during the year ended 31 December 2021.

### 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 2021. 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 2021.

### 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 2021.

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

As at 31 December 2021, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name	Position	Relevant company (including associated corporation)	Capacity/Nature of interest	Number of Shares/ underlying Shares held	Approximate percentage of shareholding
DAI Jian <sup>(1)</sup>	Chairman, executive Director and Chief Executive Officer	The Company	Founder of a discretionary trust Interest of controlled corporation	687,944,180(L) <sup>(6)</sup>	24.82%(L)
		The Company	Beneficial owner	10,000,000(L)	0.36%(L)
WU Liji <sup>(2)</sup>	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	365,596,180(L)	13.19%(L)
		The Company	Beneficial owner	10,000,000(L)	0.36%(L)
LI Chong <sup>(3)</sup>	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	114,816,360(L)	4.14%(L)
		The Company	Beneficial owner	10,000,000(L)	0.36%(L)
WANG Xiaodong <sup>(4)</sup>	Executive Director <i>(resigned on 26 January 2022)</i>	The Company	Beneficial owner	15,000,000(L)	0.54%(L)
LIU Qianli <sup>(5)</sup>	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
WANG Qing <sup>(6)</sup>	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
MA Xiaofeng <sup>(7)</sup>	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)

# Directors' Report

## Notes:

- (1) Mr. DAI established DAE Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of DAE Trust is TMF (Cayman) Ltd., and independent third party and sole shareholder of DAE Holding Investments Limited, a trust holding company owns 100% of equity interest in Stmoritz Investment Limited. In addition, 10,000,000 RSUs were granted to Mr. DAI under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares and subject to vesting. As at 31 December 2021, all the RSUs granted to Mr. DAI were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme.
- (2) Mr. WU established WHZ Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WHZ Trust is TMF (Cayman) Ltd., and independent third party and sole shareholder of WHEZ Holding Ltd., a trust holding company owns 100% of equity interest in Bright Stream Holding Limited.
- (3) Mr. LI established The Zhen Family Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of The Zhen Family Trust is TMF (Cayman) Ltd., and independent third party and sole shareholder of Golden Water Management Limited, a trust holding company owns 100% of equity interest in LNZ Holding Limited. In addition, 10,000,000 RSUs were granted to Mr. LI under the Post-IPO RSU Scheme entitling him to receive 10,000,000 Shares and subject to vesting. As at 31 December 2021, none RSUs granted to Mr. LI were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Post-IPO RSU Scheme.
- (4) Mr. WANG 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. As at 31 December 2021, none RSUs granted to Mr. 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.
- (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 2021, 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 2021, 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 2021, 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 2,771,194,000 Shares in issue as at 31 December 2021.

Save as disclosed above, as at 31 December 2021, none of the Directors and chief executive of the Company and their respective associates had registered an interest or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that are required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

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

As at 31 December 2021, 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 <sup>(8)</sup>
TMF (Cayman) Ltd. <sup>(1)</sup>	Trustee of trusts	1,193,824,720(L) <sup>(7)</sup>	43.08%(L)
DAE Holding Investments Limited <sup>(2)</sup>	Trust holding company	687,944,180(L)	24.82%(L)
Stmoritz Investment Limited <sup>(2)</sup>	Registered owner	687,944,180(L)	24.82%(L)
DAI Jian(戴堅) <sup>(2)(5)</sup>	Founder of a discretionary trust Interest of controlled corporation	687,944,180(L)	24.82%(L)
	Beneficial owner	10,000,000(L)	0.36%(L)
Bright Stream Holding Limited <sup>(3)</sup>	Registered owner	365,596,180(L)	13.19%(L)
WHEZ Holding Ltd. <sup>(3)</sup>	Trust holding company	365,596,180(L)	13.19%(L)
WU Lili(吳立立) <sup>(3)</sup>	Founder of a discretionary trust	365,596,180(L)	13.19%(L)
THL H Limited <sup>(4)</sup>	Registered owner	326,063,280(L)	11.77%(L)
Tencent Holdings Limited <sup>(4)</sup>	Interest of controlled corporation	326,063,280(L)	11.77%(L)
The Core Trust Company Limited <sup>(6)</sup>	Trustee of a trust	158,862,926(L)	5.73%(L)

# Directors' Report

## Notes:

- (1) TMF (Cayman) Ltd. is the trustee of DAE Trust, WHZ Trust, The Zhen Family Trust and WSW Family Trust.
- (2) The entire share capital of Stmoritz Investment Limited is wholly-owned by DAE Holding Investments Limited and ultimately owned by TMF (Cayman) Ltd. As the trustee of the DAE Trust, which is a discretionary trust set up by Mr. DAI on 27 December 2013 for the benefit of himself and his family members, and Mr. DAI is a settlor and protector. Mr. DAI (as founder of the DAE Trust), DAE Holding Investments Limited and TMF (Cayman) Ltd. are taken to be interested in 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), 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 2021, 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 2,771,194,000 Shares in issue as at 31 December 2021.

Save as disclosed above, as at 31 December 2021, the Directors and the Chief Executive of the Company are not aware of any other person who had an interest or short position in the Shares or underlying Shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## SHARE INCENTIVE SCHEMES

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

Summaries of the terms of the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme have been disclosed in the sections headed “Statutory and General Information — Pre-IPO Share Option Scheme”, “Statutory and General Information — Pre-IPO RSU Scheme” and “Statutory and General Information — Post-IPO RSU Scheme” in Appendix IV to the Prospectus, the annual reports of the Company of the past eight 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.

### Outstanding Share Options

The Pre-IPO Share Option Scheme expired on 18 June 2020 and no further Options shall be granted by the Company after the Listing pursuant to the Pre-IPO Share Option Scheme thereafter.

The Company appointed The Core Trust Company Limited as the trustee and Duoduo Holding Limited, a company incorporated in the BVI and an independent third party, as the nominee to administer the Pre-IPO Share Option Scheme pursuant to its scheme rules. As at 31 December 2021, Duoduo Holding Limited did not hold any shares under the Pre-IPO Share Option Scheme for the benefit of eligible participants pursuant to the Pre-IPO Share Option Scheme and duly ceased to be the nominee of the Pre-IPO Share Option Scheme.

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

Further details of the Pre-IPO Share Option Scheme are set out in note 26 to the section headed “Notes to the Financial Statements” of this annual report and the Prospectus.

# Directors' Report

## Outstanding RSUs

### 1) Pre-IPO RSU Scheme

As at 31 December 2021, 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 2021, 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.

### 2) Post-IPO RSU Scheme

As at 31 December 2021, there were a total of 130,420,000 RSUs outstanding under the Post-IPO RSU Scheme. If all the outstanding RSUs under the Post-IPO RSU Scheme are vested according to the relevant vesting schedules, there would be a dilution effect on the issued share capital of the Company of approximately 4.71% as at 31 December 2021.

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 our Post-IPO RSU Scheme. As at 31 December 2021, Baiduo Investment Holding Limited and Gusto Limited hold 83,847,306 Shares and 25,000,000 Shares underlying the RSUs granted under the Post-IPO RSU Scheme for the benefit of eligible participants pursuant to the Post-IPO RSU Scheme.

**Movements of the RSUs under the Post-IPO RSU Scheme during the year ended 31 December 2021**

Name of Grantees	Nature	Number of Shares underlying the RSUs as			Date of grant	Consideration (US\$)	Vested during the year	Lapsed during the year	Number of Shares underlying the RSUs as		Approximate percentage of issued Shares of the Company <sup>(7)</sup>
		at 31 December 2020	Granted during the year						at 31 December 2021	Vesting Schedule	
<b>Post-IPO RSU Scheme</b>											
<b>(a) Directors of the Company</b>											
Mr. LI Chong	RSUs	—	10,000,000	25 June 2021	—	—	—	10,000,000	Note 1	0.36%	
Mr. WANG Xiaodong	RSUs	—	15,000,000	25 June 2021	—	—	—	15,000,000	Note 1	0.54%	
	<b>Sub-total</b>	—	25,000,000		—	—	—	25,000,000			
<b>(b) Other grantees</b>											
1 employee	RSUs	30,000	—	10 November 2017	—	30,000	—	—	Note 2	—	
36 employees	RSUs	55,300,000	—	2 April 2020	—	11,060,000	240,000	44,000,000	Note 3	1.59%	
12 employees	RSUs	35,650,000	—	11 September 2020	—	7,130,000	—	28,520,000	Note 4	1.03%	
42 employees	RSUs	—	19,000,000	11 June 2021	—	—	100,000	18,900,000	Note 5	0.68%	
30 employees	RSUs	—	14,000,000	3 September 2021	—	—	—	14,000,000	Note 6	0.51%	
	<b>Sub-total</b>	90,980,000	33,000,000		—	18,220,000	340,000	105,420,000			
	<b>Total</b>	90,980,000	58,000,000		—	18,220,000	340,000	130,420,000		4.71%	

**Notes:**

- (1) For details of the vesting schedules for the RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme, please refer to the announcement of the Company dated 25 June 2021.
- (2) For details of the vesting schedules for the RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme, please refer to the announcement of the Company dated 10 November 2017.
- (3) For details of the vesting schedules for the RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme, please refer to the announcement of the company dated 2 April 2020.
- (4) For details of the vesting schedules for the RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme, please refer to the announcement of the company dated 11 September 2020.

## Directors' Report

- 5) For details of the vesting schedules for the RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme, please refer to the announcement of the Company dated 11 June 2021.
- 6) For details of the vesting schedules for the RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme, please refer to the announcement of the Company dated 3 September 2021.
- 7) Approximate percentage of issued Shares of the Company is calculated by dividing the RSUs held by the relevant grantees by the issued and outstanding Shares of the Company (as enlarged by the vest in full of all the RSUs granted under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme) as at 31 December 2021.

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 Financial Statements” of this annual report and the Prospectus.

## 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 2021.

## 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 2021 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 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 2021. 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 2021. 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 2021

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 326,063,280 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 (as defined in Chapter 14A of the Listing Rules) 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 2021, 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 (Note a)	99,480,018
Royalty fees charged by Tencent arising from Aola Star Mobile cooperation agreement (Note b)	8,629,111
Royalty fees charged by Tencent arising from Legend of Aoqi Mobile cooperation agreement (Note c)	8,042,733
Provision of Tencent cloud service (Note d)	7,106,094
Provision of Wechat Pay service (Note e)	2,265,250

- (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. The Renewed Shiwuyu Agency Agreement is for a term of one year commencing from 16 October 2021 and ending on 15 October 2022, pursuant to which (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」). Pursuant to the Renewed Shiwuyu Agency Agreement, the amount payable to Tencent Computer by Guangzhou Tianti will be calculated in the following manner:

## Directors' Report

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

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.
- (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.

The proposed annual cap of the Renewed Shiwuyu Agency Agreement for the period from 16 October 2021 to 15 October 2022 is RMB55,000,000. The continuing connected transaction under the Renewed Shiwuyu Agency Agreement did not exceed the disclosed annual cap as at 31 December 2021. Further details of the Renewed Shiwuyu Agency Agreement are set out in the announcements of the Company dated 15 October 2021 and 26 November 2021, 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 Agreement by entering into a renewed online game cooperation access agreement ("Renewed Aola Star Mobile Cooperation Agreement") with Tencent Computer. The Renewed Aola Star Mobile Cooperation Agreement is for a term of one year commencing from 1 March 2021 and ending on 28 February 2022, pursuant to which Guangzhou Tianti releases and operates the mobile game "Aola Star Mobile" (「奧拉星手遊」) on Tencent's mobile game platform, Application Treasure. Pursuant to the Renewed Aola Star Mobile Cooperation Agreement, 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

$$B = A \times 75\%$$

The proposed annual cap of Renewed Aola Star Mobile Cooperation Agreement for the period from 1 March 2021 to 28 February 2022 is RMB15,000,000. The continuing connected transaction under the Renewed Aola Star Mobile Cooperation Agreement did not exceed the disclosed annual cap as at 31 December 2021. Further details of the Renewed Aola Star Mobile Cooperation Agreement are set out in the announcements of the Company dated 9 March 2021 and 1 April 2021, 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」) (the "Legend of Aoqi Mobile Cooperation Agreement") in Mainland China, pursuant to which 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 Legend of Aoqi Mobile Cooperation Agreement is for a term of one year commencing from 1 April 2021 and ending on 31 March 2022. Pursuant to the Legend of Aoqi Mobile Cooperation Agreement, 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

$$B = A \times 75\%$$

The proposed annual cap of the Legend of Aoqi Mobile Cooperation Agreement for the period from 1 April 2021 to 31 March 2022 is RMB25,000,000. The continuing connected transaction under the Legend of Aoqi Mobile Cooperation Agreement did not exceed the disclosed annual cap as at 31 December 2021. Further details of the Legend of Aoqi Mobile Cooperation Agreement are set out in the announcement of the Company dated 1 April 2021.

- (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. The 2021 Tencent Cloud Service Agreement is for a term of one year commencing from 25 July 2021 and ending on 24 July 2022, pursuant to which 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. Pursuant to the 2021 Tencent Cloud Service Agreement, 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 40% 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 cap of the 2021 Tencent Cloud Service Agreement for the period from 25 July 2021 to 24 July 2022 is RMB15,000,000. The continuing connected transaction under the 2021 Tencent Cloud Service Agreement did not exceed the disclosed annual cap as at 31 December 2021. Further details of the 2021 Tencent Cloud Service Agreement are set out in the announcement of the Company dated 21 July 2021.

- (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 for a term of one year commencing from 24 February 2021 to 23 February 2022; 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 Tian – WeChat Pay Service Agreement, ("**Renewed WeChat Pay Service Agreements**") with Tenpay on 29 June 2021 for a term of one year commencing from 29 June 2021 to 28 June 2022, pursuant to which Tenpay provides WeChat Pay Services to Guangzhou Baitian and Guangzhou Tianti, respectively. Pursuant to the Renewed WeChat Pay Service Agreements, 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 cap pursuant to the Renewed WeChat Pay Service Agreements is RMB3,500,000. The continuing connected transactions under the Renewed WeChat Pay Service Agreements did not exceed the disclosed annual cap as at 31 December 2021. Further details of the Renewed WeChat Pay Service Agreements are set out in the announcement of the Company dated 15 December 2021.

The transactions contemplated under the Renewed Shiwuyu Agency Agreement, the Renewed Aola Star Mobile Cooperation Agreement, the Legend of Aoqi Mobile Cooperation Agreement, the 2021 Tencent Cloud Service Agreement and the Renewed 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.

## Directors' Report

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 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. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The independent auditor's letter has confirmed that nothing has come to their attention that has caused them to believe that such continuing connected transactions:

- (1) have not been approved by the Company's board of directors;
- (2) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of services by the Group;
- (3) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (4) with respect to the aggregate amount of each of the continuing connected transactions, have exceeded the annual cap as set by the Company.

## 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 and page 84 of the Company's interim report for the six months ended 30 June 2018 (the "2018 Interim Report"), pages 49 to 53 of the Company's 2018 Annual Report, page 74 of the Company's 2019 interim report for six months ended 30 June 2019 (the "2019 Interim Report"), 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 (the "2020 Interim Report"), page 50 to 55 of the Company's 2020 Annual Report and page 70 of the Company's 2021 interim report for six months ended 30 June 2021 (the "2021 Interim Report") in relation to the Contractual Arrangements. The Company wishes to provide further information in relation to the Contractual Arrangements for the year ended 31 December 2021.

### 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 2021, 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
<b>As at 31 December 2021</b>			
Guangzhou Baitian Information Technology Ltd.* (廣州百田信息科技有限公司)	Limited liability company/ the PRC	46.92% by Mr. DAI Jian 28.37% by Mr. WU Lili 12.90% by Mr. LI Chong 7.08% by Mr. CHEN Ziming 4.73% by Mr. WANG Xiaodong	Operating the virtual worlds and e-learning products of the Group

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

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

On 22 June 2020, Guangzhou Baitian established Guangzhou Baitian Culture Development Company Limited 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 Guangzhou Baitian Culture Development Company Limited is a party to any of the Contractual Arrangements. For details, please see note 14 to the section headed "Notes to the Financial Statements" of this annual report.

## Directors' 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 2021 RMB'000	Year ended 31 December 2020 RMB'000
Revenue	374,106	359,425
Profit for the year	66,173	152,551

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Total assets	1,622,953	1,507,043

For the year ended 31 December 2021, the revenue and profit subject to the Contractual Arrangements amounted to approximately 42.3% (2020: 31.8%) and 245.9% (2020: 55.8%) of the revenue and profit for the year of the Group, respectively.

As at 31 December 2021, the total assets subject to the Contractual Arrangements amounted to approximately 81.4% (2020: 72.4%) of the total assets of the Group.

Transactions carried out during the year ended 31 December 2021, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

- For the year ended 31 December 2021, the service fees provided by Guangzhou WFOE to Guangzhou Baitian pursuant to the Contractual Arrangements amounted to RMB4,660,194 (2020: RMB4,729,405).

### 4) Contractual Arrangements in place

For the year ended 31 December 2021, 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 2021, 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 2021.

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 2021.

#### ***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經營企業法》) and the Law on Foreign Capital Enterprises (《中華人民共和國外資企業法》) to become the legal foundation for foreign investment in the PRC.

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

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

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

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

## Directors' Report

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

As at 31 December 2021, the Company has no update to disclose in relation to the Qualification Requirements as required under the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008 and 6 February 2016. Despite the lack of clear guidance or interpretation on the Qualification Requirements, the Group has been gradually building up its track record of overseas business operations to comply with the Qualification Requirements. Details of the extent to which the Contractual Arrangements relating to requirements other than the foreign ownership restriction are set out in section headed “Other Information – Requirements related to Contractual Arrangements (other than Relevant Foreign Ownership Restrictions)” in the 2015 Interim Report.

### 7) **Unwinding of the Contractual Arrangements**

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

### 8) **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.

### 9) **Directors' View**

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

The independent non-executive Directors reviewed the Contractual Arrangements and confirmed that (i) the continuing connected transactions carried out during the year ended 31 December 2021 (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 2021, and (v) no dividends or other distributions have been made by Guangzhou Baitian to the relevant holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.

### 10) Auditor's view

The Auditor has carried out review procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 "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 annually on the transactions carried out pursuant to the Contractual Arrangements. The Auditor has confirmed in a letter to the Board that the transactions carried out pursuant to the Contractual Arrangements during the year ended 31 December 2021 had received the approval of the Board, had been entered into in accordance with the relevant provisions of the Contractual Arrangements and that no dividends or other distributions had been made by Guangzhou Baitian to the holders of the equity interests of Guangzhou Baitian which were not otherwise subsequently assigned or transferred to the Group.

A copy of PwC's letter on the Continuing Connected Transactions of the Group for the year ended 31 December 2021 has been provided by the Company to the Stock Exchange.

## PRINCIPAL RISKS AND UNCERTAINTIES

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

### Economic Risks

- A severe or prolonged downturn of the PRC economy due to various reasons, including without limitation to the outbreak of global COVID-19 pandemic in 2021 which has imposed negative impacts over the PRC economy.
- Negative effect on the operational, financing or investing activities of the Group due to fluctuations in foreign currency exchange rates, inflation, fluctuations of interest rates and other measures relating to financial policies in the PRC.

### Operational Risks

- Failure to compete in the competitive environment which the Group operates in or to keep up with technological developments.
- If the Group fails to continuously strengthen its existing games and launch new games, or if its top games lose their popularity, the Group may not be able to retain existing players and attract new players, which will adversely affect the business and results of the operation of the Group.

# Directors' Report

## Regulatory Risks

- Failure to adhere to laws, regulations and rules, or to obtain or maintain all applicable permits and approvals.
- Adverse effects arising from change in laws and regulations affecting the businesses of the Group.

## Financial Risks

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

## Risks related to the Contractual Arrangements

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

## RELATED PARTY TRANSACTIONS

Details of related party transactions during the year ended 31 December 2021 are set out in note 36 to the section headed “Notes to the Financial Statements” of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Board confirms that the Company has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2021.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 31 December 2021, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

## RETIREMENT BENEFIT SCHEME

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

### IMPORTANT EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2021

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 2021.

### 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 2021, 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 2021 and up to the date of this report, to the best knowledge of the Directors, the Group complied with applicable laws, rules and regulations in all material respects.

### ENVIRONMENTAL POLICIES AND PERFORMANCE

As one of the top online entertainment destinations designed for young teens in China, the Group's businesses do not involve in production-related air, water and land pollutions which are regulated by the applicable laws and regulations in the PRC. No hazardous waste was produced by the Group in its course of business in the year ended 31 December 2021.

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 2021, as far as the Directors are aware, the Group has complied with all relevant laws and regulations that have significant impact on the Group. For details of such laws and regulations, please refer to the section headed "Change in the Contractual Arrangements and/or Circumstances and Latest Regulatory Development in Using Contractual Arrangements" of this annual report.

### STAFF RELATIONSHIP AND HUMAN RESOURCES

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

#### Workplace Quality

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

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

#### Health and Safety

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

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

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

### REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's auditing, internal controls and financial reporting matters with the management. The Audit Committee has also reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2021.

### 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 2021 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

29 March 2022

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2021 (the “**Review Period**”), the Company has applied the principles and complied with all the code provision as set out in the Corporate Governance Code, save and except for code provision A.2.1 and E.1.2. (which have been re-numbered as code provisions C.2.1 and F.2.2 respectively since 1 January 2022) with details set out below.

### Code provision A.2.1

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

### Code provision E.1.2

Code provision E.1.2 of the CG Code provides that the chairman of the board should attend the AGM. Since the Chairman was on a business trip and in light of the travel restrictions imposed due to COVID-19, he was not able to attend the 2021 AGM held on 25 June 2021.

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own securities dealing code to regulate Directors’ dealings in the Company’s securities and other matters covered by the Model Code.

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

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

## BOARD OF DIRECTORS

The Board of the Company 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

Mr. WANG Xiaodong (resigned on 26 January 2022)

### Independent Non-executive Directors:

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

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

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

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

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

### Independent Non-executive Directors

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

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

### Non-executive Directors and Directors’ Re-election

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

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

# Corporate Governance Report

## **Responsibilities, Accountabilities and Contributions of the Board and Management**

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

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

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

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

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

## **Continuous Professional Development of Directors**

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

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

In accordance with A.6.5 of the Corporate Governance Code (which has been re-numbered as code provision C.1.4 since 1 January 2022) with regards to continuous professional development, directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

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

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

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

## BOARD COMMITTEES

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

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

### Audit Committee

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

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

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

# Corporate Governance Report

## Remuneration Committee

The Company established the Remuneration Committee on 19 March 2014 with written terms of reference in compliance with paragraph B.1 of the Corporate Governance Code (which has been re-numbered as paragraph E.1 since 1 January 2022). The Remuneration Committee comprises three members, namely Dr. WANG Qing (as Chairman), Mr. MA Xiaofeng and Mr. WU Lili. The primary duties of the Remuneration Committee include, but not limited to, the following (i) making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration; (ii) determining the specific remuneration package of all directors and senior management; and (iii) reviewing and approving performance based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

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

Details of the remuneration of each Director of the Company for the year ended 31 December 2021 are set out in note 39 to the Consolidated Financial Statements contained in this Annual Report.

## Nomination Committee

The Company established the Nomination Committee on 19 March 2014 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code (which has been re-numbered as paragraph B.3 since 1 January 2022). The Nomination Committee comprises three members namely, Mr. DAI Jian (as Chairman), Mr. MA Xiaofeng and Ms. LIU Qianli. The primary functions of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive directors and making recommendations to the Board on matters relating to the appointment of directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy, including but not limited to charter and integrity, qualification including professional qualifications, skills, knowledge and experience and diversity aspects. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

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

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

## Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 (which has been re-numbered as code provision A.2.1 since 1 January 2022) of the Corporate Governance Code.

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

## ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

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

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

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

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

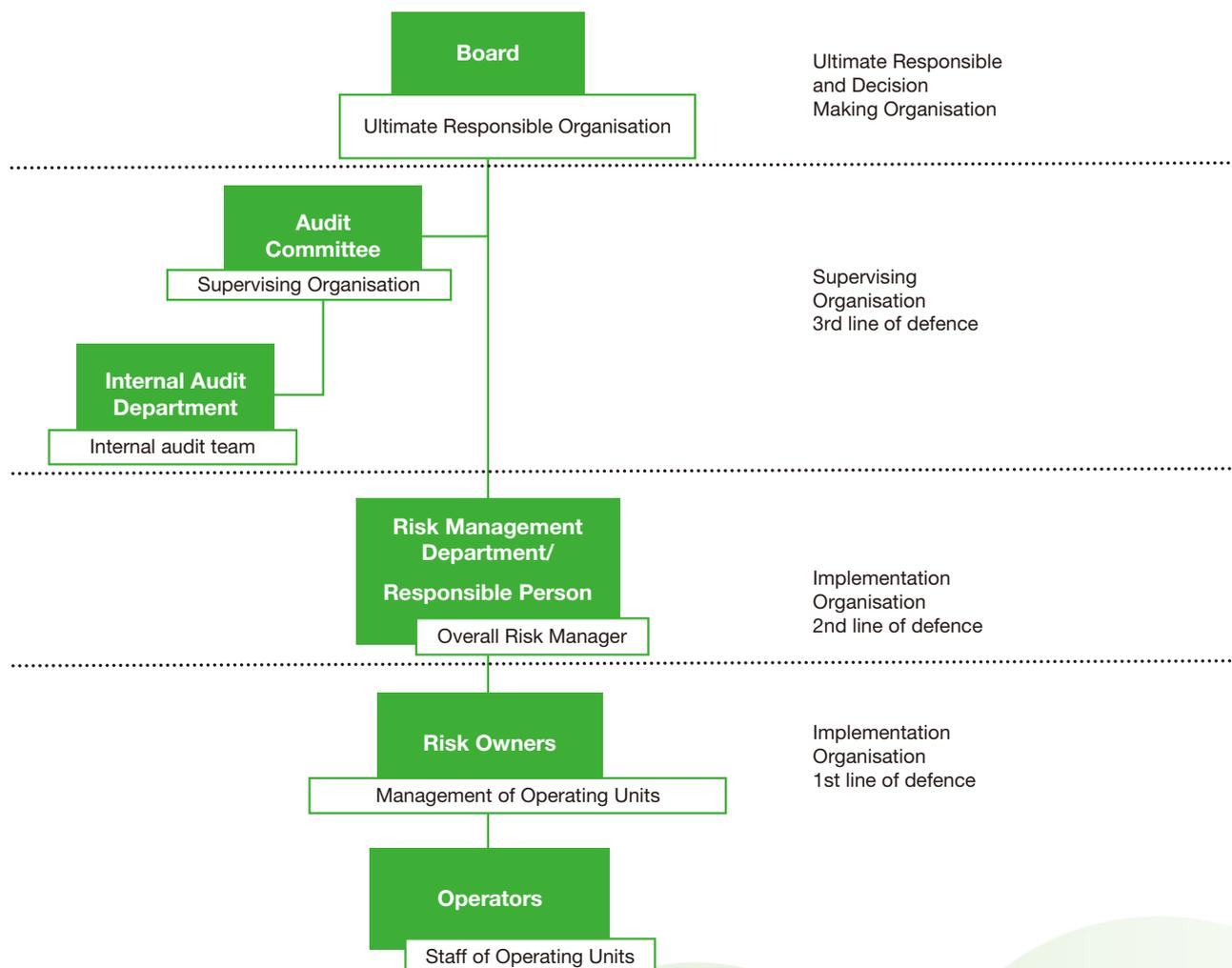
# Corporate Governance Report

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

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

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

## RISK MANAGEMENT FRAMEWORK



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

## Features

- 1) facilitates risk identification and escalation whilst providing assurance to the Board;
- 2) assigns clear roles and responsibilities and facilitates implementation with guidelines and tools; and
- 3) adopts a "Three Lines of Defence" model, with oversight and directions from the Board.

## Process

- 1) the operating units of the Group, as risk owners, implement the risk management policy, identify, alert, evaluate, mitigate and monitor their own risks and the management of the operating units report such risk management activities to the Risk Management Department/Responsible Person;
- 2) the Risk Management Department/Responsible Person, in coordination with the management of the operating units, identify the internal/external risks of the Group at least annually and establish/update the risk database. At the same time, they assess the risk issues and put forward proposals to the Audit Committee/Board to mitigate and/or transfer the identified risks; and
- 3) the Audit Committee and the Internal Audit Department are responsible for providing guidance and performing independent review of the adequacy and effectiveness of the risk management and internal control systems of the Company, and reporting to the Board in a timely manner. Their duties and responsibilities include persistently monitoring the operation of the risk management system to ensure the system is able to identify, assess, respond, trace and monitor corporate risks; reviewing the risk management framework; making regular discussion with the senior management on the Group's risk management and internal control systems so as to ensure effective internal control system being established; reviewing and/or preparing annual report of risk management for review by the Board. Special reviews are also performed at management's request.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2021.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2021, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

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

# Corporate Governance Report

## Disclosure of Inside Information

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

- has conducted its affairs with close regard to the disclosure requirement under the Listing Rules as well as the Guidelines on Disclosure of Inside Information published by the Securities and Future Commission in June 2012 in company with Part XIVA of the SFO;
- has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcement and its website;
- has included in its code of conduct a strict prohibition on unauthorized use of confidential or inside information;
- has established and implemented procedures for responding to external enquiries about the Group's affairs so that only the executive Directors and corporate communications and investor relations general manager are authorized to communicate with parties outside the Group.

## DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2021.

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

Pursuant to the code provision C.1.1 Code (which has been re-numbered as code provision D.1.1 since 1 January 2022) of the CG Code, the management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

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

## AUDITORS' REMUNERATION

The remuneration paid/payable to the external auditor of the Company, PricewaterhouseCoopers, was RMB3,800,000 and RMB214,000 in respect of audit services and non-audit services for the Review Period. The non-audit services for the Review Period included providing professional service on ESG reporting.

## COMPANY SECRETARY

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

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

## SHAREHOLDERS' RIGHTS

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

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

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

The requisitionists who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "**Requisition**") signed by the requisitionist(s) concerned to the head office of the Company at 34 Floor, Goldchi Building, 120 Huangpu W Ave, Tianhe, Guangzhou, Guangdong, China 510623 or at the office of Tricor Investor Services Limited, the Hong Kong Share Registrar of the Company, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for the attention of the Company Secretary.

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

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

# Corporate Governance Report

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) 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong  
(For the attention of the Company Secretary)

Fax: (852) 2117 0869

Email: Baioo@ChristensenIR.com

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

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the 2021 AGM of the Company held on 25 June 2021, the directors (or their delegates as appropriate) are available to meet shareholders and answer their enquires.

## CHANGE IN CONSTITUTIONAL DOCUMENTS

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

# 2021 Environmental, Social and Governance Report

## I. ABOUT THE REPORT

### 1. Report summary

This report is the sixth environmental, social and governance report (the “**Report**”) issued by BAIOO Family Interactive Limited (the “**Group**” or “**BAIOO**”). The Report contains information on the Group’s system construction operations and work performance with respect to the Environmental, Social and Governance (“**ESG**”) in 2021. The purpose of the Report is to respond to the expectation of the stakeholders and the social public and to demonstrate the management and effectiveness of the Group in its sustainable development in a more objective and comprehensive manner based on the previous environmental, social and governance reports.

### 2. Scope and boundary of the Report

The Report covers the period from 1 January 2021 to 31 December 2021, 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 2021 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.

## 2021 Environmental, Social and Governance Report

Principle of the Report	Definition	Response of the Group
<b>Materiality</b>	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 current major sustainable development issues through continuous communication with stakeholders in combination with the Group's strategic development and business operation.
<b>Quantitative</b>	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 textual interpretation of quantitative resources.
<b>Balance</b>	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.
<b>Consistency</b>	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.

#### 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. Management for a Sustainable Development

This year, the Group continued to focus on the development and operation of juvenile internet products and deployed the business development in juvenile web games (“**Web Games**”), mobile games (“**Mobile Games**”), and comic intellectual properties (“**IPs**”). While drawing attention to performance growth, the Group strictly abides by the national regulations and policies such as the Notice of Further Imposing Strict Administrative Measures to Prevent Minors from Becoming Addicted to Online Games, which stringently limits minors’ gaming time. We have been guiding users to surf the Internet in a healthy manner as our development priorities, and transmitting the positive vision of “Fun Entertainment, Healthy Interaction and Joyful Companion” by fulfilling the corporate responsibilities and obligations of exporting a healthy and progressive culture and values. In the future, with the original mission upheld, we will continuously improve the user experience and promote valuable IP incubation by adhering to the creation of original content, deliver our healthy and positive values by creating personalized and charming IP figures and valuable native contents and the storylines that demonstrate humane sentiments and be committed to becoming the leading company in the fast-growing pan-entertainment industry domestically. The Group also recognize that the sustainable development of enterprises is indispensable from the performance of environmental and social responsibilities. Therefore, the Group attaches great importance to the health and development of employees by providing diversified welfare facilities and creating a healthy and comfortable office environment; we also put into practice the green and low-carbon operation mode with respond to the national dual carbon goal, and strive to reduce greenhouse gas emissions; we actively participate in social welfare and contribute to the mutual development of the community.

In order to meet the regulatory requirements of the Stock Exchange, respond to the public’s expectations and improve internal management to achieve sustainable development, the Group has formulated a series of systems and considered the sustainable development in the decision-making process for the daily business operation. The Group has established a top-down ESG governance structure with three levels as the support for sustainable development governance. The Environmental, Social and Governance Management Committee under the Board of the Group is responsible for the coordination of environmental, social and governance issues. Each functional department is responsible for implementing the specific issues of ESG management and regularly reporting and giving feedback to the Environmental, Social and Governance Management Committee.



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

# 2021 Environmental, Social and Governance Report

This year, the Group formulated and issued the Terms of Reference of the Environmental, Social and Governance Management Committee to further clarify the personnel composition, division of responsibilities and reporting procedures of the Environmental, Social and Governance Management Committee. The division of responsibilities at all levels of the Group's environmental, social and governance organizational 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, and 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; It reviews and formally approves the annual environmental, social and governance report;
- The Board authorizes the Environmental, Social and Governance Management Committee to coordinate and manage ESG issues in accordance with its terms of reference.

## **Environmental, Social and Governance Management Committee**

- The chairman of the Environmental, Social and Governance Management Committee is the executive director of the Group, and the member is composed of the heads of each functional center;
- The Environmental, Social and Governance 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 and implement the environmental, social and governance policies adopted by the Board;
- The Environmental, Social and Governance 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, supervising the ESG work process, arranging 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.

# 2021 Environmental, Social and Governance Report

## 2. Internal Control

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

## III. STAKEHOLDER ENGAGEMENT PLAN AND MATERIALITY ASSESSMENT

### 1. Communication with Stakeholders

The Group attaches considerable emphasis on exchanges and communications with stakeholders and is fully aware of the importance of timely understanding their opinions and expectations to the sustainable development of the Group’s businesses. During day-to-day operations, the Group has established diversified communication channels to ensure the openness and transparency of the information of the Group and to fully listen to the voice of stakeholders. The Group has established the investor relationship department to hold annual general meetings and performance sharing meetings, and thoroughly communicates with shareholders by means of presentation, asking questions, etc. Meanwhile, investors may also understand the relevant dynamics about the Company through the investor hotline and email, the Company’s official website, offline investor exchange and other various channels and methods. In addition, the Group carries out technological communications and information sharing with industry associations by ways of visits, salons, annual meetings, etc. The Group listens to the voice of the staff and maintains close and effective communication with them through WeChat groups and the labor union.

Stakeholders	Expectation and Proposition	Communication and Response
<b>Investors and shareholders</b>	Business growth	Improvement in profitability
	Scientific governance	Creation of long-term earnings
	Compliance in operation	Strengthened risk management and control
	Information disclosure	Regular information disclosure
<b>Government and regulatory authorities</b>	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

## 2021 Environmental, Social and Governance Report

Stakeholders	Expectation and Proposition	Communication and Response
<b>Customers</b>	<ul style="list-style-type: none"> <li>Customers' demand</li> <li>Pursuit of quality</li> <li>Privacy safety</li> <li>Business integrity</li> </ul>	<ul style="list-style-type: none"> <li>Improvement of customer communication mechanism</li> <li>Enhancement of product and service quality</li> <li>Strengthening of risk management and control</li> <li>Optimization of internal control system</li> </ul>
<b>Staff</b>	<ul style="list-style-type: none"> <li>Smooth career development</li> <li>Protection of legitimate rights and interests</li> <li>Remuneration and benefit protection</li> <li>Good working environment</li> </ul>	<ul style="list-style-type: none"> <li>Construction of a reasonable promotion mechanism</li> <li>Compliance with laws and regulations</li> <li>Improvement of the remuneration and benefit system</li> <li>Implementation of corporate culture</li> </ul>
<b>Suppliers and partners</b>	<ul style="list-style-type: none"> <li>Openness and fairness</li> <li>Cooperation and win-win solutions for all parties</li> <li>Coordinated development</li> </ul>	<ul style="list-style-type: none"> <li>Standardization of procurement process</li> <li>Perfection of communication mechanisms</li> <li>Establishment of a long-acting management model</li> </ul>
<b>Communities</b>	<ul style="list-style-type: none"> <li>Environmentally friendly community</li> <li>Devotion to social welfare</li> <li>Promotion of the development of the community</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of green operation</li> <li>Launch of public welfare projects</li> <li>Provision of quality cultural resources</li> </ul>
<b>Industry association</b>	<ul style="list-style-type: none"> <li>Promotion of growth in the industry</li> <li>Fair competition</li> </ul>	<ul style="list-style-type: none"> <li>Participation in industry discussions and communications</li> <li>Improvement of R&amp;D capabilities</li> </ul>

# 2021 Environmental, Social and Governance Report

## ***Case Sharing: Offline communication activities for investors in 2021***

This year, the Group held offline communication activities for investors. During the event, the management of the Group had face-to-face communication with investors, actively answered investors' questions, and led investors to visit the Group to understand the project progress and deepen investors' comprehensive understanding of the Group's business. This activity made investors more fully and directly understand the Company's development and strategic planning, and was well received by investors.



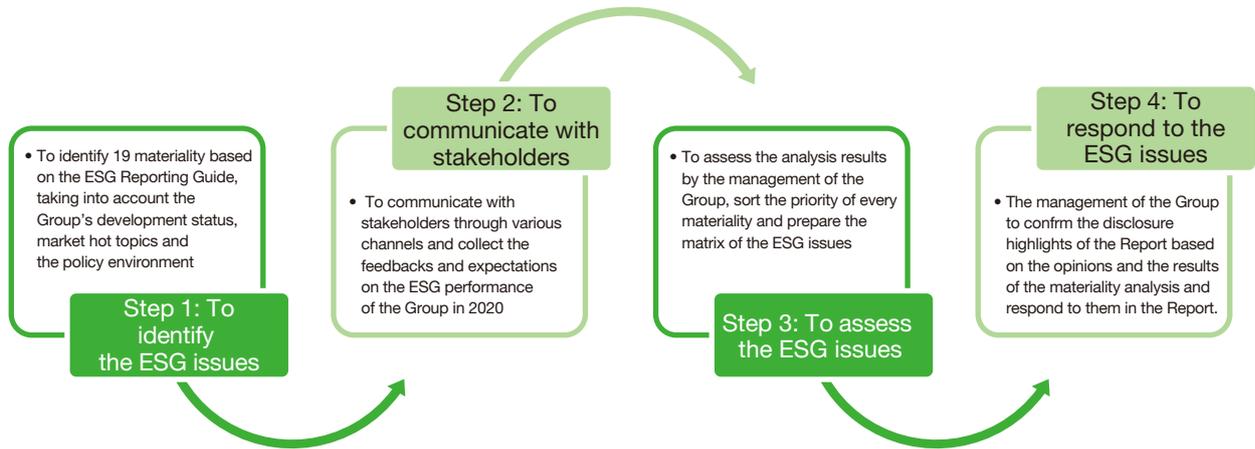
*Offline research and exchange for investors*

## **2. Materiality Assessment of the 2021 ESG Issues**

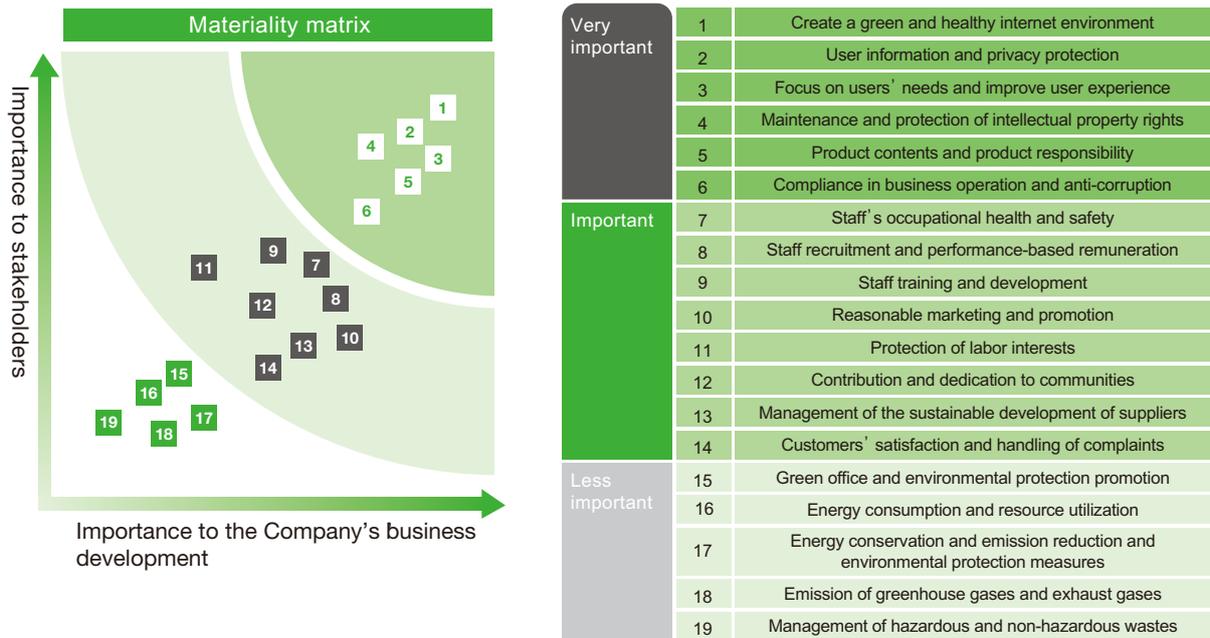
This year, the Group strictly followed the procedures for analyzing and assessing the material issues and comprehensively assessed and determined the sequence of the material issues through means of close contact with stakeholders, feedback and industry analysis, taking into account our own development,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

# 2021 Environmental, Social and Governance Report

The steps of assessment of material issues adopted this year are as follows:



The results of materiality assessment this year are as follows:



## 2021 Environmental, Social and Governance Report

The 2021 ranking of the material issues indicates that the issues that are most concerned among stakeholders are still centred on the aspects including a healthy internet environment, users' needs and experience, with higher attention to the issues including information and privacy protection, intellectual property protection compared with last year. The Group has fully respected the opinions of both internal and external stakeholders and proactively responded to the propositions of all parties concerned.

During this year, the Group strictly followed the requirements of the latest laws and regulations such as the "Law of the People's Republic of China on the Protection of Minors", streamlined our business contents and procedures, upgrade the real-name authentication system, cease to use the visitor experience mode, and strictly implement the real-name registration and login requirements of online game users. The Group also strengthened the management efforts in reviewing the game contents and the remarks on platforms and standardized online game services with an aim to create a cleaner and healthier internet environment for users.

In accordance with the latest provisions of the Personal Information Protection Law of the People's Republic of China, the Cybersecurity Law of the People's Republic of China and other laws and regulations on the privacy protection of mobile APP, the Group revised the "Privacy Agreement" of the product to ensure the legal and compliant use of users' privacy and protect users' information and privacy security. At the same time, the Group is committed to improving user satisfaction and experience by conducting market research to understand user needs, interacting with users through multiple channels, and actively innovating.

In 2021, the Group further clarified the application, management and infringement handling processes of intellectual property rights, strictly implemented internal systems such as the "Guidelines for Legal Affairs of BAI00". We also strengthened the monitoring of trademarks, and regularly screened and compared the preliminary-reviewed announcement and use of external similar trademarks every month, so as to raise trademark objections in time and reduce the risk of infringement.

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

## IV. PRODUCT RESPONSIBILITY

In 2021, the Group focused on the development and operation of various online user contents to promote the three core development strategy of game IP adaption, comics IP shaping and IP incubation with IP cultivation and its original content as core. In addition, we have been putting efforts in the three major niche game genres, i.e. female-oriented games, pet raising and collection games, and comic-adapted “nijigen” (二次元) games. Meanwhile, the Group further upgraded its strategy by focusing on the creation of popular models, thus enabling IP hype-revolution as its future development goal. In addition to consolidating stable operation of existing games, we actively explored agents for product distribution to launch more high-quality games in domestic and foreign markets, and accelerated the pace of development.

### 1. Create a Green and Healthy Internet Environment

The Group has 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, the Interim Measures for the Administration of Online Games, the Interim Provisions on the Administration of Internet Culture, and other related laws and regulations. In addition, pursuant to the Personal Information Protection Law of the People’s Republic of China and other regulations, the Group has made continuous efforts to improve its internal systems and optimize its network management mechanism of game products, and has guided users to surf the Internet healthily through a series of measures such as youth anti addiction system, parent monitoring project, information content audit and monitoring for creating a green, positive and civilized network environment.

## 1) Anti-addiction system for juveniles

To protect the physical and mental health of the juveniles and prevent them from indulging in the Internet, the Group implements the real-name registration system for the online game users in strict accordance with the relevant regulatory provisions of the People's Republic of China, strictly limits teenagers' game time, standardizes the paid services provided to teenagers, and prevents them from indulging in online games.

### Termination of the tourist experience mode and strict implementation of the real name registration system

- The Group strictly abides by the requirements of the Notice on Further Strict Management to Effectively Prevent Minors from Indulging in Online Games issued by the National Press and Publication Administration on 30 August 2021, further upgrades the real-name authentication system and deactivates the tourist experience mode, so as to strictly implements the real-name registration and login requirements of online game user accounts.

### All minors are strictly limited in terms of the time interval and duration of playing online games

- The Group strictly limits the time for 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 healthy allocation of teenagers' spare time.

### Restriction on paid services to minors

- 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 established a parent monitoring program for juveniles in line with the requirements of the Ministry of Culture and set up the web page of "Important Notes for Parents" on its official website and also set up a parental monitoring hotline to help parents supervise the playing habits of minor children. The Group has expressly listed out the application conditions and methods for guardianship services on its official website. Upon confirmation of the guardianship after the information review process is passed, our customer service department will provide the account guardianship service and offer guardianship solutions, such as the login details of the persons under guardianship, suspension or termination of accounts of the persons under guardianship, provide technical support for guardians to help parents guide their minor children to surf the Internet healthily and actively to avoid internet addiction.

# 2021 Environmental, Social and Governance Report

### 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 automatic 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, and ensures the legal compliance of all online information.

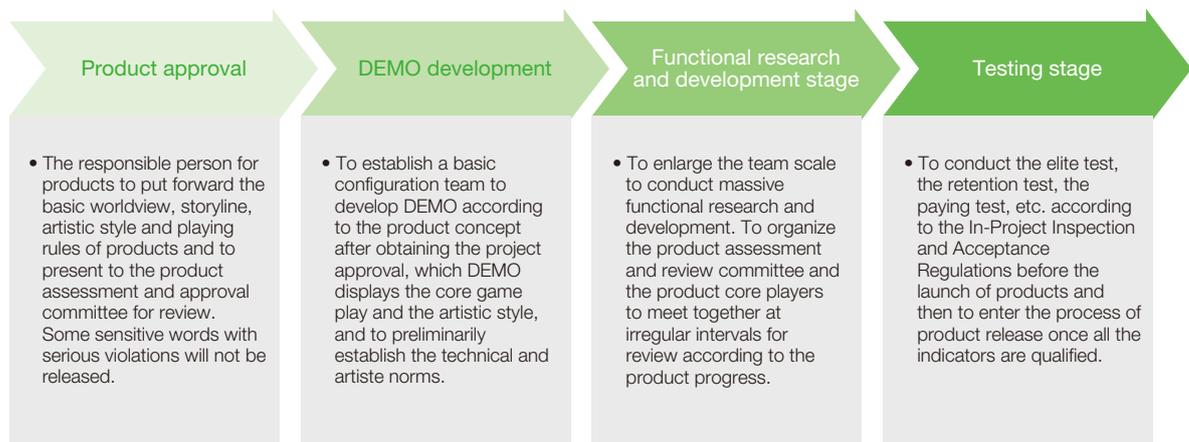
Sensitive word screening system	The Group has developed a powerful filtering system of sensitive word and regularly updated and maintained the sensitive word library. All information published by users shall be filtered by sensitive thesaurus, and it is prohibited to publish seriously sensitive words.
Netease's cloud 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.
Audit by customer service staff	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 staff. If any violation is found, the customer service staff 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 with violations, customer service staff will quickly deal with them according to the violations.

## 2. Project quality management

The Group believes that high-quality products and continuous R&D innovation are the driver to promote the sustainable development of the enterprise. Under the escort of the product quality control team (hereinafter referred to as the “QC Team”) and the internal and external big data analysis system, the Group adhered to the strict product R&D process and quality control mechanism this year, and was committed to creating attractive high-quality products through the R&D of Online entertainment products on PC (personal computer, hereinafter referred to as “PC”) and mobile phones, so as to improve the user experience. Meanwhile, with the normalized development of pandemic control, the Group continued to optimize the IT system for remote office by continuous upgrade of the software and hardware infrastructure required for remote office, thus ensuring the normal operation of products and projects.

### 1) Product quality control throughout full process

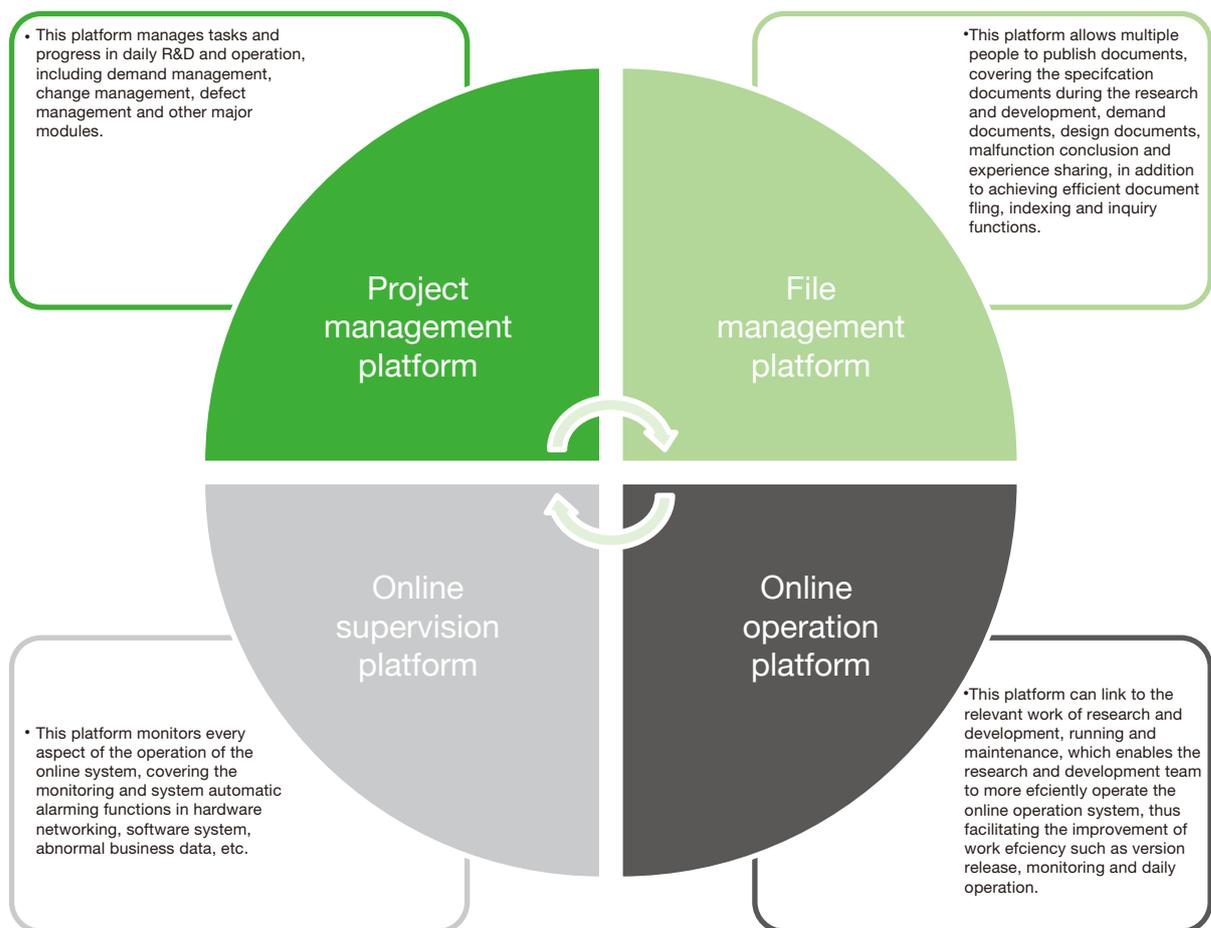
To ensure product quality, the Group has formulated a series of internal systems such as the “In-Project Inspection and Acceptance Regulations” and the “Table of Server Technology Risk Assessment” and set up stringent product R&D and acceptance testing process to implement the quality control throughout full process. The process of R&D and marketing of our products covers the following steps:



The Group’s Quality Control Team is responsible for controlling the quality throughout all stages of developing the products. The Quality Control Team carries out overall quality evaluation from the dimensions of function, safety, adaptability, fault tolerance and weak network. The project teams need to rectify any quality problems that cause the failure of the evaluated products to satisfy any standards; until the products pass the subsequent evaluation after rectification is made, the project teams cannot proceed to the next stage, so as to provide assurance of the product quality throughout its full process.

## 2) Product quality control platform

The effective control of product quality is inseparable from the support of the underlying platform system. This year, the Group continued to regulate the workflow through the coordination of four self-developed core management platform, including the project management platform, the file management platform, the online operation platform and the online supervision platform, effectively enhance the R&D and operation efficiency and ensure the quality of the products.



## 3) Big data analysis system

The Group continued to applied 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 find problems and adjust the operational strategy. In addition, the Group achieved complement and expansion of the functions of external data system through the internal self-developed data system, with a view to enable more comprehensive and efficient product quality analysis and control.

#### 4) IT system for remote office

In order to meet the needs of flexible office during the pandemic, the Group continued to upgrade the software and hardware infrastructure related to remote office during the year, including but not limited to expanding the Company's export network, increasing bandwidth, replacing a new VPN system, expanding user concurrent capacity, strengthening network authority management, etc. At the same time, the Group has increased the scope of use of collaborative components in enterprise Wechat to ensure normal office and operation and maintenance in case of emergency.

### 3. Positive Culture Transmission

For the dissemination of the vision of "Fun Entertainment, Healthy Interaction and Joyful Companion", the Group integrated entertainment and education, and shared positive values to users imperceptibly by creating positive IP characters in games, designing the storylines with exquisite composition to demonstrate humane sentiments and carrying forward Chinese culture.

#### 1) "Shiwuyu": to inherit Chinese food and spread positive culture

"Shiwuyu" mobile game is an RPG (role play game) game primarily designed for female that impersonates traditional Chinese cuisine. New and interesting in concept, this game gives unique images and personalities to traditional Chinese cuisine based on literary quotations of food and enables users to explore the historical stories and local customs related to food culture local customs through proactively guiding users in exploring the sources of stories on food. The innovative design of "Shiwuyu" integrates Chinese food culture and humanistic feelings into the products, improves users' understanding and love of Chinese traditional food, and stimulates their sense of identity and pride in Chinese food culture. In addition, "Shiwuyu" constantly explores innovative linkage methods, and works with government units, museums and other external institutions to deliver healthy and positive energy by making theme songs and holding exhibitions.



Promotional poster of "Shiwuyu"

## 2021 Environmental, Social and Governance Report

***Case sharing: Coordination of culture and innovation breaks through time and space constraints, promote traditional food culture of Zhejiang***

In January 2021, the game “Shiwuyu” cooperated with Zhejiang Provincial Department of Culture and Tourism to break the time and space constraints through coordination of culture and innovation, making Zhejiang cuisine attractive, tasteable and learnable. Inspired by the Fuchun Mountain Villa (富春山居圖), “Shiwuyu” created Zhejiang landscape-themed costumes and themed furniture, and joined hands with time-honored restaurant Louwailou (樓外樓) in Zhejiang to make a banquet with Song Dynasty style, thus the soul of ulva soup in Zhejiang West Lake came into being. In addition, BAIOO team also specially produced theme song with the national style rap, “Chanting Dreams with Food” (以食詠志), so as to show the feelings of two patriotic poets on life and food, Su Shi and Lu You.

In addition to the game, the Group also cooperated with teachers and students of China Academy of Art and Zhejiang University to create vertical paintings with people’s soul eating settings, and jointly carried forward the cultural connotation behind Jiangsu and Zhejiang cuisine, taking the relationship between Jiangnan cuisine, ancients, poetry and painting as the source of inspiration. In the “Internet +” era, “Shiwuyu” successfully empowered Zhejiang cuisine and regional culture with numbers, providing new ideas for the inheritance of traditional culture.



*A banquet with Song Dynasty style of “Shiwuyu” in Louwailou*

## 2021 Environmental, Social and Governance Report

### ***Case sharing: Join hands with Hebei museum and national treasure IP, jointly protect Chinese cultural relics***

In April 2021, the game “Shiwuyu” joined hands with Hebei Museum and national treasure IP to let players understand the story and inheritance of cultural relics by taking “Food Soul” as a bridge. At the same time, BAIOO team invited 18 well-known sound actors to perform the cultural relics linkage group portrait song, “Inheritance in one flavor” (一味相傳), showing the characteristics of multiple national treasure cultural relics, and publicize the protected cultural relics through microblog, Bilibili and other channels. On April 17, the anthropomorphic design exhibition of “Shiwuyu” landed in Hebei Museum, showing the collision between traditional culture and aesthetic design concept in the game, reflecting the persistence and ingenuity of “Shiwuyu” in heritage inheritance.

This cooperation has made a breakthrough in the communication effect of the circle. It not only strengthened the players’ understanding of cultural relics in the game, but also transmitted the ingenious thinking of cultural relics inheritance in “Shiwuyu” to a broader vision through the pan music public’s listening and anthropomorphic design exhibition.



*Protection and inheritance of Chinese cultural relics by “Shiwuyu”*

# 2021 Environmental, Social and Governance Report

## **Case sharing: Innovation of trans-boundary law dissemination, delivery of positive culture**

In September 2021, the game “Shiwuyu”, together with Wuhan Anti-Telecom Network Fraud Center and Tencent Guardian Program to conduct strategic cooperation by customizing the role design close to the public security for the game characters, making anti-fraud theme publicity videos, implanting anti-fraud theme operation activities in the game, CO creation competition, cross-dimensional theme live broadcast, etc, so as to stimulate the audience and players’ strong cognition and resonance of anti-fraud topics and safety knowledge, and successfully realize the positive empowerment of anti-fraud publicity in cross dimensional interaction.



*trans-boundary law dissemination conducted by “Shiwuyu” together with Wuhan Anti-Telecom Network Fraud Center*

## **2) Legend of Aoqi: to transmit the partnership and team spirit**

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



*Promotional poster of “Legend of Aoqi”*

**Case sharing: Cross-dimensional crossing of Chaoyang paper cutting, presenting the beauty of intangible cultural heritage**

In July 2021, the game “Legend of Aoqi” took the game as the carrier of cross-border publicity of paper-cutting culture, presenting the beauty of intangible cultural heritage paper-cutting with the vision and way of modern trend. BAIOO team invited a teacher, Ma Jiayi, a free creator of Chaoyang paper cutting, as a linkage guest to break the dimension, incarnating as a “Heling” spirit to cross into Aoqi continent, and share the paper cutting skills and the mental process of intangible cultural heritage creation for players. The “Legend of Aoqi” also launched the exclusive plot, scene, activity and spirit of paper-cut linkage, so as to spread and inherit the paper-cut culture in a more “trendy” way.



*Exclusive activities for paper cutting of “Legend of Aoqi”*

**3) Aola Star: to convey the spirit of exploration and adventure and cultivate positive and healthy values**

As an important flagship product of the Group, Aola Star is committed to providing children with healthy and green internet services, enabling children to fully utilize their imagination in the virtual world and bravely explore the unknown world. In the gameplay, players need to collect various magic pets in the adventure world and experience many battles and honing before becoming independent soldiers and being able to take on the mission of protecting the world and keeping the peace. Aola Star themes courage, partner and dream and aims to help children develop an outlook of the courage to explore and not fear the difficulties on life and the world through the interesting and adventurous battles in the game.



*Promotional poster of “Aola Star”*

## 2021 Environmental, Social and Governance Report

### ***Case sharing: “Jingtai ancient charm, passing sparkly”, feel the beauty of cloisonne quintessence***

This year, the game Aola Star sincerely invited Mr. Yang Zhifeng, the provincial inheritor of intangible cultural heritage, to conduct cross-border linkage and lead game players into the world of Cloisonne. The team extracted the color, pattern and shape of three Cloisonne linkage works to redesign the original image for the emperor dragon in the game and show the beauty of Cloisonne. In addition, Aola Star also integrates the characteristic elements of “Cloisonne” crafts into the game world, creating the “spirit of Cloisonne” of Aola Star, thus allowing players to feel the beauty of national essence and deepen their understanding and love of intangible cultural heritage culture.



*The world of Cloisonne of Aola Star*

#### **4. Industry Communication Events**

The Group always adheres to the harmonious symbiosis between enterprises and industries by actively participating in industry exchange activities to grow together with the Internet. We also strive for a green and civilized network ecology, spread positive energy and promote the healthy development of the game industry.

- ***Case sharing: Hardcore Alliance Blackstone Award, “Legend of Aoqi” and “Aola Star” won the “Most Anticipated Game of Hardcore Alliance of the Year” and the “Most Popular Casual Game of Hardcore Alliance of the Year”, respectively, and “Tianti Network” won the “Most Concerned Game Company of Hardcore Alliance of the Year”***

In March 2021, the Sixth Blackstone Awards Ceremony of Hardcore Alliance was held. Hardcore Alliance is a mobile Internet value-added service organization set up by domestic first-line smartphone manufacturers. As an annual event in the game industry, the Blackstone award ceremony brings together thousands of alliance members and industry partners to jointly demonstrate the excellent products, characters and companies in the

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industry. At this award ceremony, “Legend of Aoqi” won “the Most Anticipated Game of Hardcore Alliance of the Year”, “Aola Star” won “the Most Anticipated Game of Hardcore Alliance of the Year”, and “Tianti Network”, a company comprising the Group, won the “Most Concerned Game Company of Hardcore Alliance of the Year”, showing the full recognition of the Group’s game products by the alliance.



*“Legend of Aoqi”, the “Most Anticipated Game of Hardcore Alliance of the Year”, “Aola Star”, the “Most Popular Casual Game of Hardcore Alliance of the Year” and “Tianti Network”, the “Most Concerned Game Company of Hardcore Alliance of the Year”*

- **Case sharing: Yingyongbao (應用寶) Game Appreciation Meeting – “Legend of Aoqi” won the “Star Award for Appreciation”**

In April 2021, one of the industry’s famous activity brands, Tencent Yingyongbao (應用寶) Game Appreciation Meeting was held. For the game products that stand out, Yingyongbao will provide rich resource support with Tencent’s internal platforms to help developers accelerate the growth of high-quality games. “Legend of Aoqi” of the Group won the “Star Award for Appreciation” in this meeting, which shows the appreciation of the industry and platform for the innovative design and high-quality content of the Group’s games.



*“Legend of Aoqi”, “Star Award for Appreciation”*

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- **Case sharing: OPPO Developers Conference — “Legend of Aoqi” and Aobi Island: Dream Land (奧比島：夢想國度) won the Best New Game Award and the Most Anticipated Award, respectively**

In October 2021, the developers conference hosted by OPPO was held in Shanghai. The Group was invited to participate as a developer and partner. As one of the guidance for the development of the industry, the conference, with the theme of “openness, mutual integration, kindness and innovation”, built a communication platform for many developers and industry partners, and commended enterprises and products with excellent performance. Among them, the “Legend of Aoqi” and Aobi Island: Dream Land of the Group stand out from many game products and won the Best New Game Award and the Most Anticipated Award, respectively, reflecting the recognition of the industry and partners to the Group’s game products and values.



*“Legend of Aoqi”, the Best New Game Award and Aobi Island: Dream Land (奧比島：夢想國度), the Most Anticipated Award*

- **Case sharing: Huawei Developers Conference — Aobi Island: Dream Land won the Most Anticipated Operation Game Award**

In October 2021, the 2021 “HDC Together” Huawei Developers Conference was held in Dongguan, which brought together Huawei experts, industry experts and global developers, and issued a series of great awards to commend excellent partners in the industry. As an in-depth partner of Huawei platform, the Group was invited to attend the conference. The game product Aobi Island: Dream Land was awarded the Most Anticipated Operation Game Award, showing the support of the industry and all sectors of society for the Group’s game products.



*Aobi Island: Dream Land won the Most Anticipated Operation Game Award*

## 5. 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.

In 2021, the Group further optimized the norms for application of trademark. On the one hand, the Group strengthened the monitoring of trademark by regularly screening and comparing the preliminary reviewed announcement and use of external similar trademarks every month, so as to raise trademark objections in time; On the other hand, we comprehensively checked the past intellectual property application to supplement the copyright application of various games, the trademark registration of game commodities and game peripheral products, so as to maintain the significance of the Company's registered trademark. At the same time, the Group continued to further enhance the intellectual property awareness of business departments and employees by improving internal systems and processes, updating intellectual property confidentiality agreements and conducting training. In addition, each online game and website page of the Group has an infringement reporting channel to encourage users and players to provide infringement clues and fully safeguard the legitimate rights and interests of the Group.

As of 31 December 2021, the Group had a total of 504 certificates for registration of copyrights of works, 77 certificates for registration of copyrights of software, 967 registered mainland trademarks and 54 registered oversea trademarks.

## 6. User Privacy and Data Safety

The Group highly values user information and 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 "IDC Machine Room Management System", the "Machine Room Patrol Inspection System", the "Remote Access System", the "Cloud Management System", the "Customer Information Safety and Privacy Protection System" and other internal systems, to continuously improve the information safety and management system and protect user information and privacy.

### Monitor the environment of the machine room

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

### Restrict the access authority

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

### Apply safety technologies

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

### Enhance the sense of confidentiality

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

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In addition, in order to effectively protect information security and user privacy, the Group strengthened control in the following aspects this year:

- **Update the firewall system and Internet behavior control system:** we ensure comprehensive and immediate update of the virus database by increasing the network capacity, so as to strengthen the network security and improve the stability of network use and the rationality of resource utilization;
- **Officially and fully put into use the data disaster recovery system:** different backup strategies are set according to the priority classification of data security to build a solid security defense line for the Group's information and data;
- **Revise the Privacy Agreement and R&D specifications:** according to the latest regulations of relevant national departments on the privacy protection of mobile app, the Group revised the Privacy Agreement of all products and formulated R&D specifications related to the privacy of mobile app to ensure the legal and compliant use of user information. The Group will consider developing or introducing third-party detection tools to automatically scan and detect applicable products to prevent manual operation omissions.

### ***Case sharing: Internal publicity and implementation of information security and privacy protection laws and regulations***

On 28 September 2021, the Group sorted out and summarized the latest revision details of relevant laws and regulations such as the Personal Information Protection Law of the People's Republic of China, the Cybersecurity Law of the People's Republic of China, the Data Security Law of the People's Republic of China and the Law of the People's Republic of China on the Protection of Minors and publicized them to employees of relevant departments in the form of training materials, thus strengthening employees' legal compliance awareness and risk prevention knowledge.

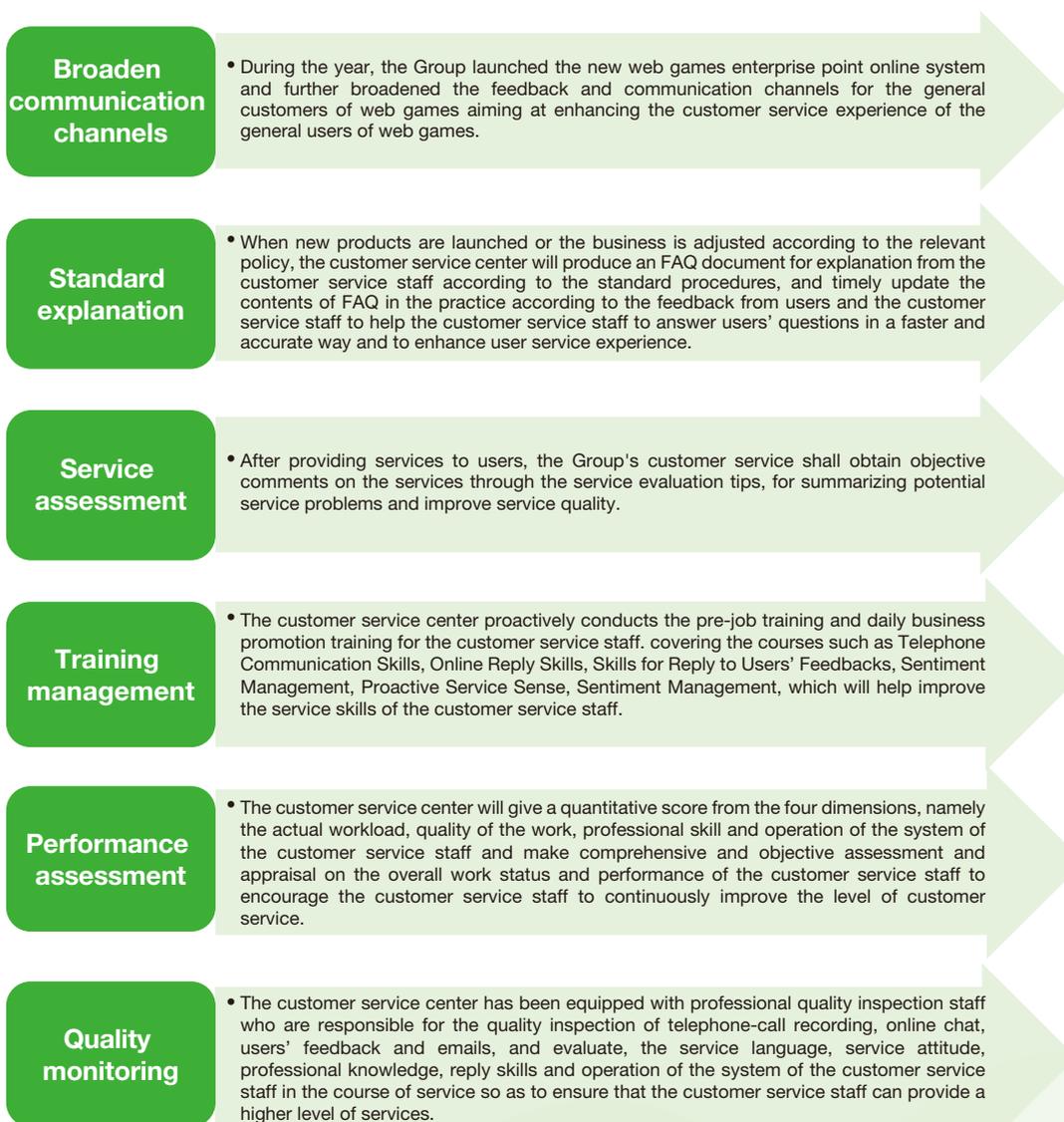
# 2021 Environmental, Social and Governance Report

## 7. Listen to the Voice of Users

Users' feedback, complaints and suggestions are of vital importance to the sustainable development of the Group's businesses. The Group has formulated a series of internal bylaws including the "Business Process and Work Specification of the Customer Service Centre" and the "Customer Representative Assessment and Performance Management System" to ensure that the voice of users can be heard and improve the quality of customer services.

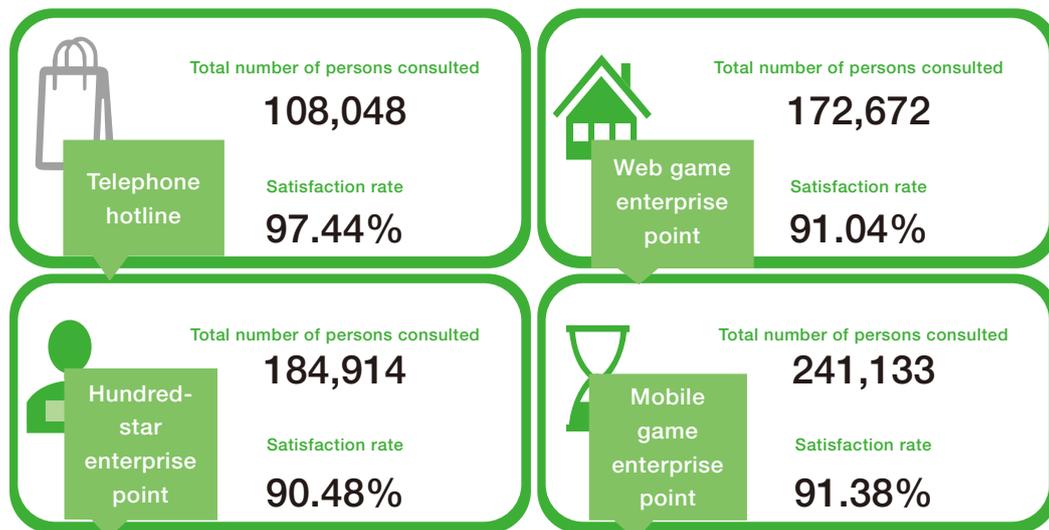
### 1) User satisfaction survey

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



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The Group attaches great importance to users' feedback and suggestions. This year, the customer service center of the Group carried out user satisfaction survey through four channels, namely, telephone hotline, web game enterprise point, hundred-star enterprise point and mobile game enterprise point. The participation and results of the satisfaction survey are as follows:



## 2) Handling of users' complaints

Users can comment on and make a complaint about the services of the customer service staff via the telephone hotline, email, the in-community real-time communication system, the user feedback platform, fax, mailbox and personal visits. The customer service personnel will accept all user complaints at the first time, classified such complaints into three levels, i.e., common, relatively serious and very serious according to the severity of matters, require the corresponding responsible department to follow up and deal with them in time in strict accordance with the complaint handling process, and inform the user of the handling results within the specified time limit. During the reporting period, the customer service center of the Group received 12,681 complaints, and the customer complaint resolving rate was 100%.

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### 3) User demand survey (including online survey and offline interview)

The Group has regularly conducted surveys on users of domestic mobile games with three methods, i.e., customer engagement (“CE”), questionnaire and return visit, to have a deep understanding of the demands and satisfaction of the users.

#### 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 in-depth 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 Survey

- 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.

## V. EMPLOYMENT MANAGEMENT

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

### 1. 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 equality and justice, and continues to optimize the management measures regarding recruitment, performance assessment, remuneration and benefits, etc., so as to achieve the joint growth of the staff and the Group.

#### 1) Staff Recruitment Management

The Group has established internal policies such as the Employee Handbook and the Administration Measures on Recruitment to standardize the employee recruitment process and improve the talent selection mechanism. The Group 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.

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

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As of 31 December 2021, the Group had a total of 1,083 employees.

		2021
By gender	Male	632
	Female	451
By type	Full-time	1,053
	Internship	30
By age group	Under 30	729
	30–50	346
	Above 50	8
By geographical region	Mainland China	1,082
	Overseas regions and Hong Kong, Macao and Taiwan	1
	<b>Total</b>	<b>1,083</b>

This year, the turnover rate of male employees of the Group was 31.96% and that of female employees was 35.03%. The turnover rate of employees under 30 was 36.76%, the turnover rate of employees aged 30–50 was 26.59%, and there is no turnover of employees over the age of 50; the turnover rate of employees in Mainland China was 33.27%, and there are no staff turnover in overseas and Hong Kong, Macao and Taiwan.

### ***Case sharing: BAIIO's 2022 on-campus recruitment events***

To attract more fresh blood to enrich our talent team, the Group started its series of 2022 on-campus recruitment event on 5 July 2021. Amid the COVID-19, the campus recruitment this year was conducted through online recruitment and air presentations. In order to enable students to understand the latest project situation, salary and welfare and recruitment positions of the Group in real time, the air presentations will focus on company introduction, product introduction, job introduction and school recruitment process introduction, and be synchronized to live broadcasting and recording at Bilibili, so as to effectively interpret the position needs and answer questions and solve doubts online for students.



*BAIOO's 2022 on-campus recruitment events*

## 2) Performance Appraisal and Remuneration and Benefits

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

The Group has formulated and consistently implemented the “BAIOO’s Staff Remuneration Management System” and has established a multi-layer remuneration system of “fixed salary + floating wage + stock” to formulate a competitive remuneration package for the staff at different levels and the functional departments. Meanwhile, in March and September every year, the Group will review and appraise the remuneration of the heads of the departments and the human resource department, and the staff meeting the standards may apply for a pay rise with the head of the department he or she works and submit the same to the human resource department and the relevant heads for appraisal, so as to help the staff to obtain the ideal remuneration. In addition, the Group has established a sound staff benefits system, including five social insurances and one housing provident fund, commercial insurance, annual physical examination, festival activities and gift packages, paid annual leave, cash gifts for weddings and babies, employee meal benefits and the system for settlement of registered permanent residence. The staff benefits system covers various aspects of basic necessities in life, including clothing, food, residence and travel, showing our concern about the vital interests of our employees.

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### 3) Management of Younger Teams

The Group comprises of younger teams with a relaxed and open atmosphere. We lead our harmonious development in a corporate culture focusing on innovation, passion, curiosity, initiative, results and efficiency. The Group proactively provides guidance in building a dynamic and orderly office environment and reminds the staff to pay attention to the meeting time and to keep the meeting room clean by placing the hourglass and the guiding placards and other creative items. The Group has developed and adopted an OA system, covering multiple segments such as personnel management, system announcement, staff activities, contract approval, and vacation application to simplify workflow and 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 information about latest training report, surrounding facility, dining guide and administrative guidance, thus facilitating the work and life of employees.

- **Employee Internal Journal, “BAIOO@You” (《百奥@你》)**

The Group has also founded a bimonthly publication “BAIOO@You” as the largest internal medium of BAIOO and as the platform for communication between employees and the Group, thus enriching the corporate culture of BAIOO, demonstrating the humanistic style of the BAIOO people, and bearing the missions of both internal dissemination of the corporate culture and facilitation of external branding activities. Since the inception of “BAIOO@You” in 2015, the Group has released 51 issues in total as of December 2021 and has always adhered to the original faith of staff orientation and speaking for staff for six years. It has continuously delivered dynamics of the Group, expressed the voice of the Group, and demonstrated expectations of employees in a most fashionable and intimate manner.



The covers of “BAIOO @ You” 2021 periodicals

## 4) Talent Review

In order to strengthen human resource management and ensure that the talent team can effectively match the business development of the Group, in March 2021, the Group started the annual talent review and carried out evaluation and analysis from the following three dimensions to achieve the value and objectives of the Group:

Organizational structure	Talent team	Personnel review
<ul style="list-style-type: none"><li>The Group sorts out the existing structure and figures out its advantages and disadvantages, as well as the adjustment planning of the future structure, so as to make preparations for the future support work in advance.</li></ul>	<ul style="list-style-type: none"><li>The Group assesses and analyzes the integrity and health of the talent team and make timely adjustments, including the establishment of key positions, the incumbency of key positions and the reserve of successors to key positions.</li></ul>	<ul style="list-style-type: none"><li>The Group checks the distribution of excellent personnel as a reference for future talent development strategy and personnel appointment.</li></ul>

## 2. Occupational Health and Humanistic Care

The Group has 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 and continuously improved various internal systems of safety management, committing to create a healthy, safe and comfortable work environment for the staff. In each of the past three years including the reporting year, there was no work-related fatalities occurrence. In the reporting year, there was 0 lost day due to work injury.

### 1) Normalization of COVID-19 Prevention and Control to Protect the Staff's Safety

In 2021, COVID-19 prevention and control became normalized, for which the Group abided by the relevant national and local policies to implement various pandemic prevention measures in an orderly way. In addition to ensuring normal operation of the business, we ensured the health and safety of employees. From May to June 2021, the pandemic situation in Guangzhou repeated, for which the Group responded quickly. By formulating a series of emergency plans and pandemic prevention measures, the Group ensured the safety of employees' work and life in an all-round way and blocked the risk of pandemic spread.

#### *Timely push notifications on pandemic prevention and control*

In 2021, the Group successively delivered the "Repeated pandemic situation cannot be ignored, the battle against pandemic continues!", the Important Notice on Pandemic Prevention of the Company (No. 1-21) and other pandemic prevention notices to all employees through the "BAIOO SPACE" platform, which reminded employees to pay attention to personal protection, strictly required employees to follow the community pandemic prevention regulations, to timely carry out nucleic acid detection when necessary, to report the itinerary to the community committee of the residence, so as to strengthen employees' awareness of pandemic prevention.

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### ***Nucleic acid detection for all staff***

In 2021, the Group arranged medical staff to conduct nucleic acid testing for all employees in the office area for three times, completed the screening of all employees safely and efficiently, and practically protected the health and safety of employees while quickly responding to the government's pandemic prevention requirements. In addition, the Group reimbursed nucleic acid testing expenses for employees in need.



*Nucleic acid detection for all staff*

### ***COVID-19 vaccination for all staff***

This year, the Group successively arranged COVID-19 vaccination for all staff. By the end of the year, the vaccination rate of the Group's employees had reached 90%, generally covering all qualified employees. Timely vaccination builds a protective barrier for employees' health and effectively reduces the risk of infection.



*COVID-19 vaccination for all staff*

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## ***Implementation of pandemic prevention measures in office areas***

In order to create a safe, healthy, hygienic and comfortable working environment, the Group formulates and implements a series of disinfection, cleaning and ventilation measures, adheres to daily window opening and ventilation, and disinfect and clean regularly without interruption every day. Professional disinfection shall be arranged once a quarter, and the number of professional disinfection shall be increased during the outbreak of the local pandemic in Guangzhou from May to June 2021, so as to comprehensively ensure the work and life safety of employees after returning to work and block the risk of pandemic spread.



*Professional disinfection*

## ***Caring for quarantined employees***

In 2021, due to the needs of pandemic prevention and control, certain employees of the Group were required to be quarantined at home. During the quarantine period, the Group arranged special personnel to follow up, paid close attention to the physical condition of employees, and sent required materials to quarantined employees if conditions permit. The Group is committed to meeting the practical needs of employees in details, further strengthening the employees' sense of trust and belonging to the Group, and effectively improving the collective cohesion of the team.

## **2) Occupational Disease Prevention and Fitness Facilities**

We have paid great attention to the physical and mental health of our employees. In addition to providing annual health examination and purchasing additional commercial insurance for the staff, the Group has also equipped with emergency equipment and provided various welfare facilities to meet the needs of the staff, thus creating a healthy and comfortable office areas. Our businesses do not involve any occupational hazards of high dangerousness or risks, and the Group has built a spacious and comfortable working environment to ward off occupational diseases such as damaged cervical vertebra and painful waist and legs arising from long-term working at a desk in the office and encouraged the staff to relieve fatigue by standing, walking and stretching. At the same time, the Group purchased five multi-functional massage chairs this year and set an exclusive preferential price for employees to use after work to alleviate muscle strain. In order to encourage employees to actively participate in physical exercise, the Group provides free gyms and yoga rooms. The Group has provided free gyms and yoga rooms equipped with treadmills, elliptical trainers, upright bicycles, rowing machine, press, stretchers and other fitness machine, to meet the needs of the staff for exercise. We have also hired external

## 2021 Environmental, Social and Governance Report

teachers to provide various courses such as yoga, fitness training, and kickboxing at each weeknight. The staff can make course reservation through the OA system to balance the physical and mental health after work. The Group also created a variety of novel ways, such as cat house, library and manual cabinet, to alleviate the psychological pressure of employees and stimulate creative inspiration.



*Multi-functional massage chair*



*Various fitness equipment in the gym*

The Group has built spacious, bright, exquisite restaurants and café to provide the staff with catering service and grants food subsidies to the staff. The Group has taken rigorous food safety measures with allergy warning labels used in the restaurants. At every featured festival, our restaurants introduce seasonal specialty food, such as Laba porridge, glue puddings and moon cakes. In addition, the Group also held the rice dumpling making activity at the Dragon Boat Festival, the DIY glutinous rice ball making activity at the Winter Solstice, and other diversified festival activities, so as to let our workmates make traditional cuisines or festival items personally and to create a festival atmosphere. The Group also sends beautiful gifts to employees at all festivals.

### ***Case sharing: Building a special “Lulala cat house”***

In order to create a relaxed and pleasant work experience, the Group had two “new members” — kittens “Tiantian” (天天) and “Tintin” (田田), creating a special “Lulala cat house”, arranged special personnel to manage and take care of two kittens, and provided cat teaser sticks and other play props, allowing employees to have close contact with kittens during the opening hours of the cat house, so as to improve employees’ sense of happiness and belonging.



*“Lulala cat house” and kittens “Tiantian” (天天) and “Tintin” (田田)*

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## ***Case sharing: Building and maintaining BAI00 Library***

In order to create a good learning atmosphere and meet the learning needs of employees, the Group purchases and recommends professional books on demand every month to encourage employees to enjoy reading and relax after work. As of 31 December 2021, the book collection of BAI00 Library has exceeded 900.



*BAI00 Library*

## ***Case sharing: Introducing emergency equipment and providing emergency training***

In 2021, the Group purchased one AED semi-automatic defibrillator and organized six sessions of “AED professional first-aid training”, attracting nearly 150 employees. Through this training, the staff deeply learned the key points of first aid knowledge in public places, and effectively improved the professional first aid theoretical knowledge and first-aid ability.



*AED equipment and professional training*

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### 3) Care for Females

The Group attaches great importance to the well-being of female employees and pays particular attention to their special needs.

- Ensure the safety and convenience of toilet room**
  - 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.
- Fully-equipped nursery**
  - The Group provides fully-equipped mother and baby 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 restaurants**
  - Considering the special conditions of mothers-to-be who are also our staff, the Group has also opened the "Channel for Mothers-to-be" in restaurants for our pregnant female staff to take food separately without waiting in line. This can prevent mothers-to-be from being bumped in a crowded situation while there are more people at mealtimes, thus enhancing the experience of work and life of the pregnant female employees in the Group.

### 4) Staff Activities and Humanistic Care

We are an advocate of work-life balance and hold various recreational and leisure activities for the employees regularly through our established trade union committee. In 2021, the Group held employee activities such as Goddess Festival, online annual meeting, Dragon Boat Festival, Mid-Autumn Festival and programmer's day, so that employees can establish friendship and harvest happiness in their work. The Group has also established internal sports, photography and video games clubs for employees, and the persons-in-charge organize various themed activities; the Group distributes monthly and quarterly team building allowances to each business department to encourage the divergent and creative thinking of the employees and organize many activities; and we offer annual travels at the expense of the Group and the employees may choose routes and arrange journeys by themselves. The Group believes that moving forward together with employees can create a more united and energetic team and help the Group achieve its development goals.

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## ***Case sharing: Employee travel in 2021***

In 2021, on the premise of complying with the requirements of pandemic prevention, the Group successively released a number of tourist routes for employees to choose according to the seasons. The footprints of employees have been spread all over Hainan, Huidong, Chenzhou, Shenzhen, Zhuhai and other scenic spots. Employee tourism enables the Group's employees to relax, recover energy and strengthen mutual communication and exchange after work.



*2021 BAIOO's employee travel*

## ***Case sharing: 2021 spring reception annual party***

On 12 March 2021, the Group held the annual spring reception activity in the form of live broadcast for the first time, and prepared various prizes and online games for employees, so that employees experienced a tense, exciting and innovative annual party meeting.



*2021 cloud spring reception*

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### **Case sharing: Holiday gift box**

On 7 June 2021, being the 12th anniversary of BAIOO, the Group presented the employees with a Dragon Boat Festival gift box. The gift box package sent four blessings to the employees: the never-ending wormwood God, the inspiration light bulb for the proposal, the magic brush of Ma Liang with the magic pen and the dragon looking into the world. In addition, the gift box contains amusing kites during the holidays, which means that BAIOO is booming.



*Special Dragon Boat Festival gift box*

On 13 September 2021, the Group prepared a customized Mid-Autumn Festival gift box for all employees to send festival and blessings to employees. The gift box integrates and collides the elements of BAIOO culture, Cantonese and Mid-Autumn Festival, showing the Group's concept of inheriting Chinese traditional culture while caring for employees.



*Customized gift box for Mid-Autumn Festival*

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At Thanksgiving Day on 25 November 2021, the Group prepared various mystery box prizes. Employees can make wishes for grateful people and win prizes to express their gratitude. As a link, this activity further strengthened the communication and contact among employees within the Group and created an atmosphere of unity and fraternity in office areas.



*Mystery box on Thanksgiving Day*

### ***Case sharing: Interesting knowledge competition, “Yuanfen”***

On 22 October 2021, in order to welcome the programmer’s day and International Gibbon Day on 24 October, the Group prepared various interesting knowledge competition activities, which popularized gibbon-related knowledge while relaxing pressure for programmers, called on caring for rare primates, protecting the natural environment, and organically combined employee care with public welfare science popularization.



*Programmer’s day*

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## 5) Fire Drill

The Group attaches great emphasis on fire safety, strictly complies with relevant laws and regulations including the Fire Prevention Law of the People's Republic of China and the Emergency Response Law of the People's Republic of China, conducts fire safety inspection regularly, organizes lectures and training on fire-fighting knowledge and coordinates with the property management office to conduct fire drills. On 19 November 2021, the Group organized employees to participate in the fire drill conducted by the property department. The drill focused on several topics, such as how to check and eliminate potential safety hazards, correctly report fire, put out the initial fire, correctly escape, and use fire extinguishing equipment. The fire drill further strengthened the employees' adaptability and protection ability in case of emergency, and improved the Group's awareness of fire safety.



*Fire drill site*

## 3. Promotion Blueprint and Training Mechanism

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

### 1) "Double-ladder" promotion blueprint

The Group offers a clear path towards development and promotion for employees. The official rank system of the Group is divided into five levels: product level, technology level, art level, function level and management level. Each series of the corresponding ranks have corresponding competency standards. Therefore, the employees can not only be promoted vertically in the ranks, but also develop horizontally across the series. The Group has established an internal "Double-ladder" talent development mechanism to help employees to realize development and promotion in the "Profession Ladder" of technical talents or the "Management Ladder" of management talents based on the employees' own conditions and career planning. The Group allocates equal amounts of resources, pays the same attention and shows the same respect to both mechanisms. In addition, the promotion of those who have made greatest contribution to the Group will be implemented beyond the rule, so as to optimally unlock the full potential of staff members.

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## 2) Diversified training system

With a view to ensuring the staff's continuous learning and progress, the Group has formulated and implemented the "BAIOO Training Management System". The Group sets up perfect training system such as professional skill training program, online "Wiki" learning platform, training program for new staff and training program for the new staff at management position, meeting the development needs of different types of staff and continued to provide staff with value creation opportunities. The human resource department of the Group is responsible for coordinating the preparation of annual and monthly training plans, training courses and training education materials for all departments. Meanwhile, each department reports the status of organization and implementation of trainings to the human resource department regularly. The Group has also developed an on-the-job education promotion system to encourage employees to continue learning and self-improvement. The staff may also apply with the Group for fund subsidies to attend external courses that are helpful for the business development related to their positions of employees, occupational forums, and related professional qualification examinations so as to strengthen self-development abilities through self-learning.

### Training program for new staff

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

### Training program for the new staff at management position

Training programs are divided into two categories: workflow and system of the management position and management skills; the training for the workflow and system of the management position involves the training on human resource, finance, Management and other systems, which comprises of offline intensified training and online tests, with a view to help the newly promoted managers to fast understand the work position; the training for management skills includes teaching of professional management knowledge and game industry case study, with a view to help the newly promoted managers to improve team management ability and efficiency.

## Staff Training

### Professional skill training program

Professional training is available every week, covering distribution, product, technology, fine arts and other five categories. The training contents cover the promotion of the office efficiency, the promotion of professional skills, the professionalism, self-management and other aspects, which has effectively improved the working efficiency of the staff, and the lecturing satisfaction rate was above 95%.

### Online "Wiki" learning platform

In order to improve the training efficiency, the Company has provided the staff with the online "Wiki" learning platform to share valuable training files and audio and video information. Currently, there are nearly 400 files, which has effectively improved the learning experience of the staff.

## 2021 Environmental, Social and Governance Report

### ***Case sharing: Training program for the new staff at management position in 2021***

This year, based on the management rules and regulations and the management skills of new managers, the Group's training program for the new staff at management position set up relevant courses such as financial process system, administrative process system, legal rules and regulations, personnel system, recruitment process, interviewer skills, talent development, transition management of new staff from social recruitment, etc. After the offline training, the students also need to participate in the online written examination and can graduate only after passing the examination. This training aims to improve the management skills and abilities of new managers.



*BAIOO's training program for the new staff at management position in 2021*

### ***Case sharing: 2021 on-campus training program for fresh graduates***

This year, the Group carried out a training program for fresh graduates. The training consists of three parts: intensive training (teaching + sand table + game creative contest), tutor guidance and professional offline courses. The lecturers of the intensive training are composed of senior management of the Company, heads of various businesses, senior students and sisters from on-campus recruitment and HR representatives. They focus on the introduction of the Company, the overview of the Internet game industry and the introduction of various studios, and set 63 offline professional courses such as distribution, products, technology and art. This training enables fresh graduates to quickly understand the Company's business and Internet game industry, and improve their ability of target management, resource control, risk management, unity and cooperation.



*2021 on-campus training program for fresh graduates*

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### 3) In-house trainer systems

The Group has formulated and implemented the Management Measures of In-house Trainers, encourages the staff to share, learn and exchange ideas each other on a regular basis, and is committed to establishing an in-house trainer team. Employees can become in-house trainers after passing a series of certification tests. In-house trainers are entitled to the corresponding interest, while their teaching and training work is subject to the relevant assessment. The in-house trainer systems have not only contributed to the internal communication and sharing of experience among the employees, but also developed a new platform for the employees who became in-house trainers to show and improve themselves. The Group will also set up training courses for in-house trainers on a regular basis covering courseware development and teaching skills to enhance their competence as trainers.

In 2021, the internal trainer system of BAIOO will broaden the scope of objects, upgrade the incentive system and training points system, and add tutor incentive points and training resource points to motivate internal trainers and further stimulate the vitality and potential of the internal training mechanism.

In 2021, the Group conducted 7,356.75-hour trainings with a total of 724 trainees.

	2021	Percentage of the trained Employees	Per capita training hours
By gender	Male	61.33%	6.94
	Female	38.67%	6.58
By staffing level	Middle and senior management	2.21%	2.72
	First-line staff	11.88%	12.22
	Ordinary staff	85.91%	6.29

In addition, the Group also actively organized management and employees to participate in external on-the-job education and training to improve professional skills or management ability. This year, the total cost we invested in external on-the-job education and training exceeded RMB180,000.

# 2021 Environmental, Social and Governance Report

## 4. Labor Rights and Interests

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

### 1) Staff Satisfaction and Complaints

The Group attaches great importance to staff's opinions, encourages them to share the opinions and feedback, and is committed to establishing humanized and diversified communication channels for the employees. The Group collects and listens to the opinions from the employees by the following methods:

- To maintain an online suggestion box on the OA system, allowing the employees to bring forward opinions and feedback at any time;
- To create a WeChat group for the employees to directly provide opinions through WeChat, a timely and efficient tool;
- To conduct face-to-face interviews at the different stages including career entry, promotion and resignation so as to discover the defects of the human resource management;
- To issue questionnaires regularly to understand the degree of satisfaction and demands of the employees and to pay due attention to the protection of the staff's rights and interests.

### 2) No Child Labor and Forced Labor

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

### 3) Diversity and anti-discrimination

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

## VI. COMPLIANCE IN OPERATION AND ANTI-CORRUPTION

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

### 1. Compliance in Operation

The Group strictly complies with the national laws and regulations and obtained relevant official qualifications 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.

The Group has set up a public affairs department to maintain the timely tracing, response and feedback to the relevant national policies and industry regulations. In view of the policy updates on information security and privacy protection and juvenile protection this year, the Group has formulated and implemented the Guidance on Children Privacy Protection, Game Licensing and Service Agreement, Game Privacy Policy, etc. By improving children's personal information protection and user agreement, the Group has continuously standardized online game services and effectively protected users' information and privacy, and also actively fulfill the guardianship responsibility of minors and help minors establish correct online game consumption concepts and behavior habits.

In addition, the legal affairs department of the Group has carefully implemented the Guidelines for the Legal Affairs of BAIOO, and carried out the contract approval, the examination of legal files, the protection of intelligent property rights, the infringement complaints and other legal affairs according to the standard operating regulations, whereby protecting the legitimate rights and interests of the Group. In this year, the legal affairs department updated the templates of business contract, the contract review procedure, user agreement and privacy agreement, strengthen intellectual property management and optimized procedures for handling legal affairs; meanwhile, the Group has established an overseas distribution team with extensive experience, which coordinates with the Legal Affairs Department and related business units to ensure the operation of the Group's overseas business complies with relevant requirements.

# 2021 Environmental, Social and Governance Report

## 2. Anti-corruption

The Group attaches great importance to anti-corruption and strictly complies with relevant laws and regulations, such as the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery, the Anti-Monopoly Law of the People's Republic of China and, and has formulated internal policies such as the Anti-Fraud and Report Management System and expressly provides for the specific requirements of the anti-corruption, anti-bribery and anti-money laundering work during the prevention, control and feedback links. For each process of daily business operations, the Group has established internal control measures to reduce fraud risks. Meanwhile, the Group has set up diversified reporting channels such as e-mail, phone reporting by phone, reporting in the form of letter, etc., and has also published on both internal and external networks. For the fraudulent reporting incidents received, the Group has established clear procedures, rewards and punishments, and remedial measures, to ensure the compliance operation of Group. The Group has established the party branch to regularly hold special integrity seminars and anti-corruption training activities, issue the anti-corruption practice guidelines, provide assistant to the staff of the Company, in order to ensure that they comply with relevant policies and identify illegal and unethical behaviors. In this year, the Group organized a total of 1,052 directors and employees to participate in anti-corruption related training, totalling 528 hours.

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

### ***Case sharing: Anti-corruption training for all staff in 2021***

In December 2021, the Group sent the anti-corruption practice guideline published by Independent Commission against Corruption to all directors and employees, and carried out anti-corruption training, which covered corruption risk assessment and management, prevention and detection of corruption, corruption monitoring measures, etc. We also provided systematic anti-corruption guidelines for employees, and ensured that employees complied with the provisions of the Prevention of Bribery Ordinance, to enhance employees' awareness of anti-corruption.

## 3. Compliance in Publicity

The Group has highly valued the compliance in the publicity and marketing of products and services, strictly checked the publicity contents of game products, advertising materials, and community posts. The advertising materials must be reviewed by relevant departments, promotion staff and project teams, so as to ensure the consistency of the advertising materials with products and services and completely eradicate false advertising. The main steps of review and management of publicity materials of the Group include:

### Strengthen preliminary control

When setting the requirements for relevant publicity materials and copywriting in the preliminary stage, the person in charge of acceptance shall coordinate the relevant administrative and editorial departments to jointly accept whether the content contains risk problems such as violations. If the acceptance fails, it must be rectified as required.



### Implement release monitoring

After passing the acceptance, a special person shall conduct secondary review, and the release can be carried out on the platform only after passing the review. After the release, we will immediately monitor the public opinion of the content. In case of risk problems, we will immediately communicate with the person in charge of acceptance and take countermeasures within 30 minutes.



### Actively abide by the new policy

We actively respond to the new policies of the Internet game industry issued by the state. The editorial department of the Group timely conveys the new regulations while the relevant project managers arrange publishers to conduct self-examination and optimize or delete the content if necessary.



### Strict training and education

The person in charge of acceptance and the release personnel must participate in the relevant training meetings regularly organized by the Group to improve the awareness of compliance publicity.

## VII. GIVING BACK TO THE SOCIETY

In addition to offering high-quality products and service, the Group strives to make humble contributions to social welfare and charitable causes. The Group has established the “BAIOO Public Welfare” and organized four social welfare activities in 2021 with 50 volunteers participated, which benefited a total of 374 people and donated nearly RMB27,000.

### ***Case sharing: Delivered caring to the staff of nucleic acid testing station in Guangzhou***

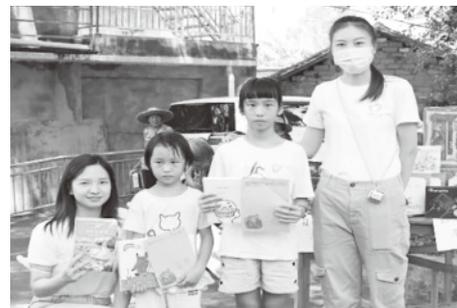
On 2 June 2021, during the outbreak of the pandemic in Guangzhou, 10 volunteers of the Group delivered cool drinks worth more than RMB6,000 to the medical staff, community staff and volunteers fighting in the front line of pandemic prevention and control of the community service station of Wushan Street, Tianhe District, the community health service center of Wushan Street, Tianhe District and the temporary nucleic acid detection site of Huajing Xincheng Community to, so as to help the pandemic prevention and control, and actively fulfill corporate social responsibility.



*Delivered caring to the staff of nucleic acid testing station in Guangzhou*

### ***Case sharing: Assisting to realize the “small wish” of children in Qijing village of Zengcheng District***

On 20 August 2021, with the small wishes of 20 children from Qijing village, Paitan Town, Zengcheng District, Guangzhou collected in the early stage, volunteers of the Group sent “small wishes” gifts to the children before the start of the new master year, including materials worth nearly RMB1,500, such as books and stationery, to encourage the children to study hard, improve themselves and bless their healthy growth.



*Assisting to realize the “small wish” of children in Qijing village of Zengcheng District*

# 2021 Environmental, Social and Governance Report

## ***Case sharing: Warm greeting activities at the Mid-Autumn Festival***

On 17 September 2021, prior to the Mid-Autumn Festival, 10 volunteers of the Group, together with the social service station, went to Xinghua Street, Tianhe District, Guangzhou to carry out the Mid-Autumn Festival caring activities. This activity visited 12 families in difficulties, including the empty-nesters and the elderly who lost their child. Volunteers delivered festival caring worth more than RMB2,000 on behalf of the Company, and sent festival blessings to the elderly through communication and companionship.



*Warm greeting activities at the Mid-Autumn Festival*

## ***Case sharing: Donation activities of Wenfeng Primary School***

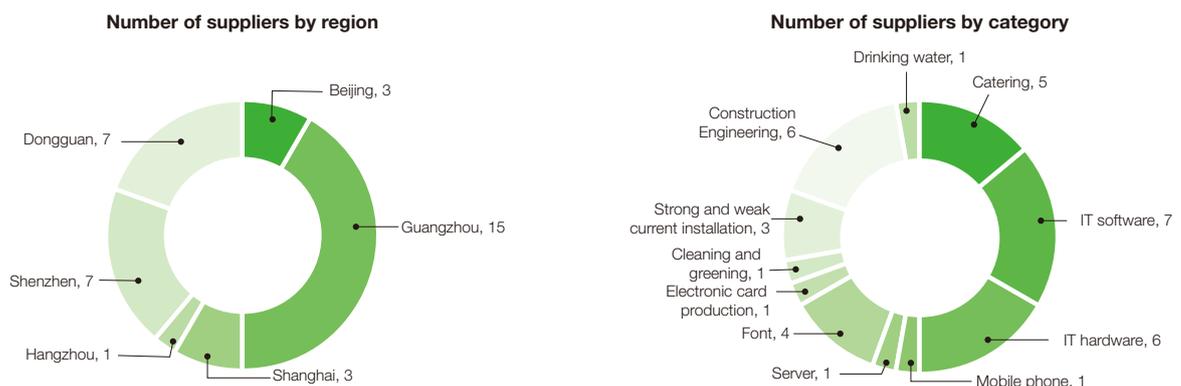
On 22 October 2021, volunteers of the Group sent a total price of more than RMB17,000 of dictionaries, rackets, rope skipping, shuttlecocks and other learning and sporting goods to 232 students and 14 in-service teachers and workers in Wenfeng Primary School, Hengshitang Town, Yingde City, Guangdong Province, in order to encourage children to grow up healthily and study happily.



*Donation activities of Wenfeng Primary School*

## VIII. RESPONSIBILITY OF THE SUPPLY CHAIN

The Group has effectively fulfilled commitments that it made to users and the society, and attaches great importance to the management of suppliers, and strictly abides by the “Commerce Management System” and the “Supplier Selection Management System” formulated within the Group, and regulates the selection, evaluation and management of suppliers. In order to strengthen the assessment and management of suppliers’ environmental and social risks, the Group incorporated the supplier code of conduct into the “Commerce Management System” this year, which defines the requirements and assessment process for suppliers’ environmental management, labor rights and interests, equality and anti-discrimination, anti-corruption and other contents, and we prefer to select products and suppliers conducive to social and environmental sustainable development. In 2021, the Group had a total of 36 suppliers:



### 1. Supplier Acceptance

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

## 2. Supplier Assessment

The finance department and relevant departments are responsible for conducting annual assessments of suppliers selected by the Group. The assessment criteria include the business scale, quality, delivery ability, price, technical skills, service quality, fulfillment of code of conduct and other aspects of the supplier, and sets weights for each indicator, and the assessment team will score by weight. The assessment results are divided into three levels: the highest level is A-level suppliers, to whom we will give priority in future procurement deals, and increase the supply ration if necessary; the intermediate level is B-level suppliers, with whom we can maintain normal transactions and keep the supply ratio; the lowest-level is C-level suppliers, with whom we will terminate the partnership and replace them with new suppliers. The results of the assessment will be recorded in the Annual Supplier Assessment Form, which will be kept by the finance department. After the completion of the annual assessment, the finance department will update the List of Major Suppliers based on such assessment.

## 3. Supply chain and environmental and social risk management

The Group attaches great importance to the sustainable development of the supply chain by giving priority to suppliers who can promote social and environmental sustainable development, and formulates supplier code of conduct requirements in the supplier access link, requiring suppliers to comply with the following codes of conduct at least:

- **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, forced labor or bonded labor in any form shall be employed;
- **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 time limit;
- **Labor Relations:** There should be an appropriate communication mechanism and appeal procedures to enable employees to express their appeals and appeals 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 the health of employees; Training on occupational safety and relevant codes of practice should be provided for employees to ensure the safety of themselves and other employees;

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- **Discrimination:** When hiring employees, the main determinant shall be whether the candidate meets the job requirements. Employees shall not be discriminated against on the basis of gender, race, nationality, age, marital status, child status, sexual orientation, religion or physical disability;
- **Suppliers and subcontractors:** If applicable, a supplier code of conduct meeting their requirements shall be formulated and salary should be paid to their suppliers and subcontractors on time;
- **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 advocates the procurement concept of green and environmental protection and actively explores the practice of environmental protection and procurement. The decoration materials and office equipment in the Group's office area are all preferred energy-saving and environmental-friendly products, such as LED lamps, split air conditioners, computers with national energy-saving certification marks, etc.

#### 4. Supplier Communication and Management

We attach great importance to the continuous communication and exchange with suppliers to ensure that the demands of both parties are addressed in a timely manner and strive to build a sound cooperative relationship featuring mutual benefit, mutual trust and common progress. The finance department requires the existing suppliers to update their qualification information at the beginning of each year to ensure the completeness and accuracy of the suppliers' information. 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 with them and solve any problems in a timely manner. For the canteen suppliers, the Group has also developed a series of daily management monitoring measures, including:

- We 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;
- We regularly organize the canteen staff to conduct the general cleaning every week and arrange professional disinfection companies for door-to-door quarterly treatment to ensure the sanitation of the restaurant environment;
- The administrative staff will check the restaurant's environmental sanitation and food products every day to ensure the comfort of the restaurant environment and the punctuality of the food supply. Meanwhile, the dressing and the health certificates of the canteen staff will be checked regularly;

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

In 2021, in the context of the normalization of pandemic prevention and control, the Group intensified the management measures for suppliers of cleaning, greening, canteen and café services, so as to adequately protect the sanitation and safety of the working environment and dining. The specific measures are as follows:

### **Supplier of cleaning and greening**

- We continue to implement strict requirements for epidemic prevention and cleaning: open windows for ventilation at least twice a week, spray disinfection at least twice a day, disinfect and replace the handrail film of the gate at least twice a day. In terms of green plant maintenance, we change water and trim dead branches and leaves every day.

### **Restaurant supplier**

- In 2021, when the epidemic broke out in Guangzhou, the Group made emergent adjustment to the staff restaurant to provide meals in the mode of “pre ordering + centralized boxed-meal delivery”, and required the restaurant to set up protective baffles in the dining area to limit the number of on-site diners. The Group strictly supervised and managed the restaurant staff. After long holiday, the on-site staff are required to provide negative certificate of nucleic acid test, and the itinerary code and health code will be reviewed. We ensure that there are no potential health problems before they can take up their posts. Meanwhile, in order to improve the dining experience of employees, the Group added online ordering service this year in addition to on-site meal, and employees can score online meals.

### **Coffee shop supplier**

- The Group strictly implements the Regulations on Management of Staff Café to supervise and manage the environmental sanitation of cafes, follow up the daily operation of cafes every day, advocates the use of paper cups instead of plastic cups, and requires suppliers of cafes to disinfect the bar before and after business every day. At the end of each Friday, the Group requires suppliers to review their work this week to ensure food safety in cafes. During the epidemic period, cafes used Wechat APP to order meals online and pick up meals without contact, so as to ensure the safety of employees' meals. The Group follows up the daily travel of baristas every week, and requires baristas to provide negative certificate of nucleic acid test and check the itinerary code and health code after long holidays to ensure that there are no potential health problems.

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## ***Case sharing: strengthening of supplier quality management by the Diet Committee***

In order to strengthen the service quality management for suppliers and respond to the feedback of employees in a timely manner, the Group has established the Diet Committee comprising of administrative staff, representatives from various departments and representatives from suppliers. In 2021, the Diet Committee of the Group held an offline meeting and added online channels to collect opinions and suggestions, handled 211 problems, and supervised the restaurant managers to deal with various daily problems in a timely manner. This year, the Group replaced new restaurant suppliers and provided employees with a variety of optional and set meal new dishes, which was highly praised and affirmed by employees.



*Display of the new canteen offerings during the year*

## **IX. ENVIRONMENTAL RESPONSIBILITY**

The Group 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 internal Office 5S Management Regulations, the Fixed Asset Management System and other policies on environmental protection, proactively reduces the impact of its own operating activities on environment, improves the energy and resource utilization efficiency, provides and promotes green training for the staff and jointly discharges the responsibility of environmental protection.

## 1. Green Operation

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

### 1) Save energy and resources and reduce carbon emissions

In order to implement the principle of green office, the Group has developed targets for energy conservation and emission reduction and specific measures to practice low-carbon operation mode and promote green development of enterprises through energy conservation, emission reduction, water conservation and other means.

#### *Energy conservation and emission reduction*



#### **BAIOO's target**

Our target is 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 energy conservation and emission reduction mainly include:

- LED energy-saving lamps are uniformly installed in the office building of the Group and lights are turned off during the lunch break, and personnel are scheduled to inspect and turn off the power before leaving the office and holidays; the environmental protection signs for electricity-saving are posted, and the lights in public areas including meeting room and training room are turned on when the staff enters and off when they leave;
- The Group gradually reduces the use of traditional data centers with priority to cloud data centers, and flexibly adjusts each machine on a daily cycle, thus significantly improving resource utilization and reducing energy consumption and carbon emissions. Taking a product as a unit, the use of cloud data center can effectively improve the resource utilization rate of the life cycle of computer room by about 40%;
- 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;

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- 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. While maintaining the air circulation of the office and ensuring the health of employees, they will not cause any pollution to the external environment;
- The Group advocates that employees communicate by public transport, travel in green way and reduce their personal carbon footprint.

## ***Conservation of water resources***



### **BAIOO's target**

Water resource should be used in a sound and rational manner to improve the efficiency of water use.

The Group sets up water-saving faucets and energy-saving dryers in toilets, and strengthens daily maintenance and management to reduce the waste of water resources; The Group also strengthens internal publicity and implementation by posting environmental protection signs and other ways to improve employees' awareness of water conservation. During the reporting period, the Group had no difficulty in sourcing suitable water.

## **2) Advocation of waste classification and recycling and enhancement of waste management**



### **BAIOO's target**

Material recycling should be improved and waste should be less.

Based on business characteristics, the Group's waste discharge mainly consists of waste gas produced by the use of official vehicles, greenhouse gas, office waste and a small amount of waste electronic equipment, and there is no direct discharge of waste to water and land. The Group actively advocates waste classification, promotes paperless office within the Group, and strengthens waste management. Specific measures include:

- The garbage is classified and recycled within the Group, and then is packed and transported to the centralized processing unit by cleaning staff, which will be uniformly handled by the property management company;

## 2021 Environmental, Social and Governance Report

- The discarded ink cartridges and toner cartridges will all be collected by the administrator of the all-in-one printer who will regularly deliver them to suppliers for recycling;
- For old servers and switches that are no longer in use, the Group transfers them to companies in need for continuous use under the principle of resource recycling;
- For instruments and equipment that cannot be reused, the Group will hand them over to professional organizations for recycling to avoid waste of resources.
- The Group realizes online paperless office through the internal OA system, and strictly implements the “green printing” policy, setting monthly caps of paper consumption for employees. The administrator of the all-in-one printer regularly monitors the background data to supervise the paper consumption; meanwhile, the Group advocates the reuse of secondary environmental-friendly papers, placing storage cabinet for environmental-friendly papers in the file printing area.

### 2. Education on environmental protection for the Youth

The Group understands that games are closely connected with people’s intelligence and imagination and affect people’s inner world with the unique forms of expression, especially for the group of teenagers who are still in the stage of mental development, and the influence is far reaching. To this end, the Group treats cultivating the healthy values of teenagers as its mission and proactively promotes the organic integration of environmental protection education with the game products by taking full advantage of its products in education. The Aola Star, a flagship product of the Group, tells an adventure story in the “Aola Star Planet” where advanced environmentally friendly technology and green resources are used. The game has embedded a lot of environmental protection knowledge in the storyline and scenarios, including garbage sorting and resource recycling, to cultivate the juveniles’ awareness of environmental protection responsibility through the entertainment, with a positive effect in environmental protection education.

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## *Case sharing: “Aola Star” – Question answering activities in summer*

During the summer vacation of 2021, the game “Aola Star” held a question answering activities, in which the issues on environmental protection such as sustainable development, climate change, energy conservation and water conservation were set up, so that players can gain environmental protection knowledge in the game answer and deepen players’ profound understanding of environmental protection issues.



*“Aola Star” – Question answering activities in summer*

### 3. Tackle climate change

With the impact of climate change stands out in the world, it has become the consensus of countries and enterprises to establish a risk management system for climate change and take response measures on climate change. The Environmental, Social and Governance Management Committee of the Group is responsible for formulating and reviewing related policies on climate change, supervising 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.

As a responsible corporate citizen, the Group always pays attention to the climate change risks related to the Group’s business in the process of production and operation by evaluating its impact on the continuity and stability of the Group’s business to identify all challenges and opportunities, and fully prepare for the climate crisis and the advent of low-carbon policy.

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Among them, extreme climate risks in the physical risks of climate change, such as rainstorm and typhoon, may cut off the power, resulting in power failure or equipment damage in the machine room, which may have a certain impact on the data information storage and system operation of the Group, and may lead to asset loss and increase the operation cost. In order to reduce the corresponding impact on business, the Group places most of the server computing resources on the cloud, and is equipped with backup power supply, and formulates a sound backup strategy for data asset to deal with emergencies.

In terms of the transition risk of climate change, in light of low-carbon economy, climate change requires the Group to effectively manage its own carbon emissions to deal with the potential risk of policy change and brand reputation. In order to cope with the impact brought about by transformation risks of climate change, the Group has formulated and implemented the Office 5S Management Regulations to practice the publicity for green office, and is committed to controlling its own carbon emissions. At the same time, relying on the characteristics of its products, the Group integrates related elements such as green and environmental protection into the game, thus imperceptibly improving players' awareness of energy conservation and emission reduction, and promoting the reduction of carbon emissions in the value chain.

#### 4. Key Environmental Performance Data for 2021

ESG Key performance indicators	Unit	Consumption/Emission
NOx	Kg	1.39
SOx	Kg	0.03
Particulate matter	Kg	0.10
Greenhouse gas emissions (Scope I)	Tonne	1,407.37
Greenhouse gas emissions (Scope II)	Tonne	5.10
Total greenhouse gas emissions (Scopes I + II)	Tonne	1,412.47
Total hazardous wastes	Tonne	1.40
Total non-hazardous wastes	Tonne	8.99
Gasoline consumption	'000 kWh	17.03
Electricity consumption	'000 kWh	1,750.02
Direct energy consumption	'000 kWh	17.03
Indirect energy consumption	'000 kWh	1,750.02
Total energy consumption	'000 kWh	1,767.05
Energy consumption intensity	'000 kWh/person	1.63
Office paper consumption	Tonne	0.32
Water consumption	m <sup>3</sup>	685.00
Water consumption intensity	m <sup>3</sup> /person	0.63

# 2021 Environmental, Social and Governance Report

## Notes of the environmental data for 2021:

- The collection time of environmental data in 2021 covers from 1 January 2021 to 31 December 2021; the scope of collection includes the Group's office building in Guangzhou, official vehicles and machine room used by administrative office system.
- Emissions in 2021 are generated from the gasoline consumption of the Group's official vehicles.
- The main source of Greenhouse gas emissions (Scope I) is the above-mentioned consumption of gasoline; Greenhouse gas emissions (Scope II) come from the purchased electricity. The relevant emission factors are referenced from the Reporting Guidance on Environmental KPIs of the Stock Exchange, the greenhouse gas emission coefficient of purchased electricity refers to the Ministry of Ecology and Environment's "China Regional Grid Baseline Emission Factor for Emission Reduction Project for 2019".
- The types of energy consumed by the Group in 2021 included purchased electricity and gasoline used in official vehicles; the relevant energy consumption factors are referenced from the Reporting Guidance on Environmental KPIs of the Hong Kong Stock Exchange and the national GB/T2589-2020 General Principles of Comprehensive Energy Consumption Calculation.
- Total hazardous wastes included the generation volume of the waste electronic products, waste batteries and waste ink cartridges/toner cartridges; waste electronic products are recycled by professional electronic product recyclers, and waste ink cartridges/toner cartridges are recycled by suppliers so as to reduce the Group's own environmental impact.
- Non-hazardous waste refers to the office garbage generated from office areas.
- Direct energy consumption refers to the use of gasoline.
- Indirect energy consumption refers to the use of the purchased electricity.
- Relevant density values are calculated by the total number of employees.

## X. MAJOR HONORS AND AWARDS IN 2021

As of 31 December 2021, the awards obtained by the Group are as follows:

No.	Award	Presented by	Presentation Date
1	Annual Enthusiastic Award for Public Welfare	Guangzhou Game Industry Association	1 January 2021
2	Outstanding Contribution Award for Anti-pandemic	Guangzhou Game Industry Association	1 January 2021
3	Annual Supreme Contribution Award	Guangzhou Game Industry Association	1 January 2021
4	Award for Contribution to Pandemic Prevention and Control in the Golden Diamond List	Guangdong Game Industry Association	6 January 2021
5	Outstanding Contribution Award for 2020	Guangdong Game Industry Association	6 January 2021
6	Enterprise with the Greatest Growth for 2020 Potential in the Golden Diamond List	Guangdong Game Industry Association	6 January 2021
7	The Best Game Making Team for 2020 in the Golden Diamond List	Guangdong Game Industry Association	6 January 2021
8	The Best Domestic Game for 2020 in the Golden Diamond List	Guangdong Game Industry Association	6 January 2021
9	The Best Anticipated Game for 2021 at the Eighth "Gold Tea Awards" from Game Teahouse	Game Teahouse	14 January 2021
10	The Most Watched Game Company of the Hardcore Year of the Sixth Blackstone Award in 2020	Hardcore Alliance	4 March 2021
11	The Most Anticipated Game of the Hardcore Year of the Sixth Blackstone Award in 2020	Hardcore Alliance	4 March 2021
12	The Most Popular Casual Game of the Hardcore Year of the Sixth Blackstone Award in 2020	Hardcore Alliance	4 March 2021
13	The Most Anticipated Game of Huawei Game Center in 2021	2021 Huawei Developers Conference	24 October 2021
14	The Most Anticipated Award	2021 OPPO Developers Conference	27 October 2021
15	The Best New Game Award	2021 OPPO Developers Conference	27 October 2021
16	Top 20 among China Growing Internet Enterprises for 2021	Internet Society of China	26 November 2021

## 2021 Environmental, Social and Governance Report

No.	Award	Presented by	Presentation Date
17	Among Top 30 Guangzhou's Cultural Enterprises for 2020	Guangzhou Academy of Social Sciences, Southern Daily and Guangzhou Cultural Creative Industry Association	5 December 2021
18	The Anticipated New Game Award of the 6th Golden Gyroscope Award	Youxituoluo	10 December 2021
19	Vivo's Best Card Game of the Year	2021 vivo Developers Conference	27 December 2021
20	Vivo's Most Anticipated Game of the Year	2021 vivo Developers Conference	27 December 2021
21	The Most Influential Enterprise for 2021 in the Golden Diamond List	Guangdong Entertainment & Game Industry Association	5 January 2022

## XI. INDUSTRY ASSOCIATIONS PARTICIPATED BY THE GROUP

As of 31 December 2021, the industry associations in which the Group had participated and its memberships are as follows:

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

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

ESG Indicators	Status of Disclosure	Corresponding Section
A1 General disclosure	Disclosed	IX. Environmental responsibility
A1.1	Disclosed	IX. Environmental responsibility
A1.2	Disclosed	IX. Environmental responsibility
A1.3	Disclosed	IX. Environmental responsibility
A1.4	Disclosed	IX. Environmental responsibility
A1.5	Disclosed	IX. Environmental responsibility
A1.6	Disclosed	IX. Environmental responsibility
A2 General disclosure	Disclosed	IX. Environmental responsibility
A2.1	Disclosed	IX. Environmental responsibility
A2.2	Disclosed	IX. Environmental responsibility
A2.3	Disclosed	IX. Environmental responsibility
A2.4	Disclosed	IX. Environmental responsibility

## 2021 Environmental, Social and Governance Report

	ESG Indicators	Status of Disclosure	Corresponding Section
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	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	IX. 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	IX. 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	IX. 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	IX. Environmental responsibility
B1 General disclosure	Policies on remuneration and dismissal, recruitment and promotion, hours of work, holidays, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.	Disclosed	V. Employment management
B1.1	Total workforce by gender, employment type (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

## 2021 Environmental, Social and Governance Report

	ESG Indicators	Status of Disclosure	Corresponding Section
B3 General disclosure	Policies on improving employees' knowledge and skills or discharging duties at work. Description of training activities.	Disclosed	V. Employment management
B3.1	The percentage of employees trained by gender and employee category (e.g., senior management, middle management).	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 issuer relating to preventing child labor and forced labor.	Disclosed	V. Employment management
B4.1	Description of measures to review employment practices to avoid child labor and forced labor.	Disclosed	V. Employment management
B4.2	Description of steps taken to eliminate such practices when discovered.	Disclosed	V. Employment management
B5 General disclosure	Policies on managing environmental and social risks of the supply chain.	Disclosed	VIII. Responsibility of the Supply
B5.1	Number of suppliers by geographical region.	Disclosed	VIII. Responsibility of the Supply
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Disclosed	VIII. Responsibility of the Supply
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Disclosed	VIII. Responsibility of the Supply
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Disclosed	VIII. Responsibility of the Supply

## 2021 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 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 is a non-production enterprise, which does not produce products subjects to recalls for safety and health reasons.
B6.2	The number of products and services related complaints received and how they are dealt with.	Disclosed	IV. Product responsibility
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Disclosed	IV. Product responsibility
B6.4	Description of quality assurance process and product recall procedures.	Disclosed	IV. Product responsibility
B6.5	Description of consumer data protection and privacy policies, 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 issuer relating to prevention of bribery, extortion, fraud and money laundering.	Disclosed	VI. Compliance in operation and anti-corruption
B7.1	Number of conducted legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Disclosed	VI. Compliance in operation and anti-corruption
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Disclosed	VI. Compliance in operation and anti-corruption
B7.3	Description of anti-corruption training provided to directors and staff.	Disclosed	VI. Compliance in operation and anti-corruption
B8 General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Disclosed	VII. Giving back to the society
B8.1	Focus areas of contribution (e.g., education, environmental matters, labor needs, health, culture, sports).	Disclosed	VII. Giving back to the society
B8.2	Resources contributed (e.g., money or time) to the focus areas.	Disclosed	VII. Giving back to the society

## APPENDIX II: LIST OF INTERNAL POLICIES, LAWS AND REGULATIONS

ESG Indicators	Internal Policies	Compliance with Regulations and Rules
A1 Emissions	Office 5S Management Regulations	Environmental Protection Law of the People's Republic of China  Directory of National Hazardous Wastes  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  Noise Pollution Prevention and Control Law of the People's Republic of China
A2 Use of Resources	Office 5S Management Regulations  Fixed Asset Management System	Energy Conservation Law of the People's Republic of China  Environmental Protection Law of the People's Republic of China  Circular Economy Promotion Law of the People's Republic of China
A3 Environment and Natural Resources	Office 5S Management Regulations	Energy Conservation Law of the People's Republic of China  Environmental Protection Law of the People's Republic of China  Atmospheric Pollution Prevention and Control Law of the People's Republic of China

# 2021 Environmental, Social and Governance Report

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

## 2021 Environmental, Social and Governance Report

ESG Indicators	Internal Policies	Compliance with Regulations and Rules	
B2 Health and Safety	Office 5S Management Regulations	Labor Law of the People's Republic of China	
	Conference Room Management System	Law of the People's Republic of China on Prevention and Control of Occupational Diseases	
	Regulations on Management of Staff Restaurant	Production Safety Law of the People's Republic of China	
	Regulations on Management of Staff Café	Law of the People's Republic of China on Fire Prevention	
	Regulations on Management of Fitness Room	Emergency Response Law of the People's Republic of China	
	Regulations on Management of Identification Cards	Regulations on the Safety Administration of Hazardous Chemicals	
	Regulations on Management of Keys	Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents	
	System of Prohibition of Discrimination and Sexual Harassment	Interim Regulations on Investigation and Administration of Hidden Danger in Production Safety	
	Employees' Handbook		Regulation of Insurance for Labor Injury
			Provisions on the Supervision and Management of Occupational Health at Work Sites
		Occupational Disease Classification and Catalog	

## 2021 Environmental, Social and Governance Report

ESG Indicators	Internal Policies	Compliance with Regulations and Rules
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	
B4 Labor Standards	Employees' Handbook	Provisions on the Prohibition of the Use of Child Labor 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
		Implementation Measures of Guangzhou on Administration of the Medical Treatment Period of Employees Suffering from Illness or Non-work Related Injuries
B5 Supply Chain Management	Commerce Management System	Bidding Law of the People's Republic of China
	Management System on Choosing Suppliers	Copyright Law of the People's Republic of China
	Code of Ethics and Business Conduct System	Civil Code of the People's Republic of China

## 2021 Environmental, Social and Governance Report

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

## 2021 Environmental, Social and Governance Report

ESG Indicators	Internal Policies	Compliance with Regulations and Rules
	Information Disclosure System	Provisions on the Administration of the Use of Chinese Characters in Publications
	Relevant Standards for 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 Characters 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	Notice on Starting the Work of Online Games Anti-addiction Real-name Authentication
	Guidance on Tianti Game Children Privacy Protection	Notice on Further Carrying Out the Work of Online Games Anti-addiction Real-name Authentication
	Guidance on Baitian Game Children Privacy Protection	Notice of the General Office of the General Administration of Press, Publication, Radio, Film and Television on the Administration of Mobile Game Publishing Services
	Business Process and Workflow Regulation of the Customer Service Center	

## 2021 Environmental, Social and Governance Report

ESG Indicators	Internal Policies	Compliance with Regulations and Rules
B7 Anti-corruption	Anti-fraud and Reporting Corruption Management System	Interim Provisions on Banning Commercial Bribery
	Conflict of Interests Management System	Anti-money Laundering 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	Anti-unfair Competition Law of the People's Republic of China
	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 153 to 244, comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies 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 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

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

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

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# 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 as follows:

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

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Revenue recognition — provision of virtual items in online virtual world</b></p> <p>Refer to notes 2.17(a), 4.1(a), 5 and 28(a) to the consolidated financial statements.</p> <p>Revenue from online virtual world for the year ended 31 December 2021 amounted to RMB882,594,000, representing 99.9% of the Group's total revenue. Out of the total revenue from online virtual world, an amount of RMB839,276,000 is related to the provision of virtual consumable and durable items.</p> <p>Consumable items represent items that will be extinguished shortly after consumption by a specific player action. Therefore, revenue from consumable items is recognized when the items are consumed.</p>	<p>Our procedures, carried out on a sample basis, in relation to management's revenue recognition of provision of virtual items in online virtual world included:</p> <ul style="list-style-type: none"><li>• Understood and evaluated the internal controls of revenue cycle; and validated the identified key controls with respect to the timing of consumption of consumable and durable virtual items;</li><li>• Tested the classification of consumable and durable items by comparing to the features of the corresponding virtual items in revenue recognition;</li></ul>

## Independent Auditor’s Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Durable items represent virtual items that are accessible and available to a player over an extended period of time, and the relating revenue is deferred and recognized in contract liabilities and amortized over the life of the durable items.</p> <p>The Group has used paying players’ relationship with the Group on an individual virtual world basis (“Player Relationship Period”), as the best estimate, to approximate the period during which paying players use, and thus the life of, durable virtual items. Revenue from durable virtual items of a specific virtual world is recognized on a time-proportion basis over the Player Relationship Period of that online virtual world.</p> <p>The determination of Player Relationship Period for relevant online virtual world 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 world 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"> <li>• Evaluated and challenged management’s judgements and estimations in deriving the Player Relationship Period by comparing to historical patterns to reconsider with hindsight, the accuracy of management’s historical assessment and reliability and appropriateness of the assessment methodology of Player Relationship Period; and assessed the inherent risk of material misstatement by considering the degree of estimation judgement and other inherent risk factors;</li> <li>• Assessed, with the involvement of our information technology specialist, the reasonableness of Player Relationship Period adopted by management by testing, on a sample basis, the reliability of the data generated from the Group’s information system;</li> <li>• Recalculated the revenue recognition of different virtual items generated directly from the Group’s information system based on the respective Player Relationship Period.</li> </ul> <p>Based on the above, we found that the judgement and estimates applied by management were supported by the evidence we obtained.</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.

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

### Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## 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, 29 March 2022

# Consolidated Income Statement

	Note	Year ended 31 December	
		2021	2020
		RMB'000	RMB'000
Revenue	5	<b>883,908</b>	1,128,967
Cost of revenue	6	<b>(483,349)</b>	(699,620)
<b>Gross profit</b>		<b>400,559</b>	429,347
Selling and marketing expenses	6	<b>(105,127)</b>	(58,811)
Administrative expenses	6	<b>(91,458)</b>	(56,241)
Research and development expenses	6	<b>(173,296)</b>	(106,486)
Net impairment losses on financial assets	3.1(b)	<b>(1,284)</b>	(687)
Other income	7	<b>2,845</b>	3,741
Other gains — net	8	<b>4,429</b>	5,344
(Loss)/gain on disposal of equity interest in an associate	15	<b>(6,962)</b>	65,417
<b>Operating profit</b>		<b>29,706</b>	281,624
Finance income	10	<b>33,251</b>	23,896
Finance costs	10	<b>(8,508)</b>	(12,721)
Finance income — net	10	<b>24,743</b>	11,175
Share of losses of associates	15	<b>(3,115)</b>	(3,300)
<b>Profit before income tax</b>		<b>51,334</b>	289,499
Income tax expense	11	<b>(24,428)</b>	(16,268)
<b>Profit for the year</b>		<b>26,906</b>	273,231
<b>Attributable to:</b>			
— Shareholders of the Company		<b>26,435</b>	274,190
— Non-controlling interests		<b>471</b>	(959)
		<b>26,906</b>	273,231

## Consolidated Income Statement (Continued)

	Note	Year ended 31 December	
		2021 RMB	2020 RMB
<b>Earnings per share for profit attributable to shareholders of the Company</b>	12		
Basic earnings per share		<b>0.0101</b>	0.1040
Diluted earnings per share		<b>0.0099</b>	0.1034

The notes on pages 161 to 244 are integral parts of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
<b>Profit for the year</b>	<b>26,906</b>	273,231
<b>Other comprehensive income</b>	<b>—</b>	—
<b>Total comprehensive income for the year</b>	<b>26,906</b>	273,231
<b>Attributable to:</b>		
— Shareholders of the Company	<b>26,435</b>	274,190
— Non-controlling interests	<b>471</b>	(959)
	<b>26,906</b>	273,231

The notes on pages 161 to 244 are integral parts of these consolidated financial statements.

# Consolidated Balance Sheet

	Note	As at 31 December	
		2021	2020
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	16	25,399	21,637
Right-of-use assets	17	294,558	316,463
Intangible assets	18	2,542	1,915
Investment in an associate	15	—	4,227
Prepayments and other receivables	21	18,251	6,063
Long-term bank deposits	23	65,000	—
Deferred income tax assets	31	11,670	4,706
Financial assets at fair value through profit or loss	22	5,000	—
		<b>422,420</b>	<b>355,011</b>
<b>Current assets</b>			
Contract costs	28	41,203	49,234
Trade receivables	20	29,153	50,551
Prepayments and other receivables	21	18,376	14,462
Short-term bank deposits	23	54,000	229,631
Cash and cash equivalents (excluding bank overdrafts)	23	1,429,190	1,381,995
		<b>1,571,922</b>	<b>1,725,873</b>
<b>Total assets</b>		<b>1,994,342</b>	<b>2,080,884</b>
<b>EQUITY</b>			
Share capital	24	8	8
Share premium	24	1,106,699	1,222,644
Treasury shares	24	—	(930)
Reserves	25	62,911	26,374
Retained earnings	27	506,004	479,686
<b>Capital and reserves attributable to Shareholders of the Company</b>		<b>1,675,622</b>	<b>1,727,782</b>
Non-controlling interests		7,018	6,547
<b>Total equity</b>		<b>1,682,640</b>	<b>1,734,329</b>

## Consolidated Balance Sheet (Continued)

	Note	As at 31 December	
		2021	2020
		RMB'000	RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Contract liabilities	28	10,442	11,598
Lease liabilities	17	52,828	69,477
		<b>63,270</b>	81,075
<b>Current liabilities</b>			
Trade payables	29	7,094	6,786
Other payables and accruals	30	64,545	60,580
Advances from customers and distributors	33	32,998	43,712
Contract liabilities	28	117,010	121,919
Income tax liabilities		8,854	13,826
Lease liabilities	17	17,931	18,627
Bank overdrafts		—	30
		<b>248,432</b>	265,480
<b>Total liabilities</b>		<b>311,702</b>	346,555
<b>Total equity and liabilities</b>		<b>1,994,342</b>	2,080,884

The notes on pages 161 to 244 are integral parts of these consolidated financial statements.

These consolidated financial statements on pages 153 to 244 were approved by the Board of Directors of the Company (the "Board") on 29 March 2022 and were signed on its behalf.

.....  
Li Chong

.....  
Wu Lili

# Consolidated Statement of Changes in Equity

	Attributable to shareholders of the Company								
	Note	Share	Share	Reserves	Retained	Treasury	Total	Non-	Total equity
		capital	premium		earnings	shares		controlling	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Balance at 1 January 2020</b>		8	1,326,987	10,302	205,638	—	1,542,935	7,506	1,550,441
<b>Comprehensive income</b>									
Profit/(loss) for the year		—	—	—	274,190	—	274,190	(959)	273,231
<b>Total comprehensive income/(loss)</b>		—	—	—	274,190	—	274,190	(959)	273,231
<b>Transactions with owners, recognized directly in equity</b>									
RSU Scheme:									
— Value of employee services	25	—	—	15,983	—	—	15,983	—	15,983
— Vesting of RSUs	25	—	25	(25)	—	—	—	—	—
Share Option Scheme:									
— Exercise of share options	25	—	61	(28)	—	—	33	—	33
Special final dividend of 2019	24	—	(60,223)	—	—	—	(60,223)	—	(60,223)
Buy-back and cancellation of shares	24	—	(44,206)	—	—	—	(44,206)	—	(44,206)
Profit appropriations to statutory reserves	25	—	—	142	(142)	—	—	—	—
Acquisition of treasury shares	24	—	—	—	—	(930)	(930)	—	(930)
<b>Total transactions with owners, recognized directly in equity</b>		—	(104,343)	16,072	(142)	(930)	(89,343)	—	(89,343)
<b>Balance at 31 December 2020</b>		8	1,222,644	26,374	479,686	(930)	1,727,782	6,547	1,734,329

## Consolidated Statement of Changes in Equity (Continued)

	Attributable to shareholders of the Company								
	Note	Share capital	Share premium	Reserves	Retained earnings	Treasury shares	Total	Non- controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2021</b>	8	1,222,644	26,374	479,686	(930)	1,727,782	6,547	1,734,329	
<b>Comprehensive income</b>									
Profit for the year	–	–	–	26,435	–	26,435	471	26,906	
<b>Total comprehensive income</b>	–	–	–	26,435	–	26,435	471	26,906	
<b>Transactions with owners, recognized directly in equity</b>									
RSU Scheme:									
– Value of employee services	25	–	52,270	–	–	52,270	–	52,270	
– Vesting of RSUs	25	–	15,850	(15,850)	–	–	–	–	
Special final dividend of 2020	24	–	(130,865)	–	–	(130,865)	–	(130,865)	
Cancellation of shares	24	–	(930)	–	930	–	–	–	
Profit appropriations to statutory reserves	25	–	117	(117)	–	–	–	–	
<b>Total transactions with owners, recognized directly in equity</b>	–	–	36,537	(117)	930	(78,595)	–	(78,595)	
<b>Balance at 31 December 2021</b>	8	1,106,699	62,911	506,004	–	1,675,622	7,018	1,682,640	

The notes on pages 161 to 244 are integral parts of these consolidated financial statements.

# Consolidated Statement of Cash Flows

	Notes	Year ended 31 December	
		2021	2020
		RMB'000	RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	34	126,391	335,448
Interest received from cash and cash equivalents		28,535	17,445
Income tax paid		(36,364)	(19,812)
<b>Net cash generated from operating activities</b>		<b>118,562</b>	<b>333,081</b>
<b>Cash flows from investing activities</b>			
Disposal of equity of an associate		150	124,800
Purchase of property and equipment, intangible assets and land use right		(26,964)	(250,562)
Proceeds from disposals of fixed assets		63	—
Interest received from term bank deposits, financial assets at fair value through profit or loss and an associate		8,753	21,182
Payments for investment in an associate		(6,000)	(6,000)
Investment in term bank deposits and financial assets at fair value through profit or loss		(1,194,000)	(2,679,631)
Maturity of term bank deposits and financial assets at fair value through profit or loss		1,299,631	2,676,008
Repayment from an associate		—	20,000
<b>Net cash generated from/(used in) investing activities</b>		<b>81,633</b>	<b>(94,203)</b>
<b>Cash flows from financing activities</b>			
Principal elements of lease payments		(13,597)	(12,864)
Buy-back of ordinary shares		—	(45,136)
Exercise of share options		—	33
Interest elements of lease payments		(4,494)	(5,417)
Dividend paid to the Company's shareholders		(130,865)	(60,223)
<b>Net cash used in financing activities</b>		<b>(148,956)</b>	<b>(123,607)</b>
<b>Net increase in cash and cash equivalents</b>		<b>51,239</b>	<b>115,271</b>
Cash and cash equivalents at beginning of the year		1,381,965	1,273,998
Foreign exchange losses on cash and cash equivalents		(4,014)	(7,304)
<b>Cash and cash equivalents at end of the year</b>		<b>1,429,190</b>	<b>1,381,965</b>
Cash and cash equivalents comprises:			
Cash and bank balances	23	1,429,190	1,381,995
Bank overdrafts		—	(30)
<b>Cash and cash equivalents</b>		<b>1,429,190</b>	<b>1,381,965</b>

The notes on pages 161 to 244 are integral parts of these consolidated financial statements.

# Notes to the Financial Statements

## 1 General information

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

The Company and its subsidiaries (collectively the “Group”) are principally engaged in the development and operation of online virtual world business 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 29 March 2022.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of BAIOO Family Interactive Limited and its subsidiaries.

### 2.1 Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 below.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### (a) Amendments to standards adopted by the Group

The Group has applied the following amendments to standards and for the first time for its annual reporting period:

		<b>Effective for annual periods beginning on or after</b>
IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16 (Amendment)	Interest Rate Benchmark Reform — Phase 2	1 January 2021
IFRS 16 (Amendment)	Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021

The adoption of amended standards listed above did not have material impact on the consolidated financial statements of the Group.

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

		<b>Effective for annual periods beginning on or after</b>
IFRS 3 (Amendment)	Reference to the Conceptual Framework	1 January 2022
IAS 16 (Amendment)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
IAS 37 (Amendment)	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRSs 2018–2020 Cycle	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1 January 2022
IAS 1 (Amendment)	Classification of Liabilities as Current or Non-current	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023
IFRS 17 (Amendment)	Amendments to IFRS 17	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 1 and IFRS Practice Statement 2 (Amendment)	Disclosure of Accounting Policies	1 January 2023
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.

## 2 Summary of significant accounting policies (continued)

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

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

##### (a) *Business combinations*

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

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

All other components of the non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

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

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

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (continued)

### 2.2 Subsidiaries (continued)

#### 2.2.1 Consolidation (continued)

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

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

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

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

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

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

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

## 2 Summary of significant accounting policies (continued)

### 2.2 Subsidiaries (continued)

#### 2.2.2 Separate financial statements

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

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

### 2.3 Associate

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

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

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

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

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (continued)

### 2.3 Associate (continued)

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

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

### 2.4 Segment reporting

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

### 2.5 Foreign currency translation

#### (a) Functional and presentation currency

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

#### (b) Transactions and balances

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

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

## 2 Summary of significant accounting policies (continued)

### 2.5 Foreign currency translation (continued)

#### (c) Group companies

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

- i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ii. income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- iii. all resulting currency translation differences are recognized in OCI.

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

### 2.6 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.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (continued)

### 2.6 Property and equipment (continued)

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

Servers	3 years
Office equipment	3 years
Motor vehicles	4 years
Leasehold improvements	Shorter of remaining term of the lease and the estimated useful lives of the assets

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

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 2.8).

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

### 2.7 Intangible assets

#### (a) Licenses

The licensed online contents mainly include mobile game operating rights. They are initially recognized and measured at cost. Licensed online contents are amortized using a straight-line method over the shorter of remaining term of the contract and 5 years.

#### (b) 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.

## 2 Summary of significant accounting policies (continued)

### 2.8 Impairment of non-financial assets

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

### 2.9 Investments and other financial assets

#### 2.9.1 Classification

The Group classifies its financial assets in the following measurement categories:

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

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

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

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

#### 2.9.2 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.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (continued)

### 2.9 Investments and other financial assets (continued)

#### 2.9.3 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.

#### ***Debt instruments***

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in the consolidated income statement and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the consolidated income statement.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in the consolidated income statement. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the consolidated income statement.
- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in the consolidated income statement and presented net within other gains/(losses) in the period in which it arises.

## 2 Summary of significant accounting policies (continued)

### 2.9 Investments and other financial assets (continued)

#### 2.9.3 Measurement (continued)

##### *Equity instruments*

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

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

#### 2.9.4 Impairment of financial assets

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

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

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

### 2.10 Trade receivables and other receivables

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

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (continued)

### 2.10 Trade receivables and other receivables (continued)

Trade receivables and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See Note 2.9.4 for further information about the Group's accounting for trade receivables for the description of the Group's impairment policies.

### 2.11 Cash and cash equivalents

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

### 2.12 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.

### 2.13 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

## 2 Summary of significant accounting policies (continued)

### 2.14 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### (a) Current income tax

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

#### (b) Deferred income tax

##### *Inside basis differences*

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

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

##### *Outside basis differences*

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

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

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (continued)

### 2.14 Current and deferred income tax (continued)

#### (c) Offsetting

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

### 2.15 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.

### 2.16 Share-based payments

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

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

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

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

## 2 Summary of significant accounting policies (continued)

### 2.16 Share-based payments (continued)

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

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

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

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

#### (b) Share-based payments transactions among Group entities

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

### 2.17 Revenue

#### Online entertainment business

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

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (continued)

### 2.17 Revenue (continued)

#### Online entertainment business (continued)

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

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

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

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

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

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

## 2 Summary of significant accounting policies (continued)

### 2.17 Revenue (continued)

#### Online entertainment business (continued)

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

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

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

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

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

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

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

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

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (continued)

### 2.17 Revenue (continued)

#### Online entertainment business (continued)

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

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

#### Other businesses

Revenues from the Group's other businesses are mainly income from licensing the Group's proprietary cartoon images to merchandisers.

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

#### Contract costs and contract liabilities

Contract liabilities primarily consists of the unamortized revenue from sales of virtual items 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.

### 2.18 Cost of revenue

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

## 2 Summary of significant accounting policies (continued)

### 2.19 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 below.

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

### 2.20 Government grants

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

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

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

### 2.21 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.

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.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (continued)

### 2.21 Leases (continued)

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

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

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.

## 2 Summary of significant accounting policies (continued)

### 2.21 Leases (continued)

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.

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.

### 2.22 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.

# Notes to the 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 profit for the year ended 31 December 2021 would have been approximately lower/higher by RMB1,120,000 (2020: approximately lower/higher by RMB1,166,000).

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

##### (ii) Interest rate risk

For the years ended 31 December 2021 and 2020, 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.

## 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 2021, substantially all the Group's bank deposits included in cash and bank balances were deposited with major financial institutions incorporated in the PRC and Hong Kong, which has a minimum external credit rating of "A". 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 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 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 2021 and 2020 was as follows:

	Trade receivables	Loss allowance	Net carrying Amount
<b>31 December 2021</b>			
Customers with specific credit risks or credit ratings	23,039	(224)	22,815
Customers grouped based on similar credit risk	6,487	(149)	6,338
	<b>29,526</b>	<b>(373)</b>	<b>29,153</b>
<b>31 December 2020</b>			
Customers with specific credit risks or credit ratings	30,810	(154)	30,656
Customers grouped based on similar credit risk	20,807	(912)	19,895
	<b>51,617</b>	<b>(1,066)</b>	<b>50,551</b>

## 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 2021 and 2020 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
<b>31 December 2021</b>						
Expected loss rate	0.10%	0.23%	0.34%	1.64%	100.00%	
Gross carrying amount						
— trade receivables	5,137	856	293	61	140	6,487
<b>Loss allowance</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>140</b>	<b>149</b>

	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
<b>31 December 2020</b>						
Expected loss rate	0.92%	2.11%	2.70%	5.94%	100.00%	
Gross carrying amount						
— trade receivables	6,214	3,174	4,659	6,483	277	20,807
<b>Loss allowance</b>	<b>57</b>	<b>67</b>	<b>126</b>	<b>385</b>	<b>277</b>	<b>912</b>

# Notes to the 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 2021 and 2020 reconcile to the opening loss allowances as follows:

	2021	2020
	RMB'000	RMB'000
Opening loss allowance at 1 January	(1,066)	(3,716)
Reversal/(increase) in loss allowance recognised in profit or loss during the year	592	(687)
Receivables written off during the year as uncollectible	101	3,337
<b>Closing loss allowance at 31 December</b>	<b>(373)</b>	<b>(1,066)</b>

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 profit. 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. The 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.

### 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 2021 and 2020 reconcile to the opening loss allowances as follows:

	2021 RMB'000	2020 RMB'000
Opening loss allowance at 1 January	(2,329)	(2,994)
Increase in loss allowance recognised in profit or loss during the year	(1,876)	—
Receivables written off during the year	—	665
<b>Closing loss allowance at 31 December</b>	<b>(4,205)</b>	<b>(2,329)</b>

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

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

	2021 RMB'000	2020 RMB'000
Reversal/(increase) in loss allowance on trade receivables	592	(687)
Increase in loss allowance of other receivables	(1,876)	—
<b>Net impairment losses on financial assets</b>	<b>(1,284)</b>	<b>(687)</b>

## Notes to the 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
<b>At 31 December 2021</b>						
Trade payables	7,094	—	—	—	7,094	7,094
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	8,236	—	—	—	8,236	8,236
Lease liabilities	18,410	19,331	41,611	—	79,352	70,759
	<b>33,740</b>	<b>19,331</b>	<b>41,611</b>	<b>—</b>	<b>94,682</b>	<b>86,089</b>
<b>At 31 December 2020</b>						
Trade payables	6,786	—	—	—	6,786	6,786
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	10,281	—	—	—	10,281	10,281
Bank overdrafts	30	—	—	—	30	30
Lease liabilities	19,118	19,770	62,610	—	101,498	88,104
	<b>36,215</b>	<b>19,770</b>	<b>62,610</b>	<b>—</b>	<b>118,595</b>	<b>105,201</b>

## 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	
	2021	2020
	RMB'000	RMB'000
Total liabilities	<b>311,702</b>	346,555
Total assets	<b>1,994,342</b>	2,080,884
Gearing ratio	<b>16%</b>	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).

# Notes to the Financial Statements

## 3 Financial risk management (continued)

### 3.3 Fair value estimation (continued)

The following table presents the Group's assets that are measured at fair value as of 31 December 2021 and 2020.

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 31 December 2021</b>				
FVPL (Note 22)	—	5,000	—	5,000
<b>As at 31 December 2020</b>				
FVPL	—	—	—	—

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

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate
- 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.

## 3 Financial risk management (continued)

### 3.3 Fair value estimation (continued)

- (b) The valuation of the level 2 instruments included private equity funds (“the Fund”) at fair value through profit or loss. The Fund was valued based on the net asset value and the net assets of the Fund as at 31 December 2021 only comprised cash at bank.
- (c) The Group invested in short-term structural deposits that contained derivatives which are level 3 financial instruments. 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. Such structural deposits are recognized as financial assets at fair value through profit or loss. The fair value gain related to the structural deposits for the year ended 31 December 2021 comprised realized gain of RMB1,738,000 (2020: RMB14,584,000).
- (d) The following table presents the changes in level 3 instruments for the year ended 31 December 2021.

	Financial assets at fair value through profit or loss RMB'000
<b>At 1 January 2021</b>	—
Gains recognized in profit or loss (Note 8)	1,738
Addition of structural deposits	340,000
Repayment of structural deposits	(341,738)
<b>At 31 December 2021</b>	—
<b>Unrealized losses recognized in profit or loss for the year</b>	—

## Notes to the Financial Statements

### 3 Financial risk management (continued)

#### 3.3 Fair value estimation (continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2020.

	Financial assets at fair value through profit or loss RMB'000
<b>At 1 January 2020</b>	5,071
Gains of structural deposits recognized in profit or loss (Note 8)	14,584
Loss of the unlisted equity investment recognized in profit or loss (Note 8)	(5,071)
Additions of structural deposits	1,230,000
Repayment of structural deposits	(1,244,584)
<b>At 31 December 2020</b>	—
<b>Unrealized losses recognized in profit or loss for the year</b>	—

- (e) The carrying amounts of financial assets including cash and cash equivalents, term bank deposits, trade and other receivables and financial liabilities including trade payables and other payables and accruals, approximated their respective fair value at each of the reporting dates.

## 4 Critical accounting estimates and judgements

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

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

### 4.1 Critical accounting estimates and assumptions

#### (a) Estimates of Player Relationship Period for online business

As described in Note 2.17, the Group recognizes revenue from durable virtual items in self-developed online virtual worlds ratably over Player Relationship Period. The determination of Player Relationship Period for the relevant online virtual worlds are made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in Player Relationship Period as a result of new information will be accounted for as a change in accounting estimates.

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

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

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

Deferred income tax is provided on temporary differences arising on distributions of retained earnings by subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Specifically, for the potential timing differences arising from the distribution of retained earnings of the Company's subsidiaries in the PRC to the Company, management has assessed the availability of distributable revenues (see Note 11(f)) and funds held by the Company and concluded that the PRC subsidiaries are unlikely to be required to distribute their retained earnings in the foreseeable future. As a result, no deferred tax liability on PRC withholding tax ("WHT") has been provided as at 31 December 2021 and 2020.

# Notes to the Financial Statements

## 4 Critical accounting estimates and judgements (continued)

### 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.

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

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

## 5 Segment information

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

The Group determined that it has operating segments as follows:

- Online entertainment business
- Other businesses

The Group's 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 licensing and other services.

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses, research and development expenses, (loss)/gain on disposal of equity interest in an associate, share of losses of associates, other income, other gains — net, finance income — net, and income tax expense are not included in the measure of the segments' performance.

There were no material inter-segment sales during years ended 31 December 2021 and 2020, 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.

## Notes to the Financial Statements

### 5 Segment information (continued)

The segment information provided to the Group's CODM for the reportable segments for the years ended 31 December 2021 and 2020 are as follows:

	Year ended 31 December 2021		
	Online	Other	Total
	entertainment	businesses	
	business	businesses	
	RMB'000	RMB'000	RMB'000
Segment revenue	882,594	1,314	883,908
Timing of revenue recognition			
At a point in time	188,694	—	188,694
Over time	693,900	1,314	695,214
Gross profit	400,349	210	400,559

	Year ended 31 December 2020		
	Online	Other	Total
	entertainment	businesses	
	business	businesses	
	RMB'000	RMB'000	RMB'000
Segment revenue	1,126,264	2,703	1,128,967
Timing of revenue recognition			
At a point in time	203,344	—	203,344
Over time	922,920	2,703	925,623
Gross profit/(loss)	430,823	(1,476)	429,347

## Notes to the Financial Statements

### 5 Segment information (continued)

Other profit and loss disclosures:

	Year ended 31 December 2021			
	Online	Other	Unallocated	Total
	entertainment	businesses	Item	
	business			
RMB'000	RMB'000	RMB'000	RMB'000	
Depreciation	19,102	481	4,942	24,525
Amortization	2,442	—	—	2,442
Share of loss of an associate	3,115	—	—	3,115
Impairment of prepayment	1,887	—	—	1,887

	Year ended 31 December 2020			
	Online	Other	Unallocated	Total
	entertainment	businesses	Item	
	business			
RMB'000	RMB'000	RMB'000	RMB'000	
Depreciation	17,183	2,643	824	20,650
Amortization	2,099	—	—	2,099
Share of losses of associates	1,773	1,527	—	3,300

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 2021 and 2020, the geographical information on the total revenue is as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
<b>Revenue</b>		
— Mainland China	791,813	874,359
— Outside Mainland China	92,095	254,608
<b>Total</b>	<b>883,908</b>	<b>1,128,967</b>

## Notes to the Financial Statements

### 5 Segment information (continued)

Revenue of the Group is mainly derived from self-developed online virtual worlds operations and the Group depends on the success of a limited number of online virtual worlds to generate revenue. As summarized in the table below, the online virtual worlds contributing more than 10% of the Group's total revenue account for 93.2% and 87.3% of the total revenue for the years ended 31 December 2021 and 2020, 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	
	2021	2020
Shiwuyu	<b>24.2%</b>	45.1%
Legend of Aoqi Mobile	<b>23.9%</b>	NA
Aola Star Mobile	<b>21.9%</b>	18.7%
Legend of Aoqi	<b>13.0%</b>	11.8%
Aola Star	<b>10.2%</b>	*
Zaowufaze II	*	11.7%

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 2021 (2020: same).

The games were distributed to individual game players through own web-based platform and Third Party Platforms. The revenue generated through Group A, Third Party Platforms, accounted for 19.3% (2020: 33.5%) of the Group's revenue for the year ended 31 December 2021, respectively. Besides that, 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 2021, the total non-current assets, other than financial assets and deferred tax assets, located in Mainland China and Hong Kong were RMB336,295,000 (31 December 2020: RMB346,498,000) and RMB557,000 (31 December 2020: RMB7,000), respectively.

## Notes to the Financial Statements

### 6 Expenses by nature

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Employee benefit expenses (Note 9)	367,071	248,547
Distribution costs and payment handling fees	314,215	562,700
Promotion and advertising expenses	76,254	35,419
Content expenses	21,298	14,391
Depreciation of right-of-use assets (Note 17)	18,746	15,474
Bandwidth and server custody fees	13,409	9,464
Utilities and office expenses	8,300	7,078
Professional fees	8,242	7,232
Depreciation of property and equipment and amortization of intangible assets (Notes 16 and 18)	8,221	7,275
Auditors' remuneration	4,109	4,062
Travelling and entertainment expenses	3,254	2,597
Operating lease rentals	8	468
Others	10,103	6,451
<b>Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses</b>	<b>853,230</b>	<b>921,158</b>

### 7 Other income

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Government grants	1,376	2,571
Others	1,469	1,170
	<b>2,845</b>	<b>3,741</b>

## Notes to the Financial Statements

### 8 Other gains – net

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Interest income of financial assets at fair value through profit or loss (Note 3.3)	1,738	14,584
Gain on disposal of right-of-use assets	589	—
Gains on disposals of fixed assets	64	36
Financial assets at fair value through profit or loss:		
— Fair value loss (Note 3.3)	—	(5,071)
Foreign exchange losses	(138)	(679)
Donation	(132)	(1,500)
Others	2,308	(2,026)
	4,429	5,344

### 9 Employee benefit expenses

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Wages, salaries and discretionary bonuses	245,028	188,669
Pension costs – defined contribution plans (Note (a))	21,806	11,178
Other social security costs, housing benefits and other employee benefits	47,967	32,717
Share-based compensation expenses	52,270	15,983
	367,071	248,547

#### (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 2021, the Group contributes funds which are calculated on a fixed percentage of 14% (2020: 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.

## 9 Employee benefit expenses (continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year include two (2020: three) directors whose emoluments are reflected in the analysis shown in Note 39. The emoluments paid and payable to the remaining three (2020: two) individuals during the year are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Wages and salaries	2,840	1,730
Discretionary bonuses	2,285	546
Pension costs — defined contribution plans	84	53
Other social security costs, housing benefits and other employee benefits	123	73
Share-based compensation expenses	11,855	745
	<b>17,187</b>	<b>3,147</b>

The emoluments fell within the following band:

	Year ended 31 December	
	2021	2020
	No. of individuals	
HK\$9,500,000 to HK\$10,000,000	1	—
HK\$5,000,000 to HK\$5,500,000	2	—
HK\$2,000,000 to HK\$2,500,000	—	1
HK\$1,000,000 to HK\$1,500,000	—	1

## Notes to the Financial Statements

### 10 Finance income — net

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
<b>Finance income:</b>		
— Interest income from bank deposits	33,251	23,036
— Interest income on loans to an associate	—	860
	<b>33,251</b>	<b>23,896</b>
<b>Finance costs:</b>		
— Interest charge for lease liabilities (Note 17)	(4,494)	(5,417)
— Net foreign exchange losses (Note 13)	(4,014)	(7,304)
	<b>(8,508)</b>	<b>(12,721)</b>
<b>Finance income — net</b>	<b>24,743</b>	<b>11,175</b>

### 11 Income tax expense

The income tax expense of the Group for the years ended 31 December 2021 and 2020 is analyzed as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current income tax expense/(credit):		
— Current year	10,795	23,567
— Under/(over)-provision in prior year	20,597	(12,448)
Deferred income tax (credit)/expense	(6,964)	5,149
	<b>24,428</b>	<b>16,268</b>

## Notes to the Financial Statements

### 11 Income tax expense (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Profit before income tax expense	51,334	289,499
Add: share of losses of an associate	—	1,773
	51,334	291,272
Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions (Note (c), (d), (e))	7,850	19,119
Tax effects of:		
Tax losses for which no deferred income tax asset was recognized (Note (a))	2,579	2,607
Temporary timing differences not recognized as deferred tax asset (Note (b))	7,328	—
Utilisation of previously unrecognised tax losses and temporary timing differences	(1,420)	(1,935)
Super deduction for research and development expenses (Note (e))	(15,784)	(5,211)
Change of applicable tax rates (Note (g))	14,431	1,020
Income not subject to tax	—	(1,105)
Overseas withholding income tax	739	—
Expenses not deductible for income tax purposes:		
— Share-based compensation	7,840	1,598
— Others	865	175
<b>Income tax expense</b>	<b>24,428</b>	<b>16,268</b>

#### (a) Tax losses

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Unused tax losses for which no deferred tax asset has been recognised	16,720	11,107
Potential tax benefit	2,579	2,607

# Notes to the Financial Statements

## 11 Income tax expense (continued)

### (a) Tax losses (continued)

The unused tax losses were incurred by subsidiaries that are not likely to generate enough taxable income in the foreseeable future. See note 31 for information about recognised tax losses and note 4.1(b) for significant judgements made in relation to them.

### (b) Unrecognised temporary differences

Temporary differences for which deferred tax assets have not been recognised:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Contract costs and contract liabilities	30,433	—
Lease liabilities	15,475	—
Provisions	2,947	—
	48,855	—
Unrecognised deferred tax assets relating to the above temporary differences	7,328	—

Temporary differences of RMB48,855,000 have arisen as a result of the recognition of contract liabilities, contract costs, lease liabilities and provisions. However, deferred tax assets have not been recognised as the asset will only crystallise when the subsidiary is likely to generate enough taxable income in the foreseeable future.

### (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.

### (d) Hong Kong profits tax

The provision for Hong Kong profits tax for the year ended 31 December 2021 are calculated in accordance with the two-tiered profits tax rates regime (2020: same). Under the two-tiered profits tax rates regime, the first HKD2 million of profit of a qualifying corporation is taxed at 8.25%, and profit above HKD2 million is taxed at 16.5%.

### (e) PRC corporate income tax

The Group's subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except Guangzhou Baitian, Guangzhou Tianti Internet Technology ("Guangzhou Tianti"), Guangzhou WFOE and Guangzhou Xiaoyunxiong Interactive Education Limited ("Xiaoyunxiong").

## 11 Income tax expense (continued)

### (e) PRC corporate income tax (continued)

Guangzhou Baitian was qualified as “High and New Technology Enterprise” in 2021 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the year ended 31 December 2021 (2020: Note 11(g)).

Guangzhou Tianti could enjoy the preferential EIT policy for software enterprise in 2021, for it's the 5th year since it started to make profits, which could adopt half of the 25% statutory tax rate (i.e. 12.5%) on its estimated assessable profits for the year ended 31 December 2021 (2020: Note 11(g)).

Guangzhou WFOE and Xiaoyunxiong was qualified as “Small Low-Profit Enterprise” in 2021. The provision for EIT was calculated in accordance with the two-tiered tax rates regime. Under the two-tiered tax rates regime, the first RMB1 million of profits of qualifying corporations are taxed at 2.5% and profits above RMB1 million but within RMB3 million are taxed at 10%.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). The additional tax deducting amount of the qualified research and development expenses has been increased from 150% to 175%, effective from 2018 to 2023, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in March 2021. The Group has considered the Super Deduction to be claimed for the Group entities in ascertaining their assessable profits for the year ended 31 December 2021 (2020: same).

### (f) PRC withholding tax (“WHT”)

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

For the year ended 31 December 2021, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings to the Company. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period (2020: same) (Note 31).

# Notes to the Financial Statements

## 11 Income tax expense (continued)

### (g) Change of applicable tax rates of three PRC subsidiaries for the years ended 31 December 2020 and 2021

#### **Guangzhou Baitian**

During the year ended 31 December 2021, the National Development and Reform Commission (“NDRC”), the Ministry of Industry and Information Technology (“MIIT”), the Ministry of Finance (“MOF”) and the General Administration of Customs (“GAC”) jointly issued a new Public Notice [2021] No. 413 (the “Notice”) with respect to the qualification of “Key Software Enterprise” for tax assessment purposes. Pursuant to the Notice, the relevant tax authorities confirmed that Guangzhou Baitian was not qualified as a “Key Software Enterprise” for the year ended 31 December 2020. As a result, the applicable income tax rate on Guangzhou Baitian’s profit for the year ended 31 December 2020 was revised from 10% to 15% and an under-provision of EIT of approximately RMB8,348,000 was recorded for the year ended 31 December 2021.

In addition, an adjustment of approximately RMB2,339,000 was also recorded on the deferred income tax assets brought forward as at 31 December 2020 using the applicable income tax rate of 15% which was charged to the consolidated income statement for the year ended 31 December 2021.

#### **Guangzhou Tianti**

Pursuant to the Notice, the relevant tax authorities confirmed that Guangzhou Tianti was not qualified as a “Key Software Enterprise” for the year ended 31 December 2020. Tianti enjoyed the preferential EIT tax rate for software enterprise in 2021, which is 12.5%, and was qualified as “High and New Technology Enterprise” in 2022, which was entitled to a preferential income tax rate of 15% on its estimated assessable profits since 2022.

As a result, the applicable income tax rate on Guangzhou Tianti’s profit for the year ended 31 December 2020 was revised from 0% to 12.5% and an under-provision of EIT of approximately RMB12,145,000 was recorded for the year ended 31 December 2021.

In addition, an adjustment of approximately RMB3,699,000 was also recorded on the deferred income tax assets recognized as at 31 December 2021 using the applicable income tax rate of 15% which was charged to the consolidated income statement for the year ended 31 December 2021.

#### **Guangzhou WFOE**

The MOF and the State Taxation Administration of the People’s Republic of China jointly issued a new Public Notice [2021] No. 12 (the “Notice”) with respect to the preferential tax rate for the first RMB1 million profit for Small Low-Profit Enterprise under the two-tiered tax rate regime, which change from 5% to 2.5%, effective from 2021 to 2022. As a result, an adjustment of approximately RMB24,000 was recorded on the deferred income tax assets recognized as at 31 December 2021 using the applicable income tax rate of 20% which was charged to the consolidated income statement for the year ended 31 December 2021.

## 12 Earnings per share

### (a) Basic

#### Basic earnings per share for profit attributable to shareholders of the Company

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue less treasury shares and shares held for RSU Scheme during the year.

	Year ended 31 December	
	2021	2020
Profit attributable to shareholders of the Company (RMB'000)	<b>26,435</b>	274,190
Weighted average number of ordinary shares in issue less treasury shares and shares held for RSU Scheme	<b>2,616,222,720</b>	2,636,885,749
Basic earnings per share (in RMB/share)	<b>0.0101</b>	0.1040

### (b) Diluted

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

For the year ended 31 December 2021, the Company had potential ordinary shares, the RSUs (2020: the share options and the RSUs), which had to be considered for calculating diluted earnings per share. A calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the year) based on the 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.

## Notes to the Financial Statements

### 12 Earnings per share (continued)

#### (b) Diluted (continued)

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

	Year ended 31 December	
	2021	2020
<b>Earnings</b>		
Profit attributable to shareholders of the Company and profit used to determine diluted earnings per share (RMB'000)	<b>26,435</b>	274,190
<b>Weighted average number of ordinary shares</b>		
Weighted average number of ordinary shares in issue less treasury shares and shares held for RSU Scheme	<b>2,616,222,720</b>	2,636,885,749
Adjustments for:		
— RSUs	<b>62,166,798</b>	15,458,783
— Share options	—	163,140
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<b>2,678,389,518</b>	2,652,507,672
Diluted earnings per share (in RMB/share)	<b>0.0099</b>	0.1034

### 13 Net foreign exchange losses

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

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Finance losses — net (Note 10)	<b>4,014</b>	7,304
Other losses — net (Note 8)	<b>138</b>	679
	<b>4,152</b>	7,983

# Notes to the Financial Statements

## 14 Subsidiaries

The following is a list of the principal subsidiaries as at 31 December 2021:

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
			2021	2020	2021	2020	
<b>Directly held by the Company</b>							
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%	N/A	—	N/A	Online interactive entertainment, Hong Kong
<b>Indirectly held by the Company</b>							
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
廣州百田教育科技有限公司 ("Baitian Education")	The PRC, Limited liability company	RMB10,000,000	—	90%	—	10%	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

(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 2021 amounting to RMB1,243,517,762 (2020: 1,356,898,080) 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.

## Notes to the Financial Statements

### 15 Investment in an associate

	RMB'000
<b>As at 1 January 2020</b>	60,910
Addition	6,000
Disposal	(59,383)
Share of losses for the year	(3,300)
<b>As at 31 December 2020</b>	4,227
<b>As at 1 January 2021</b>	4,227
Addition	6,000
Disposal	(7,112)
Share of loss for the year	(3,115)
<b>As at 31 December 2021</b>	—

- (a) As at 31 December 2020, the Group's associate is Chengdu Constmation Interactive Entertainment Network Technology Company Limited ("Chengdu Constmation"), which is a mobile game development company in the PRC. The Group acquired 40% equity interest in Chengdu Constmation in July 2020. In October 2020, the Group disposed of all its 31.2% equity interest in another associate, Guangzhou Baiman Culture Communications Company Limited, to a third party.
- (b) During the year ended 31 December 2021, the Group increased its investment in Chengdu Constmation at a cash consideration of RMB6,000,000 in January 2021. On 27 September 2021, the Group disposed of all its 40% equity interest to a third party at a cash consideration of RMB150,000, which resulted in a disposal loss of RMB6,962,000.
- (c) Set out below are the details of investment in an associate as at 31 December 2021 and 2020:

Name of entity	Place of business/country of incorporation	% of ownership interest		Measurement method	Principal activities
		2021	2020		
Chengdu Constmation	The PRC	—	40.0%	Equity method	Mobile game development

## Notes to the Financial Statements

### 16 Property and equipment

	Servers RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
<b>At 1 January 2020</b>						
Cost	12,007	5,987	633	34,511	—	53,138
Accumulated depreciation	(11,601)	(4,795)	(602)	(9,509)	—	(26,507)
Net book amount	406	1,192	31	25,002	—	26,631
<b>Year ended 31 December 2020</b>						
Opening net book amount	406	1,192	31	25,002	—	26,631
Additions	—	1,984	—	5	—	1,989
Depreciation charge	(178)	(733)	—	(4,265)	—	(5,176)
Disposal	—	(25)	—	—	—	(25)
Impairment (Note (a))	(15)	(144)	—	(1,623)	—	(1,782)
Closing net book amount	213	2,274	31	19,119	—	21,637
<b>At 31 December 2020</b>						
Cost	11,967	7,510	633	34,516	—	54,626
Accumulated depreciation	(11,739)	(5,092)	(602)	(13,774)	—	(31,207)
Impairment (Note (a))	(15)	(144)	—	(1,623)	—	(1,782)
Net book amount	213	2,274	31	19,119	—	21,637
<b>Year ended 31 December 2021</b>						
Opening net book amount	213	2,274	31	19,119	—	21,637
Additions	527	4,353	1,189	699	2,774	9,542
Depreciation charge	(209)	(1,604)	(119)	(3,847)	—	(5,779)
Disposal	—	(1)	—	—	—	(1)
Closing net book amount	531	5,022	1,101	15,971	2,774	25,399
<b>At 31 December 2021</b>						
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

## Notes to the Financial Statements

### 16 Property and equipment (continued)

- (a) As at 31 December 2020, the impairment loss related to certain equipments and leasehold improvements which were planned to be disposed of. The whole amount was recognized as administrative expense in profit or loss.

During the year ended 31 December 2021, the accumulated impairment was written off as the Group disposed these assets.

- (b) As at 31 December 2021, construction in progress mainly comprised office buildings under construction located in the PRC.
- (c) Depreciation charge was included in the following categories in the consolidated income statement:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cost of revenue	2,049	2,251
Administrative expenses	623	561
Research and development expenses	2,640	1,863
Selling and marketing expenses	467	501
	<b>5,779</b>	<b>5,176</b>

### 17 Leases

- (a) Amounts recognised in the balance sheet

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
<b>Right-of-use assets</b>		
Land use right	241,311	246,253
Office	53,247	70,210
	<b>294,558</b>	<b>316,463</b>
<b>Lease liabilities</b>		
Current	17,931	18,627
Non-current	52,828	69,477
	<b>70,759</b>	<b>88,104</b>

Disposal to the right-of-use assets during the year ended 31 December 2021 were RMB3,159,000 (2020: nil).

## 17 Leases (continued)

### (b) Amounts recognised in the income statement

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
<b>Depreciation charge of right-of-use assets</b>		
Land use right	(4,942)	(824)
Office	(13,804)	(14,650)
	<b>(18,746)</b>	(15,474)
Interest expense (included in finance cost)	(4,494)	(5,417)
Expense relating to short-term leases (included in cost of revenue and administrative expenses)	(8)	(468)

The total cash outflow for leases in 2021 was approximately RMB18,099,000 (2020: RMB265,826,000).

### (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.

## Notes to the Financial Statements

### 18 Intangible assets

	Licenses RMB'000	Software RMB'000	Total RMB'000
<b>At 1 January 2020</b>			
Cost	3,380	2,740	6,120
Accumulated amortization	(1,516)	(1,808)	(3,324)
Net book amount	1,864	932	2,796
<b>Year ended 31 December 2020</b>			
Opening net book amount	1,864	932	2,796
Additions	418	800	1,218
Amortization charge	(1,341)	(758)	(2,099)
Closing net book amount	941	974	1,915
<b>At 31 December 2020</b>			
Cost	3,798	3,540	7,338
Accumulated amortization	(2,857)	(2,566)	(5,423)
Net book amount	941	974	1,915
<b>Year ended 31 December 2021</b>			
Opening net book amount	941	974	1,915
Additions	—	3,069	3,069
Amortization charge	(941)	(1,501)	(2,442)
Closing net book amount	—	2,542	2,542
<b>At 31 December 2021</b>			
Cost	2,913	6,590	9,503
Accumulated amortization	(2,913)	(4,048)	(6,961)
Net book amount	—	2,542	2,542

## Notes to the Financial Statements

### 18 Intangible assets (continued)

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

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Cost of revenue	<b>1,164</b>	1,811
Administrative expenses	<b>438</b>	151
Research and development expenses	<b>185</b>	125
Selling and marketing expenses	<b>655</b>	12
	<b>2,442</b>	2,099

## Notes to the Financial Statements

### 19 Financial instruments by category

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
<b>Assets as per consolidated balance sheet</b>		
Financial assets at amortized cost:		
– Trade receivables (Note 20)	29,153	50,551
– Other receivables (excluding prepayments) (Note 21)	17,617	16,618
– Short-term bank deposits (Note 23)	54,000	229,631
– Long-term bank deposits (Note 23)	65,000	–
– Cash and cash equivalents (Note 23)	1,429,190	1,381,995
	<b>1,594,960</b>	1,678,795
Assets at fair value through the profit or loss:		
– Financial assets at fair value through profit or loss (Note 22)	5,000	–
	<b>1,599,960</b>	1,678,795
<b>Liabilities as per consolidated balance sheet</b>		
Financial liabilities at amortized cost:		
– Trade payables (Note 29)	7,094	6,786
– Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals) (Note 30)	8,236	10,281
– Bank overdrafts	–	30
– Lease liabilities (Note 17(a))	70,759	88,104
	<b>86,089</b>	105,201

## Notes to the Financial Statements

### 20 Trade receivables

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Receivables from third parties	29,526	51,617
Less: allowance for impairment	(373)	(1,066)
	<b>29,153</b>	50,551

- (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	
	2021	2020
	RMB'000	RMB'000
0–30 days	16,894	22,244
31–60 days	3,023	10,897
61–90 days	760	11,587
91–180 days	8,709	6,574
181–365 days	109	149
Over 365 days	31	166
	<b>29,526</b>	51,617

- (b) The Group applies the simplified approach to provide for ECL prescribed by IFRS 9. For the year ended 31 December 2021, reversal in impairment RMB592,000 was made for the gross amounts of trade receivables (2020: provision for impairment RMB687,000) (Note 3.1(b)).
- (c) As at 31 December 2021 and 2020, trade receivables were denominated in RMB and their fair value approximated their carrying amounts.
- (d) The maximum exposure to credit risk is the carrying amount of the net receivable balance. The Group does not hold any collateral as security.
- (e) The concentration risk with respect to trade receivables comes from Group A and Company B accounted for 35.0% (2020: 37.1%) and 10.1% (2020: 4.4%) of the Group's trade receivables as at 31 December 2021, respectively.

## Notes to the Financial Statements

### 21 Prepayments and other receivables

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
<b>Included in non-current assets</b>		
Prepayments for construction in progress	13,798	—
Prepayments for game licences	383	2,264
Rental and other deposits	3,898	3,799
Prepayments for others	172	—
Less: allowance for impairment	—	—
	<b>18,251</b>	6,063
<b>Included in current assets</b>		
Prepayments	6,544	1,643
Receivables from third parties	918	1,600
Interests receivable	1,259	3,558
Others	15,747	9,990
	<b>24,468</b>	16,791
Less: allowance for impairment of other receivables	(4,205)	(2,329)
Less: allowance for impairment of prepayments	(1,887)	—
	<b>18,376</b>	14,462
	<b>36,627</b>	20,525

As at 31 December 2021 and 2020, other receivables were mainly denominated in RMB.

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 Financial Statements

### 22 Financial assets at fair value through profit or loss

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
<b>Non-current assets</b>		
Private equity funds	5,000	—

The amount comprised the Group's investment in private equity funds amounting to RMB5,000,000 during the year ended 31 December 2021. For information about the methods used in determining fair value please refer to Note 3.3.

### 23 Cash and cash equivalents and term bank deposits

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Short-term bank deposits (Note (a))	54,000	229,631
Long-term bank deposits (Note (b))	65,000	—
Cash and cash equivalents		
— Cash at banks and on hand	1,429,190	1,381,995
	<b>1,548,190</b>	1,611,626
Maximum exposure to credit risk (Note (e))	<b>1,548,106</b>	1,611,523

(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 two years.

(c) All cash at bank balances as at 31 December 2021 and 2020 were demand deposits in nature.

(d) The effective interest rate per annum for all bank balances and term deposits as at 31 December 2021 was approximately 2.27% (2020: 1.96%).

(e) To manage the credit risk, bank deposits are mainly placed with state-owned or reputable listed financial institutions in the PRC and reputable international financial institutions outside the PRC. There has been no recent history of default in relation to these financial institutions.

## Notes to the Financial Statements

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

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
RMB	1,427,957	1,484,112
US\$	82,215	76,744
HK\$	37,928	50,667
Others	90	103
	<b>1,548,190</b>	<b>1,611,626</b>

### 24 Share capital and share premium

As at 31 December 2021 and 2020, the authorised share capital of the Company comprises 100,000,000,000 ordinary shares with par value of USD0.0000005 per share. As at 31 December 2021, the total number of ordinary shares of the Company was 2,771,194,000 (2020: 2,718,394,000) shares which included 149,606,480 (2020: 111,027,096) shares held under the RSU Scheme.

	Number of shares	Nominal value of shares US\$'000	Share Capital RMB'000	Share Premium RMB'000	Treasury shares RMB'000	Total RMB'000
Issued and fully paid:						
<b>As at 1 January 2020</b>	2,770,894,000	2	8	1,326,987	—	1,326,995
RSU Scheme:						
— Vesting of RSUs	—	—	—	25	—	25
Share Option Scheme:						
— Exercise of share options	526,000	—	—	61	—	61
2019 special final dividend payable to equity holders of the Company (Note 32)	—	—	—	(60,223)	—	(60,223)
Acquisition of treasury shares	—	—	—	—	(930)	(930)
Buy-back and cancellation of shares	(53,026,000)	—	—	(44,206)	—	(44,206)
<b>As at 31 December 2020</b>	<b>2,718,394,000</b>	<b>2</b>	<b>8</b>	<b>1,222,644</b>	<b>(930)</b>	<b>1,221,722</b>

## Notes to the Financial Statements

### 24 Share capital and share premium (continued)

	Number of shares	Nominal value of shares US\$'000	Share Capital RMB'000	Share Premium RMB'000	Treasury shares RMB'000	Total RMB'000
Issued and fully paid:						
<b>As at 1 January 2021</b>	2,718,394,000	2	8	1,222,644	(930)	1,221,722
RSU Scheme:						
– Issuance of shares held for RSUs Scheme	54,000,000	–	–	–	–	–
– Vesting of RSUs	–	–	–	15,850	–	15,850
2020 special final dividend payable to equity holders of the Company (Note 32)	–	–	–	(130,865)	–	(130,865)
Cancellation of treasury shares	(1,200,000)	–	–	(930)	930	–
<b>As at 31 December 2021</b>	2,771,194,000	2	8	1,106,699	–	1,106,707

# Notes to the 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
<b>As at 1 January 2020</b>	2,069	6,224	2,009	10,302
Share Option Scheme:				
– Exercise of share options	–	–	(28)	(28)
RSU Scheme:				
– Value of employee services	–	–	15,983	15,983
– Vesting of RSUs	–	–	(25)	(25)
Profit appropriations to statutory reserves	–	142	–	142
<b>As at 31 December 2020</b>	2,069	6,366	17,939	26,374
<b>As at 1 January 2021</b>	2,069	6,366	17,939	26,374
RSU Scheme:				
– Value of employee services	–	–	52,270	52,270
– Vesting of RSUs	–	–	(15,850)	(15,850)
Profit appropriations to statutory reserves	–	117	–	117
<b>As at 31 December 2021</b>	2,069	6,483	54,359	62,911

(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) Share Option Scheme

On 18 June 2010, the Board of the Company approved the establishment of the Pre-IPO Share Option Scheme with the objective to recognize and reward the contribution of eligible officers, employees, directors and other persons to the growth and development of the Group.

The options shall not become exercisable until after (i) the closing of an Initial Public Offering or a Change in Control Event (as defined below), whichever occurs first, and (ii) the relevant option holder shall have fully performed his or her reporting and registration obligations under the State Administration of Foreign Exchange in the People's Republic of China with respect to his or her holding of the Options or any Ordinary Shares.

Under this Share Option Scheme, IPO and Change in Control Event shall have the meaning as follows:

- (i) IPO means the first firm commitment underwritten public offering of the Ordinary Shares of the Company on a recognized national or regional securities exchange.
- (ii) Change in Control Event ("Change in Control Event") means:
  - (a) Approval by the board and the shareholders of the Company of the dissolution or liquidation of the Company; or
  - (b) Consummation of either (i) any consolidation, amalgamation, scheme of arrangement or merger of the Company with or into any other person or other corporate reorganization, in which the current shareholders of the Company will own less than 50% of the surviving company's or companies' voting power, or any transaction to which the Company is a party in which in excess of 50% of the Company's voting power is transferred, (ii) any transaction related to a sale, transfer, lease or other disposition of all or substantially all of the assets of the Company, (iii) any transaction related to the sale, pledge, transfer or other disposition of all or substantially all of the Company's outstanding shares, in which the current shareholders of the Company will own less than 50% of the surviving company's or companies' voting power, or (iv) the exclusive licensing of all or substantially all of the Company's intellectual property to a third party.

## Notes to the Financial Statements

### 26 Share-based payments (continued)

#### (a) Share Option Scheme (continued)

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

Movements in the number of outstanding share options and their related weighted average exercise prices are as follows:

	Average exercise price in US\$ per share under the option	Number of outstanding share options
<b>As at 1 January 2020</b>	0.009	526,000
Exercised	0.009	(526,000)
<b>As at 31 December 2020</b>	0.009	—
<b>As at 1 January 2021</b>		—
Exercised		—
<b>As at 31 December 2021</b>		—

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

As at 31 December 2021, there were no outstanding share options.

### 26 Share-based payments (continued)

#### (b) 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, 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 Financial Statements

### 26 Share-based payments (continued)

#### (b) 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.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
<b>As at 1 January 2020</b>	90,000
Granted	91,350,000
Forfeited	(400,000)
Vested	(60,000)
<b>As at 31 December 2020</b>	90,980,000
<b>As at 1 January 2021</b>	<b>90,980,000</b>
Granted	<b>58,000,000</b>
Forfeited	<b>(340,000)</b>
Vested	<b>(18,220,000)</b>
<b>As at 31 December 2021</b>	<b>130,420,000</b>

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.

The weighted average fair value of RSUs granted during the year ended 31 December 2021 was HK\$1.50 per share (equivalent to approximately RMB1.24 per share) (2020: HK\$0.97 per share (equivalent to approximately RMB0.87 per share)).

## Notes to the Financial Statements

### 27 Retained earnings

	Retained earnings RMB'000
<b>As at 1 January 2020</b>	205,638
Profit for the year	274,190
Profit appropriations to statutory reserves	(142)
<b>As at 31 December 2020</b>	479,686
<b>As at 1 January 2021</b>	<b>479,686</b>
Profit for the year	<b>26,435</b>
Profit appropriations to statutory reserves	<b>(117)</b>
<b>As at 31 December 2021</b>	<b>506,004</b>

## Notes to the 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	
	2021	2020
	RMB'000	RMB'000
Current contract costs relating to online virtual worlds	41,203	49,234
<b>Non-current contract liabilities</b>		
– Memberships	995	935
– Online virtual worlds (Note (a))	9,447	10,663
<b>Total non-current contract liabilities</b>	<b>10,442</b>	<b>11,598</b>
<b>Current contract liabilities</b>		
– Advances from customers	9,953	9,579
– Memberships	10,931	10,858
– Online virtual worlds (Note (a))	96,126	101,482
<b>Total current contract liabilities</b>	<b>117,010</b>	<b>121,919</b>

- (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 RMB650,582,000, was recognized during the year ended 31 December 2021 (2020: RMB882,803,000).

### 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	
	2021	2020
	RMB'000	RMB'000
<b>Revenue recognized that was included in the contract liability balance at the beginning of the year</b>		
– Advances from customers	<b>9,579</b>	8,755
– Memberships	<b>10,858</b>	11,998
– Online virtual worlds	<b>101,482</b>	138,481
	<b>121,919</b>	159,234

Unsatisfied contract liabilities as at 31 December 2021 related to memberships and online virtual worlds are expected to be recognized as revenue in 1 month to 4 years.

## Notes to the Financial Statements

### 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	
	2021	2020
	RMB'000	RMB'000
0–30 days	6,316	5,494
31–60 days	174	599
61–180 days	70	87
181–365 days	1	62
Over 365 days	533	544
	<b>7,094</b>	6,786

(a) As at 31 December 2021 and 2020, the fair value of trade payables approximated their carrying amounts.

### 30 Other payables and accruals

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Staff costs and welfare accruals	53,527	46,702
Other tax liabilities (Note (b))	2,782	3,597
Professional service fees payable	4,158	4,316
Others	4,078	5,965
	<b>64,545</b>	60,580

(a) As at 31 December 2021 and 2020, the fair value of other payables and accruals approximated their carrying amounts.

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

## Notes to the Financial Statements

### 31 Deferred income tax

#### (i) Deferred tax assets

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
<b>The balance comprises temporary differences attributable to:</b>		
Lease liabilities	89	1,587
Tax losses	7,329	—
Loss allowances for financial assets	600	160
Contract costs and contract liabilities	3,652	2,959
	<b>11,670</b>	<b>4,706</b>

#### (ii) Movement of deferred tax assets and deferred tax liabilities

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Movements of deferred tax assets	Lease liabilities	Tax losses	Provisions	Contract costs and contract liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 1 January 2020</b>	1,542	—	1,006	15,215	17,763
(Charged)/credited					
— to profit or loss	45	—	(846)	(12,256)	(13,057)
<b>As at 31 December 2020</b>	1,587	—	160	2,959	4,706
<b>As at 1 January 2021</b>	1,587	—	160	2,959	4,706
(Charged)/credited					
— to profit or loss (Note 11)	(1,498)	7,329	440	693	6,964
<b>As at 31 December 2021</b>	89	7,329	600	3,652	11,670

## Notes to the Financial Statements

### 31 Deferred income tax (continued)

(ii) Movement of deferred tax assets and deferred tax liabilities (continued)

Movements of deferred tax liabilities	Investment changed from an associate at fair value RMB'000
<b>As at 1 January 2020</b>	7,908
Charged — to profit or loss	(7,908)
<b>As at 31 December 2020</b>	—
<b>As at 1 January 2021</b>	—
Charged — to profit or loss	—
<b>As at 31 December 2021</b>	—

- (iii) Deferred income tax assets are recognized for tax losses carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB9,908,000 and RMB2,607,000 in respect of deductible temporary differences and accumulated tax losses amounting to RMB65,575,000 and RMB11,107,000 that can be carried forward against future taxable income for the years ended 31 December 2021 and 2020, respectively, as it is uncertain that future taxable income will be available in those subsidiaries against which the tax losses can be utilized. Tax losses amounting to RMB218,000, RMB562,000, RMB186,000, RMB851,000 and RMB74,539,000 will expire in 2022, 2023, 2024, 2025 and 2026, respectively. The remaining tax losses have no expiry date.

As at 31 December 2021 and 2020, no deferred income tax liability had been provided for in respect of the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB1,216,360,000 and RMB1,242,384,000, respectively. Such earnings are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

## Notes to the Financial Statements

### 32 Dividend

The dividends paid in 2021 and 2020 amounted RMB130,865,000 and RMB60,223,000 respectively. The Board of Directors of the Company will propose on 29 March 2022 a special dividend of HK\$0.02 (equivalent to approximately RMB0.016) per ordinary share, which will be debited to the share premium account, totalling approximately RMB41,945,000. Such dividend is to be approved by the shareholders at the annual general meeting to be held on 6 June 2022. These financial statements do not reflect this dividend payable as a liability as at 31 December 2021.

#### (a) Dividend paid to ordinary shares

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Special final dividend of 2020 - HK\$0.06 (2019: HK\$0.025), equivalent to approximately RMB0.05 (2019: RMB0.023), per ordinary share	<b>135,986</b>	62,788
Less: dividend for shares held for the RSU Schemes	<b>(5,121)</b>	(2,565)
	<b>130,865</b>	60,223

#### (b) Dividend not recognized as at 31 December 2021

	As at 31 December 2021
	RMB'000
Proposed special dividend of HK\$0.02, equivalent to approximately RMB0.016 per ordinary share	<b>44,339</b>
Less: dividend for shares held for the RSU Schemes	<b>(2,394)</b>
	<b>41,945</b>

## Notes to the Financial Statements

### 33 Advance from customers and distributors

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Advance for licensing fee (Note (a))	<b>22,001</b>	30,960
Advance for royalty fee (Note (a))	<b>4,889</b>	4,635
Others	<b>6,108</b>	8,117
	<b>32,998</b>	43,712

- (a) The Group licenses online games to distributors and receives 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.

## 34 Cash flow information

## (a) Cash generated from operations

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
<b>Profit after income tax</b>	<b>26,906</b>	273,231
Adjustments for:		
– Income tax expense (Note 11)	<b>24,428</b>	16,268
– Depreciation of property and equipment (Note 16)	<b>5,779</b>	5,176
– Depreciation of right-of-use assets (Note 17)	<b>18,746</b>	15,474
– Amortization of intangible assets (Note 18)	<b>2,442</b>	2,099
– (Gain)/loss on disposals of property, plant and equipment (Note 8)	<b>(64)</b>	25
– Gain on disposal of right-of-use assets (Note 8)	<b>(589)</b>	–
– Share-based compensation expenses (Note 9)	<b>52,270</b>	15,983
– Finance income – net (Note 10)	<b>(24,743)</b>	(11,175)
– Impairment charge of property and equipment	<b>–</b>	1,782
– Share of losses of associates (Note 15)	<b>3,115</b>	3,300
– Loss/(gain) on disposal of equity interest in an associate (Note 15)	<b>6,962</b>	(65,417)
– Interest income of financial assets at fair value through profit or loss (Note 8)	<b>(1,738)</b>	(14,584)
– Fair value loss on financial assets at fair value through profit or loss (Note 8)	<b>–</b>	5,071
– Net impairment losses on financial assets (Note 3.1)	<b>1,284</b>	687
– Foreign exchange losses on operating activities (Note 13)	<b>138</b>	679
<b>Changes in working capital (excluding the currency translation differences on consolidation):</b>		
– Trade receivables	<b>21,914</b>	81,867
– Prepayments and other receivables	<b>(6,032)</b>	(172)
– Trade payables	<b>306</b>	(9,367)
– Other payables and accruals	<b>3,936</b>	7,882
– Advances from customers and distributors	<b>(10,635)</b>	26,509
– Contract costs	<b>8,031</b>	14,460
– Contract liabilities	<b>(6,065)</b>	(34,330)
<b>Cash generated from operations</b>	<b>126,391</b>	335,448

## Notes to the 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	
	2021	2020
	RMB'000	RMB'000
Cash and cash equivalents (including bank overdraft)	<b>1,429,190</b>	1,381,965
Term bank deposits	<b>119,000</b>	229,631
Lease liabilities	<b>(70,759)</b>	(88,104)
Net cash	<b>1,477,431</b>	1,523,492
Cash, term bank deposits and liquid investments	<b>1,548,190</b>	1,611,596
Gross debt — fixed interest rates	<b>(70,759)</b>	(88,104)
Net cash	<b>1,477,431</b>	1,523,492

## Notes to the Financial Statements

### 34 Cash flow information (continued)

#### (b) Net cash reconciliation (continued)

	Other assets		Liabilities from financing activities	
	Cash	Term bank deposits	Leases	Total
<b>Net cash as at 1 January 2020</b>	1,273,998	226,008	(100,968)	1,399,038
Cash flows	115,271	3,623	18,281	137,175
Accrued interest expense	—	—	(5,417)	(5,417)
Foreign exchange adjustments	(7,304)	—	—	(7,304)
<b>Net cash as at 31 December 2020</b>	1,381,965	229,631	(88,104)	1,523,492
Cash flows	<b>51,239</b>	<b>(110,631)</b>	<b>18,091</b>	<b>(41,301)</b>
Accrued interest expense	—	—	<b>(4,494)</b>	<b>(4,494)</b>
Termination of lease	—	—	<b>3,748</b>	<b>3,748</b>
Foreign exchange adjustments	<b>(4,014)</b>	—	—	<b>(4,014)</b>
<b>Net cash as at 31 December 2021</b>	<b>1,429,190</b>	<b>119,000</b>	<b>(70,759)</b>	<b>1,477,431</b>

# Notes to the Financial Statements

## 35 Commitments

### (a) Operating lease commitments — as lease

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

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 17 for further information.

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Minimum lease payments under non-cancellable operating leases of certain properties not recognised in the financial statements are payable as follows:		
Not later than 1 year	301	490

### (b) 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	
	2021	2020
	RMB'000	RMB'000
Construction in progress	162,432	—

## 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:

### (a) Name and relationship with related parties

The following entity is a related party of the Group that had transactions with the Group:

Name	Relationship
Guangzhou Baiman (Note 15(a))	An associate of the Group

### (b) Transactions with a related party

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Repayment of loans by Guangzhou Baiman	—	(20,000)
Interest income and office rental income from Guangzhou Baiman	—	2,325
Income of selling office equipment to Guangzhou Baiman	—	16

## Notes to the Financial Statements

### 36 Related party transactions (continued)

#### (c) Key management personnel compensations

The compensations paid or payable to key management personnel for employee services are shown below:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Wages, salaries and bonuses	10,470	7,741
Pension costs — defined contribution plans	300	134
Other social security costs, housing benefits and other employee benefits	401	326
Shares-based compensation expense	17,929	745
	<b>29,100</b>	8,946

### 37 Contingencies

The Group did not have any material contingent liabilities as at 31 December 2021 and 2020.

## Notes to the Financial Statements

### 38 Balance sheet and reserve movement of the Company

Balance sheet of the Company	Note	As at 31 December	
		2021	2020
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>321,048</b>	268,771
Interests in subsidiaries		<b>321,048</b>	268,771
<b>Current assets</b>			
Prepayments and other receivables		<b>9,662</b>	2,919
Amounts due from subsidiaries		<b>21,823</b>	40,344
Short-term bank deposits		<b>54,000</b>	214,631
Cash and cash equivalents		<b>148,913</b>	90,138
		<b>234,398</b>	348,032
<b>Total assets</b>		<b>555,446</b>	616,803
<b>EQUITY</b>			
Share capital		<b>8</b>	8
Share premium		<b>1,106,699</b>	1,222,644
Treasury shares		<b>—</b>	(930)
Reserves	(a)	<b>52,413</b>	15,993
Accumulated losses	(a)	<b>(660,983)</b>	(652,319)
<b>Total equity</b>		<b>498,137</b>	585,396
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables and accruals		<b>2,149</b>	2,912
Amounts due to subsidiaries		<b>55,160</b>	28,495
		<b>57,309</b>	31,407
<b>Total liabilities</b>		<b>57,309</b>	31,407
<b>Total equity and liabilities</b>		<b>555,446</b>	616,803

## Notes to the Financial Statements

### 38 Balance sheet and reserve movement of the Company (continued)

#### (a) Reserve movement of the Company

	Other reserves RMB'000	Accumulated losses RMB'000
<b>At 1 January 2020</b>	63	(645,592)
Loss for the year	—	(6,727)
Share Option Scheme		
— Exercise of share options	(28)	—
RSU Scheme:		
— Value of employee services	15,983	—
— Vesting of RSUs	(25)	—
<b>At 31 December 2020</b>	15,993	(652,319)
<b>At 1 January 2021</b>	<b>15,993</b>	<b>(652,319)</b>
Loss for the year	—	(8,664)
RSU Scheme:		
— Value of employee services	52,270	—
— Vesting of RSUs	(15,850)	—
<b>At 31 December 2021</b>	<b>52,413</b>	<b>(660,983)</b>

## Notes to the 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 2021 and 2020 are set out below:

Year ended 31 December 2021:

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
<b>Executive Directors</b>							
Mr. Dai Jian ("CEO")	—	1,380	115	36	101	—	1,632
Mr. Wu Lili	—	840	270	108	67	—	1,285
Mr. Li Chong	—	1,440	120	36	56	3,474	5,126
Mr. Wang Xiaodong	—	1,440	270	36	56	5,212	7,014
<b>Independent Non-Executive Directors</b>							
Ms. Liu Qianli	388	—	—	—	—	—	388
Dr. Wang Qing	388	—	—	—	—	—	388
Mr. Ma Xiaofeng	388	—	—	—	—	—	388

## Notes to the 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)

#### (a) Directors' and chief executives' emoluments (continued)

Year ended 31 December 2020:

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
<b>Executive Directors</b>							
Mr. Dai Jian ("CEO")	—	1,380	115	3	82	—	1,580
Mr. Wu Lili	—	780	150	49	72	—	1,051
Mr. Li Chong	—	1,440	120	3	49	—	1,612
Mr. Wang Xiaodong	—	1,380	100	26	50	—	1,556
<b>Independent Non-Executive Directors</b>							
Ms. Liu Qianli	396	—	—	—	—	—	396
Dr. Wang Qing	396	—	—	—	—	—	396
Mr. Ma Xiaofeng	396	—	—	—	—	—	396

#### (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.